

CHANGING NATIONAL PRIORITIES

HEARINGS
BEFORE THE
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
NINETY-FIRST CONGRESS
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PART 2

JUNE 15, 16, 17, AND 18, 1970

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CHANGING NATIONAL PRIORITIES

MONDAY, JUNE 15, 1970

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to recess, at 10 a.m., in room G-308, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senator Proxmire; and Representatives Conable and Brown.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Richard F. Kaufman, economist; and Douglas C. Frechtling, economist for the minority.

(The following comments and other pertinent information were subsequently supplied for the record by Mr. Brennan in the context of Mr. Rathjens' prepared statement, who was a witness at the hearing of Friday, June 5, 1970:)

HUDSON INSTITUTE.
Croton-on-Hudson, N.Y., September 3, 1970.

HON. WILLIAM PROXMIRE,
Chairman, Subcommittee on Economy in Government, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR SENATOR PROXMIRE: This letter is in response to your letter of June 12, 1970 and the subsequent letter of June 29, 1970, from Richard Kaufman of the staff of the Joint Economic Committee, suggesting that I submit comments on the statement made by Dr. George W. Rathjens at the hearings before the Subcommittee on Economy in Government on June 5. I know something of the matters involved and am pleased to have the opportunity to provide some comments and other pertinent information.

The most important single comment I have on the statement of Dr. Rathjens, in relation to your hearings, is that his statement contains very little if any guidance that would relate strategic-force budgets to the subject of "Changing National Priorities" supposedly being addressed in the hearings. I do not believe that the U.S. strategic-force budget can be understood in relation to national priorities without some attempt to relate U.S. strategic forces to the various national objectives (including foreign-policy objectives) for which these forces have historically been maintained, on the one hand, and the nature and intensity of certain Soviet activities, especially prevailing levels of Soviet strategic forces, on the other hand. Dr. Rathjens has made no attempt in his statement to relate U.S. strategic-force budgets either to those foreign-policy objectives or to the level of pertinent Soviet activity.

At the end of this letter, I shall attach a recent paper of my own titled "Alternative U.S. Strategic-Force Budgets and Their Implications". In this paper, I have attempted to relate various possible U.S. budget levels to foreign-policy and other national objectives, in relation to a given level of Soviet effort in the strategic area. As I have emphasized in that paper, these relationships cannot be specified with precision, but I have tried to indicate the general trends involved. I should mention that, although I have included my own personal recommendations in this paper and these recommendations are controversial, the

analysis provided of the relationship between budget levels and national objectives does not depend on those personal recommendations. I believe that most of the established strategists would agree that the analysis itself is substantially objective.

Let me now pass to the details of the statement by Dr. Rathjens. The statement contains some points of detail with which I agree and a number of points with which I am not in complete agreement but which I shall not discuss here. The following points are only those on which I think it is important to offer comments. I shall refer to the page numbers in the statement as it came to me; I assume the staff will be able to replace these with the page numbers as they will appear in the printed hearings.

RATHJENS' PREPARED STATEMENT, PAGE 197, PART 1

"While the budget for fiscal 1971 calls for only about eight billion dollars explicitly for strategic systems, the true cost when one includes appropriate costs for research and development, intelligence and communications, antisubmarine warfare, personnel, etc. is probably over twice that. The recent Brookings Study suggests \$18 billion, a figure I find entirely reasonable, . . ."

Comment.—It is certainly correct that strategic forces are costly. However, the use of the word "true" suggests that major costs have been hidden, and this is not true. Dr. Rathjens has merely allocated costs from other budget categories to strategic forces. Although Dr. Rathjens is incorrect in allocating anti-submarine warfare costs to strategic forces, the total figure of \$18 billion given in the Brookings Study for strategic forces and related support is not unreasonable if all defense costs are allocated either to strategic forces or to general-purpose forces.

It is at this point that it becomes relevant to ask what purposes these forces are intended to serve and in what context. In particular, Soviet expenditures for such purposes should be considered in judging the adequacy of the U.S. strategic-force budget. As mentioned in my attached paper, Secretary of Defense Melvin Laird has on several occasions within the recent past indicated that Soviet strategic-force expenditures were currently about twice those of the United States. The exact basis for this comparison was not made clear, but it would certainly indicate that the U.S. would have had to spend a few tens of billions of dollars beyond our actual expenditures in recent years to have duplicated the strategic offensive and defensive forces the Soviets have deployed. The people of the United States may, of course, collectively decide that they are willing to live with developing imbalances of this kind as a consequence of reordering their priorities, but it should be emphasized that continuing this course will result in constricting the range of interests the U.S. could consider as "vital", and would reduce the "insurance" values that more effective forces would have. These points are indicated in the attached paper. While strategic forces are expensive, this expense has by no means been wasted, and, in the absence of arms-control agreements, substantial savings in strategic budgets can only be obtained at the expense of important national objectives.

RATHJENS' PREPARED STATEMENT, PAGE 198, PART 1

(Dr. Rathjens indicates that large increases are in prospect in U.S. strategic expenditures and lists a number of strategic systems with associated cost estimates.)

Comment.—I myself believe that, unless Soviet programs in this area are substantially modified by one means or another, the United States should in fact, increase its level of strategic expenditures. However, the fact that I (among others) believe this should be done does not by any means suggest that it will be done, and the indications given by Dr. Rathjens in support of a projected increase are, to say the least, insubstantial. In his list of possible strategic systems together with his cost estimates, Dr. Rathjens has lumped together a number of possibilities of very different kind and has not considered how the timing of such new strategic weapons as may be deployed would influence the budget levels. Some of the systems he mentions represent alternative ways of doing much the same thing and it is most unlikely that all of the systems involved would be selected. In fact, the Minuteman super-hardening program he mentioned has been discontinued since the date of his statement. A reading of the Brookings report that Dr. Rathjens cited would reveal (page 19) that our expenditures for stra-

strategic forces have been remarkably stable over the last decade. The evidence is clear from that table that strategic-force costs have been very tightly controlled. They have declined in terms of per cent share of the Gross National Product, of the DoD budget, of what they buy as a result of inflation, and of what the Soviets are spending for strategic forces. The FY 71 strategic-force budget gives no indication of the sharp increase projected by Dr. Rathjens. The evidence is not yet in for FY 72, but I believe it is reasonable to estimate that the FY 72 budget will follow past trends of stability, not show a sharp increase, although, as I have remarked before, I personally believe that some increase would be more than justified.

RATHJENS' PREPARED STATEMENT, PAGE 198, PART 1

"If past experience is any guide at all, they [DoD estimates of costs of U.S. strategic programs] will almost all turn out to be much too low. This is especially likely to be true of Safeguard which Secretary Laird now concedes will have to be expanded well beyond Phase II, on which the \$11 billion figure is based, if it is to be significantly effective in defending Minuteman against the kind of evolving Soviet threat the he projects."

Comment.—The cost of the Safeguard program may, of course, increase over the years, though not by substantial factors. As deputy Secretary of Defense Packard said before the House Appropriations Committee on 10 April 1970:

"It certainly is not expected that costs of this program will double or triple from the current base as some have charged. There will probably be some increased costs owing to inflation or perhaps to program stretchout in the future. Avoiding delays in deployment of the system will help limit cost growth resulting from these factors."

Neither Secretary Laird, nor any responsible Administration official, "now concedes (that Safeguard) will have to be expanded well beyond Phase II" in order to defend Minuteman sufficiently against the projected Soviet threat. Neither has it been proposed by the Administration to expand Minuteman defense beyond the Phase II Safeguard level by installing additional Safeguard components. The level of Minuteman defense chosen for Safeguard was considered the minimum required to counter the middle range of expected Soviet threat estimates. If, in the future, the Soviet threat to Minuteman evolves toward the upper limit, it will be necessary to take further steps to insure the survivability of our deterrent force. As a hedge against this possibility, several options are included in the R&D program: hardened silos, mobile basing for Minuteman, ULMS, and improved components for increasing the level of active defense of Minuteman.

RATHJENS' PREPARED STATEMENT, PAGE 198, PART 1

"... The argument against it [Safeguard] as a defense for our Minuteman can be summarized with the observation that on cost-effectiveness grounds it is almost certainly the least effective response to a feasible growing Soviet threat that we have ever seriously considered. In recognition of this, Administration spokesmen this year have been reduced to justifying Safeguard defense of Minuteman on the grounds that it makes sense, not in its own right, but, as an *add-on* to an anti-Chinese ABM deployment."

Comment.—Safeguard was not designed to defend Minuteman alone. Rather, it is intended to be a multipurpose system with no single principal mission. As such, its cost-effectiveness must be judged in light of all of the objectives it is expected to fulfill—not just Minuteman defense. In this context, Safeguard is an effective approach to fulfilling all of the defense objectives stated for it. Although other concepts for increasing the survivability of Minuteman are being studied by the Department of Defense, such as increased silo hardening, mobility, and development of components dedicated to active defense of silos, none of these—alone or in combination—can fulfill the other objectives that Safeguard should meet. Safeguard is intended to defend our strategic forces and also our population against Chinese ICBM's and against accidental launch or other small attacks from any source.

I know of no instance of "Administration spokesmen" describing Safeguard defense of Minuteman as "an add-on to anti-Chinese ABM deployment." President Nixon made clear the multiple objectives of Safeguard on March 14, 1969. These objectives have been reaffirmed by Administration spokesmen on many occasions since.

"The effectiveness of ABM systems, on the other hand, [as opposed to MIRV] is likely to be highly unpredictable, and even if one gives such systems the benefit of every doubt, it is likely that they can be rather easily offset by improvements in the offensive capabilities."

Comment.—I should say this statement is essentially false. If pressed regarding pertinent specific systems and objectives, Rathjens would have a great deal of difficulty supporting it. Let us consider Safeguard with respect to (a) the Chinese threat to our cities, and (b) the Soviet threat to our land-based retaliatory force.

(a) The Chinese might develop and deploy penetration aids. Relatively simple devices such as tank fragments have a very limited ability to deceive a sophisticated defense system like Safeguard. Even to achieve that crude capability, however, the Chinese would have to construct an extensive radar and instrumentation capability simply to be assured that in-flight fragmentation of the tank could be properly carried out. Moreover, without very detailed knowledge of the operating characteristics of Safeguard, it is not possible to design a more advanced penetration system in which they could have confidence. More complex penetration aids require much more complex range instrumentation together with the efforts of hundreds of highly skilled technical people. The United States spent about a decade developing effective penetration aids and ranges for our own missiles. It is believed that the Chinese have no such range instrumentation and they may not be able to build it for many years. Thus penetration aids, even the simplest kinds, require technical effort, including testing, which will complicate and delay what might, in the absence of a U.S. ABM defense, be the relatively rapid acquisition of attack capabilities.

(b) In order to have a reasonably high confidence of success in attacking our fixed-base deterrent force the Soviets would have to rely on an exhaustion attack rather than on just "improvements." Any level of defense can eventually be overwhelmed if an attacker is willing to add enough warheads to "run it out of ammunition." We know, however, that to overwhelm our planned Minuteman defense the Soviets would require a substantially larger number of warheads than if there were no defense, making Soviet attainment of a high confidence first-strike capability against Minuteman substantially more difficult and costly.

"... We have gone ahead with our Minuteman and Poseidon MIRV programs, and ostensibly because of uncertainty about the Soviet multiple warhead programs, the Administration is determined to go ahead with the defense of our Minuteman force with the Safeguard system. It is clear that we have grossly overreacted in both cases. This has occurred because we impute to our adversaries technical capabilities and risk taking proclivities which would seem absurd in our own society, and because we simply have not thought very carefully about the adversary reactions that might be induced by our decisions."

Comment.—If one compares the accelerated Soviet buildup in their strategic nuclear forces over the past five years with the virtually static posture maintained by the United States, the minimum "hedge" that Safeguard will provide hardly seems a "gross over-reaction." On the contrary, the deployment proposed could more logically be criticized as an "under-reaction." As Secretary Laird said on 20 April 1970: "... We are literally at the edge of prudent risk."

"I must say that I am much concerned by recent exaggerations of the Soviet threat by Secretary Laird and his colleagues, and by their proclivity to carry "worst case" analysis to extremes."

Comment.—It is clear that a major difficulty in planning our forces is dealing with uncertainty. This is part of the reason for designing some of our R&D programs as "hedged," i.e., insurance to minimize risks of adversary deployments. This is part of the rationale for some of the strategic programs listed by Dr. Rathjens where he suggested the strategic budget is headed sharply higher. But some of these hedges will only be implemented if the Soviets take steps which now seem uncertain to us.

Dr. Rathjens himself indulges in worst-case analysis. He does this when he casually adds up the costs for all programs on his list, when those programs were not all approved programs, were unlikely to be approved in the combination he

shows, and the costs would have been incurred at significantly different periods in time (some in FY 71, other costs arising perhaps in FY 80 or later).

Dr. Rathjens also exhibits the "worst case" syndrome when he suggests that strategic program budgets are heading sharply higher by FY 75, particularly since he presents no evidence to support this thesis. The costs of strategic programs are among the most tightly controlled costs in our federal budget. The FY 71 budget confirmed that the current administration will continue this policy, unless the continued Soviet deployment of SS-9's, SS-11's and SS-13's leaves us no choice but to revise our policies.

RATHJENS' PREPARED STATEMENT, PAGE 200, PART 1

"The implication [of the anti-Chinese capability of Safeguard] is that we might take actions in Asia, that we would not take without Safeguard, which could possibly lead to a Chinese nuclear attack against us."

Comment.—Actions such as defending our Asian or Pacific allies against possible Chinese nuclear blackmail, or other possible forms of Chinese aggression. (Dr. Rathjens may have had such "actions" in mind, but his statement is susceptible to various interpretations on this point.)

RATHJENS' PREPARED STATEMENT, PAGE 200, PART 1

"Thus, to my mind the Safeguard deployment as a defense against a possible Chinese attack is a prescription not only for an unending round of expenditures in an effort to keep ahead of evolving Chinese missile capability, but also for possible disaster since there is no technical basis for believing that Safeguard could provide the kind of impenetrable defense that the President has suggested, and on which he would propose that policy be based."

Comment.—There has been a wealth of hard technical information generated during the many years of experience in research and development on ballistic missile defense. This information provides a firm technical basis for supporting the President's confidence in Safeguard's effectiveness against the Chinese threat. Dr. Rathjens' statement that "there is no technical basis . . ." is simply false.

Problems relating to component design have largely been solved. The state of the art is such that all technical areas have been developed to the point where the remaining effort is largely a matter of production engineering. The matter of technological obsolescence has been carefully explored, and the radar-guided missile intercept concept, which the Safeguard system employs, is the latest and best technology presently available in the field of ballistic missile defense. No other technology promises a better system in the near future.

As far as the Chinese ICBM threat in the period of time up to the 1980's is concerned, the Safeguard system in its 12-site configuration (full Phase II) will be able to limit damage from a Chinese attack to a low level, probably to zero. This means that for each Chinese ICBM launched against the U.S., there is a very high probability each would be destroyed by Safeguard, and, since the number of Chinese ICBMs will be small and their reliability questionable, that there is a high probability that all of the Chinese ICBMs would be destroyed.

RATHJENS' PREPARED STATEMENT, PAGE 200, PART 1

"I refer to the possibility that the Soviet Union might adopt a 'launch-on-warning' doctrine for its ICBMs. There are a number of reasons why the Russians are far more likely to adopt such a doctrine than would we if we perceived our ICBMs to be threatened."

Comment.—Dr. Rathjens' proclivity for worst-case analysis is evident again in his discussion of launch on warning. Most interesting is his assertion that the U.S. can "better afford to restructure its strategic forces as a response to increased vulnerability of ICBMs." Given the magnitude of Soviet strategic expenditures indicated earlier, it would seem that the Soviets would be in a better funding position to avoid launch-on-warning doctrines. With their rapidly increasing SLBM forces (in which connection it should be noted that U.S. anti-submarine warfare programs are almost wholly devoted to protecting the fleet and the sea lanes, not to strategic defense), the Soviets have readily available alternatives to preclude launch-on-warning doctrines. However, here at least Dr. Rathjens is willing to concede that there are sound reasons for the costly hedges and options we maintain. Careless elimination of these options is likely to expose us to risks which even Dr. Rathjens would find undesirable.

That completes the specific comments I should like to submit on the statement by Dr. Rathjens. The attached paper that follows provides the kind of analysis of strategic-force budget levels that I believe would be more appropriate for the purpose of your hearings.

Thank you for inviting my comments and statement.

Sincerely yours,

D. G. BRENNAN.

HUDSON INSTITUTE—ALTERNATIVE U.S. STRATEGIC-FORCE BUDGETS AND THEIR IMPLICATIONS, BY D. G. BRENNAN, JULY 25, 1970

This paper is a revision of a draft of the same title dated June 9, 1970.

This paper represents the views of its author. There has been only limited circulation of the Paper to the Institute staff and no formal review procedure. No opinions, statements of fact, or conclusions contained in this document can properly be attributed to the Institute, its staff, its Members, or its contracting agencies.

This paper is intended to set forth some brief discussion of the relationships between the budget levels for strategic nuclear forces of the United States and the objectives that these forces might be required to serve. The analysis of strategic nuclear forces in relation to budget levels is fundamentally simpler than the analysis of general-purpose forces in relation to budget levels, for two reasons. First, the range of circumstances in which these strategic nuclear forces are or may be significant is much smaller than the range of circumstances in which general-purpose forces might be used; second, the interaction in a war of one strategic nuclear force with an opposing force of like kind is far easier to understand (and, indeed, predict) than corresponding interactions of general-purpose forces.

But the fact that strategic nuclear matters are *relatively* simple does not make them simple in absolute terms. Such understanding as we have of these forces and their implications has resulted from a good deal of thought and analysis on the part of many nuclear strategists. In order to provide a meaningful discussion of the implications of alternative strategic-force budgets, we shall first review a number of fundamental relationships between such forces and the kinds of concerns that lead some governments—our own in particular—to acquire them.

THE LINKAGE TO POLITICS

Exactly what constitutes "strategic nuclear forces" is not a question with a precise answer—there are a number of rather gray issues such as fighter-bombers on aircraft carriers that can deliver nuclear weapons, and intermediate-range missiles in Europe—but we shall understand the term generally to embrace long-range ballistic or cruise missiles, long-range bombers, active air defense, active missile defense ("ABM") and associated command and control systems for managing the operations of these offensive and defensive forces.

"Strategic" weapons are distinguished from "tactical" weapons, which generally include short-range missiles, bombs for delivery by fighter-bombers, hand-emplaced atomic demolition devices, nuclear artillery, and other such weapons intended for use in a battlefield situation.

In the first instance, strategic forces seem to be defined by technical characteristics having to do with megatons of yield, miles of range, accuracy parameters, and so on. In the second instance, the forces may be defined in terms of their destructive capability in a war, either on enemy population and production centers or on opposing forces, or on some combination of such targets. Evidently this latter characterization in terms of damage would entail the analysis of the interaction of one strategic nuclear force with the opposing strategic nuclear force.

In an important sense, however, both of these characterizations would miss the vital point. What makes strategic nuclear forces important on the world scene are the *perceptions* prevailing in various quarters about those forces in advance of their actual use. It is the perceived consequences of their potential use that make nuclear forces an important factor in international politics. It has been well said that deterrence resides in the minds of men. The substance of this paper is thus not so much about technical characterizations of megatons or numbers of people that might be destroyed, as about the perceptions that may be held about the technical consequences (which may or may not relate closely to the actual consequences if the forces were used) and the way in which these perceptions might interact with other political and military matters.

This points to the first major fact that should be understood in approaching this subject area: throughout very wide ranges of existing strategic forces and throughout wide ranges of circumstances of their possible use or threat of use, the decision makers who will be interacting in the confrontations involved will be far more important in determining the outcomes of these confrontations than will the forces themselves. This will be especially true of confrontations that are relatively intense in character but have only a brief duration in time, i.e., the kind of confrontation we call a "crisis", perhaps typified by the Cuban Missile Crisis, or a crisis that might involve a limited shooting war. In such a crisis, the determination and resolve of the national leaders confronting each other will, broadly speaking, be more important than the particular details of their strategic nuclear forces. If one is talking about two countries of at least roughly comparable capabilities that can inflict grievous damage on each other, and the leadership of one country is determined on a particular outcome of the confrontation no matter what the consequences, *and if it can convince the other of this determination*, then the only rational recourse for the other is to back down. Obviously, complete credibility of a threat of strategic nuclear war is unlikely ever to be achieved, and intermediate degrees of credibility may bring intermediate degrees of relative success in the bargaining associated with the crisis. It can therefore matter a great deal whether a national leader appears to have the dogged determination of a Churchill or the seeming weakness of a Chamberlain.

For any given decision maker, however, there are limits beyond which sheer determination will not be able to make up for objective capabilities. After a certain point, determination may become sheer recklessness, and it will be difficult for a responsible leader to be reckless.* The case of Churchill can also be used to illustrate this fact; in 1938, at the time of the Munich crisis, Churchill believed that England should not then go to war against Hitler because the British air defenses were in very poor condition.

It is difficult to say exactly what perceptions about strategic forces will motivate which leaders to make what decisions in which contexts. It would be impossible even for a specific known individual as the decision maker, and of course in analyses of this type, one must consider a substantial possible range of decision makers. However, it will certainly be the case that any plausible decision maker in either the United States or the Soviet Union will be influenced by his beliefs about the extent of the damage his country might suffer in the event of a strategic nuclear war. For most decision makers, it is also likely to be very important how they will view their prospects in relation to the prospects of the adversary. Some strategists have occasionally discussed questions of deterrence as if the sole factor of importance was the estimate of damage to one's own country, but most political leaders will be concerned with the question of who comes out "ahead", even if "ahead" should look like a Pyrrhic victory. For some leaders, especially some Soviet leaders, questions of ideology may well be important. The potential damage that might be inflicted on allied or friendly countries on one hand, or other hostile countries on the other, would certainly be another factor for any plausible American decision maker and probably for some plausible Soviet decision makers. In the ensuing discussion, I shall not attempt to discriminate these various possible considerations as they might appear to various possible decision makers, but I shall try to convey some sense of the range of potential effects of various levels of strategic forces in various kinds of circumstances. These interactions, which are of central importance if one is to understand the roles of strategic nuclear forces, cannot be reduced to simple formulas.

A useful way of describing these interactions is to note that the military capabilities and posture of some country (in relation to other countries) will influence what that country defines its "vital national interests" to be, and what its foreign-policy objectives are more generally. For instance, it would not likely enter the head of any member of the governments of, say, Monaco or San Marino that they should, as a foreign-policy objective, protect Germany against Soviet invasion. In 1956, after the Soviet Union had nuclear capabilities of its own, the United States discovered that its vital national interests did not include the maintenance of a non-Communist government in Hungary. Such examples could be multiplied.

In general, a reduction in military capabilities (relative to plausible opponents) will lead to a reduction in foreign-policy objectives, or an increase of isolationism. In extreme cases, of course, such capabilities may become linked to the political survival of the country involved. I shall later discuss how the relationship of

*Of course, even a responsible leader may find it useful to *appear* to be reckless in some crisis.

Soviet and American forces might bear on a number of foreign-policy objectives the U.S. has held. It should be mentioned here, however, that these interactions cannot by any means be precisely specified. There are real limits on what is "knowable" in this area, and some of the later discussions in this paper will get at least close to those limits.

People who have only recently come to a serious study of these matters often have the impression that a Soviet decision maker, being head of a monolithic government, would have some considerable advantage over his American counterpart who must be responsive to a broad electorate and who can be guaranteed to have a substantial opposition party. Something of this kind is undoubtedly true for confrontations that extend over a considerable period of time. However, it is pretty surely not true for a crisis with a limited duration in time. An American President need not worry about being ousted by his Cabinet or by the Congress two or three days after the onset of some crisis as a result of his handling of it. In contrast, the top leadership of the Soviet Union does seem genuinely to be vested in a committee, and the chairman of that committee can be voted out of office whenever the membership wishes. Thus, even in an intense crisis or war, the Soviet Union must actually be governed by a committee, which would put the Soviet leadership at a substantial disadvantage in a crisis relative to the American President.

On the other hand, with respect to political leadership issues and confrontations that extend over a considerable period in time, such as managing the broad development of foreign policy or exerting leadership in an alliance or maintaining a budget for strategic nuclear forces at some prescribed level, that Soviet committee is far smaller than the group that participates in the evolution of such decisions in the United States. Thus, while the Soviet government is in fact not actually monolithic, it can behave in a much more monolithic fashion over a long term than is possible for the American government, or for the West more generally.

The subject of alliance leadership brings us to one of the main traditional objectives of American strategic nuclear forces. After the conclusion of World War II, the principal—almost the only—reason for being for the strategic force of the United States was, until the mid-1950s, the protection of Europe against possible Soviet invasion. As the Soviets began to acquire a strategic nuclear capability of their own in the mid-1950's, the primary mission of the American forces shifted gradually to that of deterring a Soviet strategic attack on the United States. However, the possibility that the resulting conflict might escalate to the strategic nuclear level has continued to play an important role in deterring Soviet seizure of Berlin or attacks on the NATO countries of Western Europe to the present day, at least in the sense that the threat of escalation to the strategic nuclear level remains the ultimate guarantor of Western security in the minds of Western statesmen. This policy is explicitly articulated as the official doctrine of NATO. Though less explicitly articulated, the same kind of "strategic guarantee" might also extend to Japan or to other areas of vital American National Interests.

It is worth noting explicitly that this policy or doctrine might, in some circumstances, require the United States to be first to initiate the use of nuclear weapons in a war. Many people not familiar with these matters often assume that it is American policy to use nuclear weapons only in response to the first use of nuclear weapons by an opponent, presumably the Soviet Union. However, it has been doubtful for many years if the existing conventional forces of the NATO countries in Europe could withstand an all-out Soviet non-nuclear attack if the Soviets mobilized very heavy forces. The basic manpower and economic strength of the West is certainly adequate to create forces that could withstand any Soviet non-nuclear assault, but the political will to raise such forces in the West has been lacking. Therefore, NATO doctrine has emphasized early recourse to Western initiation of the use of nuclear weapons against any Soviet aggression, including the possible seizure of Berlin, that could not reasonably be contained or repelled by Western non-nuclear forces that could feasibly be brought to bear in that conflict. Thus, under existing policy and doctrine, the United States might find itself obliged to introduce first use of nuclear weapons against some Soviet aggression in order to live up to its NATO obligations.

There was a period (mainly in the late 1950's) when it was believed that tactical use of nuclear weapons in the initial battle zones might be sufficient for this purpose. Some "demonstration use" of tactical weapons in the theater might still be judged appropriate in certain possible circumstances, but not for several years has it been generally believed that the use of tactical nuclear weapons would compensate for inequalities against a similarly armed superior Soviet ground

force. Therefore it is entirely possible under existing circumstances that the United States might find it the best course of action in some desperate circumstances to introduce the first use of strategic nuclear weapons, i.e., to initiate a strategic attack on the Soviet Union. This is why it is sometimes said that we have a "first strike" policy, though it should be carefully understood that such a strategic attack would only be initiated in response to Soviet aggression on an overwhelming scale.

As this discussion will illustrate, there is considerable linkage between the strategic nuclear forces on the one hand, including the doctrine guiding their use and the circumstances under which they might be used or threatened to be used, and various kinds of limited-war capabilities, alliance arrangements, and areas of important national interest on the other. Understanding of this linkage is important to an understanding of the implications of alternative possible American strategic-force budgets and postures. As I shall indicate later, a relatively inexpensive "Fortress America" strategic posture would probably protect the United States against unprovoked Soviet nuclear attack, but might well not extend much American protection to Berlin or Israel or Japan. There is no cheap route to the security of foreign-policy objectives against determined Soviet pressure.

This discussion has emphasized the bipolar Soviet-American strategic confrontation. With the advent of China as a nuclear power, the world has become somewhat multipolar as concerns strategic nuclear matters, and it is likely to become increasingly so in the future. However, while we might well procure some strategic-force components partly or largely because of considerations relating to China or to other possible nuclear powers, it is likely to remain true for a long time to come that the major portion of the American strategic-force budget will be dominated by requirements related to the Soviet strategic posture. Therefore, while the world is increasingly multipolar even in nuclear terms and especially so in non-nuclear matters, it will be sufficient for the purposes of this paper to concentrate on the bipolar Soviet-American nuclear confrontation as the dominant issue for American strategic budgets, assuming a fixed set of other related conditions such as limited-war capabilities and foreign-policy objectives.

SOME ISSUES OF STRATEGIC PHILOSOPHY

Before proceeding to a discussion of alternative budget levels, it will be useful to introduce some terminology and discuss some controversies about what might be called strategic philosophy, one such controversy in particular.

Let us begin with some terminology. A reasonably conservative basic requirement of an American strategic posture is that, following any plausibly feasible attack by the Soviet Union on the United States, the United States should be able to inflict about as much damage on the Soviet Union as the damage that the Soviets had inflicted and could still inflict on the United States. We should, in short, be able to do as badly unto them as they could do unto us. It will be useful to give this strategic requirement a name, and I shall call it the "Brass Rule", for obvious reasons. Something like this formulation of this "Brass Rule" is sometimes taken as a criterion of "Strategic Sufficiency" or "Nuclear Sufficiency", but conditions for sufficiency might well include other criteria and we shall denote this criterion by itself with the "Brass Rule" term.

Let us now indicate the major philosophical controversy. This has to do with the extent to which a strategic posture should emphasize sheer deterrence by threat of retaliation by offensive forces, on the one hand, or contain some attempt to limit damage in a possible war by some combination of active and passive defense. It is not to be expected that any feasible combination of active defense (air and missile defense) and passive defense (civil defense) in either the United States or the Soviet Union will result in a situation in the foreseeable future in which either superpower would be reliably immune from enormous damage inflicted by the other. However, technical developments in active defense—mainly in ABM, though to some extent in air defense—in recent years have made it possible to consider strategic postures in which the outcome of a major war could be changed enormously relative to the results from a war with no defenses. For example, assuming Soviet offensive forces fixed somewhere near 1970 levels, the American fatalities resulting from a large-scale war with no defenses might well exceed 100 million, while the fatalities that might result from the same use of offensive forces, but in a war with substantial but feasible defenses deployed, might be in the range of, say, 20 to 30 million, a reduction by a factor of five. Similar results are possible for the Soviet Union. The outcome would be a dis-

aster without parallel in either case, but the society would be far more likely to recover in a relatively short period of time in the defended case than in the undefended case. The controversy involved here is whether or not this kind of "damage-limiting" capability should be procured.

In the late 1950's and early 1960's, when no defense of this level of technical effectiveness seemed feasible, people concerned with these matters naturally thought of a policy of pure deterrence based on the threat of large-scale retaliation by the strategic offensive forces. The evolution of this doctrine led (in the early-mid 1960's) to the articulation by then Secretary of Defense Robert McNamara of an American requirement for an "Assured Destruction" capability, i.e., a capability in which it is required to be able to "destroy the Soviet society" following any plausibly feasible attack by the Soviet Union. It should be noted that an "Assured Destruction" requirement is significantly different from the "Brass Rule" requirement in that the former contains no reference to the level of damage that the Soviets might have inflicted or might be able to inflict on the United States.

McNamara elevated the concept of "Assured Destruction" to the position of the keystone of his strategic nuclear policy. Because of this idea of maintaining peace by the threat of unlimited destruction, no matter what the circumstances, McNamara came to oppose any substantial attempt on the part of the Soviets to limit the damage that they might suffer in a war, and, reasoning that the Soviets would have a like view of the American posture, McNamara came to oppose any serious American attempts to limit damage against Soviet attacks on the grounds that a presumed Soviet requirement for an "Assured Destruction" capability would lead them merely to respond with added offensive forces to nullify any American defenses. Thus, McNamara tried to encourage a posture on the part of both the United States and the Soviet Union of a simple "mutual assured destruction" situation in which neither would significantly attempt to limit damage that could be inflicted by the other.

There are arguments that can be made on behalf of a posture of mutual assured destruction, especially the argument that *if* both superpowers wish to maintain such a posture, they can easily do so without arms-race problems at relatively low levels of strategic expenditure. However, at least up to the time of writing, there has been no visible evidence that the Soviets favor a posture of this kind, and indeed there is considerable evidence that they do not favor it. Some American strategists, especially the present writer, have argued that a posture of naked mutual assured destruction is in no way to be preferred under circumstances when substantial defenses are technically and economically feasible. I shall not take up the details of this controversy here, but let me indicate by analogy a fundamental weakness of the assured destruction philosophy.*

I believe the weaknesses of the "mutual assured destruction" posture can be sharply illustrated by a reduction-to-absurdity argument. In fact, if such a posture were desirable, and desirable equally to the Soviets as to ourselves, there would be a much better way of achieving it. As matters stand, an "Assured Destruction" posture is implemented with thousands of medium-range and long-range missiles and bombers, forces that are very expensive to procure and maintain, and which are vulnerable to all manner of difficulties. Missiles can fail to launch out of their silos, they may fail to burn properly in flight, or they may be intercepted by enemy defenses at the receiving end. They may also be attacked in their silos before they are launched. Similar difficulties beset bombers.

There would be a much better and cheaper way in which we and the Soviets could confront each other with major strategic threats if that is basically what we wish to do. We and the Soviets could have an arms-control agreement in which we would permit the Soviets to bring in large nuclear weapons and suitable firing crews and arrangements and plant the weapons under our major cities, in return for Soviet agreement to let American weapons and firing crews go to the Soviet Union and plant these weapons with secure firing arrangements under major Soviet cities. Let us call this arrangement a "Mined-City Posture".

Such a system would not be vulnerable to all the difficulties that the existing forces are subject to. For example, if one of the "mines" were attacked with a much smaller weapon in the hope of destroying it harmlessly, it could be designed in such a way that it would simply detonate at full yield when attacked.

*For a fuller discussion of this subject, see my chapter "The Case for Population Defense", in J. J. Holst and William Schneider, Jr., *Why A.B.M.?*, New York, Pergamon Press, 1969, pp. 91-117.

There is no concern over enemy defenses intercepting these weapons which are already at their intended targets. The system would also be very much cheaper than the existing one. The United States currently spends about 10 or 12 billion dollars per year on strategic nuclear forces, the Soviets perhaps twice that figure, and we could each mine the hundred largest cities of the other for a total investment cost of perhaps 3 billion dollars, and operate the systems thereafter for perhaps a half billion dollars per year. Once the mined-city system were in operation, most of the other strategic forces could be phased out, so that the system could be paid for several times over from the savings in a single year. It is clearly the best possible way to achieve a posture of mutual assured destruction.

But it is starkly absurd. However, the problem for the advocates of a mutual assured destruction posture is that a mined-city program is obviously the sensible way to implement such a posture if one is basically desired. Few of the advocates of such a posture, however, are willing to face the ultimate logic of their position. (Richard L. Garwin is the only exception known to me.)

I believe the limiting case of a mined-city posture illustrates what should in any event be otherwise clear anyway: that it somehow ought not to be the business of the United States Department of Defense to be deliberately making Americans hostage to Soviet weapons. If the realities of technology and economics left no alternative, we might reluctantly accept it, but in the present world there is no ineluctable necessity for such a posture.

The alternative to some kind of mutual assured destruction posture, so far as this particular philosophical point is involved, is a posture with some degree of damage limitation. A posture in which a fair portion—say on the order of one-third to one-half—of the total strategic budget is devoted to active and passive defense is sometimes called a posture of "defensive emphasis". The key controversy about strategic postures of the present is over the question of whether it would be preferable to have a posture of substantial defensive emphasis or one that emphasized mutual assured destruction. The current official posture of the United States is not one of defensive emphasis; the Administration's "Safeguard" program of missile defense is not intended to provide significant damage limitation against major Soviet attacks. (I shall mention the actual roles of this system later.) As will be clear, my own preference is for a posture of considerable defensive emphasis, and I am by no means a minority of one in favoring this position, but it has not been accepted by the Government at this time. I shall set forth my own recommendation for a desirable American strategic posture at the end of the paper; in the meanwhile, the analysis that follows will not assume any particular outcome of the deterrence-versus-defense controversy.

There are other issues of strategic philosophy in some degree of controversy among strategists. The principal area worth noting here concerns the details of conducting a strategic nuclear war. Should the targets to be attacked include cities, or only military forces? If cities are to be attacked, does that mean most or all cities or only a few cities? Should very large strategic attacks be initiated for any reason other than retaliation to a very large strategic nuclear attack from the enemy? Is it possible to conduct a relatively limited strategic war, one in which only a few weapons from each side might be exchanged before the war would be brought to a conclusion? What kinds of information-gathering systems (such as observation satellites) are necessary or desirable to conduct a strategic campaign? It would be inappropriate to attempt to discuss such issues in detail here, but we should note in passing that there are many important issues of this kind and that decisions made in respect to these issues can importantly influence budgets (and vice versa).

SOME ALTERNATIVE BUDGETS AND IMPLICATIONS

In order to discuss implications of various budget levels, we must make some assumptions about the context. In this section, we shall assume a context in which no substantial new arms control constraints are in effect. (I shall consider arms control circumstances in the next section.) I shall assume that the Soviet strategic-force budget is at about its present level. As to what that level is, Secretary of Defense Melvin Laird on a number of occasions in 1969 gave estimates that suggested the Soviet strategic-force budget is currently a little over twice the corresponding American budget, which would make it perhaps 20 or 22 billion dollars.* (On some occasions Mr. Laird gave more detailed information indicating

*Laird press conference, the Pentagon, February 18, 1969; address to Wisconsin Broadcaster's Association, February 25, 1969; address to the American Legion, August 26, 1969.

that the Soviets were outspending the United States in about the ratio of three to two in strategic offensive forces and in the ratio of about three or four to one on strategic defensive forces.) We shall assume that the Soviet budget is fixed at about this level, and then consider various possible levels of U.S. expenditures on strategic forces and ask what objectives these budget levels might secure.

Obviously, the assumption of a fixed Soviet budget under circumstances when the American budget might be changing radically is rather questionable. However, all we can attempt to do in this enterprise is indicate the kinds of dependencies and interactions that exist among these various forces and the objectives they are intended to serve. It is possible that the American strategic-force budget might be well below the Soviet budget for at least some period of time—there is, to the considerable surprise of many of us, current evidence for this—and it is also possible that the American budget might be larger than the Soviet budget for some period of time.

It is not possible to anticipate which kinds of changes in U.S. budget levels would lead to which kinds of changes in the Soviet budget. For example, it might be argued that a low American budget would avoid stimulating the Soviets to an arms-race response, so that they would gradually reduce their own spending on such forces. This is certainly a possible sequence of events. On the other hand, if the Soviets were convinced that the United States were only going to maintain a very modest strategic capability, they might be tempted to try to gain considerable strategic superiority and actually *increase* their strategic expenditures. There is ample historical precedent for responses of this kind. Similarly, a large American budget might lead to a large Soviet budget, or it might lead to a small Soviet budget, e.g., if the Soviets should decide that it was not worth while to compete. Because of these uncertainties, it would be inappropriate in this brief discussion to try to consider possible Soviet responses to various U.S. budgets, and we shall therefore simply take the Soviet budget as fixed.

Let us now consider a number of alternative U.S. strategic-force budgets and discuss in general terms their various implications.

The \$5 Billion Inexpensive Isolationist.—It would undoubtedly be rather easy to deter unprovoked Soviet, Chinese, or other attack directly on the United States, and a fairly modest strategic-force budget would probably be adequate for this purpose alone. If the United States had no significant foreign involvements outside its own borders, the level of capability provided by a modest force would be sufficient to guarantee its physical security. However, this would not be a posture suitable for supporting U.S. objectives in strained circumstances elsewhere in the world, such as a crisis over Cuba or Berlin or the Middle East.

Given the assumed level of the Soviet budget, it would probably be impossible to satisfy the Brass Rule requirement if the Soviets were even slightly competent in managing their own strategic forces. The significance of this fact is that the American President would be in a very weak position to resist nuclear blackmail or coercion unless the physical security of the United States itself were directly threatened. For example, if the Soviet forces in Eastern Europe were quite strong in relation to NATO ground forces deployed there, and if the Soviets seized Berlin, the seizure could probably not be remedied in the theater by the weak NATO ground forces, and the American President would be in a very difficult position if he tried to threaten the initiation of nuclear escalation.

This cannot be reduced to a black and white matter. Consider, for example, a confrontation between two hypothetical countries A and B, in a situation in which neither country has substantial active defenses, each has (say) 100 large cities, country A has 80 invulnerable missiles, and country B has 2,000 invulnerable missiles. This kind of superiority would seem to give B a distinct advantage for influencing crises by nuclear blackmail and coercion. However, if the leader of A has the right personal style to carry it off and the political support also required to carry it off, one can conceive of A actually coercing B by, say, firing a single missile at B, and simultaneously telling B that if B retaliates at any of the cities of A, A will counter-retaliate at the cities of B on a two for one basis. That is A might threaten to destroy two of B's cities for every one of A's destroyed. The leader of country B will understand that A will be able to do that only to a limited extent, and that B can sooner or later exhaust A's capability to do this and moreover destroy A in the process. But the leader of B will also understand that, if he does this, 80 per cent of his own country will be destroyed. B might therefore actually back down even though he has what seems to be overwhelming superiority. Thus, even though our hypothetical \$5 billion budget leads to forces that do not satisfy the Brass Rule, it is conceivable in principle that the United States

might still be able to defend foreign-policy objectives such as the security of Berlin or the Middle East.

But it is very difficult to imagine a representative American President playing such games under such circumstances. The same President who might exploit considerable American superiority to achieve a satisfactory settlement of the Cuban crisis would be quite likely to back down in a Berlin crisis if he were confronted with substantial Soviet superiority, even if the resulting Soviet "victory" should seem Pyrrhic if the confrontation were carried to the ultimate test of strategic war. A de Gaulle with his government absolutely united behind him might be able to preserve foreign-policy objectives with nothing more than weak strategic backing, but the chemistry, psychology, and political aura of plausible American presidents and Cabinet officers will not often resemble those of de Gaulle. Therefore, while there cannot be said to be a simple and reliable connection between strategic-force budgets and foreign-policy objectives, it is clear that, under most circumstances, a \$5 billion budget would leave a President no ultimate choice in a crisis over some foreign issue but to back down.

The \$12 Billion Dubious Brass Rule.—The current strategic-force budget is about \$10 billion and this is what we are considering here. It may be that the Brass Rule requirement is weakly satisfied at the present time, but this will be increasingly dubious in the future. However, this level of budget, while it undoubtedly gives some degree of superiority to the Soviets over some period of time, would at least suffice to prevent Soviet acquisition of overwhelming superiority. (Recall that we are assuming throughout this discussion that the Soviet budget remains fixed at \$20 or \$22 billion.) The "Safeguard" system for a thin defense can be included within this budget, and this would provide a damage-limiting capability against any Chinese attacks or light Soviet attacks, such as might result from accident or unauthorized action. It should also provide some other advantages such as improving the protection of our strategic offensive forces and providing some protection of the national command center in Washington. It would probably not be feasible to achieve a posture of defensive emphasis within this budget if the Brass Rule requirement is to be satisfied, although there has been insufficient study of this question to be sure.

To provide some rough sense of the relationship of such a budget to existing foreign-policy objectives, it is plausible that the U.S. might be able to maintain the security of the Middle East, and possibly Western Europe. However, the situation of Berlin under such circumstances will become increasingly hazardous with the passage of time.

It may be appropriate to stress what should be obvious in any event, namely that in associating particular policy objectives such as the protection of Berlin with particular strategic-force budget levels, it is only possible to make a very crude, subjective, over-all judgment that attempts to average over a wide range of possible decision makers and circumstances. Let me repeat the point I emphasized earlier that, throughout wide ranges of circumstances, the particular decision makers confronting each other in a crisis, including among other things their diplomatic skill and the strength of their political support, will often be more important than particular details of the strategic forces.

The \$20 Billion Parity Program.—As matters now appear, it will require an annual strategic budget in the United States of about \$20 billion to maintain parity with the Soviet Union. Within this budget, it would certainly be possible to satisfy the Brass Rule requirement. It would also be possible to provide a posture of defensive emphasis, and achieve considerable damage-limiting capability against even substantial Soviet attacks, a posture that I personally should favor, although the mined-city advocates presumably would not. The degree of defensive emphasis that could be achieved would depend on the details of the Soviet posture, details that might be influenced by arms-control understandings of the type discussed later.

Broadly speaking, a strategic-force budget at this level should make it possible for the United States to maintain the *status quo* in those areas where other circumstances remain relatively fixed. Thus, for instance, it would probably be possible to continue to guarantee the security of the Middle East, or of Japan. In the case of NATO countries in Western Europe, the situation would probably be dependent on the size of the American ground forces deployed there. If the NATO ground forces (including American) are at least almost strong enough to force the Soviets to be the first to use nuclear weapons in a conflict, and if the United States maintains something like parity with the Soviets in strategic forces, then the Soviets will not be motivated to cross the nuclear threshold (even at low levels) and thus the Soviets would be unlikely to engage in any direct aggression

there. The case of Berlin, however, will probably be somewhat shaky even with parity in strategic forces and substantial American ground forces in West Germany. If the American ground forces are largely or wholly withdrawn, then the situation of Berlin under a parity budget would be distinctly worse than shaky and the West Germans themselves will begin to consider the relative merits of accommodation to the Soviets on the one hand, or a national nuclear-weapon program on the other. (I should perhaps point out that my best personal estimate is that substantial American forces will be withdrawn in the near future and that we shall not do better than parity in strategic-force budgets, possibly worse.)

\$30 Billion Mild United States Superiority.—In 1961, the United States was spending roughly 3 per cent of its gross national product on strategic nuclear forces. (It was probably higher in some years in the late 1950s.) This fraction in the era of a trillion-dollar GNP would lead to \$30 billion for strategic nuclear forces. With this budget, there would be no question about being able to satisfy the Brass Rule requirement handsomely—indeed, the Soviets might have some difficulty in satisfying such a requirement—and it would be simultaneously possible to provide a posture with substantial defensive emphasis. Under such circumstances, the Soviets would be highly motivated not to initiate any nuclear escalation, while the American President, though he would certainly not be anxious to initiate a strategic exchange with the Soviets, might be more willing to resort to demonstration use or limited military use of tactical nuclear weapons in some limited conflict. (It should be noted that I am not necessarily encouraging policies of increased reliance on the willingness to introduce nuclear weapons in a conflict, only trying to trace the kinds of interactions and implications that, in some statistical sense, are plausible.)

A \$30 billion budget would probably be sufficient to hold Berlin with at least medium confidence as long as a substantial American ground-force capability is maintained in Germany. This budget level would probably also provide considerable protection to Western Europe (outside Berlin) even in the event of substantial reductions in U.S. forces stationed there. However, substantial withdrawal of such forces would unquestionably weaken the position of Berlin. (It may be that U.S. forces should be withdrawn even so; I am not advocating a position in this regard, only analyzing plausible consequences.)

The \$40 Billion Clear Superiority Program.—If a budget of this scale were suitably employed, it would continue the possibility of extending considerable protection even to relatively isolated outposts like Berlin and even under circumstances when there was no major U.S. ground force already on the scene. In order to achieve this kind of protection, it might be necessary for the President to threaten recourse to nuclear escalation under circumstances that could bring his domestic support for such purposes into question, even though the strategic capabilities themselves might “justify” it (i.e., in the minds of nuclear strategists and many statesmen), so the political utility of this degree of superiority might in reality prove somewhat elusive.

It is worth noting that the utility to the country of superiority of this level, including presumably a very substantial degree of defensive emphasis that would usefully limit the damage to the country in a war, is by no means wholly political. If a war actually occurred, then those capabilities would be in the nature of insurance, which would insure that the society would be much better off in absolute terms after the war as well as insuring that the country would still be able to protect itself adequately against aggression. Many advocates of high-quality strategic capabilities are in fact primarily interested in them for such “insurance”.

SOME POSSIBLE CONSEQUENCES OF ARMS CONTROL

The alternative budgets set forth above did not presuppose any major new constraints resulting from arms control. It is, of course, quite possible that some explicit restraints will result from Soviet-American discussion about strategic forces, such as those discussions taking place in Vienna at the time of writing. Such understandings might result in substantial downward impact on budget requirements, although they also might not.

It is not possible in the space available here to discuss in any detail the kinds of constraints that might plausibly emerge from such negotiations. Possibilities include limitations on strategic offensive forces, some reductions in existing strategic offensive forces, limitations on the extent to which active defenses (mainly ABM) might be deployed, and possible understandings about the “rules” of conducting nuclear war (such as, perhaps, an understanding not to be first to

attack cities or at least certain named cities). If anything at all is agreed to in this area, it is likely that the minimal agreement would provide some understanding about a ceiling on the deployment of strategic offensive forces. If such a ceiling is suitably formulated, it could be very much in the interest of the West as well as in the interest of the Soviet Union. An understanding about strategic offensive forces might or might not include technical details about the characteristics of the forces such as whether they might include Multiple Individually-guided Re-entry Vehicles (MIRV). Some American students of arms control have been advocating, in many cases forcefully, that we and the Soviets ought to agree not to have any ballistic missile defenses, or at least to restrict such defenses to very low levels. I do not myself believe that such an understanding is in the interests of the United States, still less in the common interest of the United States and the Soviet Union—if it were, we should instead attempt to secure a mined-city agreement, which would have the same result but by much more efficient means—and therefore I should myself think such an agreement unwise, although the possibility of such an agreement cannot be excluded under the present circumstances.

Whatever the form of the agreement, it will probably provide for at least a possibility of something like "parity" if both we and the Soviets maintain our forces at the levels permitted by the understanding. In broad terms, the implications of such a posture would be those associated with the "parity" budget discussed above. However, even if the broad terms of the agreement provide for some kind of parity, it would be possible for either the Soviets or the United States to provide varying degrees of insurance in relation to that basic posture, such as spending more or less money on protecting the offensive-force component and spending more or less money on ancillary technical details of the force, such as the accuracy achievable and the quality of the information-gathering and command and control systems associated with the force. Details of this kind would not be likely to have primary political impact and they should be thought of mainly as insurance values. Even though the main lines of an agreement might provide for something like parity, it would be quite possible for important differences to develop in the real effectiveness of the forces depending on who was devoting how much money and other effort to the forces even if it is assumed that no cheating takes place. The competence with which this effort is applied would be an important factor. However, it would take something like major incompetence on the part of one superpower or the other for the differences arising in such circumstances to have major political impact.

SOME CONCLUDING PERSONAL RECOMMENDATIONS

My own preferences for an American strategic posture will probably be clear in general terms from earlier remarks, but it may be useful to record these recommendations explicitly in summary form. First of all, I believe that, with or without an arms-control understanding, the American strategic-force budget should be maintained at least at the level of the estimated Soviet budget. If that Soviet budget should go down, through arms-control understandings or otherwise, this would permit us to reduce our own effort, but that effort should not be reduced unilaterally.

Second, I believe it would be important for the U.S. forces to satisfy the Brass Rule requirement. This will ensure that we are at least not speedily forced to surrender those foreign-policy objectives that represent a substantial national commitment, such as the ultimate nuclear security guarantee of Western Europe.

Third, subject to the preceding two requirements, I believe we should cultivate a posture of as much defensive emphasis as can be achieved within the limits of the other requirements. With the current technology of active defense we have a clear choice in strategic-force expenditures of whether we prefer to buy more potentially dead Russians or more potentially live Americans. It should be the business of the Department of Defense to provide as many potentially live Americans as are feasible in the technical, economic, and strategic circumstances.

Fourth, in support of the preceding objective, it is distinctly in the American interest to secure an arms-control understanding with the Soviets that would at least limit the further growth of strategic offensive forces, both Soviet and American. Such an agreement would also be in the interest of the Soviet Union. As noted before, we do *not* have a common interest with the Soviets in eliminating active defenses or limiting them to very low levels, although ceilings at high levels of defenses would be acceptable if they are desired. It might be possible ultimately to go even further in the direction envisaged here by reducing the

strategic offensive forces in the Soviet Union and the United States, which in turn would permit active defense levels to be reduced as well.

(The following comments were subsequently supplied for the record by Mr. Rathjens, who was a witness at the hearing of Friday, June 5, 1970, in the context of Mr. Brennan's comments and other pertinent information regarding Mr. Rathjens' prepared statement:)

MASSACHUSETTS INSTITUTE OF TECHNOLOGY,
Cambridge, Mass., September 21, 1970.

Mr. RICHARD KAUFMAN,
Staff Economist, Congress of the United States,
Joint Economic Committee, Washington, D.C.

DEAR DICK: Thank you for your letter of September ninth and for Don Brennan's comments and paper. I do have a few comments which might be included in your record if it is still possible to get them in. They are enclosed.

Sincerely yours,

G. W. RATHJENS.

COMMENTS

Dr. Brennan raises several points with respect to my testimony and then some more general ones on which I should like to comment.

He objects to my listing a number of strategic systems on which work was being done at the time of my testimony, to my listing a total cost for them, and to my suggesting that, in the absence of a SALT agreement, there may be major increases in our budget for strategic forces. I had not intended to imply in my listing of new strategic programs that all would necessarily go forward, much less that this would be done concurrently. I am sorry, and a bit surprised, if Dr. Brennan and others inferred that I believed they might. He is correct, I believe, in pointing out that there has been a diminution of interest in super-hardening of ICBM silos. However, I would point out that there appears to be some increase in interest in a new base concept for ICBM's involving multiple launch sites, and that recently a contract has been awarded for work on an airborne warning and control system (AWACS) for air defense. Despite Dr. Brennan's criticism I still see as a likely possibility expenditures of \$25 to \$30 billion per year on strategic systems by 1975, roughly 50% above present levels. It is likely that these figures would be exceeded if we went through with all the programs on which some money has now been spent; and greatly exceeded if we followed Dr. Brennan's recommendations particularly as regards active defense.

Dr. Brennan claims that anti-submarine warfare costs should not be included in the strategic budget, and I believe he is largely correct. Only a small fraction should be. It is my understanding that the Brookings figure of \$18 billion, which I quoted, includes no ASW costs.

He objects to my contention that Safeguard will likely have to be expanded well beyond phase II and is likely to cost well over \$11 billion if it is to be significantly effective in defending Minuteman missiles; and to my statement that "Administration spokesmen this year have been reduced to justifying Safeguard defense of Minuteman on the grounds that it makes sense, not in its own right, but as an *add-on* to an anti-Chinese deployment." As regards the first point, I would point out that the Secretary of Defense argued for Safeguard originally as a hedge against Soviet deployment of MIRV's on the SS-9, improvements in their ICBM accuracy and continued growth of their ICBM's. He has said this year that if those things occur (the latter continuing at observed rates), "We would then be faced in the mid-70's with a threat which is much too large to be handled by the level of defense envisaged in the Safeguard system without substantial improvement and modification." As regards the second point, Secretary Laird has said, after discussing the limitations of Safeguard for Minuteman defense, alternatives to it, and the desirability of an anti-Chinese defense. "We have decided to continue deployment of Safeguard because the additional cost needed to defend a portion of Minuteman is small if the full area defense is bought."

Most of the remaining specific points raised by Dr. Brennan regarding my testimony seem to be reflections of two fundamental differences between us, which differences are perhaps more apparent in his paper than in his specific comments.

If I understand him correctly, he seems to feel that the utility of U.S. strategic forces is likely to depend rather strongly on the absolute damage level that the-

U.S. might sustain in the event of nuclear war and also on the level of damage relative to that that might be suffered by the U.S.S.R. In particular, he argues that if both the absolute and relative damage levels for the U.S. can be kept low, our ability to deter Soviet aggression in Europe and elsewhere will be improved. I would agree with Dr. Brennan on these points if the levels of damage of concern were in the range of a few percent of our industry, populations, etc., but I find his arguments utterly unpersuasive in the world as it is and as it is likely to be in the absence of drastic arms reductions. While Dr. Brennan feels that it might be possible, with defenses, to hold fatalities to the 20 to 30 million level I believe such estimates greatly overestimate the effectiveness of defenses and underestimate the damaging effects of nuclear weapons on highly interdependent societies. The fatality range in both the U.S. and the U.S.S.R. is likely to be at least several times that whether or not there are active defenses, and the amount of damage will not be very dependent on the strategic force levels of the two powers.

The first hundred or so weapons delivered by either side will destroy most of the urban population, industry and other easily destroyed targets. Under these circumstances it is extremely unlikely that an American president's decisions would depend much on U.S. strategic strength. He would not be much more likely to initiate a nuclear war or take risks that might lead to it if the expectation of U.S. fatalities was 80 million than if it were 120 million or if the expectation was that 20% more Americans than Russians might survive instead of the inverse. Thus, I conclude that in attempting to maintain nuclear superiority or some sort of a damage limiting posture we would be attempting to buy something of very little value; and we would be paying a high price, certainly in terms of dollars needed for other purposes, and very likely in terms of an accelerated arms race which could well result in an increase in the risks of war. Accordingly, I disagree emphatically with Dr. Brennan's statement that, "in the absence of arms-control agreements, substantial savings in strategic budgets can only be obtained at the expense of important national objectives." Our ability to meet various national objectives is likely to be almost independent of strategic force levels and budgets over a very broad range. (This is not to say that decisions of American and Soviet leaders and hence the deterrent value of strategic forces will be independent of the risks of war. However, that risk will depend to only a small degree on force levels. It is likely to be far more dependent on specific kinds of weapons in the inventories of the two powers, on command and control procedures, on the deployment of tactical weapons in Europe and the doctrine for their use, the number of powers possessing nuclear weapons, etc.)

Our second major point of disagreement is with regard to the probable effectiveness of ABM defenses. It is perhaps best not to try to deal with the technical arguments in a few sentences here, particularly considering the materials available elsewhere. A major difference is one of judgement as to whether in reaction to an ABM decision by one side, the other would improve its offense. The U.S. reaction to indications of Soviet ABM deployment suggest that we at least would. Thus, it is my judgement that any significant ABM deployment by one side will be largely if not completely offset by upgrading of its adversary's offensive capabilities. Dr. Brennan I believe doubts this, but I would point out that not even the Administration spokesmen for Safeguard, and they are generally optimists compared with those who opposed it, would argue that it is feasible to provide much of a defense against a determined super-power adversary.

Chairman PROXMIRE. The subcommittee will come to order.

It is my understanding, Mr. Stein, that you are willing to answer questions together with Mr. Mann. So if you would come forward, perhaps you could each deliver your statement and then we could question you together, if that is acceptable.

Mr. STEIN. Yes, Mr. Chairman.

Chairman PROXMIRE. Despite assertions by the administration that it has begun a reordering of priorities, the Nation appears to be no better off in any material respect than it was before and, in many ways, conditions have grown worse in the past year and a half. It becomes clearer every day that we are in a recession. Industrial production is declining, unemployment is increasing, and the housing industry is in a depression, not a recession. The only question that remains is, how deep will the recession go, and how long will it last?

At the same time, interest rates and inflation generally continue their precipitous climb. Thus, the workingman and the housewife face the triple dilemma of soaring prices and a shrinking dollar, inaccessible home mortgage financing and a housing crisis, and the growing threat of joblessness.

We look forward today to guidance and hope from three expert witnesses eminently qualified to comment on these matters by background, training, and experience in the Federal Government.

Our first witness today is Maurice Mann, Assistant Director of the Bureau of the Budget, accompanied by Samuel Cohn, Assistant Director for Budget Review, Bureau of the Budget, to be followed by Herbert Stein, a member of the President's Council of Economic Advisers. We will then hear from Robert Wood, formerly Under Secretary and Acting Secretary of the Department of Housing and Urban Development.

Mr. Mann, we are delighted to have you with us.

Would you lead off in any way you wish. We just got a copy of your prepared statement this morning.

STATEMENT OF MAURICE MANN, ASSISTANT DIRECTOR, BUREAU OF THE BUDGET, ACCOMPANIED BY SAMUEL M. COHN, ASSISTANT DIRECTOR FOR BUDGET REVIEW, BUREAU OF THE BUDGET

Mr. MANN. Because of that, I shall read the entire prepared statement. It is relatively short.

Mr. Chairman and members of the committee, budget formulation in the Federal Government and the determination of national priorities are inseparable. While the Federal budget is many things and serves many purposes, it is, first and foremost, the President's financial plan for the Federal Government.

The budget presents the President's recommendations to the Congress and to the public concerning the substance and size of Federal programs, requests appropriations to pay for these programs, and provides a plan for raising the necessary revenues. As a financial plan, the budget reflects the Chief Executive's priority determination and resource allocation.

Initially, the budget proposes an allocation of resources between the private sector and the Federal sector. It also portrays the establishment of priorities within the Federal sector and the allocation of resources to alternative uses. The amount of Federal funds to be allocated to grants-in-aid shifts the distribution of resources from the Federal Government to State and local governments.

Less clearly recognized is the fact that, through its impact on financial markets—on the availability of funds and on financial markets—on the availability of funds and on interest rates—the Federal budget, once enacted, influences the allocation of resources between consumption and investment within the private sector.

Thus, Federal taxation and spending establishes priorities and allocates resources between the Government and private sector, within the Government sector, and, to an important degree, within the private sector.

In addition to the resource allocation function, the budget serves other purposes, which are no less important. For instance, the budget is one of the Government's important tools for bringing about economic stabilization. The objective, of course, is to promote high employment, general price stability, and healthy economic growth.

The budget, in reflecting the Nation's tax laws and through transfer payments, also affects income redistribution among various groups. The budget promotes economic efficiency by providing a basis for making choices among programs as well as a basis for improved management for Federal programs. But the budget's close connection with setting national priorities is through the resource allocation function.

The budgetmaking process is a continuous process of interchange among the President, the executive agencies, and the Congress. When this process is completed each year, the resulting budget for the year ahead largely reflects the Nation's priorities as perceived by the President and modified by the Congress. The 1971 budget is no exception.

As the President's budget message stated, the 1971 budget was designed to provide the resources to meet both our urgent domestic needs and our international responsibilities. High on the list are such things as improvement of the environment and reduction of crime.

The 1971 budget also attempts to help restore economic stability by holding down Federal spending. A reordering of national priorities was undertaken. Basic reforms in Government programs and processes were begun by proposing that entire systems, such as welfare, be made to operate more effectively. In addition, the 1971 budget encourages greater reliance on the private sector of the economy. The key theme has been to impose a firm restraint on Federal spending.

Responsible fiscal policy that is consistent with the expected path of the economy during calendar year 1970 requires strict control on Federal spending. Such control has a favorable direct effect in helping to combat inflation. In addition, appropriate fiscal restraint provides the Federal Reserve with leeway in permitting relaxation of monetary restraint.

As a result of a policy of fiscal restraint, Federal spending in 1971 will be only 3.7 percent higher than in 1970, even using the revised estimates announced recently. This increase is less than the current rate of increase in prices, and is down sharply from the 7½ percent increase of the current fiscal year and the average annual increase of 13 percent during 1965-69.

Although overall spending has been curbed in the 1971 budget, this has not prevented a substantial shift from occurring in the composition of the total. To the contrary, the change in the composition of the budget during the 1969-71 period is as great as that during the entire 10-year period of 1959-69. This, of course, is a strong reflection of a change in national priorities.

The shift is summarized dramatically by a comparison of the two broad groupings of national defense programs and civilian programs:

Defense program outlays increased from \$46.6 billion in fiscal year 1959 to \$81.2 billion in 1969, and will decline to \$73.6 billion in 1971. As a percentage of total budget outlays, they declined from 51 percent in 1959 to 44 percent in 1969, and will drop to 36 percent in 1971.

Outlays for civilian programs increased from \$40.6 billion in 1959 to \$92.7 billion in 1969, and will climb to \$119.9 billion in 1971. Spending for civilian programs rose from 44 percent in 1959 to 50 percent in 1969, and will be more than 58 percent in 1971.

There also have been sizable shifts within civilian programs:

Human resources programs—education and manpower, health, income security, and veterans—increased from 26 percent of total budget outlays in 1959 to 34 percent in 1969, and will be about 41 percent in 1971.

Outlays for international affairs and finance programs grew modestly from 1959 to 1969 in absolute terms, but declined steadily as a percentage of total outlays. Between 1969 and 1971, they will decline both absolutely and as a percentage of the total.

The story of the space program is familiar—a meteoric rise from 1959 to 1966; the decline that began in 1967 is continuing into 1971. As a consequence, space program outlays will account for less than 2 percent of total outlays in 1971.

Interest costs, which should be considered separately from both defense and civilian programs, more than doubled during the period 1959–69—rising from \$7.1 billion in 1959 to \$15.8 billion in 1969 as the result of a larger Federal debt and higher interest rates. Continued high interest rates are the cause of an expected further rise to \$18.8 billion in 1971. In most respects, interest costs are representative of a wide range of preemptive claims on the budget that are determined—in the short run—primarily by economic, demographic, and other conditions, rather than by the budget process.

The shifting of priorities in the 1971 budget is unmistakable. Budget outlays are expected to increase by \$7.4 billion (net). As is often the case, the total figure masks important compositional changes. Outlays that are uncontrollable under present law are expected to be in the order of magnitude of \$8 billion higher; the pay raise for Federal military and civilian employees will add \$2½ billion; and increases to meet urgent domestic needs will be \$4 billion or so higher—for a total increase of nearly \$15 billion.

Strict control over total spending is not compatible with relying solely on tax increases to finance such an increase. Accordingly, the base of the budget was examined along with proposed additions to the base when the 1971 budget was prepared. These efforts led to reductions of nearly \$6 billion in national defense outlays, and \$0.5 billion in outlays for space programs. In addition, \$1 billion were trimmed in other programs, programs that, however worthy, are no longer of high enough priority to justify their cost to the taxpayer.

As a result of the emphasis given in the 1971 budget, the Federal Government plans to spend more on human resources programs than on defense for the first time since 1950. Defense outlays will drop to less than 36 percent of the total in 1971, while—as noted earlier—outlays for human resources are expected to rise to 41 percent of the total.

The effects of these current budget decisions go beyond 1971. Indeed, for one reason or another, the effects of each year's budget are felt fully only after several years have elapsed. In order to get a better idea of the subsequent effects, long-range projections should be made

and incorporated in the decisionmaking process, as the chairman has suggested on many occasions.

The Federal budget document for fiscal year 1971 includes just such a comprehensive and systematic look at the years ahead—in this case, 5 years out, or through fiscal 1975. The long-range projections of outlays and revenues prepared for the 1971 budget are not a forecast of the 1975 or intervening budgets. Rather, they are projections of likely increases, under existing law and legislation proposed this year, in revenues and outlays over the next 5 years.

As such, the projections provide an indication—a general idea—of the nature of the fiscal environment that the Federal Government will be facing in the next 5 years.

It is clear from the long-range projections that throughout the fiscal 1971-75 period there will be continued pressure on the resources currently programed to be available to the Federal Government. Indeed, it is patently obvious that it will be difficult for the Federal Government to do even a portion of the tasks that are being suggested it should do over the coming years.

In view of the slimness of projected available revenues, if major new initiatives are to be undertaken, existing programs will have to be appreciably reduced in order to release resources or taxes will have to be raised in order to provide additional resources. The only other option is for the Federal Government not to assume a large responsibility for meeting many additional and new needs.

The nature of the fiscal squeeze in the period ahead is revealed by the basic data associated with the long-range outlook, as published in the February budget. The original projections in the fiscal 1971 budget indicate that Federal revenues will increase by \$64 billion during fiscal year 1971-75—from \$202 billion to \$266 billion—and that outlays will increase by roughly \$44 billion—from \$200 billion to \$244 billion. The outlay projections take into account the 1975 cost of current programs and the initiatives proposed by the President in the 1971 budget, as well as planned program savings.

A quick calculation shows that \$22 billion is the residual amount in fiscal 1975 between projected outlays and revenues. In other words, \$22 billion would be the amount available in the budget in 1975 if there are no new initiatives in the 1972, 1973, or 1974 budgets—no major program cancellations or reductions, no other new programs, no changes in the tax laws, and no surpluses to help reduce strains on financial markets. This is highly unlikely.

Moreover, it is also unlikely that all the assumptions on which the projections are based will turn out to be accurate. In any event, there is no question but that \$22 billion is a modest amount of funds relative to the demands being placed on the Federal Government.

Furthermore, the long-range projections indicate that no excess funds will be available in fiscal 1972, largely reflecting the fact that the second-year costs of 1971 initiatives are relatively great and that revenue growth will be somewhat less than normal. In fact, for the period as a whole, revenue growth will be adversely affected by the Tax Reform Act of 1969, which, in effect, has already claimed a large portion of the fiscal dividend during 1971-75.

Consequently, unless we are able to eliminate some of the demands present laws place on future budgets our flexibility will be extremely

limited in the period ahead. But this is exactly why we have to look ahead—to develop national priorities—so that we will have a rational basis for making the hard choices that lie ahead.

The \$22 billion residual projected for 1975, which would amount to roughly 1½ percent of the projected 1975 GNP, could hardly begin to cover the cost of solving pressing present and future national problems—a burden that is increasingly being shifted to the Federal Government.

For example, our estimates indicate that it would take more than one-half of the projected 1975 residual to meet the Nation's housing goals, to say nothing of improving education and health systems, the quality of the environment, the Nation's transportation system, among other things.

If there is one overriding message that emerges from our exercise in long range projections, it is that we are living in a world of severely limited resources. As a result, each and every spending decision has to be made on the basis of a systematic examination of the longrun implications.

This message was clearly articulated by the President when he said:

This administration is placing heavy emphasis on the long-range implications of current decisions. We must become increasingly aware that small decisions today often lead to large cash outlays in the future.

The time horizon of fiscal planners throughout the Government needs to be extended. The practice of evaluating programs solely on the basis of costs in the current and next year's budget is no longer acceptable. By giving explicit consideration to a 5-year cost profile, a more realistic and appropriate framework for evaluating new programs is provided. A 1-year planning horizon, in contrast, tends to encourage acceptance of politically desirable programs, whose first year costs are relatively small, but whose subsequent years costs grow, sometimes substantially. As a result, future flexibility suffers. While the Federal budget may allege to be an expression of present goals, it is also a carryover from the past—of past commitments and habits as well as just plain institutional inertia.

In addition, the indirect effects of program decisions also are evaluated more easily when a comprehensive framework is used. Such a framework surfaces the problems of allocating limited resources. An expanding budget always has to allocate available resources to new uses.

In an economy at less than high employment—such as during the first half of the 1960's—newly utilized resources may have been previously unemployed. However, in a high employment economy—such as during the second half of the 1960's and as projected for the 1970's—allocating resources to new uses involves taking resources away from other uses. Previous budget policy was geared to the earlier type of situation; budget policy must now learn how to live with the latter type of situation.

As I mentioned earlier, the allocation of the Nation's resources is significantly affected by the Federal budget. But because of inertia and lags within the economic system, the allocation effects of budget decisions are visible only over a period of years. This is one more

reason why rational and reasonable budget policy requires that it be made in a long-range context.

Ideally, we should be able to foretell the economic and social consequences of alternative budgets. Such omniscience, however, would imply knowledge of production functions relating the input of resources to the satisfaction of human needs and the solution of social problems. Unfortunately these production functions are not yet known, although we are making some progress in cost-benefit analysis.

Perhaps the major contribution of the long-range projections is to provide a comprehensive framework to analyze budget policy as well as to improve budget decisions. Such a framework should be helpful in estimating the different resource allocation patterns that would result from alternative budgets—alternative in terms of size as well as composition. This needs to be done if we are to live successfully in a world of severely limited budget resources.

Thus far, I have discussed only priorities and resource allocation as they relate directly to the Federal budget. I would like to conclude by discussing priorities and resource allocation in the Nation's financial markets, particularly since budget decisions have both a direct and indirect effect on the functioning of these markets.

The record of financial flows during the 1960's shows that, irrespective of market conditions, the Federal Government and the Federal agencies are always able to market their issues, even though they may not like the rates that have to be paid. The situation is similar for nonfinancial corporations. The record of the 1960's shows that, as a rule, nonfinancial corporations are willing and able to pay the going rate for funds.

The story of the 1960's was quite different for many State and local governments and mortgage borrowers, reflecting, in part, artificial constraints that do not exist in either the corporate or Government securities market. In the latter markets, price—interest rates—is more or less free to clear supply-demand relationships.

This is not nearly so much the case in either the municipal or mortgage market because of an assortment of constraints and rigidities in the form of interest rate and debt limit ceilings, which become oppressive during periods of credit restraints. Originally, the introduction of these ceilings was for the protection of savers and borrowers. Ironically, these well-intentioned protective measures have become impediments that interfere with the market mechanism, in turn forcing the Federal Government to intervene with offsetting actions.

Although State and local government securities accounted for about one-tenth of all capital market financing during the decade, the year-to-year record was quite uneven. Recurring periods of credit restraint caused frequent and pronounced changes in proportions of funds supplied to the municipal market.

The mortgage market has also gone through the wringer on a number of occasions in recent years, reflecting the limited availability of funds. Disintermediation—the diversion of savings flows from savings institutions to the open market—was particularly serious in 1966 and again in 1969. Investors withdrew savings funds from deposit-type institutions in order to take advantage of higher rates in the market.

The diversion of funds that might otherwise be available for mortgage financing has become a serious problem. For example, savings-

type institutions financed nearly three-fourths of all residential mortgages during 1960-65, but only a little more than one-half during 1966-69. Savings and loan associations, which have been the principal source of funds for residential mortgages, financed 56 percent of all residential mortgages during the earlier period, but only 45 percent during the later period—which, of course, include 2 years of tight money and very high interest rates.

Because of the difficulty of maintaining an adequate flow of funds into mortgages, the Federal Government and Federal credit agencies played an increasingly important role in the mortgage market during the course of the 1960's. For example, while direct Federal participation—other than Federal guarantees and insurance—represented less than 1 percent of residential mortgage financing during 1960-65, it amounted to about 20 percent during 1966-69.

Federal participation became particularly heavy in 1969, with the Government moving actively to support the mortgage market. For example, the Federal National Mortgage Association—FNMA—supplied one-fourth of the total funds raised for home mortgages during 1969 and loans from the Federal home loan banks accounted for one-half of the increase in the liabilities of the Nation's savings and loan associations.

Federal participation in the mortgage market was even heavier in the first quarter of 1970, when FNMA supplied 45 percent of the funds raised for home mortgages and advances from the Federal home loan banks accounted for over 80 percent of the increase in the liabilities of savings and loan associations.

Obviously, the short-run objective of such action has been to soften the impact of restrictive credit conditions on the mortgage market—and this, of course, is all to the good. Nonetheless, I am not sure of the long-run implications of such massive Federal participation in the mortgage market insofar as the functioning of that market is concerned. We should certainly give serious consideration to the long-run objectives of Federal participation in the mortgage market, especially with respect to attainment of the Nation's housing goals.

In retrospect, I believe we can look back on the 1960's with a great deal of satisfaction that huge amounts of funds were raised in the Nation's financial markets. However, we should not find complete comfort in this achievement, in view of the serious problems in both the municipal and mortgage markets, particularly during 1966-69.

In the latter part of the 1960's, the Federal Government and the corporate sector increased appreciably their combined share of total funds raised, while State and local governments and mortgage borrowers suffered a decline in their share. Such a turn of events underscores the fact that municipals and mortgages, for a number of reasons, lack the market power to compete effectively with Federal and corporate securities. Indeed, municipals and mortgages tend to be relegated to the end of the line whenever there is an interruption in the normal flow of funds through financial markets, such as during periods of credit restraint.

It is conceivable that capital market developments in the 1970's may make the problems of the 1960's pale in comparison. An extrapolation of the broad relationships of the 1960's indicates that long-term financial markets may be called upon to supply as many dollars during the

first half of the 1970's as they supplied during the entire decade of the 1960's. The fact that financial markets allocate capital funds like markets, rather than on the basis of social equity and generally accepted national goals, could lead to recurring difficulties in both the municipal and mortgage markets.

Part of the problem, of course, is that these difficulties are artificially created by the constraints and rigidities referred to earlier. Therefore, in much the same way that we have to establish priorities in allocating our national output and in making the tradeoffs that are necessary to achieve real national goals, it would seem that we will also have to make some hard decisions and establish priorities in allocating the Nation's financial resources. In fact, as recent events have shown, the two sets of decisions are inseparable in today's world.

Choices will obviously have to be made since, at no time, can the total of satisfied claims on real and financial markets exceed available or potential resources. If we are to avoid in the 1970's a rerun of the problem that plagued long-term financing during the late 1960's, and if we intend to accommodate the investment needs of the 1970's, we need to resolve two separate but equal questions:

(1) How can we as a Nation generate the total volume of capital funds that will be needed? and

(2) How will these funds be allocated?

Economic expansion during the 1970's will generate a substantial volume of savings. However, the amount may prove to be insufficient to meet the Nation's pressing social and economic needs. In order to provide the required volume of savings, we may have to sacrifice a modest amount of real consumption per capita, or even some real economic growth as we now conventionally measure it.

One way to achieve additional savings would be to work through the tax system and generate Federal budget surpluses. Such surpluses would have to be large enough, when added to private savings, to finance total private investment.

These surpluses could be channeled into the investment stream in at least two different ways:

(1) Part of the public debt could be repaid; or

(2) The Government could expand its direct lending (or other investments).

Repayment of the public debt would inject funds into financial markets, which in turn would allocate these funds among various investment uses. In contrast, Federal direct lending programs would channel the funds to specific investment uses, according to priorities established by the Federal Government.

Unfortunately, there are problems in either of these alternatives. Since the debt repayment route relies on financial markets to allocate funds, there is no assurance that the funds would be allocated in a manner consistent with the Nation's goals and priorities. It goes without saying that these goals and priorities are significant to the elected officials who have to raise the taxes to make debt repayment possible.

Expanded Federal direct lending activities would help assure that budget surpluses were distributed in a manner consistent with the Nation's social and economic priorities, at least as elected Federal officials see them. However, the Federal Government would seem to be taking on a job that would appear to many to be the responsibility of the private sector.

With respect to budget surpluses—particularly the steady State variety—we should recognize that national economic decisions are made through the political process. At this stage of history, our elected officials, representing the views of the public at large, do not appear to be ready to accept the increased tax burden that would be necessary to generate large budget surpluses continuously over time.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you very much, Mr. Mann.

Mr. Stein, we shall be glad to hear from you at this time.

Mr. STEIN. Thank you, Mr. Chairman.

STATEMENT OF HERBERT STEIN, MEMBER, COUNCIL OF ECONOMIC ADVISERS

Mr. STEIN. Mr. Chairman, the Council of Economic Advisers has been invited to come before the Joint Economic Committee next month to discuss the economic outlook and economic situation. I have come here this morning to testify on the subject of this subcommittee's hearing, namely, changing national priorities.

I have only a few simple things to say on the subject of national priorities, but I think they are important and I welcome the opportunity to say them to this subcommittee. I do not intend to talk about what the national priorities are or should be. Rather I shall discuss how we should think about the national priorities problems. And I shall concentrate on one aspect of even that limited question—namely budgeting the gross national product.

Basically I shall be elaborating material contained in chapter III of the February 1970 Report of the Council of Economic Advisers.

The priorities problem is the problem of deciding which are the most valuable uses to make of a total of resources that is limited and therefore insufficient to meet all possible claims. The limiting resources may take various forms—the time of the President, the attention of the Congress, the interest of the public, and so on. The total resources that are most commonly considered when national priorities are discussed are the resources in the Federal budget. People who talk, for example, about “reordering the national priorities” usually mean that within the given total of the Federal budget more should be spent for some purpose and sometimes less should be spent for some other purposes.

Undoubtedly the Federal budget will continue to be a basic framework for making decisions about national priorities. However, I want to suggest that it is not only useful but even necessary to go beyond considering the allocation of the Federal budget total and consider the allocation of the total national output.

In fact, priorities decisions are decisions about how the total national output should be used. The size of the budget itself is not given but is one of the major things to be decided. This decision is a decision about the use of the national output.

It is sometimes suggested that the priorities problem should be regarded as having two stages. First, we decide how the national output should be divided between public and private uses, or between Federal and non-Federal uses.

Second we decide how the Federal part of the national output should be used. However, this two-stage approach to the problem is not satisfactory. In the first place, the two stages cannot be considered in sequence but logically need to be considered together. We cannot think intelligently about how big the Federal and the non-Federal sectors should be without knowing something specific about what is to be in each sector.

In the second place, the Federal Government makes numerous decisions which importantly affect the non-Federal uses of the national output. Some of these decisions take place within the Federal budget and some outside it. Among the main types of relations between Federal decisions and non-Federal uses of output are the following:

1. Federal transfer payments to individuals affect the volume of private consumption and its distribution by income groups and other categories of persons.

2. Federal grants-in-aid affect the amount and composition of State and local expenditures.

3. Federal provision of services or facilities, such as highways, compete with and discourage some non-Federal expenditures while they complement and encourage other non-Federal expenditures.

4. Federal taxes profoundly affect the character of private resource use.

5. The relation between total taxes and expenditures—the size of the surplus or deficit—affects the volume of funds available to private, State, and local borrowers and consequently affects their investment.

6. Loans by the Federal Government, or by federally-sponsored agencies, and interest subsidies and guarantees affect the direction and possibly also the total amount of private investment.

7. Laws and regulations of the Federal Government require private expenditure of certain types. For example, air pollution regulations require private businesses to invest in certain purification equipment.

Consideration of this list suggests three main conclusions:

First, labeling some resource uses as Federal, and therefore the object of Federal concern, whereas other resources uses are not, is quite arbitrary. Decisions that resources should be used in a particular way are influenced in varying degrees by Federal actions and where we should draw the line between Federal and non-Federal is a matter of convenience.

In this respect the problem is related and parallel to the problem of defining the Federal budget. There are a vast number of transactions which are in one degree or another affected by the Federal presence. Which of these to include in the budget is not subject to logical determination.

For example, if Federal regulation requires a company to spend, say, \$10 million on air-purification facilities one could make a case for saying that this \$10 million should appear as a \$10 million budget expenditure, balanced on the other side of the accounts by \$10 billion of imputed revenue from a tax on the company.

There are probably many arguments against doing this. But what the example suggests is that we should not let real decisions be fundamentally altered by where we draw the line between Federal or non-Federal or between in the budget and out of the budget.

Second, there is no close relation between the dollar amounts that flow through the budget for various purposes and the dollar amounts of the consequent resource uses. The case of the antipollution regulation that I have been using illustrates this clearly, but it is true all through the budget. The credit programs also illustrate this point to a remarkable degree.

There is probably little difference between the resource-allocation consequences of a \$60 million budget expenditure to subsidize interest on mortgages and a \$3 billion direct Federal mortgage loan program.

Third, and most important, what we are really interested in is the use of the national output. Government expenditures, taxes, loans, subsidies, guarantees, and many kinds of regulations are means to influence the allocation of the national output. We should determine how these means should be used by deciding what their effects are on the allocation of the national output, relative to whatever goals we may have for that allocation.

Therefore, it seems to me that we need to develop, alongside the usual budget, a budget of the national output, or gross national product budget. The GNP budget would be a projection of the allocation of the GNP that would result from existing or proposed policies of the Federal Government, given the behavior of other sectors that might reasonably be expected. Responsible officers of the Government—that is, the President and Members of the Congress—would consider whether the resulting allocation of the national output is what they would prefer or whether they would prefer to achieve a different allocation by different Federal policies.

When major changes in Federal policy are under consideration, their consequences for the allocation of the gross national product should be examined.

Of course, I am not suggesting that budgeting the GNP be substituted for budgeting the ordinary budget. Obviously, the Government could not go on for half an hour without the ordinary budget. But from time to time, at least annually, and when major decisions are being considered, we should also be looking at the GNP budget.

Looking at the decisionmaking problem, or the national priorities problem, as a problem in allocating or budgeting the GNP will add greatly to realism in the process. I have heard it said, for example, as a contribution to the debate over national priorities, that this country assigns higher priority to killing people than to feeding people because it spends \$75 billion a year on defense and only \$3 billion a year on food. Some, although admittedly not all, of the errors in such a statement would be impossible for anyone who looked at the gross national product.

It would be clear that the American people spend much more for food than they do for defense, but almost none of the expenditures for food go through the budget, whereas all of the defense does.

A more serious common misconception which might be avoided by looking at the GNP relates to the consequences of reducing or eliminating the use of resources for the Vietnam War. There are many who believe that expenditures for the war have come dollar for dollar out of Federal expenditures that would have been made for social purposes to which they assign the highest priority.

They are expecting that funds released from the war will be available dollar for dollar for these same purposes. But what this implies is that the 2½ percent of the gross national product now devoted to the war will be allocated among other uses in a way radically different from the way the other 97½ percent is being used.

However, unless there is a marked change in national priorities there is no reason to think that will happen. What is more likely is that the resources released from the war will be divided among private consumption, State and local purposes, housing et cetera, in more or less the same proportions as the other 97½ percent of the output. Probably the best proof of this is last year's tax reform act, which when fully operative will have the effect of raising private consumption by about one-half of the maximum annual cost of the Vietnam war, a decision which Congress took as the costs of the war had only just begun to decline.

Looking at the GNP is also an antidote against biases in decision-making that may result from a certain arbitrariness in the definition of the budget. There are ways in which the Federal Government can exert claims against the national output without those claims being fully reflected in the budget. Since the budget is persistently tight, there is a great temptation to do things in ways that do not appear in the budget, and to do more of the kinds of things that can most readily be done outside the budget.

The GNP budget is some protection against this, because it is much harder to get resource uses outside the GNP than it is to get them outside the ordinary Federal budget.

A further advantage of GNP budgeting is that it forces decision-makers to ask some important questions. It forces them to ask not only what programs cost in budget funds but also what resources they divert from other uses and devote to the purposes of the program.

If the Federal Government has a program of grants-in-aid for education we must ask not only how much the Federal Government is spending but also to what extent it is increasing total spending for education and to what extent it is transferring to the Federal budget, educational costs that would otherwise be born by State, local, and private budgets.

Of course, ideally we would like to know something more than that; we would like to know how much is being learned. However, that is an even harder question. A major step to finding out what Federal policies really do is to find out their effects on the allocation of real resources.

Thinking in terms of a budget of the GNP, and actually drawing up such a budget, would contribute greatly to realism in decisions about national priorities. There are, however, three questions that need to be considered about such a procedure.

The first question is whether it is proper in a predominantly private, free society for the Federal Government to budget the use of the entire national output, most of which is not federally owned or controlled. It sounds like the Soviet Gosplan prescribing the uses of the national output of the U.S.S.R. In an earlier incarnation I would probably have been among the first to protest this idea. But this is not a very serious problem.

Budgeting the GNP does not mean that we distinguish and determine in detail every use of the GNP. It only means that we should distinguish those allocations of the GNP about which the Federal Government makes decisions and has goals, and affects by its policies. The scope and detail of Federal decisionmaking will not be determined by the budgeting methods. The budgeting method is only intended to increase the rationality of whatever kinds of decisions the Federal Government does make. In fact, the Federal Government has goals, implicitly or explicitly, about a great many categories of resource use. It also conducts programs which greatly influence many categories of resource use.

Therefore a budget for the GNP to illuminate these decisions would have to be fairly detailed. In a more laissez-faire system the budget could be less detailed.

A second question is how are decisions to be made once the GNP budget is presented. Suppose we show that under present and proposed policies the gross national product will be divided into \$650 billion for private consumption, \$100 billion for business fixed investment, \$30 billion for housing, \$50 billion for education, Federal, State, local and private, and so on. How will the President and the Congress decide whether they like that allocation of the GNP and therefore the policies that give rise to it?

The problem is very similar to the problem of making decisions about the conventional budget. Our ultimate recourse is to the mysteries of the intuition, judgment, and political representativeness of our elected officials. So it will have to be also with the GNP budget, except that for the reasons I have already given the quantities and categories in the GNP budget are closer to our ultimate objectives and therefore easier to have judgment about.

The third and most difficult question is whether it can be done at all. Can we draw up a budget for the GNP? The problem, of course, is not to divide up \$1,000 billion of GNP among alternative uses on paper. Anyone can do that. The problem is to discover the linkages between Federal policies and the allocation of the GNP. Unless we can do that we cannot tell what policies would be needed to bring about any preferred pattern of GNP allocation or what pattern of GNP allocation is likely to result from any given set of policies.

Now if we are asked whether we can do this precisely and confidently the answer must be no. There are just too many things we do not know in any quantitative and reliable way about the relations between Federal expenditures, taxes, subsidies, loans, and regulations on the one hand, and the uses of the national output on the other hand.

But this is not a negative conclusion about GNP budgeting as compared with other ways of making Federal policy decisions. It only means that we are quite inadequately supplied with information for making these decisions in any way. The attempt to develop a GNP budget reveals this inadequacy. It may also be a step toward correcting it.

In the February 1970 report of the Council of Economic Advisers, we took a primitive and tentative step toward a GNP budget. We estimated how the potential GNP would be divided among alternative uses annually through 1975 if existing expenditure programs and tax laws were continued, administration program proposals adopted and

the national housing goal was met. We were able to divide the GNP into only a small number of categories—personal consumption, housing, business fixed investment, inventory accumulation, net exports, Federal purchases of output, and State and local purchases of output.

These estimates, slightly revised, are shown in the table below for 1975, with 1969 comparison. The table is based on policies and administration proposals as of January 1970; it has not been revised for policy changes since then. The revisions are in the nature of technical corrections.

(The table referred to above follows:)

USES OF THE GROSS NATIONAL PRODUCT

[Billions of 1969 dollars, calendar years]

	1969 actual	1975 projected consequences of January 1970 policies ¹
Total output.....	\$932	\$1,203
Total uses of output.....	932	1,189
Personal consumption.....	576	766
By lowest income 20 percent of population.....	(41)	(56)
By others.....	(335)	(710)
Business fixed investment.....	99	124
Residential construction.....	33	55
Change of inventories.....	8	13
Net exports.....	2	5
Federal Government purchases.....	102	85
State and local purchases.....	113	141
Unallocated.....	0	14

¹ For method of estimating see February 1970 Annual Report of the Council of Economic Advisers, pp. 84-89.

Mr. STEIN. In addition we have attempted to divide total consumption into the consumption of the fifth of the population with the lowest income and the consumption of all others. We can do this only crudely and put in the figures to suggest the kind of thing we should try to do. At least, most recent discussion suggests that there is a different interest in the consumption of the poor than in the consumption of others.

The more obvious inadequacies of these estimates may be pointed out, because they constitute a list of subjects on which we would like to do more work:

1. The categories of resource use are too crude. It would be desirable to show total expenditures—Government plus private—for a number of functions in which there is great national interest, such as environmental improvement, education and training, and health.

2. The estimates of State and local expenditures, and of their relation to Federal grants, are based on very simple premises.

3. We have been unable to reflect any consequences of Federal credit programs for the allocation of the national output because we do not understand these consequences well enough.

4. We show in future years, like 1975, part of the potential national output unallocated. Of course, if the potential output is achieved it will be allocated, either by deliberate policy or by the automatic

working of the system. We have not tried to predict how that would come about.

To corrected the deficiencies in our present estimates will take much work extending over many years by the Council of Economic Advisers, the Bureau of the Budget, the Treasury, and other agencies. However, even in its present rudimentary implementation the idea of budgting the GNP has helped to illuminate decisions in the administration. We believe its further development will be well worthwhile.

Chairman PROXMIRE. I want to thank you both, Mr. Mann and Mr. Stein, for excellent statements. They are most interesting and useful. I think they both represent a real insight into the priorities problem in a most thoughtful and responsive way.

I particularly applaud your emphasis, Mr. Mann, on the fact that we are going to have to face limited resources and hard and tough decisions on priorities. I think your analysis is most convincing in this respect.

Can you tell me what assumption we make with respect to economic growth over the next 5 years in your projections?

Mr. MANN. The assumption, Senator, is that once it returns to a normal pattern of growth, the economy will grow in real terms at 4.3 percent a year.

Chairman PROXMIRE. And roughly when do you assume that will happen? Do you assume it will resume growth at the beginning of 1971?

Mr. STEIN. In the annual economic report we presented a path for the growth of the GNP or for the potential path of the GNP up through 1975.

This was a schematic drawing not intended to show what was going to happen quarter by quarter, because obviously we did not know that.

Chairman PROXMIRE. Incidentally, that report was made 7 or 8 months ago. Do you have any reason to review that?

Mr. STEIN. The report was made in February.

Chairman PROXMIRE. The report was issued then, but I presume that it actually was drafted earlier.

Mr. STEIN. We were working on it well into January. In any case, we have not revised our estimate of the long run growth path. Our estimate of the 1975 potential gross national product would be the same as we made then.

Chairman PROXMIRE. 4.3 percent is highly optimistic, is it not? We recognize the fact that we are all very hopeful, and we expect we are winding down the war. Can you name any period in all American history, 5- or 10-year period, peacetime, when we had growth that was more than 4 percent in real terms, and we were not moving into a war, and when we start at a level of high employment and relatively low unemployment?

Mr. STEIN. Well, the 4.3 percent is an assumption that the potential will be growing at the rate of 4.3 percent. This is different from actual GNP. The assumption about the potential merely projects into the future recent trends in the rate of growth of output per man hour. The reason we get a higher growth of potential during this period than in most earlier periods of U.S. economic history is that we are entering a period in which the labor force will be growing very rapidly, much

more rapidly than usual, since the postwar babies will be coming along.

Chairman PROXMIRE. This is just a mathematical computation consisting of an estimate of the growth of the labor force, the assumption that unemployment will remain at a reasonably low level—

Mr. STEIN. 3.8 percent.

Chairman PROXMIRE. 3.8 percent—and that the productivity will increase at what rate, 3 percent?

Mr. STEIN. It is about 3 percent. The overall productivity growth is about 2.8. The private sector output per man hour is estimated to grow by about 3.1.

Chairman PROXMIRE. The only reason I am going into this is that these are highly optimistic assumptions. If we are going to maintain the rate of unemployment at 3.8 we are going to have to do remarkably well. I hope we can do it.

Mr. Stein, in your very fine analysis I was delighted that you look at the priorities from an overall standpoint, not focusing, as too many of us do, on the Federal budget, but looking on the problem as one of a national total of resources to be allocated. You gave us almost no analysis, however, of two things. One was tax policy, which certainly supplements expenditure policy in a very big way; and No. 2, and much more important, it seems to me, was monetary policy. If you are going to talk about the impact of Federal Government decisions on the economy it would seem to me that whatever monetary policy we have, and whatever tax policy we have is likely to be important.

Mr. STEIN. I did indicate in passing that the character of the tax system would greatly affect the composition of private resource use. And certainly as we develop this picture we would like to be able to show the resource use. Of course, in the very gross sense our estimates do reflect the effects of tax policy, because the rate of consumption that we project is affected in a measurable way by the level of taxation.

We have not been able to incorporate in the estimates that we have made up to this point the effect of the tax structure on the composition of the national output in smaller categories than consumption, investment, and so on.

I guess I forgot the other question.

Chairman PROXMIRE. The other question was monetary policy.

Mr. STEIN. There are various ways of looking at that problem. And the way in which I would prefer to look at it is that the monetary policy basically determines the growth rate of the money, of the aggregate money growth of the national product. And given the historical circumstances from which we start and so on, this will determine the growth rate of the real gross national product in aggregate. The allocation of the national output within that aggregate total will be determined by the budget, by private decisions, and so on, but not in a significant degree by monetary policy.

Chairman PROXMIRE. What I was getting after, of course, is that we are all very conscious of the depression in the housing industry, which is the result, in the view of many, of monetary policies which have been restrained, over the past few months, at least, and have had their effect in the high interest rates and shortage of long-term credit and the inability of people to borrow the money at a price at which they could repay it for home and for housing.

Mr. STEIN. I think the impact of monetary policy on that is transitional. I do not think that monetary policy over any considerable period of time influences the rate of interest significantly, the real rate of interest. However, there is controversy over the point.

Chairman PROXMIRE. Let me ask both of you gentlemen if you can give me a much more realistic estimate than we had in February of unemployment. At that time we were told that the anticipation was that unemployment would average 4.3 percent. And it is already 5 percent, and we are only in June. Most of the witnesses have said they expect unemployment to increase during part of the remaining year and then to begin to drop toward the end of the year. I wonder if you could give us an updated estimate as to unemployment for 1970?

Mr. STEIN. Of course, we are all even more conscious than we were in February of the difficulty of making such an estimate. However, given the experience that we have had so far this year, our expectation is that for the remainder of the year the rate will not depart significantly from 5 percent, and that the average for the year will be perhaps a little under 5.

Chairman PROXMIRE. Can you give us your estimate as to what is going to happen to interest rates?

Mr. STEIN. I could estimate anything. The question is, can I estimate them reliably?

Chairman PROXMIRE. This is such a difficult problem for us, because as you know, we have just been told that the Federal Reserve Board has had to follow policies in the last 3 months that have resulted in a 9 percent increase in the annual rate of money supply. And we would like to ask you as an expert economist, monetary economist, what is your judgment as to what is going to happen the rest of the year to interest rates?

Mr. STEIN. I am not making a forecast of the Federal Reserve policy which will have an influence on the short run. But our expectation is that the rates of interest will decline but little.

Chairman PROXMIRE. Will decline a little. O.K.

And the other question I have in this area is, do you have any kind of projection you can give us on inflation? That has been a stubborn, painful development. It has defied the predictions and expectations we have had in the past. There do seem to me some elements in the economy—with the softening of the economy, you suggest, prices should begin to rise at a less rapid rate.

Mr. STEIN. Let me say a word first about our predictions about the behavior of the price level being disappointed. I think anybody who thinks about this matter must recognize that any prediction about the economy is a statement of probabilities, and that no one can speak about these things with certainty.

We do not believe that the disappointment so far—we do not deny that there is a disappointment—has been of a magnitude or duration which suggests that the underlying premises on which the prediction was made are incorrect. And we believe that the rate of inflation will be subsiding during this year.

There is no doubt that this has come more slowly than we expected or hoped.

Chairman PROXMIRE. Would you like to comment on these projections, Mr. Mann, unemployment, interest rates, and prices?

Mr. MANN. Only to say that I agree with what Mr. Stein has said.

Chairman PROXMIRE. I would like to ask you, Mr. Stein, about a problem that has concerned me very, very much. And that is the announcement that the Federal Government intends to bail out the Penn Central Railroad to the tune of \$200 million at least, and there is some talk that it might go higher than that. I ask that because I understand that in the present liquidity situation that there may be other corporations that would also be knocking at the Government's door. This seems to be quite a precedent.

While it is true that Penn Central is involved to some extent in defense, as every big corporation in America is, it is not a direct defense contractor in any big sense. And furthermore, its difficulty seems to be at least to some extent the result of diversification outside of the railroad area and outside of anything that could be considered defense.

For example, in the last few months they put \$35 million into real estate. One Penn Central director said that if they had put that into renovating their equipment they could have had a very good return. And now the Federal Government has committed itself apparently to the \$200 million bailout under the Defense Production Act. And I just wonder if it would not make sense for the Congress, No. 1, to be consulted on this kind of a raid on the taxpayer, and No. 2, to have a more settled and orderly method of determining whether or not the Federal Government would provide guarantees or provide grants and apply this equally to all corporations, not just on the basis of the pressure of the large corporation.

Mr. STEIN. Well, Mr. Chairman, I am not really qualified to speak about all aspects of this, and I do not know what there was in the behavior of either the railroad or others which brought it to this plight. I believe that the congressional leadership was consulted about this action.

I think that the administration was confronted with a condition not of its own making or desire, and it was a difficult one to handle—I think it was one that was considered to have repercussions for the economy as a whole. This step was not taken for the sake of bailing out any limited sector of the economy or any very narrow interest.

I think your suggestion that we should have a more orderly procedure and mechanism for doing this deserves serious consideration, and I think there are two sides to it. But I think it certainly does require consideration. I believe the administration has proposed that with respect to the railroad industry a more orderly general procedure should be created. Whether this should go beyond the railroad industry is a matter which has been discussed with the administration, and I think it deserves consideration.

Chairman PROXMIRE. You see, what bothers me particularly is that we have a situation now of a serious liquidity shortage in the country. And the financial difficulties of some corporations is a problem that it would seem to me cannot be handled under present legislation very well. I was told by one of the top officials of our Government that they had to rely on the Defense Production Act, that was the only thing available. The Defense Production Act is very limited, and it is discriminatory. And as you say, there was very limited consultation, which consisted of the consultation with the Chairmen of the Banking and Currency Committees of the House and the Senate and the ranking minority member.

Of course, they are four members of the Defense Production Joint Committee. But it seems to me this is not adequate consultation, in view of the fact that all of us in Congress are responsible for this very large amount of money that is to be appropriated.

My time is up.

Congressman CONABLE?

Representative CONABLE. Thank you, Mr. Chairman.

Mr. Stein, I enjoyed your statement, and particularly your suggestion about the GNP budget.

I am, however, somewhat concerned about the proliferation of budgets. There seems to be a great deal of confusion among the American people at this point about a unified budget apparently as a result of the pending debt ceiling increase, where we are showing a very modest deficit at the same time we are raising the debt ceiling substantially.

Senator Proxmire mentioned the tax expenditure budget. Certainly getting such a tax expenditure budget is part of the process of arriving at a GNP budget, is it not? Because through your analysis of tax expenditures you are learning more about the allocation of the total gross national product?

Mr. STEIN. Yes, I regard the tax expenditure analysis as a way of arriving at some elements in the GNP budget. I do not think there is a tax expenditure budget by itself. That might be another way of dividing up the budget we now have.

With respect to the question of proliferation of budgets, the problem is that we cannot get rid of the old ones. And we might be better off if we could do that.

Representative CONABLE. Do you look at the GNP budget as a budget document as such, or as part of the annual economic report?

Mr. STEIN. I do not know where it will ultimately appear. I guess ultimately it should be in the budget document. We are still in an experimental stage. And in the past it has been the case that various ways of looking at the budget developed outside the budget document. As people get more used to it they are willing to incorporate a new concept into the budget document, which has a degree of accounting respectability that the economic report does not.

But I would hope that it would be a basis for setting the initial picture against which the Congress would make these more precise decisions. We cannot translate the more precise decisions into gross national product terms, the connections are just too loose. And so all these finer definitions will have to be made in some other mechanical or intuitive way.

I think the administration and the Congress need some way of seeing what it is really doing in the big picture. I think Congress last year when it was considering a tax decision, for example, should have been confronted with the proposition that it was making a decision that in 1975 would give \$10 billion more to consumption that might have been given to something else.

And when that is the kind of decision Congress is making, they ought to see it.

Mr. MANN. If I might add, having a unified budget on one side and having a GNP budget on the other are quite compatible. If we limit ourselves to these two budgets I think we would be in pretty good shape.

Representative CONABLE. I noticed Mr. Stein's exculpatory remarks to the effect that just because we set up a GNP budget does not mean that we are putting ourselves in the position of Soviet economic planners where we take responsibility for every aspect of the economy or for the allocations that are effectuated by the private sector.

Do you see any possible problems arising out of our acknowledging in this way that the private sector does a very substantial part of our allocating process? I know there was a tendency during the 1960's for people to feel that our Government had a good deal of control over the economy. That was because all the politicians wanted to believe that the Government had a great deal of control over the economy when things were going well. When the economy began to cool, the Government economists have somehow become more modest, and now feel that Government policies can be frustrated by an expansionary feeling in the private sector, if the Government wants to exercise restraint, or by a loss of confidence in the private sector of the Government. Once we set this GNP budget up showing how the whole thing goes, do you think we are likely to find the Government much more deeply involved in the planning process simply as a defensive mechanism than it is now?

Mr. STEIN. I would think that it might go in the other direction, that if you could really show the claims that Federal policies are exerting on the national output, this would help to restrain these claims.

We are now in a position where, as long as the claims do not show up in obligational authority this year, there is really very little limit on the expression of claims by the Federal Government. For example, there was this enormous claim expressed for 26 million houses to be built in 10 years. At the time Congress made that decision it was not required to put up any money. But once it has been made, this influences all kinds of policies thereafter. It would be very desirable if the Government could see the magnitude of the claims that it is exerting, both through the appropriations process and in other ways. So I think this would be a limitation. But whether it is a limitation or not I think it would be a better expression of the public will.

With respect to the modesty of the economists, I would like to say that the present economists were modest about the capabilities of economists to manage the economy even before they were themselves doing it.

Chairman PROXMIRE. There is a lot to be modest about.

Representative CONABLE. I am sure you do read the New York Times. Leonard Silk wrote an entertaining article there about the new modesty of the economist. I notice this morning he has another article in the New York Times in which he talks about the possibility of huge budget deficits looming. And I wondered—it is likely we are going to have a very small deficit for fiscal year 1970. What do you think the chances are for as much as a \$15 billion deficit in fiscal 1972?

Mr. STEIN. He is not talking about the GNP budget. So I will refer it to Mr. Mann.

Mr. MANN. Mr. Conable, pick a number. Everyone has a number. I think, however, it is fair to say, as both Mr. Mayo and the President have pointed out, that the demands on our resources are large.

In view of the fact that we have changing priorities it is not very difficult to get to some outsized numbers as we look down the road toward 1972. As you know, there are a number of new initiatives in fiscal 1971. The second year cost of these initiatives is usually larger than the initial year cost. Take, for example, the voluntary Army, the nutrition program, the water pollution program, airports, mass transport—there is a whole host of things. The important thing is, if we are going to do these kinds of things, particularly in the area of income maintenance, and shift our priorities, it is abundantly clear that there will have to be cuts elsewhere. And if we do not make cuts elsewhere we will have to raise taxes.

Representative CONABLE. From what you are saying I take it that you feel dramatic deficit increases are more likely to result from the lack of expenditure restraint rather than revenue short fall?

Mr. MANN. If the economy comes about as we expect, the revenue estimates should be within normal estimating error. The basic danger is on the expenditure side. But this is not always the case; in fact this has not been true in 1970.

And as indicated, we are now shifting priorities, I assume, in the right direction. We ought to help the process by eliminating some of the outmoded programs. We ought to work to eliminate outmoded, outdated, inefficient programs, which would allow us to shift our priorities more effectively and bring forth the kind of programs that would move forward in the domestic area, particularly the human resources area.

But it is becoming clear that we cannot keep building on these budgets; they get bigger and bigger. Deficits on the expenditure side are easy to come by. But I think we have an obligation to try to find expenditure reductions as well.

Representative CONABLE. When we are talking about different types of budgets I would like to talk about the full employment budget. As Arthur Okun recently stated, the Federal full employment budget will be in substantial surplus over the next fiscal year. This budget as I understand it attempts to indicate how restrictive or stimulating a given Federal budget is by removing the effect of the rate of economic activity on the side of revenues and expenditures. Dr. Okun maintains that the full employment budget will show a surplus of \$14 billion for all of fiscal 1971, and run at an annual rate of nearly \$19 billion during the first 6 months of calendar 1971.

I would like to ask Mr. Stein, do you agree with Mr. Okun's estimate of the full employment budget for 1971? Do you agree with his contention that there is no need for alarm if Congress rejects the administration revenue requests and spending control? Can we be at all certain at this point that such full employment surpluses will be actually realized over the next 12-month period? And in your estimation what is the magnitude of the full employment budget surplus we should be aiming for at this point?

Mr. STEIN. I tried, Mr. Conable, to deal with some of these questions in a response I submitted to the Joint Economic Committee in connection with our earlier hearings, and the issue is really a rather complicated one. I do not think that the full employment budget as commonly used as it has been used for the past 20 years or so is enlightening in our present circumstances.

I say this as one who was in at its birth 23 years ago. The problem is that when we first had the notion of a full employment budget we regarded full employment as being the most feasible and desirable path of the economy in the period ahead. And we are really asking, how will the budget behave if the economy moves along its most feasible and desirable path? I think that at some time not too far from now we will be back in a situation in which full employment will be the feasible and optimum path of the economy and the full employment will regain its former significance.

But I believe that the path of continuous full employment is not the optimum feasible path of the economy right now, as the economy has to go through a period of slack as it is now going through, and although this slack can be excessive, the mere fact that we are passing through a period below full employment does not mean that the economy in operating at a lower level than would be most desirable. What we should really be looking at is how would the budget look as the economy moves along this optimum feasible path.

The estimates we made in February in the budget message and the Economic Report were estimates of how the budget would look if the economy moved along this path, this \$985 billion GNP for 1970, which we thought represented the most effective way to get down from this period of high employment.

Thus the high employment budget as applied to the present is really an estimate of where the budget would be, not only under conditions that we do not expect, but under conditions that really were not the most desirable for the economy.

When that is said, I guess I will say that given the usual assumptions, Mr. Okun's estimates were probably all right for the time he made them, and we would not quarrel very much about that. We do think that along what I call the optimum feasible path the budget surplus would be considerably smaller than he is estimating. And we do not think that it is excessive.

But that is a different question. That is a question of how the economy will behave with the present fiscal posture. And I guess the thing to say about that is that we are aware of the importance of not allowing the economy to fall far and for long below a high-employment path. And we are concerned with ways to keep it up, one of which would be the adoption of more expensive fiscal policies.

So that we are not rejecting out of hand the conclusions that Mr. Okun comes to. But we think it is premature to say now, with the prospects that lie ahead of us, that it is time to pump up the economy through the budget.

If it is time to pump up the economy there are alternatives. One, of course, is in the field of monetary policy. And another, as I interpret the Nation's sense of priorities, is in the field of housing, where it would be possible, either in or out of the budget, to stimulate the economy.

So I am reluctant to accept the relevancy of these particular numbers that Mr. Okun comes up with or the prescription that he derives from them.

Representative CONABLE. Thank you.

My time is up, Mr. Chairman.

Chairman PROXMIRE. Mr. Brown?

Representative BROWN. Mr. Mann, in your statement you raise the question of participation in certain activities, particularly with reference to the mortgage market. You note that the Federal Government is increasingly relying on refinancing and other guarantees as a method to get funds into that market. Also I now understand that we may guarantee and subsidize interest on municipals in areas such as pollution abatement and sewer facilities.

What dangers do we face in this area?

Mr. MANN. Well, Mr. Brown, I believe you said at the beginning that we are talking about guaranteeing tax exempt securities. I know of no such situation—the position of the administration certainly is not to guarantee tax-exempt securities. With respect to the water pollution area, the situation is quite the opposite.

Representative BROWN. Let us talk about that point for a minute. When you buy up municipals and finance or guarantee the interest—

Mr. MANN. Let us talk about the water pollution.

Representative BROWN. All right.

Mr. MANN. What we have suggested with respect to the President's program on water pollution is the establishment of a new financing authority, the Environmental Financing Authority which will serve as a conduit. The reason for this is as follows. Because of the importance of having all State and local communities participate in the water pollution program, and because some of these local communities, in particular, have no financial history, it would therefore be difficult for them to obtain funds in the municipal market. Moreover, they would have to pay an excessively high rate at the local bank.

Our recommendation is to establish the Environmental Financing Authority, which would sell its own taxable securities in the capital market, and in turn lend the proceeds to the local communities, at a reasonable rate, something close to a tax-exempt rate.

Now, the subsidy here occurs in the difference between the rate at which EFA, the Environmental Financing Authority, will borrow at a taxable rate and the rate at which it will lend to the local community. But that will show up in the budget as a Federal outlay. And it is an identifiable subsidy. And it is to encourage these communities to participate in the program.

Representative BROWN. Isn't there some similar arrangement in the Health Facilities Act that came out of the Senate version of that legislation?

Mr. MANN. I am not familiar with that act.

Representative BROWN. I understand there is. And it seems to be a method of simply guaranteeing the municipal bonds and subsidizing the interest rate.

Am I correct?

Mr. MANN. Let me take a step back. I think this is what the question is coming to—I think we are causing a little bit of confusion and uncertainty in the way we are proliferating this kind of program. I would personally prefer to speak of some of the kinds of things happening in the municipal market and the mortgage market. And this is why I have discussed in a bit of detail what is happening in the mortgage market, particularly the existing restraints, and rigidities—call them what you will.

It seems that whenever you have a period of credit restraint the burden falls most heavily on mortgage borrowers as well as on State and local governments. And what concerns me is that because of these restraints and rigidities, the Federal Government is forced to come in, sometimes with piecemeal, ad hoc techniques. And I think we are just proliferating these kinds of things.

Representative BROWN. Doesn't that raise the interest that we are obliged to pay? Doesn't that push the competition for capital just that much higher?

Mr. MANN. To the extent the Federal Government does get involved in State and local government I think the rate the State and local government would pay would be lower than it would pay otherwise on its own if it had to borrow the money.

For example, if it were a local community with no prior borrowing history, it might not be able to obtain the funds. Or if it were to go to its own commercial bank in its own local community, I think it would have to pay a rate above that in the capital market. So, to the extent that there was a subsidy or guarantee the rate of borrow would be lower than otherwise.

Representative BROWN. We had an extensive study in the Government Operations Committee on the House side which indicated that the result of the sale of FNMA participation certificates by the Federal Government was to actually increase the interest rate that the Government would have had to pay if they had financed this in another way, in other words, if these had been Treasury obligations.

Mr. MANN. I have no quarrel with that, in terms of comparing the Treasury bonds. But the other point would be, they might not have gotten the funds at all, if you are talking about the State and local government.

Representative BROWN. That is a good point. But the question is, How does this affect the overall economic considerations in the country?

Mr. MANN. If you are asking for my own personal opinion, Mr. Brown—

Representative BROWN. You approach the subject in your statement.

Mr. MANN. If you push me hard enough I will give it.

Representative BROWN. I would be glad to know.

Mr. MANN. I think the day is coming when, because of the proliferation of all kinds of credit programs, we may need some sort of unified budget, if you will, for the Federal Government financial account. I think this is similar to what Mr. Weidenbaum was talking about 2 weeks ago.

There is a great deal of financing going on in many forms and shapes, and it may be extremely helpful to pull them together in some way. And I myself would come out very strongly on that side, because to the extent that we are getting all kinds of funny paper in the financial market, we are only making it more complicated to operate.

But I think, as you point out, we are increasing the rate we pay in contrast to the rate the Treasury would pay on regular debt securities.

Representative BROWN. This emergency method of financing seems to have as many bad side effects as good ones. While it undoubtedly does increase the funds available for certain social programs, it also has a very adverse effect on our total economy, which in turn hurts all

social programs. I hope that we study the total effect of such financing methods more thoroughly.

In your statement you talk about alternative means of accomplishing what we want—either by direct or indirect public subsidies or through private, nongovernmental action. However, you later say that the representatives of the public will not approve the necessary tax burdens to finance what we want through Government expenditures. Haven't you then suggested the alternative?

Mr. MANN. I did not intend to, Mr. Brown. I think one has to take a step backward before coming to that. I think what I am trying to say is something like the following. If it is decided—in the wisdom of all of us, the executive, the Congress, and the people at large—that we want to do a large number of things, such as solving the problems of the environment, solving the problems of our urban areas, solving the problems of pollution, solving the problems of rural development, solving the problems of housing, if it is so determined and so decided, I am saying that it will take a larger volume of savings than might otherwise be generated by the economy.

If this is indeed the case—we have already been through the situation—one way to generate the larger volume of savings is through the Federal Government. And if it is done this way it will therefore become necessary to generate large budget surpluses. This can be done either by a reduction in expenditures, an increase in taxes, or a combination of both.

Once you do this you still have another decision to make. Do you do it indirectly through the budget by allowing the Treasury to repay public debt, putting the funds back into the money and capital markets, and letting the market make the decision?

The alternative would be for the Federal Government to do it directly and say, x dollars for environment, y dollars for pollution, z dollars for housing, z minus one for urban areas, and so forth.

Representative BROWN. And tax that out of the economy?

Mr. MANN. Yes.

Representative BROWN. But haven't we already made that decision? The political movement seems to be toward a taxpayers' revolt, evidenced by the tax reform bill which was basically a tax reduction bill. Won't we then have to either finance our needs through tax incentives or else leave the determination to the free market?

Such an approach would put the Congress in the awkward position of saying to the public: This is what Government needs to do; and then, having aroused the people to the compelling necessity of these objectives say that we are not willing to raise the money.

Mr. MANN. If I may make two or three quick points. I think it is fair to say that the decision made by the Congress in its considered judgment is inconsistent with the kinds of revenues that we might need in the period ahead.

Representative BROWN. You mean the tax reform?

Mr. MANN. Yes, sir. I personally felt that this was an inappropriate decision in view of what we felt were our needs. But I would quickly add that it may be that if all the facts were before the Congress and before the people, we might have had a different type of decision. And even if the people at large generally would like to solve all these problems, the matter of financing the necessary actions might still

be unresolved. A desire to do all these things is not enough; we must arrange to pay for them.

And it would not surprise me if we had a different set of parameters after considering the resource allocation implications—the cost implications—of doing all these things.

Representative BROWN. It is the nature of politics that we do not tell people how much the pie in the sky costs—we just talk about the pie in the sky. Later on when the cost comes in the people find out.

Mr. MANN. After spending 9 years in the Federal Reserve, I always talk about how much things cost. But I agree with you, Mr. Brown.

Representative BROWN. Mr. Stein?

Mr. STEIN. I do not know how far we want to pursue this. And I do not know really that politics is quite as hopeless as you suggest. But we have made some progress, I think, in making these decisions clear. After all, it is very slow. But I guess 150 years ago we did not have any Federal budget at all, and nobody knew what was going on.

Representative BROWN. Now we do, and nobody knows what is going on.

Representative CONABLE. Now we have thousands of Federal budgets, nobody knows what is going on.

Representative BROWN. Maybe it is even more difficult.

Mr. STEIN. The point I wanted to make is that the two choices given in Mr. Mann's statement do not involve different amounts of taxes. If you are either going to pay the debt or make direct Federal lending out of the budget, you need the same amount of taxes. So it is not a choice about how many taxes are to be collected, it is a choice about whether the supply of funds to the market through the Federal budget is to be made in an unstructured form through just repaying debt and letting the funds thus repaid float around the market, as they will, or whether it is to be made in a way which reflects Federal decisions about how they should be used. But they do not involve different amounts of taxes.

Representative BROWN. Are you saying that if we allow the individual in the country to make economic decisions on his own, his economic decisions will differ from those made in the political sense through Government?

Mr. STEIN. I am saying that the people collectively through the Government can supplement their decision about saving. As individuals and businesses they can make some decisions about how many they will save. They could, through the Government, if they choose to do so—and there is some real question as to whether they should choose—decide to levy more taxes, thus reducing private consumption, and making more funds available for private investment.

These funds could be channeled to private investment either by the repayment of debt, which will put more money into the hands of the previous holders of the Federal debt and permit them to make investment, or through direct lending by the Federal Government.

The other point I was going to make is that the decision to do it in some extra budgetary way, that is, by subsidizing loans or guaranteeing loans or what not, does not eliminate the cost problem. It does not void the fact that if you want to put more money into housing or sewers or what-not you have got to get it from somewhere, the resources have to come from somewhere.

The Federal Government really should be brought to face that decision. And that was one of the main points of my statements, that you could get these things outside the budget so that they would not show in the budget. But they are really a drain upon the economy, and we need a more comprehensive budget which will show that.

Mr. MANN. May I add one footnote to that. I was trying to be cautious and do things by implication. But I was also suggesting when talking about the debt-payment route—in which the funds go back into the market—that because of the rigidity, distortions, and structural problems it may be that you would not get the kind of flow of funds you desire.

It may be that this mechanism would not work. And this is where I have some pause. So, perhaps, one thing to do is to get rid of some of those rigidities and distortions and rules and regulations. But that is another day.

Chairman PROXMIRE. You are both helpful and important witnesses.

Let me ask you, Mr. Stein, where at the Executive staff level are overall and domestic economic priorities being determined? Who is the economist presenting the staff view to the President?

Mr. STEIN. That is a hard question to answer, because the economics is not just a monolithic bit of policy.

Chairman PROXMIRE. Let me be a little more specific. Where does the Council of Economic Advisers fit vis-a-vis Professor Schultz in advising the President? This committee is especially concerned that the Council of Economic Advisers is being downgraded. I hope this is not so.

Mr. STEIN. No; we are confident that it is not so. The Council of Economic Advisers, or its Chairman, reports directly to the President. It does not report to the President through the various intermediaries who have been established.

Chairman PROXMIRE. How often does Mr. McCracken see the President?

Mr. STEIN. Mr. McCracken sees the President fairly frequently.

Chairman PROXMIRE. How often?

Mr. STEIN. I would say once or twice a week. He talks to him on the telephone and sends him memorandums. I am talking now about meetings privately with the President as distinguished from groups, such as the Cabinet Committee on Economic Policy, and other groups in which many others might also be present. I would say that with respect to the principal purpose for which the Council of Economic Advisers was established in the Employment Act, that is, to advise the President with respect to those policies having to do with the maintenance of maximum employment production, and purchasing power, that there is no question but that the Chairman of the Council is the President's chief adviser. There are a number of other issues of policy on which economists have some contribution to make and on which the Council of Economic Advisers has a contribution to make, but where it does not have the same primacy that it has with respect to overall macroeconomic policies.

Chairman PROXMIRE. This is more reassuring. You say that the Chairman of the Council sees the President once or twice a week. You mean he has conferences with him, 15 or 20 minutes, half an hour or an hour conferences, that often?

Mr. STEIN. That is what I am talking about, yes.

Chairman PROXMIRE. That is most helpful. I was concerned about the possibility that maybe Mr. Erlichman or Mr. Flanigan was carrying the message to Garcia. And I am happy to know that Garcia is getting it directly.

You said something earlier, in response to a question I think of Mr. Conable, that high employment now or full employment, I guess is the way you put it, would not be optimum at the present time under your present circumstances. Doesn't that violate the Employment Act, which calls for maximum employment?

Mr. STEIN. Maximum employment production and purchasing power?

Chairman PROXMIRE. Correct.

Mr. STEIN. Well, I think that we would interpret the Employment Act as calling for maximum employment over some period of time. We are not obliged to sacrifice all future levels of employment in order to maximize the present level of employment. It seems to me that this is the kind of decision that has to be made.

It might have been possible to prolong the 3.5 percent unemployment rate for another month or so by pumping the economy up further and generating a still more rapid rate of inflation and still stronger expectation of inflation.

Chairman PROXMIRE. Would it be unfair to conclude that you feel that the economy is moving on schedule as planned, that you want a 5-percent unemployment?

Mr. STEIN. That would be unfair.

Chairman PROXMIRE. What would be within an optimum employment situation in the present circumstances given inflation?

Mr. STEIN. The path we drew in the economic report was, as far as we could then judge, the optimum feasible path given the point from which we started, that is, given extreme inflationary pressure. It seemed to us that this was a way which would restore us to a condition of high employment and reasonable price stability with the minimum departure from either of those two goals.

Chairman PROXMIRE. We have a new ball game now. We have a 5-percent unemployment. And we have a war we hope we are winding down. And we have every indication that we are going to reduce the number of people in the Armed Forces, and we are going to reduce the number of people working for defense contractors, so that unemployment would be expected to increase from that source.

Mr. STEIN. We are running below the path that we would have chosen.

Chairman PROXMIRE. Would a deescalation of the war mean more unemployment? And what is the administration doing about planning for demobilization?

This is an area in which you have responsibility, as I understand; is that correct?

Mr. STEIN. I have some responsibility. I will explain that.

Chairman PROXMIRE. All right, sir.

Mr. STEIN. Some part of the current unemployment does seem to be a transitional result of the reduction in defense outlays, not only the outlays connected with the war, but the general level of defense outlays.

The unemployment problem as it relates to defense expenditures has two elements. One is the effect on the general state of the economy, the level of total demand, and so on, with which you are of course very familiar. And the management of this problem—although there was initially set up a committee to look particularly into the various aspects of the post-Vietnam problem—the management of the current macroeconomic problem of maintaining an adequate aggregate level of demand is incorporated into the management of that problem as it would be in any case. In other words, the Vietnam adjustment problem in its overall terms is handled as any other adjustment problem.

Chairman PROXMIRE. How about the microaspect of this? How about shifting people who are working for defense contractors, the veterans being discharged, the needs of the cities, antipollution, and so forth?

Mr. STEIN. I think you have got two things there. But with respect to the second one, the micro one, we concluded in our initial study that this was a problem which would require the focusing of a number of programs which already existed within the Government to deal with these particular cases as they arose. These programs are under the direction mainly of the Department of Labor, and in some smaller degree under the direction of the Economic Development Administration in the Department of Commerce. And there has been set up machinery for cooperative action—essentially the action would be cooperative between the Defense Department, the Department of Labor, and the Department of Commerce, but there are a number of others of us kind of watching, to be ready to deal with these problems as rapidly and as promptly as the Department of Defense can identify them.

Chairman PROXMIRE. Is there any post-war planning done? Who is doing it? And when are we going to get results, economic planning?

Mr. STEIN. I tried to indicate these two aspects of the problem. We have got to the second one. The third one was the problem of what is commonly called the priority problem, that is, the rearrangement of the national output and the uses of the national output as would be possible when the defense expenditure was reduced.

Our committee, the post-Vietnam Committee, did present to the Cabinet Committee on Economic Policy and to the Urban Affairs Council a picture of the resources that would be available over the period of the next 5 years, and on the assumption that the war had ended well before that, and what alternative assumptions we would make about the course of various Federal expenditures.

Chairman PROXMIRE. Have you published your report?

Mr. STEIN. We will not publish the report that we submitted on that; no. This exercise in 5 year budgeting of the gross national product, in fact the whole 5 year budgeting exercise, is really an outgrowth of that. What we are trying to do is incorporate into the normal processes of Government management a longer and more comprehensive look at the priorities problem. We concluded then—I think anyone would have to conclude—that the post-Vietnam prospect did not qualitatively change the nature of this problem. As we look ahead for 5 years we can see that we have \$200 billion worth or so, roughly speaking of additional national output becoming available for use, plus whatever we can save from the Vietnam war ending. The Viet-

nam war saving will be very small compared to the total additional output that will become available.

Chairman PROXMIRE. Then is it correct that you have no program or plans that you will publish and let the Congress and the American people know what you expect to do about the fact that we are going to have some resources, manpower, and others, released and available as a result of winding down the Vietnam war?

Mr. STEIN. I would not say that.

Chairman PROXMIRE. Why isn't it true?

Mr. STEIN. I said we were not going to publish the reports we made to the Cabinet Committee and the Affairs Council.

We are publishing—we have published our view on the claims on the national output as they would exist with the programs that have already been proposed. This is in a very general way a statement of the administration's proposals, given what has already been done by Congress, for the use of the national output in the next 5 years. We expect to continue to do this as new policies are made up. We do not think it is reasonable to expect that the administration on July 1, 1970, is going to present a proposal for its budget for the next 5 years with which it will stick. Obviously this is going to be a continuous process of decisionmaking.

What we are trying to emphasize is that in this process the long look should be given a great deal of weight. And we think we are doing that.

Chairman PROXMIRE. I think that is right. And perhaps I am not asking the right person. But I would be reassured, and many people in the country would be more assured if we had a program and a plan for the demobilization and a program and a plan for putting these resources to work. That is a specific and definite program.

To analyze it on the same basis that Professor Leontief did a few years ago, he pointed out that there are some areas of the country, California, Texas, Connecticut, and others, where you have many contracts and many troops stationed where you are going to have an impact on the economy that is going to be adverse, and that we ought to have a specific way of planning what we are going to do there.

Mr. STEIN. Let me say that what Professor Leontief did is a good example of the possibility of estimating things leaving open the question of reliability. But we did try to estimate in considerable detail, getting down to quite small areas, which were the bases that were most likely to be affected by a cutback in defense spending. We have not slighted this problem at all. And I think it does not give the correct picture to suggest that because we have not published some blueprint for the town-by-town and category-by-category locations of employment and output in the next 5 years that we are not doing what needs to be done about this problem.

Chairman PROXMIRE. I do not want to press you too much further, but there is this difficulty. A number of us want to reduce military expenditures. We are beginning to run into resistance on the part of people who are concerned with what this is going to do with unemployment. All of us know, I think, that we should shift these resources. And yet we have a very painful, human problem of people who are not now at work and want to be productive persons. And we do not seem to have a program for putting those people to work.

Let me ask you, Mr. Mann, how can we take your projections of such limited resources available for Federal obligations seriously if you refuse to project military spending as such? You have given us a picture of projections, but again and again you will not tell us what military expenditures are going to be over the next 5 years. Why can't that be done? That is one of the biggest elements, the biggest single element certainly still in the Federal budget.

Mr. MANN. I might say, Mr. Chairman, that we cannot make it available because we have an infinite number of combinations of members, and we are not prepared to provide—

Chairman PROXMIRE. We do not want you to freeze in concrete, but just want to know what the plans and projections are of this administration.

Mr. MANN. I believe it would not be incumbent upon me to offer these numbers to you, Senator.

Chairman PROXMIRE. Can you tell me this. There has been a lot of talk about reducing defense spending. But the figures this year so far have exceeded those of the previous year, according to economic indicators. And my understanding is that total defense spending will exceed \$80 billion in fiscal year 1970. Can you confirm this, or can you explain the fact that defense outlays in such an outright, overall activity as Vietnam have apparently been reduced?

Mr. MANN. The indication I have is that the estimate that was in the budget is on target, and will be achieved by the end of the year.

Chairman PROXMIRE. You will have a good last quarter, then, in the fiscal year? You will need it, because you are over the first three-quarters.

Mr. MANN. Yes, sir.

Chairman PROXMIRE. Why does the Bureau of the Budget refuse to tabulate in one place total defense spending including all defense-related outlays? The Subcommittee on Economy in Government and the full Joint Economic Committee have made formal recommendations that this be done. Federal Reserve Chairman Arthur Burns agrees that this ought to be done.

Why won't the Budget Bureau do it? For example, why shouldn't the public be told how much of our national debt and how much interest on the national debt is attributable and is part of the cost of national security?

Mr. MANN. Mr. Cohn?

Mr. COHN. This problem first came to me in the very first or second year the Joint Economic Committee was formed. And we discussed it then and we are still discussing it. The short answer to your question is—

Chairman PROXMIRE. That was about 20 years ago?

Mr. COHN. Yes, sir; I have checked that recently because your last communication caused us to look through the files. At that time we worked with the committee staff and your staff was to use its judgment in making all the tough decisions that had to be made. As I read the record, the committee staff could not do it, even with our help.

I will give you an example. How much of the highway spending is national defense and how much is not? Some is, obviously. Every two people I ask have a different idea.

How much of the maritime program is defense related and how much is not?

And the answer we get is 100 percent to zero, depending on the person who makes the calculations.

So this comes down to a judgment factor on which officials do not want to be pinned once and for all.

Chairman PROXMIRE. May I interrupt. As I understand it you assumed zero in every one of these cases. Almost any estimate would be better than that. You agree that part of the highway expenditures are for national defense, and yet you assume none of it is?

Mr. COHN. No, sir. Our classification by function includes in national defense those things we think are primarily related to national defense, and for which the funds are appropriated primarily for national defense. The sum of our classification adds to the budget total.

Now, obviously men can differ, and some of our own people differ. I differ about the national defense figure because it includes all of the Atomic Energy Commission. Some of that obviously is not for national defense, except perhaps very indirectly. There is some biomedical research—

Chairman PROXMIRE. It includes none of the national debt, none of the Federal highway program, it includes many other expenditures which are not included at all.

Mr. COHN. That is right.

Chairman PROXMIRE. The interest on national debt.

Mr. COHN. The veterans housing program is another example. How much is for veterans because they are veterans, and therefore probably chargeable as past national defense, and how much because of housing? We find it very difficult, and we cannot provide it. But for anyone who wants to try, we will be very happy to work with him, and give him all the facts, and let him make the tough decision as to the proportion attributable to defense.

We find ourselves unable to get an agreement on it.

Chairman PROXMIRE. Just one more question. And I apologize to Mr. Wood and you gentlemen for detaining you.

Mr. MANN. Has the Bureau calculated the cost of the Cambodian invasion? We received testimony that because of the impact and the withdrawal schedule which seems to have been seriously delayed, there will be an increase of from \$2 to \$3 billion in the cost of the war during the next quarter year.

That testimony came from Mr. William Kaufmann, who has been a consultant in the Defense Department for years, and he seems to be a responsible official.

Mr. MANN. Mr. Chairman, we are not adding anything to the budget as a result of the Cambodian involvement.

Chairman PROXMIRE. You assume the cost is zero?

Mr. MANN. It is absorbed in the defense number.

Chairman PROXMIRE. The fact that we sent 40,000 troops, that we backed up South Vietnam, and we are backing up troops in Thailand, isn't it costing anything?

Mr. MANN. By itself it may, but this will be absorbed into the total number, and offsets will be made elsewhere.

Chairman PROXMIRE. But you will not give any public estimate as to the increased cost?

Mr. MANN. We have none, Mr. Chairman.

Chairman PROXMIRE. Would you disagree with Mr. Kaufmann and say that his \$2 to \$3 billion estimate is wrong?

Mr. MANN. We are adding nothing to the total, so this obviously puts me in disagreement with him.

Chairman PROXMIRE. You will agree that there is some additional cost. Do you think the Cambodian action is going to reduce the overall cost?

Mr. MANN. There is no net additional cost. It will be absorbed in the total amount of the defense function.

Representative CONABLE. Of course, it is possible that there will be a net reduction, isn't there?

Mr. MANN. If it led to other things there could be, yes.

Representative CONABLE. But nobody knows the future.

Chairman PROXMIRE. Gentlemen, thank you very, very much. This is, as I say, an excellent job. We disagree on a few things. But I think you have been very fine witnesses.

Our next witness is Mr. Robert Wood.

Mr. Wood is presently the director of the Harvard-MIT Joint Center for Urban Studies. He formerly served as Under Secretary and Acting Secretary of the Department of Housing and Urban Development, and now I understand has just been elected as president of the University of Massachusetts.

I would like to ask Mr. Wood, I have a very brief statement I want to make on the floor of the Senate, it will take me just a couple of minutes, once I get there, and then I will come right back.

And Congressman Conable will serve as chairman.

Mr. Wood. Yes.

Representative CONABLE (presiding). Mr. Wood, you are recognized.

STATEMENT OF ROBERT C. WOOD, DIRECTOR, HARVARD-MIT JOINT CENTER FOR URBAN STUDIES, AND FORMER UNDER SECRETARY AND ACTING SECRETARY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. Wood. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to participate today in your hearings on changing national priorities and I am grateful to your staff for their accommodating unexpected developments in my schedule. I am honored to be in such distinguished company as the witnesses you have already heard and those who are to follow.

I understand that you have already received substantial testimony relating to the economic consequences of our present military and international activities and the state of our national resources should hostilities in Indochina be concluded. I suspect, in these discussions, the distinctions have already been made between replacing goals, substituting one set for another, adding missions to the national agenda as more resources become available, and changing their relative importance, that is, the ranking of their priorities.

Certainly I subscribe to the general established positions that there is no royal road to new domestic priorities; that the end of the war does not automatically result in peace bonuses for domestic needs; and more importantly, that even the appropriation of funds and the enactment of legislation do not guarantee the alleviation of the Nation's ills.

On the other hand, I believe that this Nation has enormous resources not yet tapped for public purposes. As Mr. Stein has made clear in his offer of new budget concepts directing our attention to our rural resources.

The experiences of the past decade—the enormous growth in the gross national product, the relatively slow climb in Federal expenditures with respect to State and local, and the relatively low tapping of resources for the public sector compared to other developed nations—all mean that we have substantial slack in the system to do what we need to do at home.

The summary figures that make this case most directly are the annual average growth rates since World War II of our resources and public efforts, as reported by the Advisory Committee on Intergovernmental Relations.

In this period, the GNP rose 6.6 percent each year, Federal expenditures increased 5.7 percent, State and local outlays 10 percent, and property taxes 14 to 17 percent. As Wilfred Owen, that distinguished transportation expert, observed some years ago about his mythical country *X* faced with a mass transportation crisis:

At the national level, the people were very rich, but at the local level they were poor, and as luck would have it, most of them lived at the local level.

It is therefore to the greater support of community needs and development plans that our efforts must be devoted. Accordingly, I subscribe to the two general themes that emerge most frequently in discussions of this nature: the desire to shift our national priorities from defense and international commitments to domestic ones, and the need to plan carefully for the implementation of these priorities.

I would, however, want to assure that a change in priority be more than a shift in rhetoric and paper plans, more than generalized statements of goals. Whenever possible goals ought to be expressed in specific quantitative terms and plans ought to be programmatic and operational in nature. They also need to be constantly monitored, proved, and adjusted.

Early this year before the Banking and Currency Committee, chaired by Wright Patman, I warned against the goal replacement strategy: the American temptation to substitute one set of priorities for another as an act of political drama before our original objectives were in fact in the process of really being achieved.

At that time the Nation's newest public adventure was being launched—an emphasis on the environment, earth, and our ecology—as if these concerns had never received attention before. Simultaneously, the issue that had in the late 1960's so preoccupied the Nation—the urban crisis—seemed to be fading away even though urban programs were scarcely underway. The perils of environmental escapism or the facile establishment of any other abrupt change in direction lie not only in the dissipation of political and policy energy, for this practice of goal replacement inevitably breeds disillusionment and cynicism as short-falls increase in our newly established and widely accepted urban programs.

If constantly replacing goals smacks of political chincanery, the addition of goals is a more familiar American practice. Typically, we advance new national causes not by changing priorities, but by adding to them so that established programs are not seriously disrupted.

We depend on a growing supply of economic resources and political energies to permit new public tasks to be defined in ways that usually do not appear to enlarge the scope of government.

So the great surge of domestic legislation in the last decade was initially predicated on the assumption of an expanded resource base that seemed realistic until Indochina commitments became so large.

In adding goals, however, we operate under powerful economic and societal constraints. "Peace dividends" that are projected on the basis that old programs never die are always pitifully small compared to obvious new needs. Moreover, without a review of obsolescent programs—in agriculture, for example, or veterans' medicine, or welfare—the whole concept of priorities is obscured.

The Nation wanders through a supermarket of public activities with no sense of purpose or commitment to choice, as Mr. Mann's testimony made clear this morning. The alternative of a tax cut, of a resort to individual preferences—since no great public purpose seems clear—becomes irresistible. Then the "market-basket" concept of the public interest reigns.

Yet to change priorities on the national agenda is in fact an extraordinarily difficult task, dependent typically on an emergency need affecting clearly and directly the majority of our citizens. Foreign affairs and defense excepted, the United States managed to change the national agenda only twice between the great depression and the 89th Congress: the interstate highway program and the space program (including associated educational undertakings) in the post-Sputnik era. Even in these instances, defense considerations marred the pristine quality of the new priority.

If we are going to avoid the illusion of goal replacement and escape the limitations of goal additions, we need to be perfectly clear about the condition of our postwar urban planning. We need quantitative goals such as appeared for the first time in domestic legislation in the 1968 Housing and Urban Development Act, and we need program evaluation techniques that allow us to monitor in timely and effective fashion when programs are actually achieving results and when they are not.

This, of course, Mr. Chairman, was also initiated in the domestic field in housing at the request of Senator Proxmire that HUD apply PPB techniques to its program estimates.

Postwar planning of this type is now possible. Prototypes are found in World War II experience when Lord Beveridge made detailed provisions for implementing the great social service reforms for Great Britain, and in the United States Henry Wallace called for 60 million jobs. That seemed as implausible then as Franklin Roosevelt's goal for 50,000 planes had seemed 3 years earlier, but the specificity of these goals, the obvious necessity for quantum jumps in performance, the willingness to look to new structures and procedures made these planning efforts effective.

Taking the administration's international policy at face value, then, we ought to make plans now. One quantitative goal for America in the next 5 years clearly within our capacity is the production of 3 million units of housing annually. This is not a heroic aspiration on the part of an industry that a generation ago, in 1950, built 2 million units. It is considerably more than the pitiful volume of 1.3 million housing units we provided this year. It is still less than the goal the

Kerner Commission called for 3 years ago. It is a minimum if we are serious about our cities.

That housing goal yields further specifics. From the estimates of shelter requirements come requirements in community infrastructure and environmental planning and development. Our calculation at the close of the last administration was that a 40-million person growth in urban population in the 1970's would require some \$155 billion in new community services, facilities and housing.

We estimated that sum as only a modest shift from 8 to 10 percent of the gross national product—although still a shortfall of annual rates of public expenditures for these purposes of some \$30 billion. This type of calculation, however, is the foundation for changing priorities. Moreover, specifying the relationships between factors is now within our professional capability in a way not possible 20 years ago before the introduction of high-speed computers.

Whether or not housing is the starting point, general postwar planning needs to get underway. The new National Commission on Population Growth and the American Future under the chairmanship of John D. Rockefeller III can play an important role in challenging us to think about where the next 100 million Americans might be distributed across this continent and how the quality of their individual and collective lives might be improved. I hope the Commission will conceive its mandate broadly; act vigorously and imaginatively.

Recognizing the difficulties of goal changing, Mr. Chairman, and planning both broadly and specifically to anticipate them are important first steps. They will not succeed, however, unless we avoid two great fallacies that have beset us in the past on similar occasions.

The first is the facile belief too many public commentators and leaders make that the establishment and policy allocations of resources are tantamount to the achievement of a goal. On the executive side, this can be called the State of the Union Message syndrome. On the legislative side, it is reflected in the new math equation that enactment equals accomplishment.

The second fallacy, of more recent origin, is a growing belief in the innate superiority of the private sector as the executor of public tasks. If attention must be given to operational matters, the theory runs, undergirding private market operations is to be preferred to making government work. The shorthand for this theory is found in the choice of subsidies for public action rather than regulation and the direct delivery of services and assistance.

Both these fallacies plague our efforts at priority changing and planning. The belief that the major political efforts must be in policymaking rather than policy executing seriously diverts our attention from the need to improve public institutions and train competent professionals to man them. We concentrate on the organization of the Presidency in its policymaking and evaluation roles, rather than on the needs of the operating institutions. This disposition leads to a disdain of the so-called bureaucracy—a belief it must be over-run or run around—and hence a reliance on the private sector.

Repeatedly in the past few years the proposition has been advanced that important public tasks can best be performed through

private management. Policymakers, for example, have ingeniously devised subsidy program after subsidy program and incentive scheme after scheme, to entice private firms, profit or nonprofit, not only into housing, but planning, general city building, and social welfare reform.

The assumption runs that if somehow the user-cost principle can be extended to the public sector, the marketplace directed to public purposes, income tax structures riddled with loopholes, specific preference touted in the name of public good, and income distribution plans enacted over service programs, public purposes can be achieved while the State withers away.

There are many roles private industry can play, Mr. Chairman, in our domestic programs and many contributions they can make. But, in a nation needing desperately a sense of community and common purpose, we cannot expect the private sector to substitute for the public sector, especially in areas such as urban development where the chief culprit has been the operations of the marketplace.

A position that makes subsidies the chief operative mechanism of public policy and reduces government operations to centralized Presidential policymaking and evaluation is one that conveniently wills away sticky, tough, operational problems, but guarantees failure in achieving changing goals.

The hard fact is, Mr. Chairman, that the regulatory power is as necessary as subsidy and in public matters that the exercise of regulatory authority requires public agencies. I would say, therefore, that to change priorities requires major attention to the functioning of long neglected institutions and processes. Specifically:

1. Regulatory measures in land use and building practices are essential to achieving the priorities of an open society and housing accommodations available to all income levels. Of all the obstacles to realizing the goals of the Housing and Civil Rights Acts of 1968, none are greater than the scarcity of suitable land. The value of ordinary taxable real estate skyrocketed over the last decade, increased at a rate of \$25 billion a year; between 1956 and 1966 rose from \$269 billion to \$523 billion. The annual inflation of land changing from rural to urban uses is estimated at 15 percent. The land component of the consumer's housing cost has risen from 15 to 32 percent.

No amount of subsidy to mortgage bankers or homebuilders can counteract this impact of land speculation that occurs in the process of urban growth. To be sure, the country is not "land-poor"—but around its great expanding metropolitan areas it is "land hungry." Only a major land reform policy by tax regulation or zoning regulation can have impact. Government must intervene in the pricing of a limited, unexpandable resource. But the control of land prices alone cannot assure a truly open housing market for the black, the Puerto Rican, the Mexican American. As Secretary Romney has wisely recognized, restrictive local zoning practices must be prohibited as well. The market mechanism does not operate effectively here.

2. "Counterpart capability" at the States and local echelons of our federal system needs to be drastically upgraded. The cry of "give us the money, and we will do the job" on the part of State and local officials makes a familiar ring in Washington ears. The plain fact is that given the constraints of obsolete forms and jurisdictions of local government and State attitudes and priorities, we could blanket our

metropolitan areas in a blizzard of Federal cash and not achieve our goal of an urban life of high quality. For example, after Federal cash is available in urban renewal, the average time for local execution of a renewal project exceeds 9 years. Delivery systems in health and education can neither provide timely service in their own professions nor relate to other companion services. Manpower is unavailable in these areas. Neighborhood decentralization of some activities and metropolitan centralization of others, as the recent CED report by Dean Alan Campbell made clear, are prerequisites to achieving priorities.

3. The resources available to Federal departmental management at the Cabinet level have to be expanded and enlarged. Although the day has long since passed when Secretaries represented special interests associated with their agencies more than they did the President, the conviction persists that they are the Chief Executive's "national enemies." Thus when programs are not assigned to the private sector, White House and Executive Office staff persist in dabbling in operations and execution. The results are typically poor, the opportunities to combine Presidential direction with program familiarity and experience are lost. Moreover, the Presidential capacity for policymaking and evaluation is reduced by the intrusion of operational matters.

4. Governments at all levels of the federal system require a major infusion of professional management. To my knowledge, no systematic, broad-scale support for the improvement of managerial and executive recruitment and performance has been provided for a public service in a generation. Though pay scales and fringe benefits have improved, and middle management practices have been rationalized, educational and instructional programs are still fragmented and haphazard. So are awards and recognition.

At least twice in the 1960's serious consideration was given to measures improving executive performance in the atmosphere of the creative federalism of the time and providing regional and national resources to expand and improve recruitment. Experiments such as the White House fellows opened promising new avenues. The legislation in intergovernmental cooperation pioneered by Senator Muskie made more flexible the exchange of personnel and programs. But a comprehensive, sustained, modern manpower program has eluded us.

Mr. Chairman, I conclude that changing national priorities is the task for the 1970's—more difficult than replacing or adding new goals, but essential if we are to regain a genuine sense of national direction.

I believe new policies must be established and resources allocated, and the private sector encouraged to make capital investment and deploy management for purposes other than those dictated by corporate returns and earnings per share. But new policies and new budgets are not self-executing; subsidies alone cannot coax the American Nation to greatness. We need simultaneously to improve our capacity to execute policies, deliver services, react to citizen and client. That requires an attention and support to public management this Nation has not undertaken since World War II. We cannot change goals and achieve them without changing and vastly strengthening the institutions and organizations that must carry them out.

Thank you, Mr. Chairman.

That concludes my statement.

Representative CONABLE. Thank you, Mr. Wood. That is a fine statement.

I would like to ask you, sir, in the light of what you have been saying—you talk in your statement about the local government—to discuss briefly the idea of revenue sharing. I take it that you feel that there are real limitations on local government. And I am sure your comments about the need for better personnel recruitment in Federal Government would apply also to local government.

I recall, however, John Gardner saying at one point that the grant-in-aid programs were largely a waste of money unless you had good people in local government who cared about the way in which the money was being spent. This whole business of diffusion of the powers of Government and the relationship between the various levels of government is something that I do not think we have spent enough time studying, although we possibly have intergovernmental study agencies of one sort or other to study them. I wonder if you have any further comments along these lines other than what you have already said?

Mr. Wood. Mr. Conable, there is no doubt in my mind that we have reached the point of diminishing returns for categorical grant-in-aid programs. There is no doubt in my mind that the 400-odd programs that now exist in the budget are extraordinarily confusing to State and local officials, and that the need for simplification and clarification are enormous. We tried in the model cities program to make the first step for a block grant. And that was to begin to provide flexibility, within local jurisdictions at any rate. And I think we can go much further with that, as well as with revenue sharing.

But we must, I think, simultaneously find ways and means to secure at least three conditions.

(1) Assurances to the congressional bodies that national purposes are capable of achievement in these programs and capable of accountability. And I would set that as probably the first and major barrier to be crossed in revenue sharing per se.

(2) As you indicate, we need more capability, what I call in my testimony "counterpart capability," at the State and local level. In all my years at MIT I could get people to come to Washington and occasionally to enter the Foreign Service. Until very recently the efforts to get young people interested in local government were very disappointing. And I think that effort has to go on.

(3) I think we need performance standards in the sense of having some way of knowing what we are getting for our money. And this is a difficult problem. The temptation is always, particularly in urban programs, to want instant results, and to point out how much money has gone down from the Federal Government and how bleak and desolate the inner city still looks. But we need very strongly to begin to have some monitoring and some ability to show results. That was, of course, the reference I made to Senator Proxmire in his initial charge to HUD on PPB a few years ago. It is a place where we still have much more to learn.

The final thing—and this is an addition, I guess, to my three specifications—is really coming to grips with local and State jurisdiction and who wants to take leadership now in a whole series of these programs. The record of your State, I think, in the last few years has been

very impressive in terms of the housing and urban development field. The record of a few others has been very impressive. But it is a spotty record.

These are the ways in which I would try to improve these delivery systems.

Representative CONABLE. What do you see as the future of our federal system? Are we likely to have a continued upswing in the cost of local government relative to the other levels? Are people likely to continue to press their disadvantages with the larger representative units through increased effort to keep significant decisions on the local level? And are we going to be able to channel our national purposes through such a diffused agency as local government?

Mr. WOOD. I think we are closer to a genuine crisis in local government, in structures and finances, than we have been since the beginning of the depression in 1930 when the bottom fell out of the municipal market and cities literally went into receivership.

Representative CONABLE. How would you compare these two as crises, structure and finance? Which is the greater problem?

Mr. WOOD. Let me give an example, Congressman. I share a part-time role as chairman of the board of the Massachusetts Bay Transportation Agency. This is an experiment 5 years old to provide mass transportation in subway, railroad subsidies, and buses for the 79 cities and towns in the Greater Boston regional area. I have been trying for 5 months to see if it was possible to float a reasonably small bond issue of \$60 million, which it is not at the present time. At the same time I am trying to persuade 79 cities and towns that they should carry an operating deficit of \$40 million on their property rolls. And I am faced with a taxpayers' revolt in town after town and city after city on these assessments. So that my immediate concern here is finances. I either have to raise fares, which I think will be self-defeating, or we will have to keep other subsidies like the Penn Central and Boston & Maine's, which had the same problems which were raised here earlier.

Representative CONABLE. Of course, the two are not unrelated.

Mr. WOOD. That is right. But the long-range problem is structure, that I am simply unable to provide a mechanism that can plan and coordinate these transportation activities with the generalized development of the metropolitan area.

I see two prime prerequisites that we have to get at on this level. One is giving the ordinary citizen the sense that he has some control over those matters in his neighborhood that worry him most—public safety, schools, and transportation.

And second, I see the need to get metropolitan centralization on development and environmental matters and to coordinate power at that level.

This is a far cry from the kind of metropolitan reform we talked about in the 1950's. It goes both ways at once. But it seems to me that this is simply imperative if we are going to keep up with the pressures that are upon us.

Representative CONABLE. Thank you very much.

Chairman PROXMIRE (presiding). Mr. Wood, I am most intrigued by your assertion that postwar planning which would include the establishment of quantitative goals, such as in the housing field, is now possible. But how do we do it? What should we expect of the execu-

tive branch other than the setting up of yet another national commission to study the problem? What should the role of the Congress be in the postwar planning process?

You heard Mr. Stein respond, as vaguely as I thought he did, on what they are doing about demobilization, moving our Vietnam resources into the private sector. What should we expect them to do?

Mr. WOOD. As far as techniques are concerned, Mr. Chairman, Wassily Leontief indicated the kind of capability that we do have which was not possible 20 or 30 years ago to relate changes in resource allocations in one field to another and to come up with a balanced position. And despite Sam Cohn's demurrers about 20 years of being unable to assign indirect costs of defense investments, I would think that there are some plausible and reasonable techniques to apply at this point.

I believe it is critical that this administration find a direct focal point for postwar planning. I can appreciate some of their concern about its immediate public position. But I think there ought to be a single focal point that says where we will go after Indochina winds down.

I think this will help the winding down process. I think it will give plausibility and realism to the fact that we mean it. I think it will help to mitigate the dangers of an absentminded taxpayers' revolt, or the thrust for a tax cut that you and I know comes naturally and instinctively at areas—

Chairman PROXMIRE. Don't you think it also will help you reduce defense spending where it ought to be reduced?

Mr. WOOD. Right.

Chairman PROXMIRE. There is a lot of resistance, because after all if you were a Senator, which I am not, from a State where there were heavy defense contracts—my State does not have much—but if I were I would be under terrific pressure to champion some of these weapons systems which provide great employment.

Mr. WOOD. Unless you can see some alternative. And, of course, in our experience at MIT, Senator, in our efforts for conversion of our two laboratories, we have had some painful education in this process in the past year. The postwar planning, by putting out plausible new alternatives, not only avoids what I call the supermarket concept of the public interest, but it gives us some tangible transfer options, so that people in areas with high defense contracts can see where else they could go. But this won't happen automatically.

Chairman PROXMIRE. You mentioned the goal of 3 million housing units a year. This is a little more ambitious than the goal set forth in the Housing Act of 1968, which you had a great deal to do with. I put in an amendment providing for 2.6 million housing starts a year and 26 million over the next decade. Yet we are falling behind the 1968 commitment, as we have fallen behind so many other housing commitments over the years. Can you offer any advice on what this country needs to do to build the required housing for its people?

Why are we falling so far behind? There are obvious reasons in the monetary policy which we have mentioned, but what can we do about it?

Mr. WOOD. The monetary problem is clear. It is convenient for a member of the former administration to be critical on that point,

although I must say that I am glad we got the 1968 act, and we have the disposition of Mr. Martin on the S. & L.'s and the new FNMA on this point. But I think what we lack—and I tried to hint of this in part of my testimony—is a tax on some of the other constraints that so hamstringing the development of the program.

Land is right now my principal and No. 1 constraint. I think proposals—

Chairman PROXMIRE. After money?

Mr. WOOD. After money. And in the long run the proposals that Senator Douglas put forward in a minority addendum to the chapter on land in his commission report—which were the figures I quoted in my testimony—make it perfectly clear to me that, until we either by taxes recapture some of this \$15 to \$20 billion a year speculative value or by regulation make available this land at reasonable prices, we are not going to 2.6 or the 3 million that we are now going to have to get in order to keep up with that 10-year goal. And we are particularly not going to get it for the poor.

One of the hardest things that I wrestled with, I guess, in the last month in office was the effort to provide moderate-income and low-income housing and make the costly income limits fit. In Boston and New York and Philadelphia I was at the point of having either to authorize or write down urban renewal of land to zero or below, or to tell the mayors of those cities that they could not build housing for poor people, and neither one of these was a very acceptable alternative.

All of this comes about by our incapacity to recapture these land values. When our country told Japan to break up its land after World War II, that helped the rebuilding of cities. Our general land-reform programs tried to do it in Latin American nations for 20 years, but did not really come to grips with the problem in the United States.

Chairman PROXMIRE. Was this a matter of getting Federal money in the right place? What do we have to do, buy that land? Mark it down to zero or below?

Mr. WOOD. That is the expensive way. And that is really the way—

Chairman PROXMIRE. What is the inexpensive way?

Mr. WOOD. An inexpensive way is, recapture by tax policy on the transaction tax in real estate, which, as I recollect, has been the recommendation of both the Kerner and this commission report.

A third way is really to shift by Federal performance standards to provide encouragement to local communities to change the basis of their property taxation to follow the Pittsburgh plan or the Australian plan where you tax planned undeveloped land very high, and develop it proportionately less. There are a set of procedures either by Federal performance standards or by Federal or local taxes, where we can begin to get a hold on land inflation.

Chairman PROXMIRE. During your term as Under Secretary of HUD, conflicts arose between HUD and other departments involved in the urban and metropolitan scene. For instance, there were conflicts between urban renewal or model cities programs and the highway program. In some cases, the construction of Federal highways dislocated poor families and small businesses who were the intended recipients of programs administered by HUD.

In Nashville, Tenn., for example, Interstate 40 went right through a model city area. Do you believe there was a lack of coordination on the Federal level in these cases? If so, what do you suggest as a remedy? Do we need more legislation?

Mr. WOOD. I think there was a lack of coordination, Senator, although not necessarily of good will. As a matter of fact, there were at one time at least 25 model cities neighborhoods that were athwart projected expressways. I think more troublesome than that was the fact that two theories of coordination and cooperation coexisted at the same time. One was the belief that coordination of operational matters could only be provided at Executive Office level. The other was the belief that operating agencies under clear mandates could indeed find some common ground. And that was expressed in the so-called conveyor order that President Johnson issued in 1966. We never really resolved it between my colleagues in the Executive Office and the Secretaries and under Secretaries groups until the last 6 months of the administration, when we began to get in what was known as the Under Secretary's group some measure of information exchange.

One way in which Congress—

Chairman PROXMIRE. How about the Bureau of the Budget, do they play a coordinating role here? They certainly should.

Mr. WOOD. They play a coordinating role in some ways, Senator, in the sense that they are extraordinarily alert to allocations and suballocations in operational matters. They were not in my judgment particularly coordinated in terms of policy. We coexisted with two theories at least of citizen participation during most of that period, and we coexisted with two theories of multiple neighborhood service centers, both advanced by the Budget Bureau.

My central point was that these two theories of coordination sometimes made us appear like Max Ways' famous quotation, "looking like baskets of snakes," you had confusion in the baskets and confusion between them.

But the second point is that you will find extraordinary differences in the failure of congressional coordination, differences in appropriations, differences in actions between the Labor Department, the committees, HUD, and Commerce, which complicated our problems of programing and allocating funds. And the difficulties in timing remain, as I look back, one of the greatest problems of the congressional schedule and the Executive schedule. For 2 out of the first 3 years of HUD, our administrative budgets were under a continuing freeze, waiting for the congressional final action on the appropriation process, our personal freeze brought about in large measures by the requirements of the surtax.

This meant that as appropriations went from direct HUD appropriations of approximately \$900 million to \$2.5 billion, our administrative work force went from 14,200 to about 15,000. And for 2 out of every 3 months, regardless of what we were authorized, we could not hire or really make any flexible changes. So that this effectively brought about major inefficiencies and lack of advances over and above those we created for ourselves.

Chairman PROXMIRE. As you may know, this committee has recommended the abolition of the Federal Highway Trust Fund. Do you favor the trust fund as a financing device for mass transit?

What do you think the Nation ought to be doing over the next 5 years in the area of urban transportation?

Mr. WOOD. Let me make this reply on three levels. As a still practicing political economist, conceptually the idea of a trust fund gives me problems. It is a commitment for a very long period of time to a particular priority that makes changes much more difficult.

However, at a second level, the situation in mass transportation, at least as I experienced it on the MBTA, is so desperate that the infusion of Federal funds, either in terms of the present Senate bill or another, seems to me a bare minimal essential.

Third, if I had my druthers, I would be perfectly happy to go forward with some form of obligatory authority satisfactory to the Appropriations Committee that would give me enough leadtime to plan 3, 4, or 5 years. I think there would be recognition that mass transportation cannot depend solely on annual appropriations.

Chairman PROXMIRE. As far as the highway trust fund is concerned you would preserve it so that you can go ahead with mass transportation?

Mr. WOOD. If we could tap into it and broaden the concept of mass transportation.

Chairman PROXMIRE. Why wouldn't it be a good idea to abolish it and let the highways take their chances with everybody else? It is ridiculous, it seems to me, for us to have a program which insures the financing of highways and does not provide for education, it does not provide for any poverty, it does not provide for so many things that we all feel should have a very high priority. Priority to pave it in concrete all over the country.

Mr. WOOD. In principle I subscribe to that completely, Mr. Chairman. I am only saying that in my present roll in mass transportation I do not have the luxury to subscribe to my principle.

Chairman PROXMIRE. You have to rise above principle.

Mr. WOOD. I have to rise above principle to get money for mass transportation where it is available.

Chairman PROXMIRE. So you think that maybe the transportation trust fund would be—

Mr. WOOD. Or merge the funds outright with some kind of assurance—we do need highways as well as mass transportation, we do need leadtime other than the annual appropriation process. And the problem that bothers me of abolishing the concept of any long leadtime with some kind of obligatory authority over annual appropriations is that first, it can give you stop and start planning, and second, it has a tendency to get you to project plans on the legislative level, which I do not believe is wise either.

Chairman PROXMIRE. You mention the need for neighborhood decentralization of some activities and metropolitan centralization of others. As you know, there is a long-standing movement toward metropolitan government, which has been notable for its lack of success. You are aware, I am sure, of the numbers of cities where this kind of organization has been turned down. At the same time, there seems to be an increasing demand for neighborhood control of public activities. I

understand that Mayor Lindsay of New York in the past few weeks established over 60 neighborhood governments in New York City. Can you tell us how the concepts of neighborhood government and metropolitan government can be reconciled and whether there is a proper role for the Federal Government in either?

Mr. Wood. I think you can reconcile them. With you, Senator, I belong to that generation of reformers that went from the metropolitan government of Boston in the fifties to a single consolidated metropolitan jurisdiction. I admit to the real need for centralization of those functions that touch with such intimacy the lives of particular residents who have good reason and a long history of distrusting government. The problem there is how to match neighborhood power with program power. The problem is whether, when you decentralize economic development, or when you decentralize schools, or when you decentralize health services, you are not committing a series of neighborhoods to cottage industries, little red school houses, and first aid stations. And we simply have to recognize the technological and size and scale limitations on some citizens.

So although you push for decentralization, you want in one degree or another to make sure competent programs exist. It is great to say, for example, that you ought to have participation in housing rehabilitation. But you have to get the trade-off between the citizens' participating in rehabilitation and actual changes in shelters occurring.

As you work through that set of problems at the local level, at the metropolitan level I would go for a set of reasonably limited functions in development and planning, in transportation, water and sewer, pollution and environment. And I would undertake to civilize them. In other words, I would undertake to take the authority that had a reputation of autocratic behavior and make it relate to advisory structures or representatives of the region.

We have a prototype of that in the MBTA today. I am accountable with an advisory board to 79 cities and towns with a weighted vote depending on their contribution. And that makes the MBTA anything but autocratic. And I think we can move forward here.

The Federal Government's role is really again encouragement—I have been encouraged at the development of the Councils of Government that moved from about 15 to a thousand over the last few years. And I think they can be an evolutionary point, by mandatory planning requirements and encouragements in the Federal grant-in-aid program.

I think one of my great disappointments in the time we spent in Washington was that title II of the 1966 Housing Act never received the attention that title I in the model cities did. We had at that point a concept for metropolitan development incentive groups that for 12 programs would give special block grants to communities who were genuinely participating in metropolitan development. We were blocked in carrying out that program partly by the Kramer amendment with respect to the expenditure of administrative funds for metropolitan review, but also because the Appropriations Committees never really quite, I think, understood that this was not a new grant but a coordinating grant.

We tried again in the 1968 act on this one. And again we never were able to get much further into substantive areas.

I would hope that Congress could look at this one more time.

Chairman PROXMIRE. Is it possible, do you think, Mr. Wood, to reform the Federal Government bureaucracy to make the operational programs work? The civil service seems to have no place for the free spirits, the Ernest Fitzgeralds and the others. It puts the premium on safety and time service. What specific reforms do you propose in this area, as a free spirit?

Mr. WOOD. As I observe—as a free spirit, with some detachment on the events of the last few months—Mr. Chairman, it seems to me that there are kinds of energy in some departments and agencies. I am aware of all these and in many degrees justified complaints against the professional public servant. But I am still struck, as I look back in my experience, by the amount of creativity that exists in the program areas. I think you can make the case that the enactment of rent supplements stimulated the professional administrator in public housing to come up with a turnkey as a point of some kind of survival. I know you make the case that after model cities the neighborhood development program in urban renewal came up as a kind of counterpart. So competitive bureaucracy sometimes can develop ingenious and effective programs.

I think two great changes are needed to make our Federal Government instruments the faithful executives of policy. One is greater staff capability at the Cabinet level. I am familiar, as I indicated in the testimony, with the fact that Cabinet officers are often regarded with suspicion. But I think it is a real loss when Secretaries do not possess the capacity to make program evaluations, when that is left only to the Executive Office.

Secondly, we still recruit our professional people in the public service by trade, by accountants, engineers, lawyers, or what have you. We have not yet really gotten programs that John Macy speaks so eloquently about for generalized professional executive development. This is where we can make some major inroads in civil service training.

Chairman PROXMIRE. Why wasn't Macy ever able to persuade the administration to do this?

Mr. WOOD. I do not know. We had discussions about it.

Chairman PROXMIRE. It is too hard to explain it to Congress and the public?

Mr. WOOD. Perhaps. I think our problem there was that we were in the process of so much legislative enactment that when John Macy would come in saying, "But somehow these have to be run," we were still working on another bill. I think his effort to develop in the Federal executive boards some sense of generalized Federal responsibility was just great.

We lack one other point, of course. And this comes back to the free spirit question you referred to. Free spirits are fine in terms of program generation. They give difficulty when they get in the regional office on an execution line in which they could say that the Congress did not really mean this, or that Washington did not understand what it was saying. There is a real need, I think, particularly in the younger and more imaginative civil servants as they come in, to understand the difference between getting their ideas up and taking the instructions down. And I believe that this is a characteristic one does not find in the British, Canadian, or French services, but we find it in ours.

Chairman PROXMIRE. One final question. Should we include mobile homes in the calculation of our housing goals? There seems to be some effort in the administration to incorporate mobile homes in the housing statistics.

Mr. WOOD. They have to if we are going to be realistic.

Chairman PROXMIRE. Is this the reason you put it at 3 million instead of 2.6 million?

Mr. WOOD. No; we are beginning in our calculations—

Chairman PROXMIRE. A mobile home is a lot different from a permanent home both in terms of liveability, and also in terms of how long it lasts.

Mr. WOOD. Yes; but you know, I feel we may be the victims of past misconceptions on that. I have been impressed not only by the rapid volume of growth of mobile homes, but when I talk to residents, so often they prefer them to multifamily dwellings. I have been impressed just flying these days to see the spread of mobile homes, particularly in the West, and to some degree in the Northeast. I think our greatest need here is to recognize that they may be here to stay, that their duration may be extended, that their financing will be easier, and therefore—

Chairman PROXMIRE. The land problem is easier.

Mr. WOOD (continuing). We should site them, plan for them, and have the development so that they become a part of the regular community and not just regard them the way we did when we were growing up. Trailer camps then were regarded as something temporary that would somehow go away. I do not think they are going to go away now. And I think a plan for them is of very great need.

Chairman PROXMIRE. Thank you very much, Mr. Wood.

The subcommittee will meet in room 1202 of the New Senate Office Building at 10 a.m. tomorrow when we will hear from George Romney, Secretary, Housing and Urban Development, and Leonard Woodcock, president, United Auto Workers. Joseph Barr will not be able to appear because of a death in his family.

Thank you very much.

The subcommittee will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 1:03 p.m., the subcommittee recessed, to reconvene the following day, at 10 a.m., Tuesday, June 16, 1970.)

CHANGING NATIONAL PRIORITIES

TUESDAY, JUNE 16, 1970

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire, Sparkman, and Symington; and Representatives Griffiths, Conable, and Brown.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Richard F. Kaufman, economist; and Douglas C. Frechtling, economist for the minority.

Chairman PROXMIRE. The subcommittee will come to order.

We are delighted to have as our leadoff witness this morning the distinguished Secretary of the Housing and Urban Development Department, the man who has the prime responsibility in this country for housing. And it is most appropriate that Secretary Romney is here to discuss our priorities, and how we can efficiently and wisely shift our priorities in the coming year.

First I would like to say that no one can dispute the fact that we are caught in one of the worst housing crises since World War II. The Congress knows it. The President knows it. And the public suffers from it. But how much it will worsen and how long it will last no one seems to know.

Adequate housing, like full employment, is part of the seamless web of high priority goals which requires the full support of the Government if it is to be attained. Yesterday we learned, if we did not know it already, that the Administration is not now pursuing the goal of full employment. Of course, it follows that we do not have full employment. We have unemployment at the rate of 5 percent and the promise that it will go higher.

The question is whether we are presently following a policy of adequate housing, whether we are pursuing the goal "of a decent home and a suitable living environment for every American family." If we are pursuing this goal, we need some assurance that current Federal policies are designed to reach it. Some, in the light of the statistics, are skeptical that this is so.

If, however, we do not have a policy of adequate housing for every American family, if in addition to the present unemployment policy, the administration had adopted an inadequate housing policy, then the Nation must gird itself for an even greater housing shortage than we have today and a deteriorating urban condition.

In short, there is a sore need for national leadership in the fields of housing, manpower, and social and economic affairs generally. Fortunately, we have before us this morning two prominent national leaders of great stature, commitment, and accomplishment.

I might say before I call on Governor Romney that I think this is particularly happy timing on the part of our first witness, because we are all aware of growing unemployment in this country, and we are all aware that it has been getting increasingly bad, and many economists say it can go to 6 percent this year.

We are also aware that the one most conspicuous area of the economy which has to be considered is the unemployment area. Unemployment is very heavy, I understand 11 percent, in the construction trades. And as I say, we need housing and need it badly. It would make sense to move ahead in housing as we reduce our military commitments. And the President and Secretary of Defense indicated we intend to do that, to take up as much of the slack as we can in the housing area.

Secretary ROMNEY, we are very happy that you are here.

Congressman CONABLE?

Representative CONABLE. Mr. Chairman, I would like only to add briefly my interpretation of yesterday's testimony. It was not that we had abandoned the goal of full employment, but I believe the testimony that was adduced here yesterday indicated that we had to look at this from a somewhat longer range view than simply to push for complete employment at all times.

The economy was superheated, and the evidence adduced here yesterday indicated that if we continued on the course we were following we would be very likely to have a much more serious unemployment problem in the future than we would have if we permitted some cooling of the economy at this point. I think certainly our long-term goal remains full employment. And the evidence yesterday was entirely consistent with this viewpoint.

I would like to add my welcome to the very distinguished former Governor of Michigan and the fine Secretary of Housing and Urban Development. We look forward to his testimony.

Chairman PROXMIRE. We will continue the debate and let you get into it, Mr. Secretary.

We shall be glad to hear from you at this time, sir.

STATEMENT OF HON. GEORGE ROMNEY, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY SHERMAN UNGER, GENERAL COUNSEL, AND FREDERICK W. DEMING, SPECIAL ASSISTANT

Secretary ROMNEY. Mr. Chairman, I wish to thank the committee for the opportunity to testify on the subject of "Changing National Priorities."

The very title of these hearings suggests that our national priorities are out of order, and that our priorities need changing. I agree with that assessment; this administration agrees with that assessment; and so, unquestionably, does the American public.

It is important to recognize, I think, that there are a number of encouraging signals that a rearrangement of priorities is beginning to take place. This year's budget and economic messages for the first time

presented 5-year projections of Federal spending in relation to total economic activity to help set the stage for intelligent discussion of priorities. And as Mr. Weidenbaum highlighted in his testimony before this committee 2 weeks ago, in the fiscal years 1969-71, national security spending has been pulled back by \$7.3 billion, while all other spending has gone up by \$32.9 billion.

Mr. Chairman, I think that shift has been too little noticed and too little recognized. It is a substantial shift in national priorities to cut national defense spending in that period by \$7.3 billion and to have increased other spending by \$32.9 billion.

Third, even within domestic programs, the administration has recommended terminations, restructurings, and reforms of outmoded and uneconomic programs at a budget saving of more than \$2 billion to make more room for expanding high priority programs.

This quite substantial and creditable effort appears to have received little public notice or applause, largely, I believe, because the reduction in defense spending has been so long in coming, and also because further reductions are so obviously demanded before defense spending and domestic priorities will be in reasonable balance.

I would also like to note in these introductory remarks that our discussions of national priorities seem inevitably to be dominated and preoccupied with questions relating to the economy, and also to Government spending. A few weeks ago in New York, I covered in some detail my thoughts on the actions needed to strengthen the economy and curb inflation. I do not intend to cover the same ground this morning.

I do intend, however, to talk about spending priorities today, even though I will place equal emphasis on priorities which may be even more fundamental than the need for funds. Here I am referring to the necessity of restructuring and revitalizing the institutions of State and local government so that they can deal with the problems which threaten to overwhelm us in our increasingly urbanized society.

Both types of priorities—fiscal and institutional—are essential if we are to put at the top of the list those concerns which deal with people “where they live”—not just physically, but socially, politically, and spiritually. The challenge of the 1970's is to give shape and substance to the yearning of the American people for a revitalized sense of community, within which individual dignity and accomplishment can flourish.

We have not yet committed ourselves unequivocally to meeting that challenge, but I believe that we are currently at a critical point of transition. Today's turmoil in the cities and on the campuses brings both a sense of foreboding and of hope. I choose to hope. I choose to believe that the American people are ready to strive for a restoration of civic and social health in communities where “all sorts and conditions of men” can live together and find fulfillment.

In my testimony this morning, I would like to comment in summary form on four areas: Where we are today; how we got here; what we are doing; and where we go from here.

First, where we are today.

Let me say immediately that I do not intend to burden you with a tiresome recital of problems which have been documented by everyone who has taken the trouble to look at our domestic situation. Yet

there are certain facts that stand out, and I think it is worthwhile to list them briefly.

1. The long war in Indochina weighs heavily on our national conscience, saps our resources, and has had a fracturing impact on human and social relationships throughout our society. Because of the war overseas, we are all less able, spiritually and economically, to cope with the urgent problems which threaten to undo us here at home.

2. In our metropolitan areas there is wide physical separation of people based on income and race. With this physical separation has come a mislocation between residence and jobs, largely segregated schools of widely varying quality, and a decreasing ability of people of differing backgrounds to communicate with each other on the problems which clearly affect everyone.

3. The Nation is profoundly troubled and perplexed about race. As a result of civil rights laws, racial discrimination has gone underground, but persists in subtle and insidious forms in all of our institutions. The argument between those who say things are getting better, and those who say we are one step from violent racial warfare misses the point. We are not where we want to be. The racial reconciliation which the Nation must achieve continues to elude us, and this, I think, remains as the dark blot on the American dream.

4. The steady, downward spiral of deterioration in our great central cities is continuing. Some so-called urban experts are beginning to say that the forces at work in our cities are unstoppable, and that we should give up trying to save the cities. I disagree emphatically, but I cite this line of thinking as an indication of the depth of the problem.

5. The housing shortage is acute and worsening. I have discussed the housing situation in many forums, and will not take time in my opening statement to get into the details of that problem.

6. Community infrastructure, often hastily built to accommodate the vast population migration to metropolitan areas, now appears to be buckling at critical points. The problems of traffic and air pollution from automobiles, the generation of excessive and mounting solid waste, the leap in consumption of electric power, overcrowded obsolete schools, and the overtaxing of sewage systems caused by poorly planned suburban areas—all seem to be outrunning our probable capacity to cope without some major disruption.

In the Washington area, for example, new housing developments have been abruptly suspended in large areas of suburban Maryland because of the lack of sewage treatment facilities. Parts of the same area are also under an open burning ban because of dangerously high air pollution readings. In addition, the entire eastern seaboard is under the constant threat of "brownouts" or "blackouts" because of air conditioners, television sets, and other creature comforts we have come to view as necessities.

7. Confronted with such problems, State and local governments presently have neither the appropriate structure or powers to alter significantly the established trends toward central city decay, and unplanned and wasteful metropolitan sprawl.

These are some of the broad problems which we need to address as we reshape priorities for the 1970's. As we do so, I think it important

to understand how we got to where we are today, and thus to learn from the mistakes of the past.

The problems which I listed are not new. Hopefully, we understand them better than we did 10 years ago. But it would be both incorrect and unfair to say that there was neither a recognition of nor a commitment to do something about the problems resulting from the urbanization movements of the 1940's and 1950's.

What went wrong in the 1960's?

1. There was the naive assumption that more Federal action was all that was needed to solve our problems. During the 1960's, categorical Federal grant programs increased from less than 50 to more than 400, each with its own bureaucracy, its own regulations and its own specialized constituency. These programs were usually aimed at some legitimate public need, but cumulatively, they tied up State and local government in an indescribable mass of redtape, which will take years to unsnarl.

2. On the other side of the governmental coin, there was little effort to influence or help local and State governments to restructure themselves to carry out the general responsibility to govern which is rightfully theirs. The assumption in Washington was that local governments needed an umbilical cord to Washington for every program in order to know what to do and how to do it.

3. The Vietnam war drained the country's resources which otherwise might have been committed to community and social needs. Thus, the programs that were passed were launched with a ceremonial bill-signing, brave rhetoric, great expectations, and little money. Throughout the Federal Government, funds for established and vitally needed programs such as sewage treatment facilities, urban renewal, and many others were cut back, postponed, or thinned out to a trickle. Governors and mayors found intelligent budget planning next to impossible because of the uncertainty of Federal funding.

4. As governmental programs multiplied private initiative and effort diminished. The inflated rhetoric of the Great Society programs conveyed the impression that Government could solve all of our problems, and that there would be nothing left to do by the private citizen.

5. We did not fully anticipate the consequences of programs such as the highway program, which had worthy objectives, but created and uncovered other problems more serious than the problem originally addressed.

Looking back on the 1960's we can say that it was a time when our domestic problems were beginning to get recognition, but also a time of frenetic and ill-conceived Federal initiatives which faltered as private effort declined, State and local governments floundered and the Nation shouldered the tragic burden of the war.

I indicated at the beginning of my remarks that we are, in my opinion, at the point of transition toward a hopeful new direction for our Nation.

What are the bases of that hope?

1. We are on a steady path of disengagement from the war.

2. We have learned that a specific program approach to every problem has severe limitations. The President is determined to untangle the snarl of hundreds of Federal programs. Our Department is doing its part. Our major legislative initiative this year—the proposed Hous-

ing Act of 1970—does not offer new housing programs, but tries to get rid of 42 programs by consolidating them.

3. Replacing the program approach is a policy approach, which seeks to maximize private effort and which aims not at treating symptoms, but at dealing with the fundamentals of our problems. The policy strategy focuses on meeting the needs of our individual citizens, not the egos of program administrators or their industrial constituency. It seeks not a perpetuation of weak or archaic institutions, but a strengthening and restructuring of all institutions to deal effectively with our national needs.

This policy strategy underlies a wide range of the President's proposals: The voluntary action and revenue-sharing programs clearly aim at developing institutions that are more responsive to national needs than those we now have; and the concern with helping individuals is the basis for the family assistance plan and reforms of the food stamp and welfare programs generally and for the reforms of our housing, manpower, and many other programs.

Finally, Mr. Chairman, I want to turn to the question of where we go from here.

1. As I indicated earlier, the need for money usually is placed at the top of the list in any discussion of domestic priorities. Money is on my list, but I would like to begin by pointing to the need for maximizing private effort, and restructured, strengthened institutions at the State, regional and, local levels, which can be responsive to the broad problem of community growth and development. This is the key to open, pollution-free communities—places where people of all backgrounds can live near their jobs and daily activities and find maximum personal fulfillment.

Accomplishing the necessary reforms at the State and local levels does not require money first of all, but political leadership and courage, together with citizen understanding of the benefits to be gained.

Let me be more specific about the type of institutional reforms which I have in mind.

States need to assert their inherent powers to determine, or at least influence, the structure and powers of local governments. Obvious areas of vitally needed additional initiative include:

The creation of an effective planning capacity on both a State and regional basis;

The more equitable distribution of revenue generated by the entire tax base of a region or State—approaches such as the one suggested by Governor Milliken in Michigan with respect to education;

The capacity for housing development and financing;

The assertion of a State interest in building codes, zoning, land use, and new community development.

Given the present framework of State and local institutions, there simply is no prospect of getting on top of the traditional problems of poor planning and excessively fragmented local governments.

(2) The Federal Government is going to have to provide leadership, incentives, and much of the resources if restructured State and local governments are to be able to do their job. I personally believe that Federal aids, including revenue sharing, should be linked with accomplishing such basic reforms, rather than simply nurturing further the

existing Balkanization of our metropolitan areas. For example, the gross disparities in fiscal resources which prevail in most metropolitan areas are no more defensible than the disparities in welfare payments among the States which the Family Assistance Plan seeks to correct.

(3) We must reassert our unequivocal commitment to the preservation of our central cities as dynamic, exciting places to live, work, shop, and enjoy cultural and recreational opportunities. At the same time, we must develop an urban growth strategy which deals with natural peripheral suburban growth, which makes use of the potential of new communities, and which seeks to revitalize our small towns and rural areas.

(4) In shaping governmental programs, we must attempt to set in motion forces in the private sector to the maximum extent rather than relying solely on government bureaucracies. For example, HUD's Operation Breakthrough, which involves a relatively small investment in public funds, has already made a great impact on the thinking and actions of the business community with respect to the promising future of industrialized housing.

The volume production of housing which we need is not possible unless we can help motivate the private sector to change the present obsolete basis of housing production and marketing. As a matter of fact, Mr. Chairman, the housing problem in this country is shifting rapidly from one of adequate funds for mortgages for the financing of housing, to the high cost of housing, which is pricing people out of the housing market.

There are many areas in this country where the funds are available, and houses have been started, but they are not being completed because the cost of housing has priced so many people out of the housing market.

Another example is the administration's voluntary action program, which explicitly seeks to draw citizens actively and personally into the solution of community problems. Many Government programs actually discourage the use of volunteers, and we should systematically remove such restrictions.

I would now like to turn more directly to the subject of national fiscal priorities. Under any circumstances, dealing with the problem I have outlined, Mr. Chairman, will take money, big money. But if we move now to rebuild our cities, to plan intelligently our metropolitan growth, and build new communities, the savings in the installation of community infrastructure alone will be enormous.

The point is that we must commit resources on a scale which corresponds to the magnitude of the problem, and we must have policies that will reflect the magnitude of the problem. The need is not essentially for a lot of new programs. Rather, the need is for new basic policies that will stimulate private effort and result in State and local governments getting themselves in a position where they can effectively discharge their responsibilities.

To do this means we must spend more to solve the problems which plague our Nation's communities, and less on other things. I frankly doubt that the public is aware of how meager the Federal Government's commitment is to attacking the problems which they contend with daily.

Our priorities are out of order when the entire budget for all programs of the Department of Housing and Urban Development is less

than half the research and development budget just of the Department of Defense.

Our priorities are out of order when we spend more than four times as much on highways as we do on urban renewal—our principal program to help rebuild communities of all sizes.

Our priorities are out of order when HUD's funds to assist low and moderate income housing are less than the budget for lunar exploration.

Our priorities are out of order when total expenditures for research and development by all departments and agencies of the Government amount to more than \$15 billion, yet only \$60 million of this is for research in the field of housing and urban development.

I could go on.

Although I recognize that no nation, no matter how rich and powerful, can do everything it would like to do at once, I believe we must face, and face squarely, the choices that are before us. We can assign the highest priority to channeling the forces of growth into the building of sound, social, and physical communities. Or we can drift along, destroying our natural resources, and letting our cities and towns deteriorate further, with the spread of slums and blight, of injustice and disunity.

I think the choice is clear.

I will be glad to answer questions.

Chairman PROXMIRE. Mr. Secretary, I want to congratulate you on an excellent statement. This is one of the finest statements that any administration official has made to any committee I have sat on in a long time. And you deserve congratulations. I specially congratulate you on the last part of your statement where you specifically point out our misplaced priorities, where you say that the entire budget for all programs of the Department of Housing and Urban Development is less than half the research and development budget just of the Department of Defense.

And you point out how much we are spending in the area of highways compared to what we need for programs to rebuild our communities. And you point out that HUD's funds to assist low- and moderate-income housing are far less than the budget for lunar exploration, and so on. I think it goes exactly to the heart of what we are here to discuss. And I think you put it extremely well.

I would like to ask you, however, what we do about this situation.

A few days ago President Nixon criticized the Congress for not acting on a message he said was sent to us on February 2, "asking for enactment of the Emergency Home Finance Act of 1970." Now, I am not aware of any such message sent to Congress by the President on February 2, and the bill apparently referred to is S. 3685, passed by the Senate on April 16.

That bill originally contained a subsidy for mortgage bankers which at best would have enabled us to meet the objectives of 1.4 million housing starts forecast by the Economic Report of the President earlier this year. I amended that bill to provide some assistance for home purchasers, and I hope it will be passed by the House and signed by the President in its present form. But there is no illusion on my part that this bill can bring us out of the current housing crisis, and I would be very surprised if you are burdened with such an illusion.

A story in this morning's Washington Post by Bernard D. Nossiter relates some of these matters. I wonder if you can comment on my statement of the facts or provide some clarification?

Secretary ROMNEY. I will be very happy to, Mr. Chairman.

I can understand why the President made the statement he made, and why he referred to a message that was not actually sent, because there had been a good deal of work done on the possibility of a President's message. The President had concerned himself a great deal with the deepening housing crises, and ahead of February there was an expectation that the administration would submit a message. And a good deal of work had been done along that line.

Some of the work was reflected in the Presidential message with respect to the economy, the report of the Council of Economic Advisers, which was submitted on February 2, and which did refer to housing as one element of the approach.

It was decided, in the light of the extensive study that had gone on, that instead of submitting the Presidential message I would appear as the administration's witness before the House and Senate committees, and I would submit the administration's position on the housing situation.

This I did. I appeared on February 24 before the House Banking and Currency Committee. The House Banking and Currency Committee had started hearings on February 2 on what it described as emergency housing legislation. Now, on February 24 I specifically stated the administration's positions on various matters and on all of the matters now contained in the Emergency Housing Finance Act of 1970, of real substance in terms of the current housing crisis, except for the amendment that was added on the Senate side as a result of your efforts, Mr. Chairman.

Now, I appeared before the House committee on February 24. I appeared before the Senate committee on March 3, and again stated the administration's position and the recommendation of this emergency legislation.

As a result—

Chairman PROXMIRE. May I just interrupt, Mr. Secretary, to say that one of the problems here that I am trying to stress is not so much the delay involved—I think you have answered that—but the job that we have to do.

Secretary ROMNEY. I am going to come to that. But in the light of the fact that there has been a good deal of discussion about the problems you have raised initially, I would like to make the record clear and complete on it.

After my appearance before the Senate committee, the Senate committee acted promptly. And while there was some delay as a result of an effort to work out a compromise with respect to proposals you had made, sir, we did finally work out a compromise. As a result, the bill which passed the Senate contains provisions which authorize \$60 million a year for the next 3 years for interest subsidization for homes for moderate and middle-income families. This subsidization is to be carried out through existing programs of our department, which means that it can be done very efficiently and very effectively. The subsidy will help to stimulate housing. All told, the Senate completed its action in 45 days from the time it started hearings until it passed the bill.

Now, the House, having started its hearings February 2, having described them as emergency hearings in recognition that there was a crisis, having the administration's position clearly before it on February 24, and having subsequent communications, still has not acted. That is why I think the President of the United States was fully justified in calling attention to the fact that in a housing crisis, with the housing industry in a period of depression, it is urgent for the House to act.

Now, there was no particular criticism other than just a request that the House act on that matter. The fact that the legislation had bipartisan support was pointed out.

Now, going to the substance of it, the housing problem in this country is basically twofold. There are two aspects to it.

One is the subsidized housing situations. The other is the unassisted and the unsubsidized housing production.

The Congress has periodically increased the proportion of the housing output of this Nation that is to be subsidized. It has done it progressively. And the percentage that is now subsidized is higher than it has ever been in the history of the Nation.

As far as the subsidized housing production is concerned, which is the only part that our Department is in a position to deal with directly, the administration has recommended appropriations and actions of various types to stimulate subsidized housing production and to bring it within range of the national goal—a level of output that will enable us to build new or rehabilitated homes for low- and moderate-income families to the extent of 6 million units by 1978.

Last year we produced 223,600 subsidized housing units for low- and moderate-income families in this country. This year, we expect to produce at least 450,000 such units. And by the end of next year we expect to be up to the 600,000 level. So that is one aspect of the situation.

Now, the other aspect of it is the conventional housing market, the part of the housing market that depends upon private initiative, private effort. We have some programs that relate to that effort. The FHA program of insuring mortgages, and your amendment, together with the \$250 million subsidy for the Home Loan Bank Board advances, begins to give some support in the moderate- and middle-income areas of the housing area.

But basically the bulk of the housing production in this country depends upon national monetary policy, national fiscal policy, and national competitive enterprise policy.

Chairman PROXMIRE. I agree with this, and I think that is a fine analysis. I think it is very good that you have emphasized that your direct responsibility is for subsidized housing for low- and moderate-income people. But this is limited. We have done better than you in the past. We have more housing starts in this area.

The problem many of us see is that homes for the very well-to-do, houses that cost \$35,000 and more, more of those are being built now than ever, the subsidized houses, more of those are being built than ever. It is the people in between who do not now have the opportunity to build houses. And here it seems to me is where the big job has to be done one way or another.

I would agree that fiscal and monetary policy plays a very important role in this, a vital role. We have to find some way, however,

of moving housing starts in this area ahead consistent with the kind of fiscal and monetary policy that the administration has adopted, either that or find some way of modifying it or abandoning it. Because I think you will agree with me that we are not doing the job here, and you will agree with me that I hope that we have to get unemployment under control, and we are not doing that.

Secretary ROMNEY. Let me deal with that, Mr. Chairman, in my opinion you cannot meet the housing need of this Nation if you pursue inflationary policies to achieve high levels of employment, because you cannot get housing production with inflation. Inflation hits housing harder than any other part of the economy. Inflation does two things. Inflation dries up money for housing and increases the cost of it. This increased cost of money adds to the increased cost of labor and other things to price housing out of the market.

On the labor side, wages in the construction industry have been going up two and a half or three times the rate in industry generally. As a matter of fact, in Bridgeport, Conn., the electrical unit secured a contract settlement that will give the electricians there in the next three years a \$50-a-day increase. That is the increase. And the work pattern in Bridgeport, Conn., provides for overtime—they work 10 hours a day. If you apply the increase on the basis of what they actually earn, the contract calls for an increase of \$80 a day for the electricians.

Now, I admit that is one on the high side.

But my point is this, Mr. Chairman, that Congress is going to have to make up its mind, and the administration is going to have to make up its mind, whether or not it is prepared to pursue monetary policies, fiscal policies, and—I want to emphasize—national executive enterprise policies that will result in high employment without inflation.

If you are going to have inflation to get high employment such as we had or built up to for 10 years, then housing is going to suffer.

There is one other thing you have got to do to have housing, Mr. Chairman. You are either going to have to have budget surpluses, so that the money is available to build the housing, or you are going to have to earmark a larger part of the Federal budget for housing. You are going to have to do one or the other. The Congress is going to have to decide whether it wants to begin to subsidize not only low- and moderate-income housing, but also middle-income housing.

We are now subsidizing low- and moderate-income housing. But the six million units we are talking about by 1978 will help less than a third of the families who would be eligible for that low- and moderate-income housing.

So you are going to have a situation even with the 6 million units where two-thirds of the poor and moderate-income families are going to point to a neighbor next door and say: "He is getting a subsidy, why am I not receiving a subsidy? I have the same number of children and the same income level, and he is getting it and I am not."

The Congress will have to decide how much further to go. Your amendment, Senator, already represents some expansion of the subsidy program. I support it, and I hope they adopt it on the House side. But it starts down the road of subsidizing middle-income housing, where the pinch now hurts, and if we start down that road we are talking about tremendous sums of money.

Now, there is another aspect of this problem, and that is the cost. The hard fact is that money is receding from its primary as being the primary problem in housing production. The primary problem in housing production as I see it, at least until we can achieve the results of our Operation Breakthrough and get some action on other things that I have talked about here, is that people are being priced out of the housing market. We cannot have the high-interest rates and wage rates at the level I alluded to, and we cannot have prices of land that are two and three times as high as they were 20 years ago, and still provide housing for the people of this country.

So these are some of the problems in dealing with the housing needs of the people of this Nation. And basically—again I want to bring it into focus—the Congress is going to have to decide, and the administration too, what policies can produce high employment without inflation, if you want housing. If you get high employment with inflation, you won't get housing.

No. 2, the Congress is going to have to decide whether it wants to get housing through budget surpluses that will make room for the \$20 billion of additional investment in housing from private sources, or whether the Congress wants to earmark those additional funds in the budget to get the housing. That is the choice.

Third, the Congress is going to have to decide, and the administration too, whether it is prepared to pursue policies that will enable us to reverse this soaring cost of housing which is pricing so many people out of the market.

Chairman PROXMIRE. My time is up.

But before I yield to Congressman Conable let me say that you speak most eloquently of the problems. But I think we all have to sit here and realize that we are not solving any of them or coming close to it. The housing situation is getting worse. We might have 1.3 or 1.4 housing starts this year, which is a disgrace. Unemployment is rising, and inflation seems to be getting worse. Interest rates are high. And the testimony we had from the Council of Economic Advisers yesterday and the Budget Bureau was that they did not see that either unemployment or interest rates would begin to improve for some time.

So that I think we have to do much better in coming up with constructive, effective policies than we have in the past.

Congressman Conable?

Representative CONABLE. Thank you, Mr. Chairman.

I agree with you, sir, that the basic problem is inflation. The malady seems to hit housing the hardest of all, and the remedy seems to hit housing the hardest of all. Therefore as long as we continue to have inflation and have to take the steps that are necessary, we are going to have a sick housing industry, and one that is going to need our most earnest attention.

Let me ask you, sir, suppose we were able to achieve a substantial degree of reallocation of our priorities, with the result that the Department of Housing and Urban Development did receive a substantial additional sum of money beyond what is presently budgeted for its use. Where would you recommend that that money go, and how would you most effectively use it to meet the major problems of our housing industry?

Secretary ROMNEY. Well, I think, No. 1, the money should be used to encourage the programs that will result in reduced cost of hous-

ing, in slowing down this escalating cost of housing. Because this is affecting the overall situation more—it is going to affect it in the period immediately ahead more than any other aspect of the situation.

Now, this involves research. It also involves assistance to State and local governments in getting rid of the restraints and restrictions that prevent the use of volume methods of production in producing houses. With volume production, companies can afford the investments necessary to make use of modern methods, and this applies to marketing and finance as well as land use and other aspects of housing costs.

So that will be No. 1, to adequately finance the research and the planning and the restructuring of State and local governmental units.

Now, No. 2, I think to the extent available, the funds should be used to meet more adequately the housing requirements of low- and moderate-income families. I personally question whether we ought to begin subsidizing middle-income families until we are certain we have equitably met the needs of all moderate-income families.

I personally am hopeful that as a result of adopting some policies and programs with the sort of research that I have mentioned and the sort of restructuring of State and local governments, and the elimination of the obstacles of the building codes and the zoning practices, and so on, that we can reverse this soaring trend of housing costs and meet the housing needs of the bulk of the people of this country without subsidization.

Maybe we can and maybe we cannot. I do not know. I will say this, because I want to be perfectly realistic about it: I do not think it is going to happen unless Congress deals ultimately with the basic economic forces that are pushing up costs and prices in this country.

And the basic economic forces that are pushing up costs and prices in this country are the excessive concentrations of power in the collective-bargaining area. We have a complete imbalance in our economic system at the present time, in which the concentration of the power in the collective-bargaining area initiates our hopes of having a competitive price system. The one offsets the other. And this hits housing harder than any place else.

Representative CONABLE. One of our serious dilemmas is the fact that most of the palliatives in the housing area, the efforts to compensate for the ravages of inflation, are themselves inflationary, and therefore contribute ultimately to the long-range problem of housing, isn't that true?

Secretary ROMNEY. To a point. It depends upon the circumstances. When the housing shortage reaches the point where it pushes up rents and the cost of housing, then the housing shortage itself becomes more inflationary than the spending of additional money to provide additional housing.

These are the circumstances that we have had increasingly in this country in the last year and a half. The vacancy rates in some parts of the country have been so low that rents and other costs have been going up. And the cost of housing has been contributing to inflation. So it depends upon the situation. The housing shortage is now contributing to inflation.

Representative CONABLE. That does not mean that we do not need to have some palliatives still to keep the housing industry from going into such a deep depression that we lose the capacity to build?

Secretary ROMNEY. Look, we have had the palliatives, because we basically recognize that the shortage is such that the expenditures are less inflationary than the housing we get which reduces the shortage. Look at the past year and a half. The sources of money to produce housing have changed substantially in that period.

In the last half of 1968, of the \$19 and a half billion going to housing, \$17 and a half billion came from private sources. At the start of this year only \$5 billion was coming from private sources, and more than \$10 billion was coming from Government-sponsored sources, the FNMA and the Home Loan Bank Board. And this is because the administration did recognize that the palliatives were less inflationary.

Representative CONABLE. I notice, Mr. Secretary, in your statement that the proposed Housing Act of 1970, would eliminate some 42 HUD programs. I would be a little interested in this, because I quite agree that we do strangle our people with redtape. From your analysis of these programs, what was wrong with them? Were they outmoded, or just plain inefficient?

Secretary ROMNEY. There were just too many of them.

Representative CONABLE. In other words, there was nothing wrong with them?

Secretary ROMNEY. They all had a good purpose at the start, but the Congress has been passing a housing bill almost every year for 35 years, and adopting new forms of subsidization. And the ones adopted previously were not repealed when the new ones were adopted. So we wound up with 50 housing subsidy programs.

Our general counsel and his associates and some of the rest of us went to work to see if we could not include in a smaller number of subsidy programs all of the advantages of the 50. That is what we have done. We propose four basic subsidy programs, both private and a public housing program with respect to rental units, and a private and public program with respect to homeownership. There are other provisions in our proposed bill, but this is the approach taken on the housing subsidy programs.

Representative CONABLE. One last question, sir. You have indicated that one way we could get more money into housing would be through the surplus route. If the Government did not have to borrow so much additional money, that money would be available for some other purpose. How could we be sure that that money would go to housing and not into, let's say, the financing of automobiles at 18 percent?

Secretary ROMNEY. You could not. The housing would have to take its chances in the credit market. But under those circumstances the general judgment is that very substantial amounts would go into housing. There is not any question but that the biggest undeveloped market in this country today is housing. And there is great interest in the possibilities of building profitable enterprises to meet this housing need. If the people who are in a position to make the investments in the housing industry were confident that Congress and the administration were prepared to pursue policies that would really permit the housing needs of this country to be met, you would see companies making the investments necessary to meet this housing need, and to meet it more efficiently and economically than any other way that it can be met, in my opinion.

Representative CONABLE. At this stage do you advocate any selective credit controls that might have the effect of channeling more money into housing?

Secretary ROMNEY. Well, Mr. Conable, whenever you have a shortage in any area, in my opinion—and I have been through some, in addition to the credit shortage—the people with the most muscle get what is available. And that means the people with less muscle or less attractive investments in the case of credit are the victims. I believe that in a period of credit shortage if we want to sustain programs of high national importance, such as housing, then you need to apply some means of more equitable distribution of the available credit than we have had in the recent past.

I do not think when you have a shortage of the character we have been through that we should leave it on the basis that those with the most muscle get it.

Representative CONABLE. My time is up. Thank you, Mr. Secretary. Chairman PROXMIRE. Mrs. Griffiths?

Representative GRIFFITHS. It is a pleasure to see you here, Secretary Romney.

May I ask, during the years when you were Governor of Michigan what did the State do to promote housing?

Secretary ROMNEY. Well, I secured the first housing legislation in the history of the State.

Representative GRIFFITHS. What was it?

Secretary ROMNEY. It was a housing authority with the authority to issue tax exempt bonds and to give assistance to local communities and private organizations in their housing activities.

Representative GRIFFITHS. How much money was it?

Secretary ROMNEY. I have forgotten the amount of money, because this was the initial legislation. I do not know the amount at the start. It was not very sizable. But we got the program started.

Representative GRIFFITHS. How many houses did it build?

Secretary ROMNEY. I do not think that we actually had the program underway to the point where we had houses built at that point. Again, I took the leadership in getting the legislation. And I had to get new legislation.

And, Mrs. Griffiths, it might interest you to know that Michigan was one of about six States at that time to have such legislation. Most States still do not have it.

Representative GRIFFITHS. I would not have even asked you the question, but I have found that there were some States that did have housing legislation. Do you think those 44 other States really could do anything? Michigan is a rich State.

Secretary ROMNEY. I did not hear your question.

Representative GRIFFITHS. Do you feel that the 44 other States really could do anything on housing? Michigan is a very rich State.

Secretary ROMNEY. Most of them could. And we think that one of the essentials in meeting this situation is to get all States more active in the housing program. As a matter of fact, all of the States now in "our breakthrough" program have appointed liaison people to work with us. We have been doing what we could to increase their involvement. We would like to see all States have a combination of the legislation now existing in the States of New York, Massachusetts, and Michigan.

If we could get all States to get the legislation those four States have, that would be ideal. No State currently has all of the legislation we would like to see at the State level.

Incidentally, I also got tenant rights legislation passed in Michigan. We sought that legislation because of the unequal relationship between tenants and landlords. This is an important part of the housing picture too. The present housing is deteriorating much more rapidly than it should as a result of the inequitable relationship between tenants and landlords, and also as a result of the impact of the property tax.

Representative GRIFFITHS. How much money did all six States that have such housing legislation put into housing last year?

Secretary ROMNEY. I do not know. I would have to get that and submit it. I would be glad to submit it.

Representative GRIFFITHS. Please do submit it.

Secretary ROMNEY. I would be glad to.

(The following information was subsequently supplied for the record by Secretary Romney:)

The establishment of State Housing Agencies is a relatively new development with the exception of the New York State Authority which has been in existence about nine years. The essential feature of the present State Housing Agencies is that they may obtain mortgage funds through the sale of federal income tax exempt bonds and bond anticipation notes. State Housing Agencies are established by State law and authorized to borrow money through bond sales. Direct appropriations by the States to support such housing are not large. In the initial stages of development the State often appropriates funds for administrative expenses and seed money loans. As the agency begins to produce housing, the returns are expected to make it self-supporting without additional State appropriated funds.

Existing State Housing Agencies are primarily concerned with producing multifamily rental housing for low and moderate income families; however, some are considering support of homeownership as well. There are several financial advantages which make it possible for the State Agency to produce housing within the range that lower income families can afford. First, they can provide financing at a lower interest rate through the sale of State bonds rather than the higher rates available through the private mortgage market. In addition, investors in these bonds benefit from the tax exemption allowed by the Federal government on returns from State bonds.

The enactment of the 1968 Housing and Urban Development Act made it possible for State assisted housing to benefit from interest reduction payments and rent supplement payments. These additional federal subsidies enable the State assisted housing to be rented at reduced levels to families of low income.

Although the form varies among the States, these agencies perform some functions similar to those of the Federal Housing Administration and the Federal National Mortgage Association at the national level. State agencies which have had some experience producing housing do not require FHA insurance although they may benefit from the interest and rent subsidies. The less experienced agencies have chosen to finance housing with FHA insurance so that they can utilize the technical, financial and other reviews which FHA applies to determine the feasibility of a project. As these agencies evolve, these reviews may be performed independently, and FHA insurance may no longer be required on the mortgages they buy.

The following data represents production figures we were able to obtain from the States. These do not necessarily cover comparable periods of time and stages of production, because the individual States record this data in different forms.

Under the New York State program in Fiscal Year 1969, 32,177 units were either in planning, under construction or completed. The total mortgage commitment to finance these units was \$509,597,000.

The Housing Finance Agency of the State of New Jersey has been in existence for nearly three years. Moderate income housing under construction, occupied or approved for financing by this agency approximates \$71.1 million in mortgage commitments to date.

In Michigan, the minimum goal of the Michigan Housing Development Authority is the financing of 50,000 units at a total cost of approximately \$1 billion. The objective for 1970 is to plan and finance 2,500 units of housing as a cost of \$50 million. This agency was activated in late 1969.

A number of other states are prepared to proceed with financing low and moderate income housing in 1970. These include Illinois, Massachusetts, Connecticut, and Maine.

Other State housing authorities in the initial stages of development are West Virginia and North Carolina. Maryland, Delaware, Vermont, Hawaii, Missouri, Pennsylvania and Rhode Island have legislation which enables them to provide various forms of housing assistance although they do not have active programs.

Representative GRIFFITHS. Because my personal opinion is that to suggest that the States do all this or do this by private enterprise is kind of like unleashing Chiang Kai-shek.

Secretary ROMNEY. Mrs. Griffiths, if I may interrupt, I resent this very much, because you are misinterpreting what I said. What I said was that we need the States to get rid of the zoning restrictions and practices of that kind. This is the more important action. And that is a State responsibility.

Representative GRIFFITHS. That is right. But it has nothing to do with money.

Secretary ROMNEY. It has not.

Representative GRIFFITHS. If they would change the building code, because they have got to—

Secretary ROMNEY. I did not talk about the State providing the money, I did not mention it once. If you are putting that in my mouth, I want it clear in the record, because I never once talked about the States putting money into the housing.

Representative GRIFFITHS. But private enterprise really needs to do it if it is going to work that way, don't they?

Secretary ROMNEY. You mean private enterprise needs to put the money in?

Representative GRIFFITHS. They need to put a lot of money in.

Secretary ROMNEY. Sure. And I have indicated that.

Secretary GRIFFITHS. Really, isn't one of the real reasons for the FHA the fact that you had to start guaranteeing private enterprise, that they were going to get their money back?

Secretary ROMNEY. Mrs. Griffiths, FHA represents one of the soundest concepts that I know. It is a public policy that maximizes private effort. This country is what it is today because in the beginning the founders recognized that if we had policies that would maximize private effort we would make more progress than if we relied primarily on Government. The Government's decision to insure mortgages to thus lengthen the period of mortgage so that more people could afford homes resulted in tremendous investments in home building and a stimulation of private effort.

In my opinion that was an absolutely ideal approach to getting housing at that point, and still is.

Representative GRIFFITHS. I am very proud that that has been put into effect. And Senator Sparkman and I were on the committee that put it into effect.

But I have been working on this fiscal policy for a long time, Governor, in this committee and in Ways and Means. What fiscal policy do you recommend that would free money for mortgages? We are all struggling together.

Secretary ROMNEY. I have indicated very clearly, there are only two ways that you are going to get housing. You are either going to get it through a surplus in the budget—

Representative GRIFFITHS. How do we get the surplus?

Secretary ROMNEY. You do it in one of two ways, basically. You either cut expenditures to produce a surplus or you increase taxes to get a surplus. You do one or the other.

Representative GRIFFITHS. Which one do you recommend?

Secretary ROMNEY. I recommend both.

Representative GRIFFITHS. How much, and where are you going to cut the expenditures?

Secretary ROMNEY. I think one clear area that we must continue to cut is defense. And I think the President is headed down that way. He has already cut it by \$7.3 billion. And he has indicated in his foreign policy statement that instead of having a Military Establishment capable of fighting 2½ wars simultaneously we should only be equipped to fight 1½ wars simultaneously, or be prepared to do that in the initial stages. This plus other steps he has taken in the foreign policy field plus the SALT negotiations, hopefully will enable us to cut defense spending.

Another area that I think we should take a look at is the area of farm income support. We are enacting a family assistance plan, that is, one is under consideration. The Ways and Means Committee of the House has acted on the family assistance program. I do not see the need for both the family assistance plan and at the same time a special program for people engaged in agriculture.

I think that is an area where we should take a good hard look. There is another area that I would like to bring to the committee's attention, because that is a very fundamental area in terms of cost. I have indicated in my testimony that we need to have a restructuring of the State and local governments with a greater focus on regional planning if we are going to deal effectively with our urban development problems and our urban growth problem.

Let me give you a specific example of what this can mean in terms of cost. In the new city of Columbia, Md., that Jim Rouse started after he gave up trying to get things underway to clean up the slums in Baltimore, they have planned a new community with seven villages.

They planned these seven villages in a manner so that they not only provide a better environment, but they are less costly to operate and they were less costly to build. And by making it possible for people to walk to stores and schools and things of that type they can reduce the cost of mass transportation in that community, and keep the cost of other public facilities to a minimum. They have made studies on a county basis showing that if the whole county were to develop on the same basis, it would save \$185 million in capital investment, and it would save \$2 million a year in operating cost.

Rouse has been asked to take a look at the Hartford metropolitan region on the same basis. If we can get a restructuring of these local units of government, if we can get a metropolitan or regional approach, if we can coordinate these various aspects of meeting these urban needs, we can cut the cost of doing these things a great deal.

Representative GRIFFITHS. It would be great. But when? How long will it take to do it? We need the housing now.

Secretary ROMNEY. Well, there is no better time to start than now.

Representative GRIFFITHS. Right. But how long will it take to do all these things?

Secretary ROMNEY. It is going to have to be done sometime. We might as well get at it.

Representative GRIFFITHS. I am for doing all that, but I am for building houses now. We just have to have them. So we have to do something.

Secretary ROMNEY. Look, the housing problems we are experiencing now are primarily the result of the inflation that was generated over the past 10 years, plus the anti-inflationary steps to deal with that inflation.

Representative GRIFFITHS. Let me ask you something. You keep saying that inflation is stopping the housing.

Secretary ROMNEY. That is the basic reason.

Representative GRIFFITHS. I agree absolutely. But, Governor, inflation and unemployment are not going to build a house. Unemployment is going to add to the problem, really add to the problem. So you have got to have some better way to deal with inflation than to create unemployment. And even as you talk about defense, isn't it true that one of the places where unemployment is the highest is the West coast? And aren't there already plans in effect that would put some of those airplane factories back to work? Will this really help? Are we going to get these priorities so that we really do take out some of the defense spending, and we really do do something about inflation?

Secretary ROMNEY. The President has taken \$7.3 billion out of defense spending in an inflationary period. He has increased the expenditures for other purposes, domestic purposes, by \$32.9 billion in the same period, and has started a reordering of priorities. In the case of subsidized housing we are setting all-time records. The area of housing that is down is in the conventional housing area. And this is affected by the inflationary cost picture.

And, Mrs. Griffiths, I want to say to you again that you are going to have to decide that you cannot have high employment as a result of inflation and get housing. Now, that has failed. We have just been through that. That is what we are suffering now.

Representative GRIFFITHS. That is true. But we cannot have high unemployment and high inflation and get housing either.

Secretary ROMNEY. That is right. And we need to have the right combination of monetary, fiscal, and competitive enterprise policy. And you are going to have to deal with a competitive enterprise policy in this country if you do not want to see more foreign automobiles being sold in this country, and if you do not want to see houses begin to come in from other places like that, which is where we are heading just as sure as we are sitting here.

Chairman PROXMIRE. Congressman Brown?

Representative BROWN. It seems to me, Mr. Secretary, that the difference between you and Mrs. Griffiths is how high is high in most instances. Some of the things done to stimulate the housing market may in actual fact make prices a little higher. Yesterday in testimony before this committee Maurice Mann, Assistant Director of the Bureau of the Budget, said:

Federal participation became particularly heavy in 1969, with the Government moving actively to the mortgage market. For example, the Federal National Mortgage Association (FNMA) supplied one-fourth of the total funds raised for home mortgages during 1969 and loans from the Federal Home Loan banks accounted for one-half of the increase in the liabilities of the Nation's savings and loan associations. Federal participation in the mortgage market was even heavier in the first quarter of 1970, when FNMA supplied 45 per cent of the funds raised for home mortgages and advances from the Federal Home Loan banks accounted for over 80 per cent of the increase in the liabilities of savings and loan associations.

Obviously, the short-run objective of such action has been to soften the impact of restrictive credit conditions on the mortgage market—and this, of course, is all to the good. Nonetheless, I am not sure of the long-run implications of such massive Federal participation in the mortgage market insofar as the functioning of that market is concerned. We should certainly give serious consideration to the long-run objectives of Federal participation in the mortgage market, especially with respect to attainment of the Nation's housing goals.

Now, I concur in Mr. Mann's concern. We found as a result of a study done by the Government Operations Committee that when FNMA gets in the market, or when participation certificates are sold, there is a further increase in interest rates around the country, and a further inflation as a result of this.

Now, is there any answer to that problem?

Secretary ROMNEY. I again say that in a period of shortage in my opinion you have to take some steps for an equitable distribution of the shortage unless you want to let competitive forces operate, and if you are going to let competitive forces operate and there is a shortage, then the demand which exceeds the amount of credit available is going to tend to push the interest rate up. And that is what has happened.

On the other hand, if FNMA had not been in there getting money for housing and if the Home Loan Bank Board had not been in there, housing would probably be at the lowest level since World War II. And I think the actions by FNMA and the home loan banks did tend to bring about a more equitable distribution of the available credit than if they had not been in there getting such money as they could for housing.

Representative BROWN. I recognize, as Mr. Mann does, that there is both a benefit and a problem; a special benefit to the housing market but also a problem in that higher interest rates are stimulated. It seems to me this also has adverse social effect in the long run. The question is, how long can we continue that. The administration now seems to be planning similar Federal participation in the guaranteeing of local debt for pollution facilities and health facilities which are seriously needed but which also will have difficulty getting the financing necessary to meet the current social demand in our society.

Can we continue that emergency kind of action for an extended period of time and not have a long-range adverse effect?

Secretary ROMNEY. What you have to decide basically is whether the meeting of the financing requirements of some of these nationally desirable programs are more important than meeting the financial requirements of some of the private programs involving private investment. If you decide that the ones involving the national interest are more important, or so important they ought to be financed anyway, then you go ahead and do what you can to finance them, as we have done in the case of housing.

On the other hand, if you want to reduce the impact of this in terms of pushing up interest rates, you take some steps through various means to hold down the demand for credit, so that you do not have such a great disequilibrium between the demand for credit and the available credit. Nothing has been done in that area.

Representative BROWN. To pursue that a little further, if we would return a surplus to the Federal Treasury and refinance mortgages, wouldn't we have both effects? The most beneficial effect on the housing market would be to lower interest rates because we were retiring debt and not maintaining it?

Secretary ROMNEY. Sure.

Representative BROWN. Would you not be redirecting your priorities or redirecting your credit available through a priority for housing?

Secretary ROMNEY. I think that is right. If you had a surplus in the budget, and FNMA securing funding for housing, why it would work in that manner—

Representative BROWN. I think when you do it at the peak of debt, it may have a totally adverse effect rather than a beneficial effect.

Secretary ROMNEY. I think personally it was better to get the housing we secured rather than to have housing go lower and have inflation pushed higher as a result of increased cost of housing. The cost of housing has been going up faster than most other items anyway.

Let me comment on this question of employment and inflation. I think we can have high employment without inflation. And I think we can have policies that will produce that. But what this administration has been tusseling with is an inherited situation. I am hopeful we are going to develop the capacity to have high employment without inflation. If we do not, we are not going to get housing unless we subsidize most of it.

Representative BROWN. My concern is that if we use emergency financing methods and force interest rates around the country up by a quarter of a percent, we may be operating in a self-defeating cycle, and create some real problems.

The proposal of participation certificate refinancing is sound as long as you take some pressure out of the market some place else by returning a surplus to the Federal Treasury.

Secretary ROMNEY. The surplus is one way to do it. But there are several ways to dampen demand. The President has appointed a committee to study the financial structure of this country because it is perfectly clear that in the last year and a half housing, State and local governments, and small business have suffered more than any other part of the economy. They have been the victims of high-interest rates, shortage of credit, and inflation in the past year and a half.

One of the things that this committee should certainly study is whether or not there should be variations in reserve requirements, as suggested by Federal Reserve Board Member Brimmer, as a means of directing available credit in channels that fit national policy and national objective. There are many ways to do it. But that is one.

Representative BROWN. Last year there was an average increase in wages in the construction industry of over 13 percent. During the first quarter of this year's settlements wage increases averaged nearly 14.5 percent; some unions expect the average per year to be between 15 and

20 percent. While labor costs are admittedly only 18 percent of the total housing costs, wouldn't increases of this magnitude have a substantial effect on the price of housing?

Why are construction workers, who are leading the list of those who are unemployed around the country, able to negotiate such contracts at this time?

Secretary ROMNEY. Well, they are able to negotiate such contracts for a variety of reasons. One of the principal ones is that they have a monopoly position in the local market to the use of union construction workers. And they have such special advantages in hiring and all the other things that enable them to get disproportionate wage settlements. This aspect of the total economic picture is one that has to be reckoned with sooner or later if we are going to continue to have an economy in this country that is fully competitive on a world basis.

We are going to lose our leadership in productivity and technology the way we are going.

Representative BROWN. How much of the problem in housing is from these wage increases, how much is a financing problem, and how much is a problem of restrictions?

Secretary ROMNEY. The principal thing that has increased the cost of housing in the last year and a half has been the cost of money. That has been the principal thing that has increased the cost of housing.

Second to the increased cost of money has been the increased cost of land.

The third thing that has been a factor in the increased cost of housing is the increased cost of labor.

Representative BROWN. Can you put any ratio on that, any proportion of the increase?

Secretary ROMNEY. I would rather not do it offhand. It varies to some extent. The increased cost of money has several times the impact of the increased cost of labor. But across the economy the increasing cost of labor is a factor of growing significance.

I indicated before you came in that the housing industry is beginning to shift into a new period. The availability of money and credit has been the principal problem in the last year and a half. We are now moving into a period when the increased cost of housing is pricing people out of the housing market. And this in my opinion is going to be the major problem as we move forward.

Representative BROWN. If those statistics are available I would appreciate it if you would submit them for the record.

Secretary ROMNEY. I will be glad to.

Representative BROWN. The question was asked about the ratio between the causes of the increased cost.

Secretary ROMNEY. I would be glad to.

(The following information was subsequently supplied for the record by Secretary Romney:)

FACTORS AFFECTING HOUSING COSTS

INCREASES IN COST OF COMPONENTS, 1965-69

All components making up the total cost of a house have experienced increases in recent years, but in varying degrees. The table below shows the most important cost elements in index number form, all based on 1965 levels equal to 100. As can be seen, most of the increase in each index has occurred in the past two years, and the largest percentage increase is in the cost of money, which is up 44 to 62 percent over the level prevailing 5 years ago.

	Land (FHA site value, new homes)	All construction materials (BLS)	All contract construction wages (BLS)	FHA maximum interest rates	Conventional interest rates, new homes
1965.....	160.0	100.0	100.0	100.0	100.0
1966.....	105.4	103.1	105.1	109.5	107.0
1967.....	109.7	104.4	111.1	114.3	110.3
1968.....	120.7	110.2	118.9	123.8	118.8
1969.....	124.9	116.8	128.9	142.9	133.4
Latest ¹	137.7	117.6	137.6	161.9	144.1
Percentage increase:					
1965 to latest.....	37.7	17.6	37.6	61.9	44.1
1967 to latest.....	25.5	12.6	23.9	41.6	30.6
1968 to latest.....	14.1	6.7	15.7	30.8	21.3

¹ 1st quarter 1970 for land, and May 1970 for other components. The figures for 1965-69 represent average annual costs.

AFFECT ON CONSTRUCTION COST

In 1968, a "typical" newly constructed single family house cost about \$24,000. Columns 1 and 2 of the table below show a breakdown of this total cost based on a 1968 study conducted by the National Association of Home Builders. Applying the percentage increases shown in the preceding table, plus an estimate of the increase in construction financing costs,¹ to each of the cost components gives an estimate of the effects of these increases on the total construction cost of housing in the past year and a half. As you can see, about 25 percent of the increase in total cost estimated by this procedure comes from the rising cost of land and 23 percent stems from higher labor costs.

	Construction cost components as proportion of total ¹ (percent)	Costs in 1968 House (amount)	Increase 1968-70 (percent)	Costs in 1970 House (amount)	Construction cost increase	
					Amount	Percent
Land.....	23	\$5,520	14.1	\$6,300	\$780	24.8
Materials.....	37	8,880	6.7	9,475	595	18.9
Onsite labor.....	19	4,560	15.7	5,275	715	22.7
Overhead, profit.....	13	3,120	13.1	3,530	410	13.0
Construction financing and miscellaneous.....	8	1,920	33.9	2,570	650	20.6
Total.....	100	24,000	13.1	27,150	3,150	100.0

¹ From "Cost of Construction," NAHB, September 1968, p. 3. "A Decent Home," by the Kaiser Committee, shows similar results.

EFFECT ON MONTHLY PAYMENTS

Monthly payments on a house are affected both by the basic cost of the house and the interest rate on the mortgage taken out to finance the purchase.

In 1968, mortgage interest rates averaged about 7 percent, taking discounts into account. Such a mortgage on the \$24,000 house typical in that year, assuming a 10 percent downpayment, would have involved monthly payments for principal and interest of \$144.

Mortgage interest rates today are generally between 8½ and 9 percent. Applying these interest rates to the \$27,150 house now "typical" because of increased costs gives monthly payments for principal and interest of \$188 to \$196.

MONTHLY PAYMENTS ON 30-YEAR MORTGAGES

[Principal and interest only]

	\$24,000 house (\$21,600 mortgage)	\$27,150 house (\$24,400 mortgage)
7-percent mortgage.....	\$143.70	\$162.33
8½-percent mortgage.....	166.09	187.61
9-percent mortgage.....	173.80	196.33

¹ Construction financing was estimated at 7%, no points, drawn down for 3.5 months in 1968, and 8¾%, 2 points for 4.5 months in 1970; construction time was 3 months in both years.

The total increase in monthly payments over the past year and a half thus amounts to \$44 to \$53, or 30 to 37 percent. The table below shows that over half of that total increase reflects the higher mortgage interest rates (column 3), while the remainder is due to the rise in the production cost of the house, including construction financing. Overall, higher money costs account for about three-fifths of the increase.

EFFECT ON MONTHLY PRINCIPAL AND INTEREST PAYMENTS

	With mortgage interest rate at—	
	8½ percent	9 percent
Increased due to:		
(1) Higher land, material, and labor costs.....	\$17.99	18.33
(2) Higher construction financing costs.....	3.53	3.70
(3) Rise in mortgage interest rate from 7 percent (on the \$24,000 house)....	22.39	30.10
(4) Total increase in money costs (col. 2 plus 3).....	25.92	33.80
(5) Total increase in monthly mortgage payments (col. 2 plus 3).....	43.91	52.63

LONGER RUN TRENDS

Over the longer term, relatively rapid increases in construction wages have been accompanied by a decreasing share of total construction cost attributable to labor. This reflects the introduction of labor-saving tools and equipment, off-site fabrication, etc.

It should also be noted that the size of houses has increased substantially over the past several years (from 1,300 square feet in 1960 to 1,670 square feet in 1968, according to the NAHB), requiring more of both construction materials and labor input. Most of the increase in the average price of single-family houses, from \$14,500 in 1960 to \$24,500 in 1968, was caused by the expansion of square footage of living space. The valuation per square foot of one-family houses (based on contract awards) increased by only 16 percent between 1960 and 1968.²

Finally, over a longer period, the land component has shown a significant increase. Where land represented between 10 and 20 percent of the cost of a \$10,000 house in 1949, it now represents 23 to 25 percent of the production cost of a \$25,000 house. This is partly due to increases in the average size of the lot: e.g., from 8,932 square feet in 1960 to 11,281 square feet in 1968, a 26 percent increase in 8 years. A finished lot, according to a NAHB survey, costs \$2,035 in 1950, \$3,351 in 1960, and \$5,808 in 1968, a 73 percent increase between 1960 and 1968.

As houses become larger and more expensive, due to more amenities or to rising component costs, monthly payments will rise even if interest rates remain unchanged. Any rise in interest rates adds further to the increased payments. If incomes rise in step, there would, of course, be no change in the "real" burden of housing costs. However, in the past 4 or 5 years, monthly housing costs have been rising more rapidly than incomes. As a result, more and more families have been priced out of the housing market.

Chairman PROXMIRE. Before I call on Senator Sparkman I would like to point out that we are all very proud at the remarkable record that Senator Sparkman has had as "Mr. Housing" in the U.S. Senate. He has introduced more constructive far-reaching housing legislation than any other Congressman has who ever sat on this committee.

Senator SPARKMAN. Thank you, Mr. Chairman. That is a very generous statement you have made. I am afraid it may disarm me somewhat with Secretary Romney here.

Mr. Secretary, I want to join in what the chairman said with reference to your statement. I think it is a very fine statement. And I want to take this opportunity to commend you not only for that state-

² *Construction Review*, U.S. Department of Commerce, November 1969, volume 15, No. 11, table 1, page 7.

men, but for the effort that you have put into promoting real housing programs.

Secretary ROMNEY. Thank you.

Senator SPARKMAN. I know you have worked hard at it, and I know you have been conscientious in it. And I hope, when we get some of the rest of the Government working in cooperation with us, we may see results. And I believe we will.

Secretary ROMNEY. Thank you.

Senator SPARKMAN. I agree with you as to the necessity of fiscal and monetary policies. But as long as our setup is such that there is no allocation of credit anyway, directly or indirectly, housing is going to continue to suffer when money is tight, there is just no question about it.

I have just been looking at the chart in the Economic Indicators. The one on page 20 shows new housing starts, applications for financing. The lowest point—you said a few minutes ago that housing might have fallen to the lowest point since World War II. Well, I believe that within the last 2 or 3 months, actually it did fall lower for that 1 particular month, not on an annual basis, than at any time since the end of World War II.

But the lowest it has fallen on an annual basis was during the money crunch of 1966. And Governor Maisel, of the Federal Reserve, has called our attention to the fact that during that money crunch, housing, although it produced only about 3½ percent of our gross national product, absorbed 70 percent of the impact.

Now, those are not my figures, those are Governor Maisel's figures, and he has repeated them at different times, as the chairman knows, before our Banking and Currency Committee.

I still believe that we are not going to solve this problem until we find some way whereby more of the available capital will be available to housing. And I think that has been one of the big troubles in the last few years.

However, we could discuss that for a long, long time.

Secretary ROMNEY. Mr. Chairman, I agree with you that that is an essential.

I also want to call attention again to the fact that, in my opinion, we have got to deal with the cost aspect too, because people are being priced out of the market.

Senator SPARKMAN. I certainly agree with you. I was just thinking a few minutes ago, this committee was set up under the Employment Act of 1946. And the philosophy of that act—and by the way, I was here at that time, I believe I was still in the House when the act finally passed, or certainly when most of the discussion was going on and it was one of the hardest fought legislative measures that I have ever known. But there were three principles enunciated in the philosophy of that act.

One was that we maintain full employment. The other was that we would maintain a stable economy, economic stability. And the third was that we would provide for steady growth in our economy.

Now, there has always been a great deal of discussion as to whether all three of those could be present at the same time. But I do not remember any time when all three of them were absent at the same time until now. And we do not have either one of them. We do not have the

full employment. The fact is that employment is getting very near at that point where I believe they describe it as intolerable.

Secretary ROMNEY. May I interrupt. Employment is still higher than it was in the early sixties.

Senator SPARKMAN. I realize that. But I am putting the three together. And inflation is at an intolerable level.

Secretary ROMNEY. That is right.

Senator SPARKMAN. And I believe our production at the present time is running only about 80 percent of capacity.

And by the way, may I interject there, one of these things that seems to me to be out of joint is the fact that even though we are using only 80 percent of our plant capacity in this country, we are building new plants and new equipment at the highest rate ever. And that is where a great part of our available funds are going.

Secretary ROMNEY. That is right.

May I comment on that, Senator Sparkman?

I haven't discussed here today the views I expressed in New York recently with respect to the wage cost spiral. But in my opinion you cannot accomplish the three objectives you are talking about without dealing with economic policy as well as with monetary and fiscal policy. And we not only need to deal with it on a short range basis, in terms of the immediate wage cost price spiral which, after all, is one of the things that contributes to inflation.

When 12,000 members of one union can create a situation in the railroad industry where the Congress of the United States has to take action to avoid all the railroads from being shut down in this country, it is perfectly clear that economic power has become an aspect of inflation in the economic picture. So you have got to deal with that. And it has to be dealt with, not only in terms of the short-range situation, but it also has to be dealt with in terms of an adequate national competitive enterprise policy.

This Nation is going to have to decide whether it wants to operate on the basis of a competitive enterprise economy, with competition operating effectively to accomplish the three goals you are talking about, or whether we are going to stay in this mixed situation where you have part monopoly, part competitive economy.

They are in conflict with each other, and they won't work.

People say and point out all the time that other nations are experiencing inflation, and ours isn't as bad as theirs, and things of that type. Well, some nation has got to find the answer to doing the three things you talked about without inflation. And this Nation has more of an opportunity to do that than any nation in the world, because we have in our tradition an understanding of the competitive principle and the reliance on competitive discipline.

There are only two ways to discipline an economy, competition and absolute authority. Now, other than self-enlightenment and self-restraint, you have got to apply discipline. And those are the chief ways to motivate an economy too. Until we deal with the economic policy, this national competitive enterprise policy situation, and modernize it and strengthen it, we are not going to be able to get the three, in my opinion.

Senator SPARKMAN. I think I certainly agree with you on that. And I gather from what you say that you must have in mind some of the

confrontations we are going to experience this year in wage contracts in industry.

Secretary ROMNEY. Yes. It is both wages and prices, because these negotiations do not deal just with wages, when you get settlements that are running as far beyond the level of productivity as they are running now, two to two and a half times—in the case of the construction industry, they are running seven or eight times the level of production, even if you take the most optimistic level of productivity. When they are running at that level, obviously the prices are going to go up. So that a negotiation is really a negotiation over wages and prices.

Senator SPARKMAN. It certainly is. And I meant to put the two together.

But here is what I am driving at. And this is not the first time. In fact, I started this in January of last year, when various witnesses in the administration started coming before this committee and before the Banking and Currency Committee and announcing to the world that we are not going to do any more jawboning.

Now, I want to say this. I think we are in for a very hot summer and a cold winter unless in some of these wage price confrontations there is a good bit of jawboning. And I think this big expansion of plant equipment could have been restrained had there been some jawboning. And I just hope that in this field of housing and getting the funds made available for housing at reasonable cost to the home buyer and the home builder, that something could have been done and can still be done.

And I hope to goodness we do develop a good fiscal policy and stick to it, a good monetary policy. I realize that all of us are going to have to be hurt some in those things.

Secretary ROMNEY. I hope you will add, a good competitive enterprise policy. Because that is the area that has been neglected. That is the area where I have been ineffective in trying to get something done.

Senator SPARKMAN. I believe in that strongly. And, of course, you know we adopted the policy of—I never can remember whether it is a partnership corporation or a corporation partnership—

Secretary ROMNEY. The National Corporation of Housing Partnerships.

Senator SPARKMAN (continuing). To put private enterprise into it.

I want to say something about our Housing Act of 1970. You know, of course, that we have already scheduled hearings in the Banking and Currency Committee on that?

Secretary ROMNEY. Yes, sir.

Senator SPARKMAN. And I want to say this. I cannot be familiar with all the details when you gentlemen come before us and present the legislation. But certainly, so far as pulling together many of these programs, I think it is a good thing, because as we have progressed through the years I think we have progressed with legislation. But ordinarily we would do it by passing another section, and not undoing a previous section, or we have had duplicating or overlapping. And as I understand, that is what you are really trying to secure on this.

Secretary ROMNEY. That is right. We try to retain all the benefits of the previous programs by simply consolidating them.

Senator SPARKMAN. I am going to make one comment on something that the chairman dealt with. And this is this charge that has been made that the Congress was dragging its feet on housing legislation. I have no particular objection to the criticism. But I was pleased to see that, when this was made regarding housing, it was printed in the paper, although not carried on the radio and TV, that the Senate did pass the legislation earlier.

Secretary ROMNEY. Mr. Chairman—I address you as chairman of the Banking and Currency Committee—in the statement I made at the time of the press conference I pointed out that the Senate had acted promptly in 45 days, that it had been 130 days since the House had started its hearings, and we did not have the legislation and we were in a real crisis and we needed the legislation. I think that is the important point that we are all aware of—we need that legislation. I am hopeful that when the House passes it the Banking and Currency Committees can get the bill passed quickly through conference, because we badly need it, the housing industry needs it. Senator.

Senator SPARKMAN. I am sure that Senator Proxmire and I would be ready the next day to sit down with them in conference, or just as soon as the differences can be worked out.

Secretary ROMNEY. There are not many differences.

Senator SPARKMAN. That is my understanding. And I think it will do us a great deal of good.

Secretary ROMNEY. We do too. As far as I know, it is generally supported on a bipartisan basis by the administration and Congress. And I hope we can have it passed.

Senator SPARKMAN. I do not think we can count on any one thing doing the whole job, we have got to keep working on every possible angle. But I believe that the one biggest thing that is needed is to get an adequate share of the available funds for use in the housing industry.

After all, there is no more important facet of our industry so far as giving jobs, producing income, and adding to the welfare of this country, isn't that right?

Secretary ROMNEY. I think that is right. And as a matter of fact, I think it has greater promise for the future than any other single saving of the economy, because of the great need in that area, and therefore the number of jobs and the degree of economic progress that can be achieved by meeting these housing needs.

I would like also to say that if anybody can find a more complex part of the economy to deal with I would like to know what it is.

Senator SPARKMAN. I am sure of that too.

My time is up. But I want to say this just as a parting shot. You said a good bit about urban improvement, and so forth. Of course, you were not forgetting the great need for rural housing?

Secretary ROMNEY. That is correct.

Senator SPARKMAN. Isn't that true?

Secretary ROMNEY. That is absolutely correct.

Senator SPARKMAN. Recently I was down home and I went out into my county, and I saw in a section out there where, with the help of the Farmers Home Administration, 160 houses had been built under our subsidized low income—

Secretary ROMNEY. 235 or 236?

Senator SPARKMAN. Yes, rural. And each one was built on an acre of land, with beautiful gardens growing, three bedroom houses. I went through several of them. They were very fine. And I think it is one of the best rural programs that has probably been developed anywhere. And I am extending to you now an invitation to go down and visit it with me sometime.

Secretary ROMNEY. Thank you. I would like very much to.

Senator SPARKMAN. I may say that the first housing start, rural housing start, under our original program of subsidizing interest was in my own county just 19 days after the act was signed. And I had the Secretary of Agriculture down at that time. And I want you as Secretary of Housing to go down.

Secretary ROMNEY. Thank you. I appreciate it.

Chairman PROXMIRE. Senator Symington?

Senator SYMINGTON. Thank you, Mr. Chairman.

First, Mr. Secretary, I am sorry that I was late. We were marking up the military bill this morning, and also the head of SHAPE, the military adjunct of NATO, was before a subcommittee as one of our commitments. And so I could not be here to hear your testimony. But I will read it. And I am glad to have this privilege of seeing you.

Secretary ROMNEY. Thank you, sir.

Senator SYMINGTON. From what I heard of your dialog with Senator Sparkman about the importance of a free competitive society and an economy that is disciplined, I would present a couple of thoughts as a former businessman myself.

I know we are both grateful to the chairman of this committee for exposing the waste that has been going on in past years in the Military Establishment. Regardless of anything else, waste is never a happy aspect of any economy.

We were talking about housing. I noticed on the ticker the other day we plan to build 10,000 homes for the South Vietnamese military as part of the policy of Vietnamization. In my town of St. Louis last year we built 14—not 14,000—14 single unit homes. This is sort of a measure of what we consider priorities at this time.

You and I both know that after the three basics of rent, food, and clothing, most money goes back into the economy for additional goods and services.

Many years ago I built radio sets and farm implements for Sears, Roebuck, and found out that it did not make much difference how well they were built, or how inexpensive, in years like 1932 we did not sell any, because there was not any money. As soon as people got some money in their pockets they started to buy. In the buying and the prosperity incident to that buying, much of which was a result of labor negotiations, many companies in this country likewise became prosperous.

Many American companies are now finding it profitable to build plants abroad. They do get more profit, especially as the labor rates are very low in those countries compared to ours.

I worry about the money that goes out of the country. Every day we ship \$100 million-plus out of the United States to pay for foreign military ventures. That is \$1,100 a second. When the Secretary of the Treasury was up before this committee about a year ago I asked him if he thought the surtax was essential to the stability

of the United States. He said he did. I observed "From the first of January to the first of July we figured that surtax will bring in about \$2 billion, about a hundred dollars a second. But at this time we are spending \$800 to \$900 a second in Vietnam. So how could it have any major influence whether it is passed or not?" He had no real answer.

The answer to our very large debt is that we owe it to ourselves, so why worry too much about it. But this debt represents our Defense Department, our security, our Interstate Highway System, all the Federal Government; and we owe that to ourselves. Our debt today is more than \$60 billion more than the debt of all other countries in the world combined.

Sometimes there are unfair profits; also are unfair wage demands. That is the system working. But it all comes back to the economy. When I was in private business, when people had money they bought cars and various equipment. It went into the economy. What worries me about these foreign ventures—it all goes out of the country and never comes back.

The \$120 to \$125 billion we have put into South Vietnam, the quarter of a trillion dollars we have put into Europe since 1945—how can you say we owe this to ourselves? Right there you have two sums that total about the amount of our national debt.

I was listening to a great general this morning, the head of SHAPE. I said to him, "Here we are, babysitting the world, gendarming the world, telling everybody how to live, implying what we think they ought to worship, what their form of government should be, doing to them what our ancestors came over here to avoid. And we are not doing it at a profit, our Pax Americana, as the British did with Pax Britannica in the 19th century. All ours is at a loss."

We spend on arms some 9.4 percent of our gross national product.

Germany spends 4.4 percent, a great deal less than either Great Britain or France.

And the Japanese—we are considering now a treaty to give them unilateral protection—spend less than 1 percent.

Competition is pretty heavy; and if we continue to export these jobs all over the world, which we do, in textiles and steel and electronics, and in your former business, that they have a car now they call the Muncie because a bit of it is made in Muncie, Ind. But you know where the rest of it is made.

As we push this work out of the country there were profits; nevertheless we are exporting jobs.

In the last month we had one of the biggest bankers present what he thought this war expenditure was doing to the economy. I was glad to hear him give figures to prove the war was not only not following the concept of Marx that capitalism needs war to preserve profit, but was actually working the other way. That was Louis Lundborg, head of the Bank of America.

Then perhaps our leading industrialist, Tom Watson, came up and gave us exactly the same story.

You mention a disciplined economy. You and I know that cost is often relatively unimportant. Those contracts are often not competitive contracts. In the case of one particular item I know of we were told we could get so many by a certain date at a cost of \$600 million.

Then the contractors came in and said, "We have made a mistake; to get that amount won't cost \$600 million, rather \$3,700 million."

Various stories have been brought out by the chairman of this committee on plane and ship costs; and are well known to the people. But that particular story is quite something because they had not even started production.

These thoughts run through my mind from the standpoint of the future of the American economy.

Nobody ever offered to bail me out; but the biggest railroad in the world the other day went to the banks, and the banks turned down 11½-percent interest for debentures.

Worst of all, 2 to 3 weeks ago the Treasury put out some \$3,600 million in Government bonds. The banks do not want any part—even at 8 percent.

So the Secretary of the Treasury, an able conscientious public servant, went to work. And the Federal Reserve System agreed to take \$1.6 billion of that issue at 8 percent. Nothing could be more inflationary than that action; printing more paper money. Then the banks finally came in. And the Treasury finally was able to market what used to be considered about the greatest security you could hold.

These are the thoughts which run through my mind, because I am not one who believes our wealth is limitless.

Because of my respect for you, sir, I wonder what your thoughts would be with respect to this overall picture?

Secretary ROMNEY. Let me comment on the points that I think I can comment upon within a reasonable time limit here. I cannot comment on all the points you have made, because you have covered a very large area.

But first let me say this. Before I left the automobile business it had been well established that you could produce cars outside of the United States cheaper than you could produce them in the United States.

Senator SYMINGTON. And nearly everything else.

Secretary ROMNEY. All right. And this is an economic fact of life that the people of this country have got to begin to reckon with.

Now, this is beginning to show up. Imports are coming in, and they are coming in from Europe, and even cars.

You can talk about their competitive position. I was in the aluminum business before I was in the automobile business. The richest deposits of bauxite, the aluminum ore, are now in Australia. You can ship bauxite to Japan and process it into alumina, and then bring it into this country to produce aluminum much cheaper than you can to ship directly from Australia here and produce it into alumina, because the construction cost of a plant with the equipment in Japan is one-third of what it is here.

The investment you have got is one-third.

Now, that is one of the reasons why American firms are beginning to invest in these other nations.

Now, I inherited as the Governor of Michigan a State that had been losing business, because we had had economic difficulties in the State, and deficits and an unhealthy economic climate. And the people that had normally been investing in Michigan began to invest outside of Michigan. And we got that turned around. And I have been saying

for some years that the United States is rapidly moving into the same position Michigan was in, where the economic climate within this country is encouraging companies to move out and invest in other countries rather than in this country.

And this is accelerating.

Now, what is it going to take to deal with it?

Let me say this: I think our major problems are within, not without. I think the President inherited Vietnam. I think he is moving to extricate us and to secure peace as rapidly as he can. And I know that is his objective. We may disagree on some of the methods he is using, but I know that is his objective.

And I know he is also undertaking the program of withdrawal so that if we don't get peace at least we get out. And he is going to reduce his foreign commitments of a military character, they are negotiating in Vienna, and so on. And he is going to reduce his military expenditure, and so on.

But let me deal with the internal situation.

Chairman PROXMIRE. May I just interrupt for a minute, Mr. Secretary?

Apologies for my part, you have been a fine witness, and a very responsive and eloquent one. But the hour is now unfortunately close to 12 o'clock, and we have another distinguished witness, Mr. Leonard Woodcock, the chief of the UAW, who has a 91-page prepared statement, and he has to leave by 12:45 p.m. We have to ask him questions. He is an outstanding American that we would like to hear. We would like to give him equal time if we can.

Secretary ROMNEY. All right. I do not want to impose on Leonard Woodcock's time. I admire him very much. He used to represent our workers in our negotiations. And I congratulate him on his new responsibilities, although he arrived on a tragic basis.

Just give me 2 minutes.

I was here when Marriner Eccles sold the compensatory theory. This is a part of a sound economic policy of this country. Today we have got the Friedmanites who talk about the monetary policy being the panacea. It is not a panacea any more than the compensatory theory was. And the two together are not a panacea. You have got to get into this area of competitive enterprise policy and you have got to strengthen the antitrust laws and the labor laws in this country, and you have got to strengthen the competitive influences in this economy if we are going to keep from going down the drain economically.

We are headed down the same road Britain has gone down in terms of losing our competitive ability, and we must maintain leadership in technology and productivity if we are going to deal with our problems internally and if we are going to continue to observe the right influences on the world.

Thank you very much.

Chairman PROXMIRE. Thank you, Secretary Romney.

Our next witness is the distinguished president of the United Auto Workers, Mr. Leonard Woodcock.

Mr. Woodcock, you have the apologies of the subcommittee.

We have a 10-minute rule on this subcommittee. I think it works out very well. We had, as you know, an exciting and dynamic leadoff witness.

You have a very fine prepared statement. I have had a chance to study it. I would suggest we put the entire prepared statement in the record. And you can highlight it, abbreviate it any way you wish. And I hope we have a chance to ask questions.

And again I apologize for the time.

Mrs. Griffiths?

Representative GRIFFITHS. Since it appears to be Michigan Day, I am glad to have an opportunity to congratulate you upon your election as president of the UAW.

STATEMENT OF LEONARD WOODCOCK, PRESIDENT, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW), ACCOMPANIED BY CARROL COBURN, DIRECTOR OF RESEARCH, AND GEORGE SCHWARTZ, ASSISTANT DIRECTOR OF RESEARCH

Mr. Woodcock. Thank you very much, Mrs. Griffiths, and thank you very much, Mr. Chairman.

No apologies are necessary.

But obviously I am not going to burden the committee by reading all 91 pages of my prepared statement.

I am here, as you observed, to keep a commitment that was made by Mr. Walter Reuther. I cannot speak with the persuasion and the passion with which he would have spoken, but I can speak with the same depth of philosophical feeling.

I speak on behalf of the members of our union, who, I think, in very large majority believe that we must end the war in Southeast Asia, we must end the nuclear arms race. We have got to set our priorities in order.

The costs of Vietnam have become intolerable. It has cost the lives of 50,000 of our young men, including those killed in the direct fighting as well as in noncombat incidents.

It has made 270,000 American casualties by wounds.

It has caused the deaths of over a hundred thousand of our South Vietnamese allies.

We cannot ignore the fact that it has cost 600,000 dead among the Vietcong and the North Vietnamese.

And these, of course, are only the military casualties. Beyond that are the enormous casualties to the Vietnamese civilians at home, the villages destroyed, and the countryside laid waste by bombing.

And when you talk about economic loss against that terrible human loss, it seems almost callous. But I think we have to take note of the fact that we have wasted and squandered \$150 billion, at least, in Vietnam.

Senator SYMINGTON. Did you say \$150 billion?

Mr. Woodcock. \$150 billion, yes, Senator.

We are concerned about the arms race. The Soviet Union now has nuclear capability to incinerate the 50 largest cities in the United States, and do it 22 times over. And we, in our turn, have the capability to wreak the same destruction 48 times over on the 50 largest cities in the Soviet Union. And still our military leaders ask us for more.

And when we consider the enormous possibility of a nuclear conflict, then the rest of our problems become, I suppose, smaller tragedies.

But it is no small tragedy that the arms race and the cold war have changed America from being the world's greatest bastion of democracy to a supporter of military dictators all over the world, in Vietnam, now in Cambodia, Greece, Spain, Portugal, Argentina, Bolivia, Brazil, Guatemala, Panama, Peru, and other places.

And it is certainly no small tragedy that in 1969 U.S. military sales to the Greek dictatorship totaled more in that one year than the previous 7 years combined during most of which period Greece was a democracy.

It is no small tragedy that in the past 6 years all the nations of the world have combined to spend over \$1 trillion—a thousand billion dollars—on weapons and armed forces.

It is no small tragedy that the United States, which once ranked itself among the great peace-loving nations of the world, is now the world's greatest salesman of weapons of death to other countries—with total sales in fiscal 1969 of almost \$1¾ billion, and an estimate by the Pentagon that for fiscal 1970 the total will be \$1.9 billion.

It is no small tragedy that under prodding by the U.S. Government and U.S. corporations, as well as the Soviet Union, France, and other weapons-selling countries, the arms race has spread even to the smallest undeveloped countries—that Burma, with a gross national product of only \$70 per person, in 1967 spent 5.7 percent of that amount for military purposes—that the Somali Republic, with a GNP of only \$50 per person, spent 6.1 percent of that amount for military purposes.

And so on and so on.

What we consider the old concept of "fortress America" seems to have slipped on us almost unawares. And it bothers us that the United States in September 1969—and I do not think it has changed—is maintaining 2,270 military installations overseas, not including Vietnam, of which the Pentagon designated 340 as major installations, and to man these bases and for other purposes we had 230,000 U.S. military personnel stationed abroad, exclusive of what was then a half million in Vietnam.

It would take a great deal of evidence to convince me as one citizen that many of these 2,270 bases could not safely close, and their personnel recalled home and released to civilian life.

Of course, it would save a vast amount of money for the American taxpayers, and more importantly would be one direct method of indicating our willingness to take an important first step to ending the arms race and the cold war.

The military spending, our experience has shown ever since World War II, has constantly escalated from unfortunately a higher plateau than the previous plateau. And the reescalation process before we ended Vietnam, as you, sir, have so well pointed out, has already started when you say, Who stole the peace divided? who usurped the military cuts? where did the \$10 billion disappear to?

And I think it is unfortunate that we have gotten to a situation where there seems to be a confrontation, a controversy between the Pentagon and the Congress, and that the Pentagon seems disposed to conceal as much as it possibly can from the people's representatives.

And it bothers us when the Congress says that with regard to Nationalist China, the appropriation for military purposes was reduced

in fiscal 1969 from \$117 million to \$25 million, and then the Pentagon can turn around and supply surplus weapons in the form of fighter planes, cargo planes, destroyers, anti-aircraft missiles, tanks and rifles, to a value of \$157 million, or more than six times the amount of military aid that the Congress had voted.

But the C-5A scandal, which was so well unearthed by this committee, apart from the grossness of the waste, is again the lack of frankness to the Congress and to the American people.

Of course, in the process the Pentagon is no respecter of persons. They are equally defiant of other agencies and departments of the Federal Government.

Now, of course with regard to the need for full cost data—and I took note of some of the things Mr. Romney was saying—I was quite happy to see here, and I hope he speaks as an authorized spokesman, that the question of price will be part of the automobile negotiations this year, because ever since 1946, we have been trying to talk about the question of price and the question of whether or not our wage demands are economic demands, that can cause an increase in the price of their products, or too—this is of the greatest importance—can prevent what otherwise should be a reduction in price. And so we have a fellow feeling with this committee in your effort to try to get from the Pentagon and the contractors cost data, because we have been trying to get that same kind of cost data for our own purposes from the General Motors Corp., because we believe we have a vital interest in getting that data to make intelligent decisions about our collective bargaining.

We do not want to be a contributor to the inflationary problem from which our Nation is suffering. And when they say that the prices of their products are going to be automatically pushed up, then we think we are entitled to know what is their rate of productivity. And this is one of their most closely guarded secrets.

We tried very hard in 1961 to get that information. We enlisted the aid of the National Labor Relations Board. But of course we were unsuccessful.

Now, the situation of the Congress of course is somewhat different, because the point at issue with you is not the relationship of cost to profits, but the relationship of costs to inefficiency and to waste, both in procurement practices and in production methods.

Of course there is secrecy in our Government, unfortunately, not only at the level of the Pentagon, but at the very highest level.

There seems to be a design on the part of the administration to deny the congressional function as a coequal branch of our Government by refusing to give the Congress information that it requires. One is certainly the refusal of the administration to reveal the estimates of the cost of the Vietnam war in the 1971 budget.

The second example is the secrecy, the failure of the administration, to reveal the nature of its criteria as to what it considers nuclear sufficiency in those very vital strategic arms limitation talks with the Soviet Union now going on in Vienna. And I congratulate the chairman of this committee and the members of this committee in your efforts to restore the constitutional function of the Congress without which we cannot have a vital and meaningful democracy, because if we are to bring order out of chaos in this country, or the threatened

chaos, it has got to be on the basis of Congress carrying out its constitutional function.

And to do so obviously it must be fully informed, and not deliberately uninformed, misinformed, and misled, which unfortunately seems to be the case so many times in the Department of Defense.

I do not for a moment suggest that all of our defense activity must be brought into public view for all the world to see. But I do not doubt that the leaders in the Kremlin are better informed right now on America's military activities than the average American citizen. And I suppose our leaders are better informed on Russia's military activity than the average Soviet citizen.

What I do suggest is that many of the Pentagon's claims for the needs of secrecy are concerned more with the protection of the Pentagon and its friends than with the protection of the American people.

The Congress obviously has a right to know, and it also must reassert, as this committee is encouraging it to do, the right that it has to control, its power to appropriate, or refuse the appropriation of funds.

I am skipping many pages of this prepared statement, Mr. Chairman, because I am well aware that the members of this committee are familiar with it.

But the essential problem as we see it is the question of the arms race. And we would like to suggest that we are in essential agreement with U Thant when he said not too long ago:

We can discuss all kinds of complicated formulae for a strategic arms' agreement, but the simplest way to stop an arms' race is to stop.

Now, Mr. U Thant is a neutral who must address himself to both sides, but as an American citizen representing a million and a half other Americans and their families, addressing the Members of my Congress, I feel free to say that since we already occupy such a clear-cut position of leadership in the arms' race, it is our duty to stop first.

This is one of those situations I believe, in which someone has to make the first move, and I believe the United States should make it.

Mr. Morgenthau said a short time ago—

The nation that can destroy you fifteen times over is not stronger than you are if you can destroy him only five times over.

And we need, therefore, to have positive affirmative actions toward peace.

Of course, we should stop the war in Southeast Asia. And failing that at least we should get out ourselves financially as well as militarily.

We should stop the development and the deployment of additional weapons, the ABM, MIRV, the ULMS, and all the others.

We should close as many as possible of our overseas bases and drop the whole concept of ringing the Soviet Union with such bases.

We should cut our military expenditures, not merely by the extent of waste and the fat that we can cut out, but also by the amounts that we can save through the measures I have just indicated. And we believe that a conservative estimate for saving on the military budget could be some \$20 billion a year, perhaps more.

And we should cut down as rapidly as possible on our role as the world's greatest "merchant of death" through sales of weapons to other countries. We must stop making profits by producing arms for sale to both sides of the various smaller conflicts around the world,

or to keep dictators in power as we are doing now in the Middle East, in Greece, in Latin America, and probably elsewhere.

Now, none of the proposals which we suggest in this statement mean that the United States should attempt unilateral disarmament. We will still have a sufficiency of nuclear weapons to destroy any possible enemy. What it will mean is that we shall have taken the first steps to prove that we do genuinely want peace.

We should take steps to convince our own people, and especially our young people, that America is not dominated by the military industrial complex; that our elected representatives are prepared to recognize that our present priorities are out of order. And most importantly, that the great technical capability of our defense industry can and will be converted to such vital projects as designing ways to end pollution, producing low-cost housing, building mass transit systems, and meeting the many other areas of our need.

Not cited in this statement, the initial award of the B-I bomber was made to the Aerospace and Systems group of North American Rockwell Corp. And the employees of that company are members of the UAW. Most of them were unemployed. Their facilities were lying idle. And very frankly, they were glad that the company got the contract, because it means this, that they can go back to work. But how much better would it be and how much better would they feel if they could be put to work solving the problems of this Nation instead of multiplying the problems of the world?

And we should show that we are concerned with countries other than our own in a proper way, that we want to help them build their own economic independence, and not require that they do that in the American way, but in their own way, that they can build for peace and for freedom.

While we have had our minds on the costly war in Vietnam, on sending men to the moon and on escalating the nuclear arms race, we have been averting our eyes and our conscience from the serious deterioration of the quality of life here in the United States.

On the question of law and order, the members of our union of course believe in law and order. Too many of them are the victims of the lack of law and order in some parts of our society. We want to see law and order maintained and preserved. But we cannot help but note what Mr. Ralph Nader said in March that fires resulting from hazardous slum housing last year killed 12,000 people, which was double the number killed in street homicides. And it is violence in the street, it is true, that gets the headlines and not the violence that is done to the helpless poor.

Unfortunately it is easier to get law and order by demanding more and better armed policemen than by demanding more and better housing.

On the question of the mounting problem of health care, in no industrialized Nation of the world is the gap between the have and the have-not people and their respective ability to gain access to adequate health care as wide as it is in the United States.

Simply pouring additional billions of dollars into the present archaic and disorganized method, a nonsystem, really, is not the answer. We must fashion a new system of health service that will overcome the present built-in waste, duplication and inefficiencies.

It is true that we are the wealthiest Nation on earth, and it is true that we have the most advanced medical and scientific resources and technology. And yet in a very few years we have moved from 13th to 18th among the industrial nations in life expectancy for males.

We rank fifth in the overall death rate, but 14th in death from diabetes and 13th in death from heart disease.

And in maternal mortality we ranked behind 11 industrial nations.

And within the United States, of course, the infant mortality of nonwhite babies is still almost double the rate for white babies.

The cost of health care continues to skyrocket. It represents the single most inflationary factor in the upward movement of the consumer price index. It is moving at almost twice the rate of all other consumer prices.

And we spend more money, \$63 billion a year, and a larger percentage of our gross national product, 6.7 percent, for health care than any other nation in the world. And yet despite this we have failed to provide the kind of comprehensive high quality health care services that we have the present knowledge and the present resources to provide.

Of course, such care cannot be provided without coordination of the financing and the delivery of health care. And we strongly believe that only a genuine national health insurance system can do this. We believe that such a system would pay its own way in increased production for workers.

The Department of Health, Education, and Welfare shows that 300 million man-days of work were lost because of illness during the 12-month period ending in June of 1967. This was equivalent to about 35 percent of the time lost from work because of unemployment in that period, and, I might add 10 times as great as the time lost from work because of strikes.

You heard lengthy testimony this morning on our problems with regard to housing. We have had an urban renewal program for many years. But it is unfortunate that the urban renewal program, instead of improving the low-cost housing inventory, has made it worse. From the inception of the 1949 Housing Act through fiscal 1967, urban renewal provided only 107,000 new and 75,000 rehabilitated units.

But as of July 1967, the urban renewal program had demolished 383,000 units. Thus, urban renewal had reduced the available housing inventory by more than 200,000 units.

Of course, although the United States is the richest country in the world, its housing effort, on a relative scale, is much inferior to that of other Western industrialized countries or to Russia. In terms of housing units completed per thousand inhabitants per year, Sweden during the past 5 years averaged a rate of 11.8, as compared to 7.4 for the United States.

For other countries the comparable rates are as follows:

Western Germany, 10.1; the Netherlands, 8.9; Denmark, 8.3; and France, 8. Only the British rate at 7.1 is lower than the U.S. rate.

And I certainly do not have to comment to this committee about the skyrocketing interest rates, the drying up of available mortgage funds, and the enormously escalating construction costs.

We believe we cannot hope to meet the housing needs of America unless we drastically reform the housing industry. We must abandon old methods and practices and apply new concepts.

We must modernize and make uniform the building codes. And we believe that we need a national building code based on performance standards so that we can apply to the housing industry our most advanced technological capability in managerial and productive know-how.

And we need a national transportation policy. I would hope the managers of our industry would recognize this fact, because one of these days unless we develop a national transportation policy as a total system, the automobile industry will sink of its own weight.

And what we are concerned about in this connection is the jobs of our members. We have to have a system of transportation, which of course includes the automobile, but includes other ways for people to get from one place to another cheaply, efficiently, and without the mass congestion that we now have.

And we suggest to you that the Federal highway trust fund really should be abolished. We think that it is an economic monstrosity.

And of course none of these problems can be separated one from the other. The transportation problem is part of the city's problem, part of the housing problem, and part of the pollution problem. And we have got to coordinate all our efforts and do all of these as one totally interrelated system of problems.

The dimensions of our failure in the education front is appalling. It is a tragic fact that 20 percent of Americans 17 years old are drop-outs from school. And we believe that we have got to take steps toward progressive tax reforms, because the property tax, the chief reliance for education, secondary education, certainly, is no longer able to meet what should be the increasing demands for the support of education.

My prepared statement carries the well known information that it does not cost to educate people, it is an investment that pays, it pays to the individual, but it also pays to the society.

And certainly we have talked long enough about winning the war against poverty. We think it can be won. And we think if we go about it properly it can be won.

And we advocate an economic bill of rights which would establish the constitutional right of all Americans to a useful job if they are able and willing to work, to a guaranteed annual income sufficient to provide adequate living standards if they are unable to work, and access to high-quality, comprehensive medical care, a good house in a good neighborhood, and adequate educational opportunities, requiring the President and the Congress to take all reasonable steps to effectuate the implications of these rights, and also providing the right of any person or class of person to have access to the courts to support their right to these matters.

On the question of pollution, it is now thrust upon our consciousness that we do not live in a world or a continent of unlimited natural resources. We now know that they are not only limited, but that those limits are rapidly closing in upon us. We propose that the polluters who have created our condition with regard to pollution be required to pay a tax sufficiently high to cause them to stop polluting. And we believe we need a Federal Pollution Regulatory Agency to assess the extent of pollution, and to penalize the polluters. And we support the bill recently introduced by Senator Muskie, Senate bill 3677.

We recommend the formation of a Citizens Advisory Committee on pollution which could assist this Environmental Council in drawing up broad programs and policies.

And the battle against pollution obviously has to be based upon the premise that the public interest takes precedence over private profit.

We believe we have to impose a rigid timetable upon the automobile industry to develop an engine that will not pollute the air. And here again we are concerned about the jobs of our people, because unless that problem is solved, then society one of these days is going to say, stop, and our people will wake up one morning and be totally without jobs. And we believe the tremendous research resources of the industry can master that problem.

We believe the detergent industry should be prohibited from further manufacturing and selling phosphate-rich products in order to eliminate their effect on algae overgrowth.

We believe that the whole question of sewerage needs Federal attention.

And we need an overall resources policy dealing not only with air and water pollution, but with water use, desalting, soil control, land use, and natural beauty.

And land acquisition programs must be extended. A major problem that we have is with the tremendous speculation in the dwindling land resources of our Nation.

And we can no longer afford to ignore the problem of the pressure of population growth upon our environment, which is just as true in the United States as in any country in the world.

We believe, quite obviously, that one can only meet the problem of full production and full employment in peacetime through democratic public planning. America has a strange hangup on the question of planning. All of our lives are built on plans, and all the corporate activity is built on carefully tailored plans. But when it comes to the greatest problems, our society's problems, we should not suddenly say, this is supposed to be taken care of by some unknown blind forces that just do not live anywhere.

And we believe that there is no inconsistency between price stability and full employment. And we believe the present administration gambit of fighting inflation by reducing overall demand, by having a deliberate policy of raising unemployment, is based on an improper premise that either we must pay for price stability with unemployment or else pay for full employment with inflation. We reject those as alternatives.

Unfortunately for the administration, they are not only increasing unemployment, but we are also increasing inflation.

We believe a sound policy would maintain total demand at full employment levels and assure adequate financing for national priorities while applying selective measures aimed with rifle-shot precision at the specific causes of inflation.

If there is, for example, excessive capital spending by corporations, they can be curbed by a negative investment credit—a tax on investments in excess of normal levels. Inventory speculation can be deterred by a tax on excessive inventories.

Excessive consumer spending, should that be a problem, could be reduced by a graduated tax on spending per family member which, if reasonable exemptions were provided, would leave spending on neces-

sities and comforts untouched while penalizing indulgence in luxuries. Credit can be rerouted away from speculation and other nonessential uses and toward housing—where urgent needs and a wide margin of unused productive capacity exist side by side—and the needs of State and local governments and of school boards whose credit-dependent activities are essential to improve the quality of life in America, and so on.

Now in this regard the UAW for many years has urged the creation of a governmental Price-Wage Review Board. Such a Board is necessary, particularly with regard to prices, because of the secrecy in which corporations almost invariably veil their pricing decisions.

We have suggested that, for example, in an industry where any corporation held a dominant position, let us say, controlling 25 percent or more of the industry's sales, that they would have to give to a Price Wage Review Board 60 or 90 days of notice before any intended price increase. And the Board then would have the authority to call that company before it for a public hearing.

The Board should have the power to subpoena, examine witnesses under oath, and demand the presentation of all pertinent books, papers, and other sources of information. The Board would report only on the facts, and would make no binding determination. And once their report was published the corporation involved would still be free to do what it wanted, and the only police power would be the police power of public opinion.

It can be said that under such a system the companies would never reduce their price, because it would be too hard to get it back up again.

We would suggest in that regard that an Office of Consumer Council who could of his own volition raise with the Price Wage Review Board matters of general public interest, and go also to this question of the need sometimes to reduce prices as well as simply to try and resist increasing prices.

And, of course, unions would have to be subject to the same operation. If, for example, it is seriously proposed this fall that the UAW bargain with the automobile industry, and the agricultural implements industry should be subjected to so-called voluntary controls, let me say that, if that is the path that is to be followed, if it is to be suggested that we are supposed to be limited to x percent, then I am sure the industry will tailor an offer that will apparently go precisely to that x percent, it will be far short of the need that we have relative to what has happened in other competitive industries and in other situations in our economy. And unfortunately it almost would guarantee a strike, because it would throttle and push down collective bargaining. But we would be perfectly willing to appear before a governmental board to defend our proposition, because, I repeat, this union does not want to insist upon economic demands that will force price increases upon the General Motors Corp., or the Ford Motor Co., or any of the others.

But we have to be given full and precise knowledge of what are all the factors going into the question of price in order to have the question of wages properly and decently before us.

We suggest that the administration's present approach to inflation is a blunderbuss approach. It is not true that all Government spending is automatically inflationary. Mr. Stephen Robock, professor of international business at Columbia University Graduate School, had

a piece in the Wall Street Journal on May 18, 1970. He points out that from an economic point of view expenditures on armaments are a waste, and are inflationary.

But he says further in this article that some of the fields in which rapid price increases are occurring—homeownership, public transportation, and medical care—are ones where government expenditures can have a major anti-inflationary impact. And this notion that all government spending is automatically inflationary is absolute nonsense. It is a question of whether it is a waste, whether it is money down a rat hole, or whether it is an investment, something which produces good and benefit for the Nation. And unfortunately an elementary fact of economics seems to be evading the White House, and I think, if I may say so, seems to have evaded the Secretary of Housing.

We believe too we need an effective manpower policy. Our economy obviously knows no State or local boundaries.

And we need an effective Federal manpower system. We have the computer at our fingertips. Why should the man who is now displaced in the aerospace industry in California have to take himself to Indiana or Missouri or New Jersey to look for a job? That information should be precisely available. Who has what kind of need and what skill in what levels at what wage levels? So that without wasting his economic resources he can have that information readily available to him.

We have long advocated a technological clearinghouse. We should know in advance—these corporations know 2 or 3 years in advance what big technological changes they are going to make in their production process. It would be impossible to do it without having that much advance knowledge. And this goes to the question of training and to a lot of other things, dislocation, and everything else. And that should be general knowledge.

And it also of course goes to the question of relocation of workers.

And our national policy should be coordinated with a civil rights policy, so that all of these things can be interrelated and properly integrated.

And we need above all, as we previously said, to plan for a peacetime conversion.

If Mr. Laird's estimates are correct, within the predictable future we will have 1 million young men released from our Armed Forces—and a good thing too, but not a good thing if they are released into unemployment and to idleness, having only the one skill, the skill to kill people.

And we have got to be able to properly utilize all of their services to do the tremendous jobs that are facing this Nation.

National planning, our statement says, is essential. It can be democratic; there is nothing evil about it, there is nothing improper about it, and it is the only way that our total problems can properly be met.

And I would like to say, Mr. Chairman, to yourself and to Senator Symington, I appreciate your courtesy in taking this additional time to give me this time to summarize my prepared statement and have it placed in the record.

(The prepared statement of Mr. Woodcock and the statement and testimony of the late Walter P. Reuther, president, UAW, to the Senate Committee on Labor and Public Welfare, December 1, 1969, entitled "Swords Into Plowshares: A Proposal To Promote Orderly Conversion From Defense to Civilian Production," follow:)

PREPARED
STATEMENT OF LEONARD WOODCOCK,
PRESIDENT, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL
IMPLEMENT WORKERS OF AMERICA (UAW)
BEFORE THE
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE

June 16, 1970

It is a pleasure and a privilege to have the opportunity of speaking before this Committee on behalf of 1.8 million members of the UAW. In appearing here I am acutely aware that this was one of the commitments accepted -- and, I may say, very willingly accepted -- just a few months ago by my very close friend and the late President of our Union, Walter P. Reuther, whose loss we all deeply mourn.

The development of a system of national priorities and allocations of resources, which would assist us in attacking the many pressing needs of our country, was a project which he considered to be of major importance. So was the drive for peace. Members of this Committee will recall that he addressed himself to these subjects with vigor and with feeling in his appearance before you just about a year ago. While I cannot hope to speak with the same persuasiveness of passion which was one of Mr. Reuther's many unique gifts, I can assure you that the position of the UAW on these questions is unchanged as it is on other matters affecting the social and economic welfare of our country and its people.

My own personal views are essentially the same as those which Mr. Reuther expressed to you a year ago. If anything, they have been strengthened and deepened by the continuing tragedy of our involvement in the war in Southeast Asia, and the equal tragedies of our increasing neglect of needs at home and the growing divisions among our people.

What We Must Do

The fact is that our society today is a very sick society -- and its basic illness can be traced in large part to the war in Vietnam and to our share in the nuclear arms race -- with all the tragic implications inherent in that race. I am not one of those who believe that our society is incurably sick. But I believe that its cure will be difficult and painful. For to achieve that cure, we must take three drastic, difficult and courageous steps.

We must end the war in Southeast Asia -- and if we cannot end it, we must end our involvement in it.

We must end the nuclear arms race and the worldwide arms race -- and as the most powerful competitor in that race, we must be prepared to take the first steps.

And finally, we must set our own priorities in order, and build in our own country a society in which we all can live -- in peace, in freedom, in justice and in equality of opportunity for all. And I mean genuine equality of opportunity for all, not merely token equality for a few.

The Costs of Vietnam

First, there is the war in Vietnam -- which threatens now to spread throughout Southeast Asia.

What have been the costs of that war?

It has cost the lives of some 50,000 of our young men -- including those killed in direct fighting and in noncombat incidents.

It has cost over 270,000 Americans wounded -- many of them blinded, maimed, crippled for life.

It has cost over 100,000 deaths of our South Vietnamese allies, and over a quarter of a million wounded. It has cost over 600,000 dead and an unknown number of wounded among the Viet Cong and North Vietnamese.

And these are only the military casualties. No one has measured, or can ever measure, the cost of the war to the Vietnamese civilians -- the countless thousands, men, women and children, killed or burned or wounded -- many of them wantonly murdered -- on both sides and by both sides. No one has told us the number of homes and villages destroyed. No one has told us the extent of the countryside laid waste by bombing, by napalm, by defoliants and other weapons -- some of which not only attack the living, but can produce deformities and malformations in babies yet unborn.

Beside these human tragedies, it seems almost callous to mention the economic costs. But the fact remains that we have squandered at least \$150 billion in Vietnam, that this has been a major cause of the inflation which erodes the living standards of every American family, and that it has also been a major cause or excuse for the neglect of our most pressing domestic needs.

The Growing Arms Race

Nor have we gone wrong in Vietnam alone. I have already mentioned the nuclear arms race, on which we have squandered countless billions more and gravely endangered not only our own lives, but those of our children and of all the future generations which at the pressing of a button could be wiped from the face of an uninhabitable earth. The .

latest figures I have seen indicate that the Soviet Union now has a nuclear capability to incinerate the 50 largest cities in the United States -- and to do it 22 times over. We, in our turn, have a nuclear capability to wreak the same destruction 48 times over on the 50 largest cities in the Soviet Union. And still the generals and the admirals ask for more -- more ABMs, a new deployment of MIRVs, Poseidon to replace Polaris, and who knows what other fantastic weapons yet to come.

Some "experts" may find comfort in arguing whether the "first strike" against this country will kill 135 million or only 95 million of our people. But the cold fact is -- in the backs of our minds we all know it, and we should all bring it to the front of our minds and take a good, hard look at it -- the cold fact is that if a nuclear war ever starts, the hundreds of millions killed in the "first strike" will soon be joined by hundreds of millions more victims of the "second strike" and the "third strike" -- until, when the last missile has been exploded, a pitiful remnant may crawl forth from their shelters, only to die more slowly and more miserably from a radiation fallout that by that time will have blanketed the whole of Mother Earth.

We must face the fact that it takes only one fool, in the wrong position of power at the wrong time -- and the human race will have committed suicide.

The "Smaller" Tragedies

Again, after contemplating a tragedy of this enormity, it seems almost quibbling to come down to some of the smaller tragedies in which the arms race has involved our country. But in the ordinary scale of events, it is no small tragedy that the arms race and the Cold War have succeeded in changing America from the world's great bastion of democracy to a supporter of military dictatorships all over the world -- in Vietnam,

now in Cambodia, in Greece, Spain, Portugal, in Argentina, Bolivia, Brazil, Guatemala, Panama, Peru and others.

It is no small tragedy that in fiscal 1969, U. S. military sales to the Greek dictatorship totaled more, in that one year, than in the previous seven years combined, during nearly all of which period Greece was a democracy.

It is no small tragedy that in the past six years all the nations of the world have combined to spend over \$1 trillion -- a thousand billion dollars -- on weapons and armed forces.

It is no small tragedy that the United States, which once ranked itself among the great peace-loving nations of the world, is now the world's greatest salesman of weapons of death to other countries -- with total sales in fiscal 1969 of almost one and three-quarter billion dollars, and an estimate by the Pentagon that for fiscal 1970 the total will be \$1.9 billion.

It is no small tragedy that under prodding by the U. S. Government and U. S. corporations, as well as the Soviet Union, France and other weapons-selling countries, the arms race has spread even to the smallest underdeveloped countries -- that Burma, with a Gross National Product of only \$70 per person, in 1967 spent 5.7 percent of that amount for military purposes -- that the Somali Republic, with a GNP of only \$50 per person, spent 6.1 percent of that amount for military purposes -- that Iraq spent twice as much for military purposes as for public education, Somali three times as much and Brazil four times as much -- that Cameroun spent half as much again for military purposes as for public health, Paraguay spent five times as much and Iraq ten times as much.

It is no small tragedy that the policies of our government in Vietnam and other countries, our escalation of the nuclear arms race, and our neglect of the country's real needs have divided the American people,

have alienated many of our finest young people from the whole society in which they live, and have created a general rising tide of frustration, discontent and disunity among all groups in the nation.

It is no small tragedy that the war in Vietnam, and our whole acceptance of violence in international relationships, have given rise to increasing acceptance of violence as a way of life at home -- whether by National Guardsmen or police -- the supposed forces of "law and order" -- or whether by student protesters, hard-hat construction workers or black militants. The virus of violence has infected all these groups, and more.

Creeping Militarism

To a large extent, all of these tragedies can be attributed to the way in which militarism has crept up on America in the past thirty years. This was very well expressed about a year ago by Dr. George Wald, a Nobel Prize Winner of Harvard University, in a speech at the Massachusetts Institute of Technology. Speaking on the subject, "A Generation in Search of the Future" he said:

"Just after World War II, a series of new and abnormal procedures came into American life. We regarded them at the time as temporary aberrations. We thought we would get back to normal American life someday.

"But those procedures have stayed with us now for more than twenty years, and those students of mine have never known anything else. They think those things are normal. They think that we've always had a Pentagon, that we have always had a big Army, and that we have always had a draft. But those are all new things in American life, and I think that they are incompatible with what America meant before.

"How many of you realize that just before World War II the entire American Army, including the Air Corps, numbered a hundred and thirty-nine thousand men? Then World War II started, but we weren't yet in it, and, seeing that there was great trouble in the world, we doubled this Army to two hundred and sixty-eight thousand men. Then, in World War II, it got to be

eight million. And then World War II came to an end and we prepared to go back to a peacetime Army, somewhat as the American Army had always been before. And, indeed, in 1950 -- you think about 1950, our international commitments, the Cold War, the Truman Doctrine, and all the rest of it -- in 1950, we got down to six hundred thousand men.

"Now we have three and a half million men under arms: about six hundred thousand in Vietnam, about three hundred thousand more in 'support areas' elsewhere in the Pacific, about two hundred and fifty thousand in Germany. And there are a lot at home. Some months ago, we were told that three hundred thousand National Guardsmen and two hundred thousand reservists -- so half a million men -- had been specially trained for riot duty in the cities.

"I say the Vietnam war is just an immediate incident because as long as we keep that big an Army, it will always find things to do. If the Vietnam war stopped tomorrow, the chances are that with that big a military establishment we would be in another such adventure, abroad or at home, before you knew it."

"Fortress America" -- and What It Means

What seems to have been happening is that ever since World War II our policies in this country have been increasingly governed by the concept of "Fortress America." This is the idea of building a supposedly impregnable bastion at home, from which American forces can sally forth to police the world.

In doing so, we have not only built up unprecedented stockpiles of nuclear and other weapons at home, but we have found it necessary to build and staff over two thousand military bases and installations abroad. According to information from the Department of Defense, placed in the Congressional Record on March 24, 1970 by Representative John B. Anderson of Illinois, the United States in September 1969 maintained 2,270 military installations overseas (not including Vietnam), of which the Pentagon designated 340 as major installations. "Major" installations were described by DOD as bases "which are large in number of acres occupied or personnel accommodated, or which represent a high

acquisition cost to the United States Government, or which are used in support of a principal U. S. military activity or mission."

Among the 340 major installations listed were one in the Azores, one in the British West Indies, one in Crete, one in Ethiopia, 132 in Germany, two in Greece, nine in Italy, 40 in Japan, one in Morocco, one in Pakistan, six in the Philippines, 16 in the Ryukus Islands (southwest of Japan), eight in Spain, three in Taiwan, seven in Thailand, three in Turkey and 12 in the United Kingdom. And to man these bases, and for other purposes, we had 230,000 U. S. military personnel stationed abroad, exclusive of the more than half a million then in Vietnam.

I know that Congress is investigating separately the whole question of U. S. bases abroad, and so I will not comment further on it, except to say that it would take a great deal of evidence to convince me that many of these 2,270 bases could not safely be closed and their personnel recalled home and released to civilian life. To do so would not only save a vast amount of money for American taxpayers, but would be one direct method of indicating our willingness to take an important first step toward ending the arms race and the Cold War. It would also indicate our common sense in recognizing that in these days of the intercontinental ballistic missile our whole previous strategy of surrounding the Soviet Union and its allies with an iron ring of American military bases is not only intolerably provocative but militarily obsolete.

The "Peacetime Escalation" of Our Military Establishment

The overwhelming majority of these bases have been established since World War II, because prior to that time U. S. bases were confined to our Pacific territories and the Caribbean. But this is only a part of what may be described as the "peacetime escalation" of the U. S. military establishment. That is the process by which, after every war, though there

may be some decline in the wartime military establishment and volume of wartime defense spending, it declines only to a substantially higher plateau than in the previous peacetime period.

The figures on the size of our army, given by Dr. Wald and quoted above, do not equal those for the entire armed forces published in the most recent Economic Report of the President. (Presumably Dr. Wald excluded the Navy, the Marines and possibly other groups.) But they do indicate the same trend toward peacetime escalation. The President's figures show that all our armed forces totaled 370,000 in 1939, that between World War II and Korea they never fell below 1.4 million -- in 1948 -- and that between Korea and Vietnam the number of our armed forces never fell below 2.5 million -- in 1960 -- a figure itself which was only a million less than that for 1969.

Military Spending Has Also Escalated

The same picture is true of our military expenditures. In 1939 our spending on national defense was \$1.4 billion. In World War II it rocketed to a high of \$90 billion in 1944, and after World War II, in the years before Korea, fell back only to about \$11 - \$13 billion per year. During the Korean War defense expenditures rose again to a yearly high of almost \$45 billion, and this time, after that war was over, fell to only \$40 billion in 1955, and then rose in a more or less steady trend till they had reached over \$50 billion in the early 1960s, before we were at all deeply involved in South Vietnam.

The above figures cover only expenditures for actual national defense. They include none of the costs of veterans' benefits, of interest on the debt piled higher in each successive war, or of such military-related expenditures as those on space research and technology.

It can be argued, of course, that absolute dollar figures are misleading because they take no account either of cost increases due to inflation or of the ability of a growing economy to carry increased defense costs. We do not subscribe to the principle that national defense should necessarily arrogate to itself any fixed percentage of our Gross National Product, but the fact is that even in such percentage terms there has been a steady peacetime escalation of defense spending. Thus, our 1939 expenditure represented 1.5 percent of GNP. In the 1948-50 period, it had risen to an average of 4.6 percent, or three times as great a share of our national production. And in the period from 1955 to 1965 the share of our total wealth spent on national defense was more than double that of the pre-Korean period, averaging 9.4 percent of GNP.

True, in the fiscal year just ending there was some decline in the absolute dollar amount of defense spending -- and of course a greater decline as a percentage of GNP. A further decline is budgeted for fiscal 1971. These cuts are due largely to the resistance to waste and inefficiency which has been mobilized in Congress and throughout the country. However, it is already clear that if we permit the Pentagon to follow its natural bent, the process of re-escalation will recur to an even greater degree when we have finally managed to disentangle ourselves from South Vietnam and Cambodia.

The Re-escalation Process Has Already Started

Indeed, the process has already started. As early as last February, Senator Proxmire pointed out that for fiscal 1971, savings resulting from planned reductions of Vietnam spending, from cutbacks in military personnel, from more efficient procurement practices, from the closing of some unnecessary bases and from other planned reductions ought to

total at least \$25 billion. Even allowing \$10 billion for increased costs due to inflation, to higher pay and allowances for defense personnel, to increased retirement benefits and other unavoidable new costs -- and I think his calculations erred substantially on the side of generosity -- but even so, this should have left at least \$15 billion in net defense savings -- a \$15 billion dollar "peace dividend" for fiscal 1971.

Yet, as the Senator pointed out, the Pentagon's budget for fiscal 1971 was only \$5.3 billion below last year. And he quite rightly asked:

"Who stole the peace dividend? Who usurped the military cuts? Where did the (remaining) \$10 billion disappear?"

And his answer, the product of careful examination of defense spending and proposed spending, was that the Pentagon had usurped at least a large part of it for new or extended weapons programs -- for phase II of ABM -- for converting Polaris submarines to the Poseidon program at a cost \$3 billion over original estimates -- through overruns on the Minuteman program and the SRAM missile -- for the huge AWACS over-the-horizon radar and airborne control system to protect us against intercontinental bombers that the Soviets have not even built, and through an increase of a billion dollars in Navy modernization expenditures.

In addition, Defense Secretary Laird has already indicated to the House Appropriations Subcommittee on Defense that he would like an increase of \$809 million in his 1971 Budget requests for such items as another nuclear submarine, 150 more M-60 A1 tanks, 48 more F-4E jets and research and development on a new manned bomber, the Navy's F-14 fighter, the undersea long-range missile system (ULMS) and improved Minuteman guidance systems.

According to the Center for Political Research, the Pentagon now has in process 131 weapon systems which it calls "major." The estimated cost to complete them all is \$141 billion. Of this amount, \$54.5 billion had been spent through June 30, 1969, leaving \$86.5 billion to go.

But this, of course, is based on the assumption that final costs will not exceed the estimated cost. And on the basis of past experience, this is an extremely precarious assumption.

New Weapons Being Developed

Nor is that all. In his testimony a year ago, Mr. Reuther referred to the Pentagon's "\$100 Billion Wish-List" -- new weapons proposals which the Pentagon is only waiting for the end of the war in Vietnam to propose. Gradually, details about some of these proposals are coming to light. Thus, Navy magazine a few months ago not only supported ULMS, the new missile-carrying submarine, but also proposed arming American surface warships with long-range ballistic missiles. And then, of course, there is the proposed new nuclear-powered aircraft carrier at a cost, with supporting facilities, of close to \$2 billion -- although how any surface ship could be expected to survive an attack by a single long-range nuclear missile or missile-carrying bomber is beyond my comprehension.

Other proposals include a new fleet of high-speed attack submarines (SSN 688) at a cost of \$4.5 billion; a new "family" of 30 destroyers (DD963) at a minimum cost of \$2.6 billion. There is a proposed "space shuttle" which will make the C-5A look like small potatoes, for it is designed to shuttle troops and material through outer space from any spot on earth to any other. I have not seen any cost figures, but the proposal has advanced to the point where, according to the New York Times, NASA has signed an agreement with the Secretary of the Air Force to set up an eight-member review committee "to plan and review the development phase of the shuttle."

Undoubtedly, there are many additional proposals for still more new weapon systems under consideration, which will be revealed to us in due course.

Thus, the problem before us is not merely whether our present priorities are out of joint, but what obstacles lie in the way of our setting them straight -- whether even a complete disentanglement from Vietnam will release resources for gravely needed civilian programs, or whether those resources will simply be preempted by the Pentagon for new military purposes. To paraphrase Dr. Wald, as long as we keep that big a Pentagon, it will always find new ways to spend our money.

The Military-Industrial Complex

The domination of our industry, our society and even of Congress itself by the military-industrial complex has been the subject of increasing and healthy debate in Congress and elsewhere, and I do not intend to add a great many words to it. I do not intend to discuss, for example, which is the senior party in the complex -- the Pentagon or the defense industry. I really think enough has been said when you find that you have over 2,000 retired senior officers of the armed forces now employed by defense contractors. It seems safe to assume that a substantial number of senior officers still on active service -- including those engaged in procurement activities -- are also giving thought to their possible future careers on retirement from the forces. And when you look at the record, it is clear that this is what the biologists call a true symbiotic relationship -- one in which two organisms live in a state of mutual dependence and mutual assistance.

I am not suggesting that close cooperation between the Pentagon and the defense industries is not desirable and even essential. It is --

if the primary object of the cooperation is to achieve maximum efficiency in providing for the defense of this country. But it is far from desirable when its object becomes the building of bureaucratic or industrial empires, the toleration of waste and inefficiency, or the production of weapons that were needless before they were begun or obsolete before they were completed -- all at costs of billions upon billions of dollars which must be paid by the American taxpayer while severely needed civilian programs are starved for funds.

The Pentagon vs. the Congress

The situation becomes entirely intolerable when the Pentagon, in order to hide its mistakes, to protect itself and its friends, or even when it merely wants to do something that Congress has told it not to do, refuses information which Congress has a right to demand, and actively or passively obstructs Congress in its attempts to get at the truth. Yet exactly this has happened more than once.

On March 23 of this year, for example, Representative Samuel Stratton, Democrat, of New York, and Representative Charles S. Gubser, Republican, of California, both members of the House Armed Services Committee, put on the record the case of the TOW antitank missile, for development of which Congress in 1969 had been persuaded to vote \$100 million, and was now being asked for a second \$100 million. The House had originally opposed the first appropriation last year, on the ground that the existing Shillelagh missile was virtually identical in performance, was already being mass produced at less than one-third the estimated cost of the TOW, and had fully proven itself in performance.

The Army's counter-argument was that the Shillelagh had to be fired from a vehicle, and could not safely be fired from the ground, whereas TOW was basically an infantryman's weapon that could be hand-carried onto the battlefield, and set up ready to fire in 90 seconds.

A compromise was finally reached, by which \$100 million was voted for TOW, but the Army was directed, before obligating these funds, to conduct a shootoff between the TOW and Shillelagh, both by infantry and from helicopters.

But as these Representatives revealed last March, the TOW by that time had grown to a weight of 230 pounds, too heavy for infantrymen to manhandle for more than a very few yards. Even when taken apart for transport, the tripod alone weighs 72 pounds, a weight intended to be carried by one man. As Representative Gubser pointed out, it could not be carried in battle for a march of even one-half mile. And in fact, the Army had already ordered brackets for mounting the missile on a carrier -- and they had ordered exactly as many brackets as they had missiles. In short, they had no possibility and no intention of using it as a hand-carried weapon.

In the meantime, the Army had simply ignored the instruction of Congress to hold a shootoff between the two missiles, first postponing it, then promising to hold it if Congress would only vote the additional \$100 million being asked for this year, then finally announcing that they had decided not to carry out any comparative tests at all.

There is considerably more to the story for which I will not take time here, including a process of price-juggling by the producer of TOW which caused Representative Stratton to say that it "smacks more of trading in a Turkish covered bazaar than any careful husbanding of government funds," and Representative Gubser to say, "Only one of two explanations is possible. The Army is either getting gypped or we have got a buy-in situation" -- that is, a situation in which the contractor deliberately bids for a job below cost, fully intending to make up the difference later by one or more of a variety of shady maneuvers.

Anyone interested in further details of this highly suspicious operation can find them in the pages of the Congressional Record. The essential point, however, is that the Army not only completely misled Congress in a matter concerning hundreds of millions of the taxpayers' dollars, but that it flatly refused to carry out the instructions given it by Congress. One begins to wonder who is boss here -- the elected representatives of the people, or the brass-hats in the Pentagon?

Disposal of Surplus Arms

Less than a month later, Senator Stephen Young of Ohio raised another issue where the Pentagon was defying the expressed will of Congress. The Congress has been trying to curb arms shipments to certain countries including Nationalist China, the appropriation for which was cut from \$117 million in fiscal 1968 to \$25 million in fiscal 1970. But Congress up to now has not attempted to control the disposal of surplus weapons by the Pentagon, and Senator Young revealed that the Pentagon had in fact given Chiang Kai-Shek in the past year "surplus weapons" in the form of fighter planes, cargo planes, destroyers, anti-aircraft missiles, tanks and rifles to a value of \$157 million, or more than six times the amount of military aid Congress had voted. At the same time, the Senator also indicated that the Pentagon had furnished so much in the way of surplus arms to the colonels who have established a military dictatorship in Greece that the Athens state-controlled daily newspaper had referred to the Pentagon as one of the "real friends of modern Greece."

That is not the kind of reputation I want our country to have, or that I believe Congress wants our country to have.

In consequence of these events, Senator Young has introduced legislation which would require the Pentagon to make complete and prior disclosure of all proposed disposals of surplus weapons, and

make them subject to approval by the Senate Foreign Relations Committee and the House Foreign Affairs Committee. I have not seen details of Senator Young's proposal, but I can assure him that its principle has our full support.

The Slipping Tank Program

Still another example of Pentagon obstruction was experienced by the Armed Services Investigating Subcommittee of the House Committee on Armed Services. In its report of June 24, 1969, entitled "Review of Army Tank Program" the Subcommittee took note of the delays in deploying equipment funded through the Army's tank improvement program. It stated:

"The Army has requested and received funds for its tank improvement program ever since 1961. However, in recent annual reviews of this program, the Armed Services Committee noted that the Army still has not deployed this equipment to the field. Slippages in deployment plans, as high as five years, had occurred."

The Subcommittee added:

"Despite continuing development failures, production decisions on almost every one of the items covered by this report were made so that appearance of satisfactory program progress would lessen the chance of searching and critical reviews by 'those who control funds' in the Office of the Secretary of Defense and the Bureau of the Budget."

In other words, not only does concealment of the facts exist as between the Pentagon and Congress, but also between the Pentagon and the Bureau of the Budget and even as between various levels within the Pentagon itself.

The C-5A Scandal

Then there is the C-5A scandal, where the American taxpayer stands likely to be charged \$5 billion or more for planes which have been dogged by mismanagement and gross cost overruns from the beginning, and which are still far from meeting performance requirements. At

this point I do not plan to comment in detail on the inefficiency and mismanagement of the C-5A program which have cost us so much money, but only on the grave lack of frankness on the part of the Pentagon in its failure to keep Congress informed of the facts.

What I am about to say is based largely on a publication entitled "Air Force Review of the C-5A Program," published in July 1969 over the signature of Philip N. Whittaker, Assistant Secretary of the Air Force.

As an official document, this review obviously attempts to put the best possible face on the Air Force's role in this catastrophic performance, and a good deal of it is written in a form of official gobbledygook which, in my opinion, seems designed to conceal more than it reveals. Yet revelations do come through, especially revelations of the Pentagon's clear attempt to keep from Congress facts which Congress clearly ought to have had.

Bearing in mind that the review was only published after an outcry in Congress about the costs and mismanagement of the program, this statement from page 34 of the review, for example, is revealing:

"Our policies on releasing program status and cost estimates to the Congress and to the public have been in a state of evolution during the period of this review. It is noted that the Secretary of Defense has recently instituted procedures whereby appropriate committees of Congress are provided program status information on major weapon systems. In addition to these reports and the data incident to budgetary and appropriation actions, special reports should be submitted as unusual circumstances indicate, although care must be exercised to provide program information in perspective. It also appears there is room for improvement in the clarity with which program data is communicated."

Why was it necessary to have "recently instituted procedures whereby appropriate committees of Congress are provided program status information on major weapon systems?" Why should Congressional committees not always have been given such information as a matter

of course? And why should there be any lack of clarity in such communications?

Again at page 3-13 the review, in response to a series of allegations made, states:

"ISSUE: THE C-5A TOTAL PACKAGE PROCUREMENT WAS MISREPRESENTED AS INCLUDING ALL OF THE PROGRAM BEING PROCURED WHEN, IN FACT, SPARE PARTS AND OTHER COSTS WERE NOT INCLUDED.

"FINDING: The C-5A contract was not represented by the Air Force as including all the costs of the C-5A Weapons System Program. The Air Force, however, was either ineffective or deficient in failing to get across the point that the C-5A contract did not include all the costs. Total Package Procurement is a 'technical' term which is descriptive of a procurement technique rather than a definition of contract scope. For this reason, the term can be and was, in some degree, misleading."

If there is anything more misleading than the use of the term "Total Package Procurement" to describe something less than the total cost of a package, it escapes my imagination. And neither ineffectiveness nor deficiency on the part of the Pentagon in "getting across" to Congress and the public this vital point in a program costing billions of dollars is in any way excusable.

Pages 3-36 to 3-38 contain some prize examples of what I have called official gobbledegook. Here the Pentagon claims on the one hand with respect to Air Force Congressional testimony that "all cost and technical data known at the time of testimony was revealed." Yet it admits on the other hand that in May 1968 a cost study "revealed for the first time that Lockheed costs might be running over contract ceiling," and in June 1968 something called "a 'bottoms up' estimate" was decided upon to confirm the May study results -- and that "It was also decided that no other internal reports would reflect these costs until confirmed." (emphasis added). This sounds like an attempt to insure that those who might be called upon to testify could claim ignorance of any uncomfortable facts.

As a consequence, "The reports submitted from May through December 31, 1968 did not reflect an overrun in accordance with the June decision . . ."

The review continues:

"It is pertinent to point out that there were no procedural or policy requirements in DOD or Air Force that called [for] any further disclosure of the May cost estimate. Then current procedures required only that reprogramming actions of the current fiscal year be reported -- not changes in total program estimates, and that program status normally be provided Congress during Budget hearings or on request of the Committees.

"To proceed, the 'bottoms up' cost estimate was completed and reflected in the September 30 Selected Acquisition Report (SAR). This reflected an even greater total program estimate (\$4.3B).

"Again, DOD procedures did not require disclosure of this estimate. Providing no reprogramming action was required, the next logical point would be to reflect the \$4.3 billion in connection with the FY 1970 budget -- to be presented in early 1969. However, the C-5A came up in other Congressional proceedings in November and, of course, the Air Force then acknowledged the increase, and subsequent detailed discussions were held with Armed Services and Appropriations Committee staffs."

In other words, by September 30, 1968, the Air Force had a firm estimate that the C-5A was going to cost at least \$4.3 billion, but it hid behind procedural technicalities to withhold this information from Congress until the facts were literally dragged out of it in the November hearings.

This section of the review concludes:

"One thing is clear, neither the Air Force nor DOD withheld requested data on costs to the Government for the C-5A from Congress. Cost data was reported internally within OSD at top management levels but,

under the existing agreed upon procedures, was not automatically reported to the Congress. The information would have been, and was, furnished when requested. There is certainly room for disagreement between reasonable people as to whether additional data should have been voluntarily offered to Congress." (emphasis added)

Whatever other defects the review may have, that final sentence is certainly a masterpiece of understatement.

One other matter in connection with this particular investigation should be mentioned. It will be recalled that one of the major witnesses in the November 1968 and subsequent Congressional hearings was Mr. A. E. Fitzgerald, a civilian employee of the Air Force whose duty as Deputy for Management Systems to the Assistant Secretary of the Air Force for Financial Management was to evaluate the financial management of such programs. The Air Force made every possible effort to obstruct his testimony, especially with respect to the \$2 billion cost overrun, using such methods as formally instructing him in November 1968 not to have a prepared text for the hearings. Again in May 1969, when further hearings were under way, Secretary Nielsen wrote Mr. Fitzgerald "counseling" him that "In view of the efforts under way by OSD to respond to Senator Proxmire's request, I believe it would be inappropriate for anyone from this office to release additional information concerning the program mentioned in Senator Proxmire's letter of May 14, 1969, especially in open hearings."

The finding of the Air Force review on this question was:

"It is concluded that there was no 'muzzling' of the witness as Mr. Fitzgerald has testified freely on many occasions. In retrospect, the decision last November that precluded Mr. Fitzgerald from having a prepared statement was ill advised and opened the Air Force to criticism from some of the press."

If there was no muzzling, it was only because Mr. Fitzgerald had the courage and patriotism to refuse to be muzzled. For these virtues, he was eventually hounded out of his employment with the Air Force.

The F-111 Investigation

Undoubtedly an equally revealing story could be told about the Pentagon's attempts to hide from Congress the disastrous facts about the F-111 plane, for which the taxpayers have already paid over \$6 billion for planes that are not safe to fly. One or two items from recent testimony, however, should be sufficient. They are taken from the Congressional Quarterly Weekly Report.

On March 26, 1970, T. J. Keating, civilian chief systems engineer for the F-111 project, testified before the Senate Government Operations Permanent Subcommittee on Investigations that as far back as 1962, tests showed that the F-111 could not meet its mission requirements and that this data had been known to Pentagon officials involved in the decision to produce it.

That information, I am sure, was not given to Congress by the Pentagon.

On April 16, 1970, before the same Committee, Charles H. Cromwell, Thomas E. Nunnally and John Brick, all investigators on the Subcommittee staff, made public their unofficial minutes concerning high-level meetings between the Pentagon and the industry on F-111 programs. The meetings, perhaps through an unintentional irony, were known as Project Icarus, after the mythical Greek figure who fell to his death when his wings melted from the sun. The investigators reported:

"The Subcommittee investigators sought to gain information on Project Icarus in February 1967 but were denied access by the Pentagon until March 1969."

The attitude of the Subcommittee itself was expressed by its chairman, Senator John L. McClellan of Arkansas, whose opening statement at the hearing on March 24 was reported by the Congressional Quarterly as follows:

"Although details concerning the F-111 have surfaced, many have not, and the purpose of the renewed Subcommittee investigation will be to determine what happened and why since the 1963 hearings...

"The Subcommittee investigation over the years has been 'arduous and unpleasant' and 'made more complicated by the tactics and statements of high officials in the Pentagon who attacked the integrity and the motives of the Subcommittee' and withheld information."
(emphasis added)

In other words, the Pentagon has not only followed a deliberate and consistent policy of withholding from Congress and its various committees information which Congress must have if it is to carry out properly its function of appropriating funds for defense and other expenditures, but it has muzzled and disciplined to the extent of dismissal those of its employees who have had the courage to give Congress the facts it needed, and has not scrupled to attack the motives and integrity of members of the Congress who have persisted in demanding such facts.

Other Departments Also Defied.

Not only has the Pentagon defied Congress directly, but it has defied other departments of the Administration acting either under direct Congressional instruction or under legislation passed by Congress. For example, in the latter half of 1969, at the request of the Senate and House Armed Services Committees, the General Accounting Office undertook to examine into the status of several major weapon systems where there were questions about the large acquisition costs involved and the extent of both cost growth and the slippage in program schedules of production.

The first thing the GAO discovered was that the Department of Defense did not maintain a central file on the total number of systems being acquired or their costs. The second was that out of 57 systems into which GAO inquired, DOD was able to provide sufficient detail on only 38 to permit a comparison of cost estimates at different points of time. This fact alone

points either to incomprehensible inefficiency in the maintenance of DOD cost records, or to an inexcusable attempt to hide available data from GAO and thus from Congress.

The GAO report indicated its repeated difficulty in getting the required data from DOD. Its report states:

"The expressed congressional desire for GAO to furnish it with data on the status of weapon systems timely made it absolutely essential that delays in obtaining access to needed information be minimized to the greatest possible extent.

"At the outset of this review a series of meetings were held between senior officials of GAO, the Secretary of Defense, and other top Defense officials to apprise them of the nature of the assignment and the time constraints on their performance. Defense officials recognized the significance of the assignment as well as our need for timely access to data and assured us of their full cooperation in making needed data readily available.

"After the field work on this assignment started, a series of problems with access to data began to develop. Another series of meetings were held with departmental officials, culminating in the issuance of a special memorandum by the Deputy Secretary of Defense specifically granting our Office access to the documentation underlying the SARs. For the most part, this substantially alleviated the problem. As the fieldwork progressed, however, the provisions of an Air Force regulation, governing relationships between GAO and the Air Force, proved to be subject to varying interpretations, and as a result substantial delays in obtaining data from that service were experienced. (emphasis added)

"When the full impact of these delays was made known to the Headquarters, Air Force, the Chief of Staff promptly issued a new instruction clarifying the types of data that should be made immediately available to our Office and promised a review and revision of the Air Force regulation on this subject. The action taken by the Air Force Chief of Staff has resulted subsequently in full and timely availability of the required data to us. The planned revision of the Air Force regulation should materially reduce the incidences of these kinds of difficulties."

In other words, while top DOD officials expressed their desire to cooperate fully in the GAO investigation, repeated obstructions were experienced at the operational level, and GAO, time after time, had to

go back to the top again to obtain authority for access to the data it required.

It is to be hoped that the final paragraph in the statement quoted represents a genuine recognition on the part of DOD officials of their obligation to make full disclosure of required information, and not just another sop to those whose persistent and justifiable attempts to get firm data have been so often obstructed in the past.

The Need for Full Cost Data

We in the UAW can feel a particular fellowship with Congress and the GAO in their efforts to obtain closely guarded data from the Pentagon, especially with regard to costs, because we have had a very similar experience with another major American institution -- the General Motors Corporation. For many years our Union has maintained that we have a vital interest in getting data on the costs of producing General Motors products, because the Corporation has repeatedly taken the position that it was necessary to maintain or even raise the price of its products because of increased wages and economic benefits paid to UAW members. We, in our turn, have maintained that GM's high prices were not the result of higher labor costs, which were in fact offset by increasing productivity, but were rather a consequence of the extortionately high profit formula on which the Corporation based its prices. This argument reached a climax in 1961 negotiations, when the Corporation persisted in making public statements about the so-called "inflationary" demands of its workers. We in the UAW replied by demanding in writing specific cost data from the Corporation, which would prove whether or not our requests were in fact inflationary. We backed up that demand by an implied threat to take the matter if necessary to the National Labor Relations Board, which had the power to compel the Corporation to reveal the data which we believed were essential to informed collective bargaining.

The Corporation did not give us the data we asked, but we were able to reach a satisfactory collective bargaining agreement, and from that time until this year General Motors has never again raised the issue of inflation in connection with our demands.

The situation of the Congress with relation to the Pentagon and the defense industries is somewhat different because the point at issue here is

not the relationship of costs to profits -- although some defense corporations have been extremely profitable -- but the relationship of costs to inefficiency and waste, both in procurement practices and in production methods.

Later in this statement I intend to discuss the problem of the potential inflationary effect of military expenditures of all sorts, and the importance for that reason among others of keeping them within strict control. I would only remark here that if military expenditures as a whole tend to be inflationary, then waste and inefficiency in making those expenditures are by so much the more inflationary. For that reason among others it is not only essential that Congress insist upon its right to full and free access to defense production cost data and to all the factors involved in costs, but that it also establish machinery which will insure that it does in fact get those data.

The Pentagon as Censor

Not content with concealing essential data from Congress and from other concerned government departments, the Pentagon has been greatly concerned to maintain a satisfactory public image. Considering the facts which lay behind that image, such concern may well have been justified, but some of the means used to implement it certainly cannot be. In addition to the normal paraphernalia of public relations, the Pentagon has exercised a subtle form of censorship over both the moving picture and television industries through its power to give or to withhold cooperation in making available armed forces facilities, ranging all the way from planes, ships, tanks, guns and other physical facilities to armed forces personnel themselves, for the making of films. In some cases, such cooperation extended to the degree of providing facilities at less than the cost laid down for such cases by Budget Bureau directives. In other cases cooperation was completely withheld. The basis of some of the decisions seems at best to have been rather arbitrary.

Thus, for example, the general basis for cooperation was a decision that the film or television production concerned was "in the national interest." Among those productions so listed by DOD was a television series first produced in 1966 entitled "The Wackiest Ship in the Army," which represented some members of the armed forces as being at best, in the opinion of people who watched the series, rather eccentric characters. This presumably, was "in the national interest."

A number of films were refused assistance. One, entitled "Getting Straight" and proposed by Columbia Pictures just this year, was a film about student rebellion, and was denied assistance because the screenplay was to show National Guard and Army troops failing to keep order among rebellious students. The other, "Andromeda Strain," put forward by Universal Pictures last year, was a purely science-fiction film with no ideological content except perhaps the implication that scientists and army officers are just as liable to human error as the rest of mankind. This film was denied assistance on the grounds that the portrayal was "not factual."

Clearly, the film makers have a difficult tight-rope to walk where the Pentagon is concerned, since they are denied assistance if they are too factual, especially in the area of current events, and also if they are admittedly not factual at all. Yet assistance is readily forthcoming if they are merely non-sensical. Apart from the question as to whether the Pentagon should have the right to exercise this form of censorship at all, one cannot help but wonder whether the manner in which it does exercise it is truly in the national interest.

Secrecy at the Very Top

Finally, there is the obstruction of Congress in its attempt to carry out its Constitutional function as a co-equal branch of our government by the refusal of the White House to give it the information it requires. Two examples come immediately to mind. One is the refusal of the Administration to reveal the estimates for cost of the Vietnam war in its 1971 Budget. This issue has

been raised at various times in Congress, and has been the subject of a direct written request last April by Senator Proxmire to President Nixon. To the best of my knowledge, no substantive response to that request has been received.

The cost of the Vietnam war is certainly a major part of the total military expenditure called for in the Budget. Congress would be derelict in its duty if it did not continue to demand the revelation of that cost.

The second example of "secrecy at the top" is the failure of the Nixon Administration to reveal the nature of its criteria as to what it considers nuclear "sufficiency" in its strategic arms limitations talks (SALT) with the Soviet Union.

The Administration said that it has such criteria, but all it has said officially about them is a short statement in President Nixon's foreign policy report of February 18. He then said:

"We reached general agreement within the government on four specific criteria for strategic sufficiency. These represent a significant intellectual advance. They provide for both adequacy and flexibility. They will be constantly reviewed in the light of a changing technology."

These are the vaguest of generalities. They tell us absolutely nothing about an issue which is of the utmost importance not only to Congress and the American people but to the entire human race.

A small amount of information about the criteria has leaked into the press. It is understood that they have been given four thermonuclear nicknames -- assured destruction, hostage equality, crisis stability and defense against third countries.

Of these, the first is the term used by former Defense Secretary Robert S. McNamara and defined as the capacity

"to deter deliberate nuclear attack upon the United States, or its allies, by maintaining a highly reliable ability to inflict an unacceptable degree of damage upon any single aggressor, or combination of aggressors, at any time during the course of a strategic nuclear exchange -- even after our absorbing a surprise first strike."

In other words, it is the old policy of nuclear deterrence.

As to the other criteria, one can only guess as to their meaning, and various guesses have been made -- but they are all merely guesses. Presumably a number of guesses have also been made on the Soviet side. If those guesses happen to be wrong, the results could easily be a failure to the talks.

As Senator Muskie said on April 9:

"Withholding of this information . . . is a serious departure from the view of the Kennedy and Johnson administrations that the objective of deterrence and the U. S. interest are best served if the Soviets know where we stand and why."

That makes common sense. But if it is in our best interest for the Soviet Union to know where the American Administration stands and why, by how much more is it in our best interest that the Congress and the people should know where the Administration stands and why?

Mr. Chairman, there is more that I want to say about the arms race and our country's role in it, but I shall reserve it until later in my statement.

Congress Must Fulfill Its Constitutional Function

In the meantime I want to return to the essential point that I was making. If we are to bring order out of chaos in this country, Congress must insist upon the right to carry out its constitutional functions as a co-equal arm of the national government. To do so it must be fully informed. There is ample evidence that today it is being deliberately uninformed, misinformed and misled, especially by the Department of Defense. This state of affairs must be changed. The veil of secrecy which unnecessarily shrouds so much of DOD's activities must be swept aside.

I do not for a moment suggest that all of our defense activities must be brought into public view for all the world to see -- even though I do not doubt that the leaders in the Kremlin are better informed right now on America's military activities than the average American citizen just as I am sure that our leaders are far better informed on Russia's military activities

than the average Soviet citizen. What I do suggest is that many of the Pentagon's claims for the need of secrecy are concerned more with the protection of the Pentagon and its friends than with the protection of the American people. Such claims are no justification for refusal by the Pentagon to give Congress the information which it is essential for it to have in order to carry out its constitutional function. Congress has the right to demand that its members be considered just as loyal to their country and just as trustworthy as the officers and employees of the Pentagon.

Having staked out its claim to the right to know, Congress must also reassert its right to control through its power to appropriate or refuse appropriation of funds.

For the past thirty years, until quite recently, the Pentagon has blithely assumed that it had only to ask and it would receive. Expenditures running into millions and billions of dollars have been approved after only the most perfunctory of debates. And in this atmosphere the demands of the Pentagon have known no end. Even Defense Secretary Laird recently admitted that there was "a built-in tendency" on the part of the Pentagon "to demand more resources than are available."

An interesting example was revealed in the air force review of the C-5A program, previously referred to. It gave as one of Lockheed's problems in meeting its contract commitments in 1965 and 1966 an unexpected shortage of engineering talent -- a shortage so great that a British engineering firm had to be brought in to assist. In short, the Pentagon was simply demanding a greater supply of engineering talent than was available in a country which has long boasted the greatest supply of such talent in the world.

These hearings, and the many others held both by this Committee and by other Congressional committees, demonstrate quite clearly that the days when the Pentagon could get anything it wished for just by asking for it are now in the past. The congratulations and the deep thanks of the American

people are due to these committees, and in particular to those insistent gad-flies in both the Senate and House who persisted in asking questions when such questions were not very popular and made the questioners subject to attacks by the Pentagon on their integrity and motives.

Much Still to be Done

But much remains to be done. In particular, we need to set all our national priorities in order. As I shall show later, this involves much more than a mere allocation of resources between military and civilian needs.

We must face up to the whole question: What sort of America do we want to build -- and in what sort of world?

But undoubtedly, the first decision to be made is that of the proper allocation of resources between military and civilian spending.

We recognize that our country does have real military needs. The Soviets and China are by no means paper tigers. But it is essential that our military needs be placed within their proper context in the whole life of our nation.

The question at issue was stated several years ago by a great American who had had more practical experience with it than I have ever had, and I believe more than any other person in this room. The late President Eisenhower, in an article in the Saturday Evening Post of May 18, 1963, wrote:

"For a moment let's think of national security and its costs. A key point to keep in mind is this: No matter how much we spend for arms, there is no safety in arms alone. Our security is the total product of our economy, intellectual, moral and military strengths. (emphasis is original)

"An easy way to bankruptcy

"Let me elaborate on this great truth. It happens that defense is a field in which I have had varied experience over a lifetime, and if I have learned anything, it is that there is no way in which a country can satisfy the craving for absolute security -- but it easily can bankrupt itself,

"morally and economically, in attempting to reach that illusory goal through arms alone. The military establishment, not productive of itself, necessarily must feed on the energy, productivity and brain-power of the country, and if it takes too much, our total strength declines. (emphasis added)

"So how does one judge the limits of defense needs? That is the task of the statesman: to apply the rule of reason in judging what is clearly adequate but not excessive."

But to do so, of course, the statesman must have the necessary facts.

We do not lay claim to anything resembling General Eisenhower's expertise on national military needs, but some present facts are obvious:

There is a tremendous amount of waste and fat both in the Pentagon and in the defense industries themselves.

In both areas, and at all levels, there are inefficiencies in administration, carelessness in planning and total disregard for the value of the taxpayer's dollar that would never be tolerated in business -- and that would soon drive any business bankrupt that did tolerate them.

As President Eisenhower warned, they can even bankrupt this country if they are allowed to drain off more of our energy, productivity and brainpower than we can afford.

Let me give you a few illustrations.

The Deep Submergence Rescue Vehicle

I want to start with one that has been given relatively little publicity, perhaps because in dollar terms it ranks far below the really catastrophic errors committed by the military-industrial complex. In fact, its total estimated cost -- in 1969 -- was less than \$500 million -- no more than the cost of housing 20,000 or 25,000 families. Yet it illustrates a wide variety of the errors of which the Pentagon and its suppliers are capable.

In 1964 the Department of Defense decided that the Navy needed a fleet of deep submergence rescue vessels, for the entirely laudable purpose of rescuing the personnel from sunken submarines. It asked for appropriations

for an even dozen of them, which it estimated could be developed in four years at a total cost -- including one year's operation -- of \$36.5 million, or just over \$3 million apiece.

In 1969 the Navy estimated that obtaining a rescue fleet of only six such vessels would take until 1974 -- a total period of ten years -- and that these six vessels would cost a total of about \$463 million -- \$77 million apiece, or just over 25 times the original estimated cost. Of this amount, the General Accounting Office found last February that \$125 million had already been allocated, for which two vessels so far had been obtained, \$31 million had been requested for fiscal 1970 and \$307 million more would be needed between 1971 and 1974.

To cap the climax, there have been only two submarine disasters in the 42 years since 1928 in which these vessels would have been of any use.

The GAO recommended an immediate evaluation of the cost of purchasing the four additional vessels still to be built. The Chief of Naval Operations directed on April 29, 1969, that such a study "begin on a priority basis." The Navy began its study on December 15, 1969, almost eight months later.

The GAO report concludes:

"This report is being submitted to the Congress because of its expressed interest in the procurement of major systems and the reduction of unwarranted defense expenditures. The Navy currently plans to submit its requirement for additional DSRVs in its budget request for fiscal year 1971."

It is to be hoped that not one dollar more for these superfluous additional vessels will be voted by Congress. And it is devoutly to be hoped that the fate of this country never has to depend on the speed of reaction of officialdom in the U. S. Navy when instructed to act "on a priority basis."

The F-111

The F-111, which I referred to earlier in my statement, is the plane that was supposed to have saved the taxpayers a billion dollars through combining Navy and Air Force needs into one basic aircraft. While this idea was admirable in theory, its success in practice was predicated upon the good faith cooperation of the two services, which was not forthcoming, and upon a high degree of managerial and financial competence on the part of the contractor, which did not exist. The contractor, as you may remember, had just prior to the awarding of the contract earned the unenviable distinction of having incurred a \$168 million loss, the largest one-year deficit ever incurred by any business at any time in the entire history of industry.

The combination of a military which did not want the F-111 in its joint-service form and a contractor with a demonstrated inability to handle large, complex projects was disastrous. The corporation originally proposed to build 1,704 units for \$5.5 billion. Four years later the cost had nearly doubled to \$10.8 billion while the number of planes to be produced had been reduced to 1,278. Another four years have now gone by and the current number of planes to be produced has been cut further to 554, less than one-third of the original number, while the current estimate of cost of the Air Force version alone totals \$9.1 billion.

Meanwhile, the Navy version of the plane was scrapped and the Air Force version, which has crashed a number of times, and is currently grounded as the result of the fatal crash a few months ago when a wing fell off, has neither the range, the speed, nor the life expectancy required by the Air Force and agreed to by the contractor some eight years ago. The current range is only 2,750 miles, less than two-thirds the Air Force requirement and insufficient to get the plane across the ocean without refueling. The top high-altitude burst speed is only 2.2 times the speed of sound, while the Air Force requires Mach 2.5.

The Air Force requires a service life of 10 years. The F-111s currently in operation have a service life of only about half that. The halving of the service life doubles the actual cost per unit unless the planes can be given new wings, which itself would cost tens or hundreds of millions of dollars. Recently completed ground fatigue tests show that even the new, improved F-111 wing fails at 3,000 hours, the equivalent of 7-1/2 years of service life.

Yet, fantastic as it may seem, General Dynamics stands to make an enormous profit on this plane, whose unit cost has increased more than five-fold, whose performance falls far short of what is needed, whose useful life is expected to be far short of the ten years that was promised, and which was so poorly designed that it is currently grounded. General Dynamics Corporation expects to earn \$312.7 million on the project and in fact had already received \$167.9 million of those profits as of the end of 1969, according to the Government Accounting Office. General Dynamics has been penalized virtually nothing for all of its many mistakes -- at last report \$1,750,000 -- and half of that penalty will be recovered in reduced income taxes.

F-14

Having spent \$670 million on the Navy version of the F-111, the Defense Department finally threw in the towel and succumbed in 1968 to the Navy's years-long fight for its own all-weather fighter plane. This program, the F-14, is relatively new but already shows some of the symptoms of the maladies which infect so many military projects. To begin with, the Navy cannot seem to agree within itself about what it wants. One group wants a simple, light, fast, highly-maneuverable fighter, while another group wants a complex, elaborately equipped missile-carrying plane which can protect the Navy's highly-vulnerable aircraft carriers against attack from bombers. If past experience is a guide we will end up with a craft that does neither job well but which costs far more than is currently estimated.

The Washington Post of April 6, 1970, discussing the plane's shortcomings as a fighter in the important qualities of weight, bulk, speed and maneuverability, quoted one Navy pilot as follows:

"With the F-14, you don't have the problem of determining where the enemy is. You know he's going to be on your tail. Therefore, there is an absolute requirement for a missile that shoots backwards."

The F-14 project is so new that it has had little time to swell in cost, but even so the estimate of the cost of the first 287 of the craft has been raised by \$207 million over original estimates. The Navy has revealed that it expects to buy 1,200 of the planes for \$11.8 billion during the next 10 years. Others in the Pentagon calculate that 1,100 of the craft will cost \$23 billion, more than double the Navy's cost estimate on a per-unit basis.

Lockheed

Earlier in my statement I discussed the C-5A scandal from the standpoint of the lack of frankness on the part of the Pentagon in its refusal to keep Congress informed of the facts. Now I want to touch on it from the standpoint of the incredible degree of arrogance and deceit which the contractor has displayed in this matter.

Lockheed does not merely ask, it demands the additional hundreds of millions of dollars as a condition of continuing to work on these projects. The corporation rejects all alternative solutions. For example, to the suggestion that another tenant be found for its two government-owned plants, the corporation replies in a letter to Mr. Hammond of the General Accounting Office that the employees of those plants are Lockheed employees and they will not be made available to another tenant, and that a portion of the machinery and facilities are owned by Lockheed and that it would not make those assets available to another tenant, thereby scuttling such programs as Polaris, Poseidon and C-130, as well as the C-5A.

Over the years, Lockheed has built up a multibillion-dollar business, largely with the support of interest-free government loans in the form of

90-percent progress payments. The ratio of sales to investment at Lockheed is approximately seven to one. For the aerospace industry as a whole the ratio is about five to one. For all manufacturing industries it averages about two and one-half to one. Lockheed's own capital amounted to only \$321 million as of the end of 1969, and even much of this consisted of profits ploughed back into the business over the years. In just the ten-year period through 1969 the corporation's profits after taxes totaled \$289 million, of which \$127 million was retained in the business. Lockheed's average annual return on investment during this period, even after deducting the losses it reported in two of those years, was 12 percent.

With this relatively small commitment of its own capital, Lockheed has become the nation's largest defense contractor and, in addition, has taken on a huge and costly commercial project as well. In fact, it could well be that the heavy development and preproduction costs of the commercial L-1011 Tristar and the investment in fixed assets devoted to that project are as much the cause of the company's financial strain as are its military cost overruns. Whatever the facts are on this, Lockheed adamantly refuses to reveal them. What is quite clear though, in spite of all attempts to hide the facts, is that Lockheed has been willing to put up hundreds of millions of dollars of its own and borrowed money for its commercial operations, stretching its financial structure to the limits of prudent business practice; but not one more cent of its own funds will it put into government work even though the added needs of those programs result from its own excessive costs.

Lockheed and the Pentagon have known of these enormous cost overruns for years. This is no sudden emergency. There were no unforeseen, extraordinary occurrences which took the company unaware. Lockheed's troubles result from a deliberate, calculated risk taken years ago to buy into the C-5A program cheaply and to make up the early losses with price adjustments later on. This strategy, a common one in the industry as we know, almost worked, even on the grand scale on which Lockheed attempted it.

The price adjustments were in fact obtained, but the costs of the total program rose to such a degree that the number of planes was cut from 115 to only 81. That is the real source of Lockheed's problem. There are not enough profitable planes to recapture the losses taken on units produced at a deficit in order to win the contract in the first place.

As long as the progress payments continued to be made, as long as the Pentagon was willing to pour all authorized funds into the program even though Lockheed was not producing on schedule, the C-5A fiasco was covered up. Only now, when the authorized monies have been expended and hundreds of millions more are needed to complete the program, do Lockheed and the Pentagon publicly admit to the inefficiencies and mismanagement that Mr. Fitzgerald has been telling us about for years. In any industry but the defense industry, the company would be in receivership and its top management would long ago have been fired.

There is every indication that if Lockheed should succeed in dipping into the public till to make up its losses on this occasion, it will be back time and time again. No one seems to be able to compute the total amount of cost overruns on all Lockheed military programs. According to a recent report the Pentagon could not even program its computers to obtain a complete list of all Lockheed contracts, let alone their total cost. But figures on some of the major contracts are known -- and they are staggering. It is obvious that we have seen only the tip of the iceberg, there are many millions of dollars more in future claims should Lockheed succeed in this one.

If Congress should permit the Pentagon to bail out Lockheed from this mess, the consequences, from the standpoint of our overall national well-being, could be disastrous. Once Lockheed's hand got into the cash register the lineup of contractors demanding similar handouts would be long indeed. The impact on defense costs, now and in the future, would be staggering; and the peace dividend for which we have all been waiting would

have been dissipated in military waste, mismanagement and downright fraud.

Unless financed entirely through taxation, which as a rule is politically impossible, military spending is inherently inflationary, creating income but not wealth, adding to the pressures of demand while restricting the supply of goods and services on which income is spent.

Moreover, by arbitrarily removing manpower and materials from civil enterprise, military spending distorts the allocation of resources and detracts from the efficiency of the economy. When the imbalance thus created is compounded by waste and fat on the massive scale that has been found to exist in our defense industries, the pressures on prices are multiplied. No single force has added as much fuel to the fires of inflation as has our military-industrial establishment. More success in achieving price stability could be obtained here than in any other sector of the economy.

By picking up the tab for avoidable cost overruns, by bailing out contractors who have "bought in" cheaply, by subsidizing waste and inefficiency, we have grossly and unnecessarily magnified the problem of runaway defense costs. It is time we put a stop to all of this and introduced some badly needed discipline into the entire budgeting and contracting process. Rear Admiral Levering Smith, who is project manager of strategic systems projects for the Navy, has had a most constructive suggestion on this subject. According to the February 14, 1970 issue of CPR National Journal:

"Smith tells of one segment of the Poseidon program in which money problems were encountered, but it seemed futile to go to the Secretary of Defense and ask for more.

" 'So we adjusted the program and objective,' he said 'to stay within this fixed amount of money. . . . The contractor knew, and our people knew, that come hell or high water that was all the money they were going to get and they had to get the best results with that amount It came out a darn good job.' "

"Smith suggests that this be done more often."

In the business world outside the military-industrial sector, success is rewarded with profits and failure with losses. This, any Chamber of Commerce president would be happy to tell you, is what makes the free enterprise system work. In the defense industry however, all too often there is little or no penalty for failure. Perhaps we should introduce a few of the basics of the free enterprise system into the contract process. Gordon Rule, Navy chief procurement officer, told another Congressional Committee last year:

"If defense contractors can't hack it . . . they ought to be terminated for default and if they lose money and go bankrupt let them do it. Maybe a couple of bankruptcies and defaults in the defense industry is going to do them some good."

These are stern measures, surely, but stern measures are needed if we are to extract the waste and fat from our defense effort. It is time we listened to the Rickovers and the Fitzgeralds and the Rules.

Essential Problem is the Arms Race

While it is of the utmost importance to the American taxpayer and the American economy that the excessive costs of waste and inefficiency be eliminated from the military-industrial establishment, it is of even greater importance to the survival of America and the whole human race that means be found to stop the arms race, and particularly the nuclear competition between the United States and the Soviet Union, which threatens to end in world catastrophe.

United Nations Secretary-General U Thant, in a statement on May 22 last, emphasized where that race is taking us. He said:

"The decade of the 1960s witnessed a number of achievements in the field of disarmament. On the eve of the decade, in 1959, the General Assembly unanimously adopted a resolution making general and complete disarmament a goal of the international community. In the same year the Antarctic Treaty, providing for the demilitarization of that area, was signed. In 1961, the Soviet Union and the United States worked out a Joint Statement of Agreed Principles for Disarmament Negotiations which the General Assembly recommended as the basis for negotiations on general and complete disarmament. Four important treaties were agreed in the 1960s: the Partial Test Ban Treaty in 1963, the Outer Space Treaty in 1967, the Treaty establishing the Nuclear-free Zone in Latin America also in 1967, and the Treaty on the Non-Proliferation of Nuclear Weapons in 1968. All these treaties have entered into force. They give ample proof that progress towards disarmament can be made.

"Nevertheless, the world is confronted with the paradoxical situation that, despite these successes, there is an increasing diversion of enormous resources and energy, both human and physical, from peaceful economic and social pursuits to unproductive and uneconomic military purposes. Between 1948 and 1968, while the United Nations was deeply engaged in disarmament discussions, world military expenditures increased by threefold at constant prices. In 1962, pursuant to a decision of the General Assembly, I appointed a group of international experts to prepare a report on the economic and social consequences of disarmament. They estimated that military expenditures for that year had reached the figure of 120 billion dollars. By 1969, it had risen to the even more startling figure of some 200 billion dollars. This wasteful expenditure was undoubtedly a factor in the failure of the Development Decade of the 1960s to achieve its goals. It exacts a tragic toll, not only on the living conditions in the developing countries, but also in the most developed countries.

"In addition to the heavy economic and social burdens, the armaments race also poses a threat to the security, indeed to the very survival, of all mankind. As I have said before, the world stands at 'a most critical crossroads.' It must halt and reverse the 'mad momentum' of the nuclear arms race and move ahead towards the goal of general and complete disarmament, or the outlook for humankind is black indeed." (emphasis added)

In other words, the talks and the treaties have achieved nothing, because the major competitors continue to compete.

In terms of money spent, by far the major competitor in the world arms race is the United States. And many of us have become increasingly concerned with the fact that even while we are entering upon the second round of arms limitations talks with the Soviet Union, the Nixon Administration is continually pressing us to accelerate still faster our share in the nuclear race. First there was the decision last year to install a "thin line" of ABMs. Then there was the introduction into the 1971 Budget of a request for funds to further extend ABM to an "area defense" system. On top of that there is the \$17 billion MIRV system of multiple-warhead missiles, capable of shooting as many as ten independently guided warheads from the same nose cone, which was announced for deployment this month.

Supporters of the Administration have suggested that this new surge forward in the arms race on our part is essential to achievement of an agreement on disarmament with the Russians. That is unadulterated nonsense. The only way in which we can reasonably expect the Russians to respond to an increase in our missile strength is by increasing their own missile strength, and by holding up any agreement on even a "freeze" on armaments until they have done so.

"The Simplest Way to Stop is to Stop"

U Thant, in the statement quoted above, made one more very wise comment. He said:

"We can discuss all kinds of complicated formulae for a strategic arms agreement, but the simplest way to stop an arms race is to stop."

Occupying the neutral position he does, it was necessary for the Secretary-General to address himself equally to both sides. But as an American, representing over a million and a half other Americans and their families, and addressing members of the American Congress, I feel free to say that since we already occupy such a clear-cut position of leadership in the arms race, it is our duty to stop first. This is one of those situations in which someone has to make the first move. I believe we should make it.

As far as arms talks are concerned, the situation in which we find ourselves with respect to the Soviet Union is in many ways similar to that which frequently occurs in collective bargaining in industry. Both sides find themselves stuck on dead center, and the art of the negotiator is to find a suitable way of making the first move. To do so is not a sign of weakness, but of strength and self-confidence and willingness to face realities.

The analogy is not a perfect one, however, because the alternative we face is not an industrial strike, but the probable eventuality of a nuclear holocaust in which we -- or our children -- will all perish.

The real danger of the nuclear arms race is that we are not simply dealing with a stepped-up version of normal conventional weapons, but with totally unconventional weapons which represent a completely new dimension of destructive power.

As Professor Hans Morgenthau, himself a refugee from Nazi Germany and now a distinguished historian, political scientist and specialist in international law has pointed out, we have been living for the past 25 years in a state of misplaced optimism, simply because no country has used the bomb since World War II, and it has now become such a terrible weapon that we believe no one will dare to use it.

This optimistic view is misplaced, he believes, because common sense thinkers assume that military men are also common sense thinkers.

But this is obviously not so. As I indicated earlier, the Soviet Union already has sufficient nuclear power to destroy the United States, for all practical purposes, 20 times over -- and the United States has more than twice the weight of nuclear power that the Soviet Union has. Under such circumstances, what common sense thinkers would continue to insist, as the Pentagon does, that we must continue spending tens of billions of dollars more to increase our nuclear "advantage" still farther?

Obviously, says Morgenthau, the military men think of nuclear weapons as merely a "quantitative extension of conventional weapons," to which the old rules of diplomacy and war still apply.

Those rules provide that nations with conflicting interests do their best to resolve them by diplomatic means, but if all attempts fail one nation or another resorts to war. Under these rules war, as Karl von Clausewitz said, is merely a carrying out of political relations by other means.

The essential reason this was feasible in the past was because, with conventional weapons, war remained within a "rational framework." One nation might be defeated, and both might suffer severely, but when the war was over and the dust had settled, both -- or at least one -- would still survive.

But with nuclear weapons, all that is changed. Diplomatically, nuclear war "has become a completely irrational way of attaining national objectives," says Morgenthau.

Militarily also, nuclear war is irrational. "The nation which can destroy you 15 times over," he points out, "is not stronger than you are if you can destroy him only five times over."

In other words, we must bring the nuclear arms race to an end, not because war is terrible, but because war is now insane.

And we dare not rest the whole future of the human race on the hope that no military man, or no politician, will ever be insane enough or even stupid enough to press the button.

The Need for Positive, Affirmative Actions Toward Peace

It is no longer enough to engage in talks. If we are to stop the arms race, it is essential for one side to begin by taking positive, affirmative actions toward peace. And because our side is the stronger, the first move is up to us.

There are a number of positive, affirmative actions which we should take, and which we could take without in any way weakening our ultimate power to defend ourselves.

We should stop the war in Southeast Asia -- and failing that, at least get out ourselves, financially as well as militarily.

We should stop the development and deployment of additional weapons -- ABM, MIRV, ULMS and all the others.

We should close as many as possible of our overseas bases, and drop the whole concept of ringing the Soviet Union with such bases. At a time when we already have a stockpile of missiles that we can send from this country to any spot on earth, such a ring of bases is as obsolete as any of the conventional weapons of World War II.

We should cut our military expenditures, not merely by the extent of waste and fat that we can cut out of the establishment, but also by the amounts we can save through the above indicated measures. At a most conservative estimate, we should be able to save at least \$20 billion a year on our military budget -- perhaps much more.

Finally, we should cut down as rapidly as possible on our role as the world's greatest merchant of death through sales of weapons to other countries. We must recognize the fact that we do have obligations to other countries, and those obligations should be fulfilled, but we must stop there. We must stop making profits by producing arms for sale to both sides of the various smaller conflicts around the world, or to keep dictators in power, as we are doing now in the Middle East, in Greece, in Latin America and probably elsewhere.

In particular, we must put an end to the kind of hypocrisy represented in the following report published by Business Week on May 23 last:

"Last week, the U. S. agreed to sell 16 A-4B Skyhawk jets to Argentina for \$5-million, and decided in principle to sell both Skyhawks and F-5 fighters to Brazil, Chile, and Colombia."

* * * * *

"In the quarter-century since the end of World War II, some \$66-billion worth of conventional arms have been pumped into world markets. Close to \$50-billion of those weapons have come from the U. S. , which achieved its status mainly through military aid programs bolstering allies during the cold war. Side by side, Washington has also mounted an aggressive campaign to sell arms abroad.

"Now, however, because of mounting criticism in Congress, the Pentagon is shifting tactics and is urging industry to take on more of the arms sales job.

" 'In view of growing Congressional concern over U. S. arms exports programs, the government is playing down its role and expecting industry to take up the slack, ' says a Pentagon official frankly. 'It's more in keeping with the times. '

"New and little-publicized guidelines for U. S. foreign-arms sales were laid down in mid-February by Ronald I. Spiers, director of the State Dept. 's Bureau of Politico-Military Affairs. Under his directive, the government will henceforth curb its active arms-sales promotion and will wait instead for customer nations to ask to buy arms.

"When they do, however, U. S. embassies and Washington officials have a free rein to encourage arms purchases directly from U. S. companies. "

Not Unilateral Disarmament

None of the proposals suggested above mean that the United States should attempt unilateral disarmament. We will still have a sufficiency of nuclear weapons to destroy any possible enemy.

What it will mean is that we shall have taken the first steps to prove that we do genuinely want peace. From those first steps, since those who sit across the table from us in the SALT talks face the same problems we do

in exaggerated form, we should be able to move forward then to multinational agreements, first to freeze all new development and deployment of nuclear weapons, and then to move gradually to a multinational reduction in all weapons, hopefully with a long-term view to ultimate disarmament except for a United Nations peace force.

At the same time, we must take steps to convince our own people, and especially our young people:

1. That America is not dominated by the military-industrial complex, but its basic policies, including the setting of priorities and allocation of natural resources, are still determined by the elected representatives of the people.
2. That our elected representatives are prepared to recognize that present priorities are out of order, and are prepared to set them right and put human needs first.
3. That the great technical capabilities of our defense industry can and will be converted to such vital projects as designing ways to end pollution, producing low-cost housing, building mass transit systems and meeting the many other areas of our needs.
4. That we are concerned with other countries than our own -- that we do not want to continue selling them planes and tanks and guns and help them build armies -- and along with the armies, military dictatorships -- but that we want to help them build hospitals, schools, homes, irrigation dams, to sell them plows and tractors and road-building machinery. We want to help them build their own economic independence, not even requiring that they build it in the American way, but that in their own way they build for peace and freedom and bread for their people.

Only when we have determined to seek these goals, and proven our determination in the beginnings of action, can we truly unite our own country and hopefully, eventually, the rest of the world in continuing action to achieve those goals.

MEETING OUR CIVILIAN NEEDS

While we have had our minds on the costly war in Vietnam, on sending men to the moon and on escalating the nuclear arms race, we have been averting our eyes and our conscience from the serious deterioration of the quality of life here in the United States. Consequently, we have fallen into a sea of domestic troubles, of confusion over our values and purposes as a nation, of widespread injustice, and of a growing crisis of democratic institutions. We can sum it up as a crisis of the two environments, human and natural, in which we live. Both of these environments, which are essentially one, are in disorder and in jeopardy because of neglect and abuse over the years. If we are to salvage and restore them we must begin here and now to translate a new commitment to the essential democratic values into a new order of priorities for private and public action.

According to the conventional wisdom, we live in an affluent society. That is only a very partial and deceptive truth, created out of giving too much importance to the Gross National Product, which puts an aggregate money value on what we do in this country, whether what we do is improving or destroying the two environments. If we look away from the GNP and concentrate on what is actually happening in the country, it becomes clear that this is not just the affluent but it is also the neglected society. There is nothing on our national agenda which is more vital and urgent than to remedy that neglect.

While the Gross National Product has risen, the quality of life has declined. Everywhere we look we see evidence of neglect and deterioration. Those who need decent housing the most go begging for lack of the ability to pay the price. The system of delivering health care has become steadily more costly and less efficient. Schools, especially in the inner cities, fail to educate despite all the best intentions of teachers and administrators. Millions of Americans suffer from hunger and malnutrition, not because we lack the means to end their poverty, but because we do not care enough. Literally square mile after square

mile of our cities is virtually unfit for human habitation. Natural as well as human resources have been recklessly exploited; we have done serious and in some cases perhaps irreversible damage to the delicate balance of nature which supports life on this planet. Clearly, the time has come when we must divert our energies and our resources from war to the urgent needs of peace at home.

The UAW is not alone in its assessment of our nation's urgent needs, or in our belief that in America we have the potential means to make our way of life the finest any people anywhere have ever known. In his State of the Union Message on January 22, 1970, President Nixon said:

"The moment has arrived to harness the vast energies and abundance of this land to the creation of a new American experience, an experience richer and deeper and more truly a reflection of the goodness and grace of the human spirit.

"The seventies will be a time of new beginnings, a time of exploring both on the earth and in the heavens, a time of discovery. But the time has also come for emphasis on developing better ways of managing what we have and of completing what man's genius has begun but left unfinished

"Our land, this land that is ours together, is a great and a good land. It is also an unfinished land and the challenge of perfecting it is the summons of the seventies."

And he said:

"As we move into the decade of the 70s, we have the greatest opportunity for progress at home of any people in world history

"Our Gross National Product will increase by five hundred billion dollars in the next ten years. This increase alone is greater than the entire growth of the American economy from 1790 to 1950.

"The critical question is not whether we will grow, but how we will use that growth."

And he said:

"In the next ten years we shall increase our wealth by fifty percent. The profound question is -- does this mean we will be fifty percent richer in a real sense, fifty percent better off, fifty percent happier?

"Or, does it mean that in the year 1980 the President standing in this place will look back on a decade in which seventy percent of our people lived in metropolitan areas choked by traffic, suffocated by smog, poisoned by water, deafened by noise and terrorized by crime?"

And he said:

"The violent and decayed central cities of our great metropolitan complexes are the most conspicuous area of failure in American life today.

"I propose that before these problems become insoluble, the nation develop a national growth policy.

* * * * *

"In particular, the federal government must be in a position to assist in the building of new cities and the rebuilding of old ones "

And he said:

"As I look down the new road which I have tried to map out today, I see a new America as we celebrate our two hundredth anniversary six years from now.

"I see an America in which we have abolished hunger, provided the means for every family in the nation to obtain a minimum income, made enormous progress in providing better housing, faster transportation, improved health and superior education.

"I see an America in which we have checked inflation, and waged a winning war against crime.

"I see an America in which we have made great strides in stopping the pollution of our air, cleaning up our water, opening up our parks, continuing to explore in space

"And, most important, I see an America at peace with all the nations of the world. "

These are fine words, but they need to be transformed into action so that they will indeed lead to the creation of "a new American experience, an experience richer and deeper and more truly a reflection of the goodness and grace of the human spirit" than any we have ever known before. That action has not yet been forthcoming.

I will not attempt to rank the many needs of America in any order of priority. Who is to say which is more important -- building more classrooms,

eliminating discrimination, providing more housing, keeping our people healthy, purifying the air, feeding the poor? We must get to work on all of these at once. This is not to say that we can pursue all of our goals to their ultimate extent simultaneously. We must establish timetables and orders of precedence. These will be based partly on technical evaluations, but for the most part must depend on value judgments as to our national needs and aspirations. In the final analysis it is the President and the Congress who must order our priorities.

Government must, however, provide a forum so that all concerned groups in our society can assist on a continuing basis in the making of these decisions. Last year before this Committee the UAW proposed for this purpose the establishment of a "Standing Citizens' Committee on National Goals." I repeat that proposal now. The members of that Committee should represent the major occupational groups such as labor, business, farmers and professionals; it should also represent consumers, youth, minority groups and educators; and should provide representation for appropriate research, conservation and other nonprofit bodies.

Realistic goals must be established. Then we must plan our efforts so that our resources are effectively allocated so as to enable us to reach those goals. Among many Americans, "public planning" is a bad term. It conjures up a vision of government fiat, of rigid programs imposed from above in which the people have no options. We neither need nor want that kind of planning. The kind of planning we do need, however, has to do with the systematic gathering of all relevant information on needs and resources, with democratic weighing of various alternatives, with coordination of effort. This kind of planning does not limit our choices but rather increases our ability to understand the alternatives and to make clear and sensible choices.

In considering our national priorities we must be guided by the basic understanding that this nation cannot be brought together and kept together as a democratic society by policies or strategies or attitudes that bar the poor, the deprived, the ethnic or racial minorities or the dissenters from equal opportunity

and from full enjoyment of constitutional rights. The deepest obstacle to equality of opportunity is not economic, but is rather an insufficiency of democratic will to condemn the prejudice and eliminate the patterns of discrimination that stand in the way. We cannot claim to have established the good way of life in this country until all traces of discrimination have been eliminated in education, in housing, in employment and in all our social intercourse.

Neither can this nation be kept together by demagogic appeals to prejudice or fear which ignore the most basic needs of our people. Thus, for example, in the last Presidential campaign, a potent argument which undoubtedly swayed many millions of voters was the promise to restore "law and order." Of course, we all believe in law and order, and we want to see it preserved. But law and order take many forms. Ralph Nader, in a speech at Ann Arbor, Michigan, last March, for example, pointed out that fires resulting from hazardous slum housing last year killed 12,000 people, which was double the number killed in street homicides. Undoubtedly, many of those fires resulted from violations of fire safety laws by slum landlords which were ignored by the enforcement officers whose duty it is to preserve law and order with respect to rental housing. Yet it is the violence in the streets which gets the headlines, not the violence done to the helpless poor. And it is easier to get votes by demanding more and better-armed policemen than by demanding more and better housing.

Let us have law and order by all means, but let us seek it not through violence and oppression, but by passing and enforcing laws to protect the exploited, and by setting an order of priorities in our national life which will put first and foremost the human needs of men, women and children.

Health Care

We must realize that meeting the essential needs of Americans is not just a matter of spending more money. More money is necessary, but in many areas of our society the infusion of funds must be accompanied by basic changes in the means by which we attempt to meet our needs. We need to improve the "delivery systems" through which the goods and services to meet our social needs are provided. There is no area in which some improvements are not needed, but there are two areas in which the need for basic changes is most glaring -- health care and housing.

Over the years our Union has warned the nation time and again of the deepening crisis the U. S. faces in health affairs. In no industrialized nation in the world is the gap between the "have" and "have not" people, in their respective abilities to gain access to adequate health care, as wide as in the U. S. Simply pouring additional billions of dollars into the present archaic and disorganized method we now use to deliver health care will only compound our massive problems and continue to inflate health care costs. We must fashion a new system of health service that will overcome the present built-in waste, duplication and inefficiencies, while giving all Americans ready access to the highest possible level of health services which our medical and scientific resources are already capable of delivering.

President Nixon has recognized America's health care crisis. At a press conference last summer, he stated:

"We face a massive crisis in this area and unless action is taken both administratively and legislatively to meet that crisis within the next two or three years, we will have a breakdown in our medical care system which would have consequences affecting millions of people throughout the country."

President Nixon's statement, however, understates the urgency of America's health care needs, as does his lack of action to deal with them.

1. Our health status is low and worsening. While we are the wealthiest nation on earth, with the most

advanced medical and scientific resources and technology, yet:

- o In a very few years we moved from 13th to 18th place among the industrial nations of the world in life expectancy for males; our death rate for middle-aged males is worse than anywhere in Western Europe and many other countries.
- o We rank fifth in the overall death rate, but 14th in deaths from diabetes and 13th in deaths from heart disease.
- o In maternal mortality we rank behind 11 other industrial nations.
- o Twenty years ago we ranked 7th among industrial nations in the prevention of infant mortality. Today we rank no better than 14th. While we have made some headway in reducing the infant death rate, our progress has been at a snail's pace compared with that of many other countries. In 1950 our infant mortality rate was 29.2 per thousand births, just over the 28.2 rate of Norway. By 1968, Norway's rate had been reduced by more than half to 13.7 deaths per thousand births. Our own rate had been cut by only one-quarter to 21.7. Had we brought our rate down to the same level as in Norway, 28,000 infant lives would have been saved in 1968 alone.
- o Within the U. S., the infant mortality rate of nonwhite babies is almost double the rate for white babies, and the nonwhite maternal mortality rate is more than three times the rate for white mothers.

2. The cost of health care is skyrocketing. It represents the single most inflationary factor in the upward movement of the Consumer Price Index. The cost of medical care over the past decade has risen at almost twice the rate of other consumer prices.

3. We spend more money in total (\$63 billion a year) and a larger percentage of our Gross National Product (6.7%) for health care than any other nation in the world. Yet despite this, unlike many less affluent nations, we have failed to provide the American people with the kind of comprehensive high-quality health care services that we have the knowledge and the resources to provide.

We are not getting the maximum yield from our expenditures because we lack effective organization for the delivery of health care services. Ours is a nonsystem. Unrealistic and irrational divisions between public and private responsibilities and methods of financing and delivering service have furthered the crisis.

The broad-scale actions necessary to reform our outmoded health care "nonsystem" cannot be implemented by the superficial "remedies" which some have suggested. Government subsidized health insurance coverage or tax credits, which attempt to ease the public's inability to purchase adequate insurance, cannot truly meet our health needs. These are but partial mechanisms. None of them can assure all Americans of access to high-quality care, over the entire range of health services. Such care, within a system designed and operated to meet health needs fully and to make the most effective and economical use of our health resources, cannot be provided without coordination of the financing and delivery of health care. Only a genuine national health insurance system can do this.

Such a system will help assure the availability of services, not merely pay when they are rendered. It will seek to provide high-quality services and not perpetuate substandard services. It will emphasize preventive services because it is both more efficient and more humane to prevent avoidable suffering than to treat it after it has developed. It will provide equal opportunity of access to high quality health services for all persons, without avoidable limitations dictated by geographical boundaries, variations in state or local resources or the economic or health status of the individual.

A truly effective national health care system would pay its own way in increased production per worker. Significant efficiencies in the health service itself would result from the replacement of the present ineffective system, permitting more care to be given for the same price. More importantly, the overall production of the work force would increase as the result of better care. The latest figures available from HEW show that 300 million mandays of work were lost because of illness during the 12-month period ending June 1967. This was equivalent to over 5 percent of the time lost from work because of unemployment during the same period. It was 10 times as great as the time lost from work because of strikes.

The HEW statistics greatly understate the extent of the time lost due to illness because (1) if an injury and an illness are related, the loss is tabulated as an injury and (2) persons suffering long-term illness or disability are not considered as being currently employed, and are excluded from the tabulation even though they would work if they could. Comprehensive, high quality health care would cure many of the sick more rapidly and get them back to work sooner, and would prevent many persons from becoming ill in the first place. As is the case with others of our needs, money spent on health care is not a cost but an investment, one which will be repaid many times over in the well-being of our people and in the contribution they are able to make to the economy.

Housing

We are becoming painfully aware that what we very loosely and inaccurately call the housing industry is itself a major part of our housing problem, and our larger urban problem as well. Government assistance in the field of housing has largely left the industry's fundamental weaknesses untouched. What is more, through errors of commission and omission, the government over the years has been a major agent of urban decay.

The urban renewal program, instead of improving the low-cost housing inventory, has made it worse. From the inception of the 1949 Housing Act through fiscal 1967, urban renewal provided only 107,000 new and 75,000 rehabilitated units. But as of July 1967, the urban renewal program had demolished 383,000 units. Thus, urban renewal had reduced the available housing inventory by more than 200,000 units. Furthermore, of the new units built in urban renewal projects, only 10 percent were low-rent public housing units. For the affected families, urban renewal as now practiced means simply that more and more poor people are being squeezed into a smaller and smaller area to make room for more of the well-to-do. In one Detroit riot area, the congestion increased from 16,000 people in 1957 to 34,000 people in 1967.

Experts have pronounced and Congress has legislated that 26 million housing units must be provided by 1978 -- an average of 2.6 million units a year -- if we are to begin to meet our housing needs. Yet we are still producing at a pace barely half that rate, and of course the vast majority of these units are beyond the reach of the poor and the middle-income families, whose need is the greatest. The nation is falling further and further behind in meeting its housing needs, and its failure represents one of the most potentially explosive social deficits confronting us as a people.

Even though the U. S. is the richest country in the world, its housing effort, on a relative scale, is much inferior to that of other western

industrialized countries or to Russia. In terms of housing units completed per thousand inhabitants per year, Sweden during the past five years averaged a rate of 11.8, as compared to 7.4 for the U. S. For other countries the comparable rates are as follows: Western Germany, 10.1; Netherlands, 8.9; Denmark, 8.3 and France, 8.0. Only the British rate at 7.1 is lower than the U. S. rate. The Russian rate at 9.8 is not only substantially higher than that of the U. S., but the Russians in recent years have been producing also in absolute terms more dwelling units than the U. S.

Home construction in the U. S. has declined in recent years primarily for two reasons: skyrocketing interest rates, which dried up the available mortgage funds, and rapidly rising construction costs (land, materials and labor).

The combination of exorbitant interest rates and rapidly rising construction costs had the effect that monthly mortgage payments on new homes become so high that a substantial proportion of potential buyers were driven out of the market. Tens of thousands of moderate-income families who need a new home and who, a few years ago, would have had no difficulty in purchasing a new home, today are considered unacceptable credit risks because their incomes are too low relative to the required monthly mortgage payments.

The effect of higher interest rates on the monthly mortgage payment can be illustrated by the following example: The FHA maximum interest rate increased from 4-1/2 percent in December 1956 to 8-1/2 percent in January 1970. This means that the monthly payment for a \$15,000, thirty-year mortgage at the maximum FHA interest rate increased by \$39.30, from \$76.05 to \$115.35. Per year, the increase amounts to \$471.60, or 51.7 percent. For the total 30-year period the higher interest rates cause an

increase of \$14, 148 -- from \$27, 378 to \$41, 526. The total amount paid in interest increases from 82. 5 percent of the original loan to 176. 8 percent.

But it is not only higher interest costs which push up the monthly mortgage payments, but also higher original costs. The average selling price of a new one-family home increased from 1967 to 1968 by \$2, 000, from \$24, 600 to \$26, 600, or by 8. 1 percent. The increase in metropolitan areas was larger, amounting to \$2, 200, from \$25, 600 to \$27, 800. These averages, in fact, probably understate the true rise, because they fail to take account of quality deterioration. If only homes with the same number of bedrooms are compared, the median sales price is found to have increased from 9 to 10 percent.

Of the 26 million housing units we need to build by 1978, 6 million ought to be publicly assisted units for low-income families. This means that we ought to build on the average 600, 000 publicly assisted units per year. The language of the 1949 Housing Act promised a decent home to every American, and the 1968 Act repeated this promise. But actually very little has been done. In the 20-year period from 1949 to 1969 we built 655, 000 low-rent housing units managed by public housing authorities. In short, we have built in the past 20 years approximately as many public units as we ought now to be building every year.

We must recognize that we cannot hope to meet the housing needs of America unless we drastically reform the housing industry. We must abandon old methods and practices and apply new concepts, new ideas and new social inventions to the provision of housing. We must end the scandalous speculation in land which is inflating land cost. We must develop longer-term mortgages to reduce mortgage payments.

We must modernize and make uniform the building codes which presently fragment the housing market and pyramid the cost of construction.

We need a national building code based on performance standards which will enable us to take advantage of the most advanced construction methods to facilitate production on a massive scale, and which will at the same time ensure that our housing is of the highest quality.

We must develop new designs, new materials, new construction methods, new ways of utilizing the land, new ways of obtaining clean water and disposing of sewage. In other words, we must apply to the housing industry our most advanced technological capability and managerial and productive know-how, and our most creative product design capability. Only in this way will we reduce the cost of construction and increase the volume of housing to make high-quality, attractive homes available at prices which the millions of low-and moderate-income families who desperately need housing can afford.

National Transportation Policy

We have in America, not a national transportation policy, but a national highway policy. Our policy is to build roads, ever more roads, whether or not we want them or need them, whether or not they are in our overall best interest, whether or not they violate our areas of natural beauty, whether or not they divert resources away from other more vital programs, whether or not they displace the inner city poor and contribute mightily to urban blight and urban sprawl.

What we need in America, as a substitute for the national highway program, is a national transportation program, a coordinated program that would encompass roads but would also encompass air travel and rail travel and, above all, travel by the mass transit systems which are so acutely needed to move large numbers of people quickly, cheaply and efficiently both within our great cities and between our large metropolitan areas.

Our present national highway policy works fine for getting the affluent suburbanite from his downtown office to his distant home. A national transportation policy would be just as concerned with the needs of inner city residents who are imprisoned within the ghetto by bonds of concrete, with the needs of the elderly who must live out the years of their retirement within the confines of the city, with the needs of workers traveling to and from jobs within the metropolitan area. It would be as concerned with the need to preserve our parks and our homes and the beauty and integrity of our cities as with the need to move us from one place to another.

Mass transit systems benefit not just the user but the automobile driver as well. The testimony a few weeks ago before this Committee by Professor C. D. Foster is very impressive. He found that 35 percent of the benefits of a new subway system in London accrued to the automobile driver who did not use the subway at all but who, by the reduction in auto traffic saved in time, in gasoline consumption and brake lining, and certainly in frayed nerves and safety as well.

While other domestic programs starve for lack of funds, the highway program has an overabundance of money. It is like Nathaniel Hawthorne's tale of the miraculous pitcher -- the more that it poured out, the more there is left to pour. Every gallon of gasoline that is bought, every tire that is replaced, every new car that is purchased contributes to this gigantic slush fund, totaling billions of dollars annually, which by law can be used for only one purpose -- building more roads.

No single program is so sacred that it can be permitted to proceed with open throttle when other crucial programs are being crippled or delayed, and many of our needs are ignored altogether. The UAW supports the recommendation made before this Committee of Peter S. Craig that the federal highway trust fund be abolished. It is an economic monstrosity. The size and form of our national transportation program should not be dictated by the amount of revenues which happen to be poured into federal and state coffers by earmarked taxes, but should be subject to the same benefit-cost disciplines that are applied to every other domestic program.

It becomes clear from a serious study of what is wrong with America that our many, many problems are intricately interrelated. The transportation problem is part of the cities problem, part of the housing problem, part of the pollution problem. If we coordinate our efforts and plan to allocate our resources wisely we may solve our problems together; but the possibility of our solving them separately is slim indeed.

Education

We have made the mistake in America of believing that the future and the quality of our society depend upon capital growth and the accumulation of material wealth, when in fact they depend upon human growth and the accumulation of knowledge directed toward human ends. A quality education for our children is vital to us all. Yet, by failing to allocate adequate resources for our school systems, we have deprived millions of our children and youth of the educational opportunities essential to their maximum growth and development.

The most costly in human terms of all false economies is being practiced on educational programs. The progress toward expanding educational opportunity which was made during the early and mid-1960s should have been continued and enlarged. Instead, in the headlong drive to restrict domestic spending, the Nixon Administration has seriously retarded the small beginnings that were made to deal with the crisis.

The dimension of our failure on the education front is exemplified in the tragic fact that 27 percent of America's 17-year-olds are dropouts from school. We need to reach backwards to save the dropout, and restore his individual sense of worth and his ability to contribute to society, even while we continue to expand facilities for the education of oncoming generations. We must also make available continuing education for adults, a necessity not only for building the whole man but for enabling adults to advance with the advances made in society. We need to reform our education system from top to bottom to provide for change and growth, and to continually assess its effectiveness in reaching goals and relating realistically to the lives of students.

It is necessary too that progressive tax reforms be carried out and that the burden of taxes for education be taken off the small home owners and placed on the shoulders of those best able to carry the cost on the basis of the sound principle of ability to pay. It is the unjust tax structure that accounts for the fact that 43 percent of school bond issues in 1969 failed to win approval.

The federal government should assume a far greater share of the cost of education:

It should make special grants for school construction and educational enrichment to school districts which for social and economic reasons over which they have no control are unable to provide equal opportunity for their children.

The Head Start program should be extended to all school districts where significant numbers of working mothers reside; and we should recruit as staff for such programs, intelligent women and men who are now unemployed,

underemployed, or simply on welfare. Urban head start and kindergarten programs should operate for not less than ten hours in each day, in order to provide adequate care for the children of working mothers.

We need federal support for experimental programs designed to measure and evaluate the new and old teaching methods and to explore forms of school organization and administration which give promise of leading us to more effective utilization of school plant and professional services.

We need federal support for experiments with learning related to work, school-work co-op programs, and other ventures outside the formal classroom -- such as the city of Philadelphia's "School Without Walls" where children do much of their learning in local stores, factories, community organizations, laboratories, public agencies, museums, hospitals, etc. Such programs should be specially designed to serve children who have dropped out of school.

Compensatory education must be established for culturally deprived pupils and their families.

Education for poor and working class people must be relevant to their lives and needs. Literature and symbols geared only to middle class life styles are not only unrealistic, but damaging.

Junior or community college education should be made as accessible to every young American as high schools are now -- and, in line with the recommendations of the Carnegie Commission of Higher Education, we should begin planning now to make it possible in the next decade for every young American to enter and complete a four-year college course.

Title I of the Elementary and Secondary School Act is currently funded at only \$1.1 billion, less than half of the fund authorized. It reaches about 9 million children. Effective funding would provide \$4.5 billion and reach at least 15 million children.

In spite of the most obvious demands for technical training, the vocational education budget is less than 37 percent of the money authorized.

Adult education is faring proportionately better, at five-eighths of the authorization. The total authorization, however, is ridiculously low at \$80 million.

The Higher Education Act of 1965 has become more a banker's boondoggle than a source of real aid to students. In view of the social and economic dividends to society, further investment in outright grants (which are sadly insufficient in the present Act), and direct loans repayable to an established fund at no or little interest should be provided.

Actuarial assessment of returns from human investment in education have fully justified that investment even when the justification is measured in the narrow terms of the return to the government in increased tax revenues. A recent report shows that under the post-Korean G. I. Bill the Veterans Administration pays a returning veteran \$4,680 in benefits while he earns a four-year college degree.

It is estimated that, with that degree, he will earn \$541,000 during his lifetime. Without a degree, with only a high school education, it is estimated he would earn only \$340,000.

At tax rates in effect at the time of the study the veteran would pay \$37,975 in Federal income taxes on that extra \$201,000 earnings. This is roughly eight times as much as the \$4,680 cost of his G. I. Bill assistance benefits. His total increased earnings -- a conservative measure of the extra wealth he creates for the nation -- are equal to 43 times the cost of the educational investment.

Bold expansion of this kind of investment is in keeping with the order of growth and change needed in education. We estimate that it would cost the federal government \$15,000 to \$17,000 to assume the total cost of putting qualified high school dropouts through college. This would include the assumption by the federal government of the student's pro-rata share of all costs of education for the last three years of high school and four years of college. The assumption of this liability would, however, not be a cost but a most worthwhile

and profitable investment for both the student and the government. The student would probably more than double his lifetime earnings. The government would reap in increased tax revenues a return several times as great as its investment in the student's education. The return in terms of the enrichment in the life of the student and in the improved quality of our society, while not subject to quantitative measurement, is obviously very great and very worthwhile indeed.

Poverty

The persistence of poverty and hunger in the richest country of the world is an intolerable disgrace. Years have gone by since we committed ourselves as a nation to abolish poverty; yet, even by the inadequate official measure of poverty, 25 million people are still classified as poor. Poverty remains with us because the antipoverty measures applied thus far, although useful, have failed to come to grips directly with the fact that, by definition, poverty is lack of sufficient income or assets to finance a socially acceptable standard of living. The conquest of poverty, as the UAW has pointed out repeatedly, requires jobs for all who are able and willing to work, wages sufficiently high to provide decent living standards for all who are at work, and adequate insured incomes for all who are unable to work. In practical terms, these requirements involve an effective national full employment policy, comprehensive coverage under minimum wage legislation with the minimums fixed at adequate levels, and legislation -- including increases in minimum benefits under the various social insurance programs -- to assure a guaranteed minimum annual income above the poverty line for those unable to earn their own way because of age, disability, or family responsibilities.

As the late UAW President Walter P. Reuther testified before this Committee a year ago:

"... in a society as affluent as ours there are certain economic rights which society has the material means to fulfill for every citizen, and that every citizen has the right to demand. Our nation's founders affirmed in the Declaration of Independence

the inalienable right of all to 'life, liberty and the pursuit of happiness.' The Preamble to the Constitution states that this basic law of the land was ordained, among other reasons, in order to 'establish justice, insure domestic tranquillity (and) promote the general welfare.'

Today, almost 200 years later, these promises remain unfulfilled for millions of Americans. They are denied the decency, the dignity and the security essential to the pursuit of happiness. The misery of their lives in the midst of the wealth that surround them testifies that economic justice has not been established and that promotion of welfare has stopped far short of making it general. In direct consequence, domestic tranquillity is less a reality today than at any time since the Civil War.

It is clear that ringing declarations and general expressions of good intentions are not enough. In the America of 1970 and the remaining years of this century, no pledge of political rights will carry conviction to men or women who are denied the essential economic conditions for life, liberty and the pursuit of happiness in our time. Needed now is renewal and reaffirmation of America's covenant with her people, coupled with mechanisms to assure that the pledges made long ago will at last be redeemed.

Economic Bill of Rights

It is possible to assure the political and civil rights of our citizens largely because they are set forth explicitly and in detail in our Constitution, and because the courts, particularly in recent years, have been vigilant in compelling other arms of government to respect them. It is time now to give expression, equally clear and equally enforceable, to the economic rights implicit in the Declaration of Independence and in the Preamble to the Constitution.

We believe that an Economic Bill of Rights must be added to the Constitution which will enable any person or groups of persons denied those rights to assert them through the courts as they are able now, under the existing Bill of Rights to assert and to be protected in their political and civil rights.

Such a Bill of Rights should:

1. Establish the constitutional right of all Americans to:
 - a useful job, if they are able and willing to work, with the federal government acting as the employer of last resort;
 - a wage sufficient to support themselves and their families in decency and dignity in accordance with the standards prevailing at the time, if they are employed;
 - a guaranteed annual income sufficient to provide adequate living standards, if they are unable to work, either through the negative income tax program or some other appropriate means, instead of the obsolete and degrading welfare system currently in effect which destroys the integrity of the family unit and offends every concept of human dignity;
 - access to high-quality, comprehensive medical care for all Americans by establishing a National Health Service;
 - a good house in a good neighborhood, in a wholesome community, providing a total living environment worthy of a free people;
 - an adequate educational opportunity for every American child and youth to facilitate his or her maximum growth and develop-

ment, including free college education.

2. Require the President and the Congress to take all reasonable steps, including provision for training of personnel and creation of facilities, to effectuate the above rights as promptly as practicable.
3. Provide that, after the lapse of a reasonable time, to be determined by the courts separately with respect to each of the above rights, any person or class of persons claiming to have been denied a right guaranteed by the Economic Bill of Rights shall be entitled to redress through the courts, which shall be empowered to direct the appropriate agencies of the government to take such remedial action as may be found necessary in the circumstances.

Pollution

For 25 years the world has been threatened by the specter of extinction through nuclear war. Now, within the past few years, we have become aware of a second threat, that of slow extinction in our own wastes and poisons. While pollution was once thought of only in terms of the despoiling of the natural beauty spots in which we like to spend our leisure time, now we realize that pollution endangers our very lives. It contaminates every breath of air we draw, the food we eat and the water we drink. Virtually the entirety of mankind carry within their bodies traces of the poisons and the atomic radiations with which we have permitted our entire earth to be polluted

Already whole lakes and river systems are dying; some are unable to support any but the simplest scavenging forms of life. Some scientists have gone so far as to predict that unless rapid remedies are found, within the lifetimes of many of us the death of our natural environment through pollution will have become an irreversible process which can end only in leaving the world an uninhabitable waste. Even the least pessimistic agree that unless present increases in pollution are

checked and the current extent of pollution is eliminated, the quality of human life will steadily deteriorate.

One of the reasons for the mess we are in is that too many of us have the mistaken notion that we live in a world and upon a continent of unlimited natural resources. Only recently have we begun to realize that they are not only limited, but that those limits are rapidly closing in upon us. We have lived under the illusion that each random individual and corporate act of aggression against the environment is "the price we pay for progress" -- progress being defined largely as the accumulation of material goods and the spread of uncontrolled industrial empires. We are only now beginning to acknowledge that the price of such "progress" is greater than we are willing or able to pay, and that private, corporate and even public acts of vandalism against the environment in which we all have to live must be suppressed or drastically controlled if that environment is to become once again decently livable.

Our approach to the pollution problem has up to now been so fragmentary that we do not even know the total extent to which we have spoiled our environment. Hopefully, the recently established Council on Environmental Quality will perform the necessary task of measuring the vast extent of the problem with which we are faced. The Council, whose members are appointed by the President, is charged with the preparation of an annual report to the President on the state of the environment, similar to the annual report on the state of the economy prepared by the Council of Economic Advisors. Its first report is due in July.

The optimism generated by the establishment of the Council is tempered by its inauspicious beginning. At the press conference called for the announcement of his appointment as chairman of the Council, Mr. Russell Train is reported by the Wall Street Journal of January 30, 1970 to have "...believed that while 'a portion' of the costs of cleaning up pollution should be borne by stockholders, 'most' of it should be passed on to consumers in the form of higher prices." Thus Mr. Train has already given public notice that polluters can continue to despoil the environment with little pinch in the pocketbook.

We propose that polluters be required to pay a tax sufficiently high to cause them to stop polluting. This is a very simple and a most effective approach. Furthermore, we propose that this tax be imposed on profits after provision for income taxes, so as to insure that the full weight of the tax is imposed on the corporate owners. To permit a tax on pollution to be regarded as a business expense deductible for federal income tax purposes would reduce the weight of the penalty by the amount of the income tax rate. The cost of pollution is not just another business expense, and should not be regarded as such.

We need a Federal Pollution Regulatory Agency to assess the extent of pollution and to penalize the polluters. For this purpose we support the Bill recently introduced by Senator Muskie, S. 3677, the Environmental Quality Administration Act of 1970. This Bill would set up an independent agency similar to the National Environment Commission which the UAW proposed before this Committee last year. It would develop, implement and enforce uniform federal environmental quality standards.

The broadest possible citizen participation in the war on pollution must be encouraged. We recommend that a Citizens' Advisory Committee on Pollution be brought into being, comprising those citizens' groups already concerned in this matter, and broadened as still other groups become aware of their stake in our resources. The Citizens' Advisory Committee would assist the Environmental Council in drawing up broad programs and policies, which would be implemented and enforced by the Federal Pollution Regulatory Agency.

The battle against pollution will necessarily take many forms and must be fought on many fronts. But behind every decision must stand the essential principle that public interest takes precedence over private profit. The following are only some examples of what we must do:

We must not only force industry to accept responsibility for cleaning up the pollution and wastes that its processes and products have already created, but we must develop strict controls to prevent the development of new ones.

We must develop rigid regulations and controls to prevent the further pollution of our ocean and inland waters, shores and beaches from offshore oil wells and drillings. Oil tankers must be subject to the strictest national and international regulations to minimize the danger of oil spillage due to marine accidents or other causes. As Dr. Patrick McTaggart-Cowan, director of the Science Council of Canada, put it just the other day:

"If the commercial airlines ran their business like the tankers do, you'd be crashing a DC-8 every week and the world would say stop it."

It is high time we did say stop it.

We must impose a rigid time table upon the auto industry to develop an engine that will not pollute the air.

We must tighten up all standards governing the emission of carbon monoxides, sulphur oxides, hydrocarbons, nitrogen oxides, particulates, and other polluting substances.

Similarly strict regulations must be adopted and enforced against all forms of water pollution. The detergent industry must be prohibited from further manufacture and sale of phosphate-rich products in order to eliminate their effects on algae overgrowth.

Government must insist on and assist with the introduction and extension of sewage treatment plants, including tertiary treatment stages, in all centers of population which now dump untreated or inadequately treated sewage into our rivers, lakes and ocean fronts, and must engage in research and development looking to the adoption of wholly new types of treatment that will return organic wastes to the land to improve the declining quality of our soils.

The manufacture, sale and use of all "hard pesticides" must be immediately prohibited.

There is need for better protection of the human race from increasing exposure to radiation. The current controversy over radiation standards points up the absolute necessity of greater prudence than is presently

exercised. We therefore endorse the recommendation that maximum permissible exposure levels be reduced to one-tenth of their present levels.

We need an overall resources policy dealing not only with air and water pollution, but with water re-use, desalting, soil control, land use and natural beauty. To develop such a comprehensive policy, major gaps in knowledge and techniques must be filled through greatly accelerated research.

A Federal Recreation Service should be established to create the conditions, facilities and programs to help make leisure a more rewarding aspect of life. The Service would make federal grants available for such purposes.

Land acquisition programs must be extended. Our recreation areas shrink as our population grows. Before potential sites are lost forever, the government must act on already designated sites and acquire the additional sites we so desperately need.

Positive steps must be taken to make these programs financially sound. The immense revenue potentials in our offshore oil and our oil-shale reserves can provide funds for this purpose.

Strict regulations should be adopted to enhance natural beauty in highway design and construction and in urban and metropolitan planning, and to rid the country of the visual pollution caused by billboards, junkyards and land disfigured and laid barren by stripmining.

To save our last natural frontier, the oceans, from the short-sighted plundering which has done so much damage to our land environment, the United States should proceed cautiously in exploiting resources in and under the sea, and should make a serious effort to reach international agreements toward the same end. Control over ocean resources should be transferred to the United Nations, which should be empowered to take all necessary steps to avoid pollution and to use the revenues from those resources to finance activities directed toward peace and human progress.

Population

We live within a thin and fragile envelope containing finite resources of land, air and water, and an intricate, delicate maze of living forms and relationships about which we know very little. We have assailed this limited and fragile domain with powerful and revolutionary sciences and technologies without knowing or being very concerned about the possible consequences of our aggression. We have been living under the false assumption that the mission of man is to dominate and transform the natural world rather than to live with it in harmonious balance. Our activities have become more subversive of that natural balance as our rapidly growing population has made increasing demands upon the limited resources which are available to support life.

The dominant view among scientists is that we must reduce the pressure of population growth on our environment. Jean Mayer, an authority on population and public health, discussed this relationship between our numbers and our environment in the Summer 1969 issue of

Columbia Forum:

"If we believe, like Plato and Aristotle, in trying for excellence rather than in rejoicing in numbers, we need a population policy now, for the rich as well as the poor. Excellent human beings will not be produced without abundance of cultural as well as material resources and, I believe, without sufficient space. We are likely to run out of certain metals before we run out of food; of paper before we run out of metals. And we are running out of clear streams, pure air, and the familiar sights of Nature while we still have the so-called 'essentials' of life. Shall we continue to base the need for a population policy on a nutritional disaster to occur at some hypothetical date, when it is clear that the problem is here, now, for us as well as for others? Shall we continue to hide the fact that a rational policy may entail in many countries not only a plateauing of the population to permit an increase in disposable income, but a decrease of the population as the disposable income rises?"

Former HEW Secretary Finch, according to the February 19, 1970

Detroit News "describes overpopulation as a paramount concern that must be dealt with if other environmental problems are to be solved "

The good life that we desire for all of our people and indeed for all peoples of the world will be influenced not only by our ability to transform our resources and skills into useful products and services, but also by our willingness to deal sensibly with population growth. Surely we are resourceful enough to devise acceptable ways of keeping our numbers within bounds to make it possible for every human being to develop his skills, his talents and his capacity to enjoy life to their uppermost limits.

Foreign Aid

While we are considering our own needs and priorities, let us not forget that we are a comparative land of plenty in a world filled with have-not nations. As a matter of enlightened self-interest as well as humanity, we must give more economic support to the underdeveloped nations. The values we cherish as a free people cannot survive in a world half well-fed and half starving.

There is no more need for the United States to be the sole supplier of economic aid than for us to be the world's policeman. But we should assume our full share of the combined responsibility of all the developed industrial countries toward the developing nations. Neither we nor the others are now doing enough. We should shift some of our resources from the arms race to the peace race, and raise the level of economic assistance to amounts which will make possible meaningful progress for the have-nots.

If any society anywhere should collapse through decay of social institutions from poverty and disease, we can hardly expect that the rest of the world can survive intact. No quarantine can isolate the effects of economic collapse. Thus, apart from our moral responsibility to our fellow man, it is in our own selfish interest to help spread the benefits of our knowledge and skills throughout the world.

We have no total power which enables us to change the world to fit our preconceptions. Nor should we wish for that kind of power. But neither

are we helpless to shape our destinies or the destinies of other peoples.

Certainly one of our priorities can be to move toward peace, toward understanding, toward international action to prevent war, toward economic cooperation and assistance. In this way we can help all people everywhere make their own way to a better life.

Democratic Planning for Full Production and
Full Employment in Peacetime

Meeting the needs of America now and in the future will require full employment and the full and intelligent use of our productive capacity within the framework of an expanding economy.

We must not let the bugaboo of inflation stand in the way of the attainment of our goals. There is no inconsistency between price stability and full employment. The Nixon Administration's gambit of fighting inflation by reducing overall demand, thereby raising unemployment, is based on the phony premise that either we must pay for price stability with unemployment or else pay for full employment with inflation.

Slowing down the economy with monetary and fiscal brakes is, at best, a questionable and self-defeating way to combat inflation. As the economy slows down, so does productivity. Maintenance and white-collar workers tend to be retained when production declines, with the result that unit labor costs increase, creating pressures not to lower prices but to raise them in order to maintain profit margins. Numerous overhead costs loom larger as volume falls, putting further upward pressure on prices. High interest rates resulting from restrictive monetary policies add directly to costs and prices. Increases in consumer prices compel workers to insist upon larger wage increases than they would otherwise seek, in order to compensate for the erosion of their living standards. In industries where profit margins are thin, the extra wage increases obtained for that purpose also put pressure on prices.

The Nixon Administration's policies have caused increased unemployment and rapid inflation, both at the same time. We in the UAW insist that inflation can be controlled without paying a price in unemployment, social damage, economic losses and other costs that flow from operating the economy at less than its capacity. While this is not the place to spell out alternative policies in detail, briefly and partially they are as follows:

- A sound policy would maintain total demand at full employment levels and assure adequate financing for national priorities while applying selective measures aimed with rifle-shot precision at the specific causes of inflation.
- Excessive capital spending by corporations, for example, can be curbed by a negative investment credit -- a tax on investments in excess of normal levels. Inventory speculation can be deterred by a tax on excessive inventories.
- Excessive consumer spending, should that be a problem, could be reduced by a graduated tax on spending per family member which, if reasonable exemptions were provided, would leave spending on necessities and comforts untouched while penalizing indulgence in luxuries.
- Credit can be rerouted away from speculation and other nonessential uses and toward housing -- where urgent needs and a wide margin of unused productive capacity exist side by side -- and the needs of state and local governments and of school boards whose credit-dependent activities are essential to improve the quality of life in America.
- Merciless public exposure can restrain unjustifiable price increases by giant corporations not subject to effective price competition. The UAW for many years has urged the creation of a governmental Price-Wage Review Board for that purpose.

Necessity for Price-Wage Review Board

Such a Board is necessary, particularly with regard to prices, because of the secrecy in which corporations almost invariably veil their pricing decisions.

Collectively bargained wage decisions not only represent the balanced result of opposing pressures exerted from the two sides of the bargaining table, but in the case of major wage decisions at least, they are usually conducted in the spotlight of attention from the news media. Both sides have ample opportunity to state their opposing positions and the public has ample opportunity to judge between them.

Those major price decisions which most seriously affect the whole economy, on the contrary, are made in the privacy of executive boardrooms, and the data as to costs, productivity and profit goals on which they are based are among the most closely guarded of corporate secrets. Repeatedly in the past such data have been refused even to Congressional investigating committees. Yet such information is vital to the public, especially in an inflationary period such as we are now experiencing, because without it there is no way in which the people can decide whether price increases are justified, or if they are not, where the responsibility for them lies. Informed decisions on those matters could be made if the necessary information were made available through a Price-Wage Review Board.

Under legislation establishing the Board, any corporation holding a dominant position in a key industry -- for example, controlling 25 percent or more of the industry's sales -- would have to give 60 to 90 days' notice to the Price-Wage Review Board of any intended price increase. The Board would have authority to call the company before it for a public hearing.

The Board should have the power to subpoena and examine witnesses under oath, and to demand the presentation of all pertinent books, papers and other sources of information.

The Board would report only on the facts and would make no binding determinations, and once the Board's report was published, the corporation would be free to act as it saw fit. But if the public were informed with facts and figures which made it clear that the price increase was not justified, it is highly doubtful that the corporation would attempt to effectuate such a price increase. Indeed, just the knowledge that such an investigation was probable would deter most large

corporations from even proposing price increases unless they could in fact be fully justified.

The number of corporations that would be subject to such hearings procedures is relatively small, for it would need to apply only to the one dominant company in each major administered price industry. If that company were restrained from raising its prices, the smaller ones would have to follow suit.

It has been suggested, as an argument against the Price-Wage Review Board proposal, that under such a system corporations would never reduce a price because of the difficulties in the way of restoring the price cut if it should become necessary. And in any case, a procedure that could be triggered only by a threatened price increase would fail to meet the problem posed by high-productivity industries which refuse to grant the price cuts they could well afford.

Both of these objections can be met by the establishment also of an Office of Consumer Counsel. The Consumer Counsel would have two main functions. He would represent the interest of consumers in all hearings before the Price-Wage Review Board. And he would be authorized to initiate hearings when sufficient evidence was available to suggest that prices of any corporation subject to the procedure were already too high.

Unions would also be subject to the hearings procedure when appropriate. Whenever a corporation subject to the procedure claimed that it would have to raise prices if it acceded to union demands, it could so notify the Board, and both the union and the corporation would then be summoned to a hearing and required to produce the relevant facts.

I shall be dealing with this subject in greater detail two days from now in hearings before the House Banking and Currency Committee

Nixon's Blunderbuss Approach

The Nixon Administration's blunderbuss approach to inflation is not only ineffective, but it assumes that all kinds of spending have an identical impact on

demand pressures. This is simply not the case. An instructive analysis of the impact on inflation of domestic versus military spending has been made by Stephen H. Robock, Professor of International Business at the Columbia University Graduate School of Business. In an article in the May 18, 1970, Wall Street Journal, Professor Robock points out that:

"... the composition of Government expenditures is more important than the overall level. Some types of expenditures are 'sterile' because they do not enlarge the capacity of the economy to supply the demanded goods and services. Other types can have a major anti-inflationary supply-creating effect. At the same level of Government expenditures, one mix of expenditures can be more inflationary than another.

"Take the supply effect of Government expenditures on armaments and on housing. From an economic point of view, expenditures on armaments are a waste and inflationary. They increase domestic demand through creating employment and through the purchase of goods. They do not increase the supply of goods and services demanded by the consumer. Ironically, we can benefit economically if we produce military goods and sell them out of the country. The payments received are a claim on world resources that can be spent for supplies of goods that offset or exceed the induced demand. But as a leading Soviet economist has pointed out, if we manufacture armaments and shoot them off ourselves, the economic effect is inflationary.

"Public expenditures on housing increase supply as well as demand. The same is true of public expenditures for expanding hospital facilities and the training of personnel. Even in the field of Government-financed research, military research may be inflationary whereas research on improving urban transportation systems may increase the supply of services and reduce prices.

"Thus, even if Government expenditures remain at the same overall level, a change in composition can be an effective means of fighting inflation. Some of the fields in which rapid price increases are occurring -- home ownership, public transportation and medical care -- are ones where Government expenditures can have a major anti-inflationary impact."

Dr. Robock's list of noninflationary and anti-inflationary government spending should be made required reading for all Administration economists. For we can no longer permit antiquated, destructive theories about the operation of the economy to dictate official government policy. It is time to get America on the move. It is time to begin to use our resources fully and wisely, and to put our unemployed

and our underemployed to work at the jobs that have to be done if the promise of America is ever to become a reality.

Need for Effective Manpower Policy

We need to fully utilize our manpower and for that we need a modern, effective and truly national manpower policy. It is time we started enforcing the Employment Act of 1946. That Act declares that it is the policy and responsibility of the federal government to create and maintain "... 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."

Effectively implementing the right to a job of every person willing and able to work, and making sure that the highest abilities of that person are fully used, require a single manpower agency to administer a national employment service. Our economy knows no state and local boundaries. The matching of needs and skills requires a nationwide, nationally oriented public employment service. This requires the transfer of the present state responsibility for public employment services to the federal government. It also requires the listing by employers of all job vacancies to be filled by new hires (as distinguished from promotions, transfers or recalls). At present, many employers do not list job openings. Some employers list openings only with the private fee-for-service agencies. These practices interfere with the orderly processes of the labor market and make it impossible for the public employment service to develop the information and knowledge which are essential for intelligently handling manpower activities.

We should do away with all existing requirements that claimants for benefits make an independent search for work. It is demoralizing, demeaning and financially wasteful to force a worker to travel haphazardly from plant to plant with no advance knowledge of whether or where a suitable job is to be had in order to qualify for

unemployment compensation. Instead, we should employ the most modern techniques of data processing and rapid communications to match job opportunities with skills of available workers. Just as an air traveler can quickly find out what seats are available on what flights from one city to another on whatever day he wishes to travel, so should a worker be able to quickly find out what jobs are available, requiring what skills, offered by what employers at what rate of pay. The air traveler can reserve a seat for the best flight available, and the worker should be able to reserve the best job opening available for him.

Technological Clearing House

To keep pace with technological developments in the economy and to assess their impact on the labor market we need a Technological Clearing House.

The Technological Clearing House would act as the central depository of knowledge of what is happening in this sector of the economy. It would serve as an early warning system which would receive and evaluate information concerning developments in technology, energy sources, new materials, new products and other innovations and would evaluate their actual and prospective impact on employment, on industry location, on changes in training requirements and the many other impacts that technological change has on the economy.

Training Programs

We must greatly expand our training programs. Illiterate and semiliterate workers must be offered the basic education essential before work skills can be learned. Retraining programs must be provided for workers already employed who have the capacity to learn higher skills or whose skills are being outmoded by changing technology. Our present efforts in the area of manpower development and training represent only a beginning of the effort we must make. One of the most important tasks of our society is to prepare our youth, our unemployed and our underemployed workers for jobs which will enable them to develop and utilize their highest abilities.

Jobs for the Handicapped

Our manpower policy should recognize that the handicapped need special consideration. There are many kinds of handicapped persons. There are those who have been physically or mentally handicapped from birth, those who have become handicapped through accident or disease, those whose skills have been made obsolescent by new technologies and who are unable or too old to learn new skills, and those who simply cannot meet the demands of the kinds of jobs that are readily available in today's industry. We should make a special effort to find a job for every worker or potential worker regardless of his handicap. To enable the

handicapped to make the maximum contribution to the economy benefits not only the handicapped, but society as a whole as well.

Relocation of Workers

We need to develop effective government programs for financial assistance in the relocation of workers, both unemployed workers moving to new jobs and employed workers moving to jobs which more fully utilize their skills. Such assistance should reimburse the worker for all expenses associated with getting the new job and setting up his new home for himself and his family.

Coordination with Civil Rights Policy

We should coordinate our manpower policy with our civil rights policy. This coordination is crucial if programs are to meet effectively the needs of minority and disadvantaged groups. We need to strengthen and vigorously enforce the fair employment practice provisions of the Civil Rights Act. We must also work to eradicate all discrimination in employment because of age and sex.

We will have to plan our future. We cannot expect to achieve our goals by leaving problems to be solved in a hit-or-miss, piecemeal fashion, or by reliance upon the blind forces of the market place.

We Must Plan for Peacetime Conversion

Most immediately, we must plan for conversion from military production to civilian production as our defense effort tapers off. We must make available useful jobs for the hundreds of thousands of young people who will be released from service, and for the hundreds of thousands of workers who are being released from defense-related employment.

The Wall Street Journal, in a story on the Administration's budget for the 1971 fiscal year, reported:

"Officials estimated that some 640,000 industrial workers will have lost jobs by June 30, 1971 because of sharp cut-backs in Pentagon purchasing this fiscal year and next; most of these layoffs are expected in the coming fiscal year."

In addition, the Defense Department expects to release more than 130,000 civilian employees and to cut the Armed Forces by more than 550,000 men, and a

reduction is anticipated of 45,000 persons working for the National Aeronautics and Space Agency or employed on NASA contracts.

Aerospace employment is already declining at the rate of 5,000 persons a month in California. Many of these workers have not been able to find new jobs which utilize their skills and are now unemployed or underemployed. The Wall Street Journal recently described the plight of one such worker as follows:

"After he was laid off by North American Rockwell in 1968, Mr. Aldrich, an expert in heat transfer technology, turned to free-lance consulting. When that petered out, he got the job driving a cab. He now works a six-day, 60-hour week and makes 'about as much as when we first were married,' says Mrs. Aldrich. 'We've cut out some insurance, stopped buying clothes or going out and hope we can hold onto the house,' she says.

"When he switched to cab driving, he lost nine pounds the first two weeks. 'All his experience and education -- it's such a waste,' says Mrs. Aldrich. 'Yet how do you put them back to work without going back into the war effort?'"

Thus, we find ourselves with many urgent needs on the one hand, and with much of the talent needed to meet these needs lying idle on the other. We can and must devise a way to bring the two together. Mr. Aldrich and the many thousands like him should be applying their skills to the development of pollution-free engines, to the design of low-cost housing, to the building of mass transit systems, to the development of pollution control devices and to the many other areas of our needs.

Unfortunately, little thought has been given to the specifics of converting military-related skills to peace-related needs. Most discussion of the conversion problem has been confined to the necessity of maintaining a high enough level of overall demand to assure that there would be enough total jobs in the economy to absorb returning servicemen and displaced defense workers. Obviously, such a policy would be better than sitting on our hands and doing nothing. But it is not enough to tell a California defense worker on layoff that total demand is being kept sufficiently high to assure that there may be jobs available in Michigan or in New York if he is willing to uproot his family and take a chance on being hired when he gets there. Nor is the way for the economy to get the most out of that worker's talent and energy.

There must be a three-part approach to conversion; the maintenance of a high level of total demand is but the first part. The second part of the approach must be to provide the greatest possible incentive for corporations now engaged in defense work to convert to civilian production. We in the UAW developed and presented to the Senate Labor Committee on December 1, 1969, a proposal which would give defense contractors powerful motivation to plan carefully for conversion of their facilities and to carry out their plans without inflicting hardship upon their workers. I have attached a copy of that proposal as an appendix to this testimony. Essentially, the proposal would enlist the profit motive in the service of smooth conversion from defense to civilian production by relating defense contractors' profitability directly to sound planning for conversion and effectiveness in carrying out conversion plans.

National Planning is Essential

The third part of our approach to conversion and to the whole problem of setting priorities and allocating resources must be national planning and coordination of effort. The futility of expecting a smooth and successful transition from war work to peace work without central planning was one of the themes of the May 15, 1970 Wall Street Journal article quoted earlier. Some of the difficulties to be encountered were illustrated as follows:

"Some aerospace executives believe the final answer to the aerospace-defense slowdown is to diversify entirely outside aircraft and space. They believe, for instance, that their companies' unique ability to focus intensive engineering and analytical talents on technical problems would be useful in finding answers to many social woes of the day. But they are finding the transition hard.

"Everyone is talking about opportunities in environmental engineering, urban renewal, housing and systems analysis in health and education, 'says Lockheed's senior economic adviser, Harry Biederman. 'But the problem is that there is no central contracting authority. You have to contract with every city, state and county. The market is fragmented. And it takes an awful lot of systems analysis contracts to take the place of a CSA cargo jet.' "

Certainly "it takes an awful lot of systems analysis contracts to take the place of a CSA cargo jet." But when you consider the magnitude of our needs in

housing, in transportation, in education and health care, and the effort it will take to clean up our environment and restore our cities, there is plenty to keep those systems analysts busy for a long time to come. It is time we planned to put them to work.

Conversion planning is an essential part, but still only a part, of our total need for planning. If we are to control our destinies we must plan, not just for the short-term conversion from war to peace production but for the long-term conversion to the kind of society that we wish America to be. A permanent continuing democratic planning mechanism is needed, involving three basic areas of responsibility -- the Administration, the Congress, and private decision-making groups. The responsibilities of the Administration are to propose programs and to see that they are carried out. The responsibilities of Congress are to enact appropriate legislation, to receive and evaluate reports on the progress of programs, to make investigations into any related matters which might require legislative consideration, and to appropriate required funds. Private decision-makers, who are affected by government planning decisions and whose own activities have an impact on government programs, could meet their responsibilities of exchanging information and views and of participating in the decision-making progress through the Standing Citizens' Committee on National Goals which I discussed earlier.

The Administration could probably best carry out its planning responsibilities through the organizational equivalent of the present Council of Economic Advisors. This "Council of Advisors on Social and Human Needs" would be charged with keeping informed about the status of all of our social programs and with making an annual report to the President concerning where we are with respect to the attainment of our goals. The Council, working closely with the Citizens' Committee, would prepare detailed legislative recommendations for creating and financing the programs needed to reach these goals.

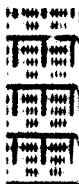
The planning responsibilities of Congress could probably best be met with the establishment of a committee not unlike the Joint Economic Committee. We

propose that the Congress establish such a Committee, and suggest that it be called the Joint Committee on Social and Human Needs. The function of this Committee would be similar in many respects to that of the Joint Economic Committee, the main differences being that its scope would be broader and it would be as concerned with the long-term view as with the day-to-day and year-to-year progress toward our goals. The Committee would provide Congress with the "overview" of society which is so necessary to detect and resolve conflicts and inconsistencies in various programs and proposals. A primary function of the Committee would be to review all legislative proposals touching on needs and priorities with a view to fitting them harmoniously into the whole.

The three-part planning vehicle I have outlined here would serve as the framework on which a comprehensive democratic planning mechanism could be constructed. This planning mechanism would provide the means to tell us where we stand at any time with respect to our social and human needs, and what progress we have been making toward meeting them. It would enable us to measure the social costs as well as the economic benefits of technological change and other economic innovations, to devise means of keeping the social costs to a minimum. It would enable us to establish "performance budgets" in specific areas of social needs, such as health, housing, education, and the quality of our physical environment. It would provide indicators of economic opportunity and social mobility.

Once we get our priorities in proper order and have set up the democratic planning machinery needed to best apply our abundant resources to our economic and social needs, then we can get to work at bringing to reality the basic promise of America. We can get to work at building a society in which each person has an equal opportunity to develop his skills and talents to the extent of his capabilities. We can create a society in which every human being can live in peace and dignity, free from want, and in full equality with his fellowman.

POLICIES and PRIORITIES for PROGRESS



SWORDS INTO PLOWSHARES:



A Proposal to Promote Orderly Conversion From Defense to Civilian Production



Statement and Testimony
OF WALTER P. RUTHER
President of the UAW
To the Senate Committee
On Labor and Public Welfare
December 1, 1969

Introduction



THE WILL to peace in this country is strong. A majority of Americans are weary of war and want to turn from war and policies that make for war—not toward isolation but toward a re-ordering of our national priorities that will provide the resources and budgets for a belated attack on the accumulated problems and long-neglected needs of the American people and of the hungry peoples of the low-income nations.

A large part of those resources is now surrendered to the insatiable appetite of the military-industrial complex for more weapons and more defense-contracts-as-usual. The complex is under attack in Congress and the country but no effective blow has yet been struck at the base of its power.

The political power of the military-industrial establishment rests in great part on the insecurity of defense workers, their families and their communities, an insecurity stemming from failure to offer them a practical alternative to military production and employment. To ease this perfectly understandable anxiety, conversion policies are needed that hold out meaningful assurances to those affected that the transition from military to civilian production can and will be accomplished without disruption of their lives.

The solution usually proposed, to maintain the level of total demand as military demand is reduced, promises only to avoid any serious tremor in the national unemployment statistic. It holds out no assurance to any individual worker that there will be a suitable job for him at a location accessible without uprooting his family and that he and they will be protected against hardship during the changeover to civilian production.

The proposal presented in this pamphlet would provide a high degree of assurance by putting the onus on each defense employer. It would give him a financial incentive to plan for conversion, to get on with execution of the plan and to avoid dislocation of his workers.

With such an approach, we can end the insecurity upon which the political influence of the military-industrial complex depends and move with undivided will toward a peaceful world.

—Walter P. Reuther

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Prepared Statement

NOTHING CAN be more dangerous for a society—particularly a democratic society—than a capacity to plan for war that outruns its capacity to plan for peace.

Planning and producing for war have been the largest single enterprise in this nation throughout most of the years since our entry into World War II; and as a result we enter the 1970s and approach the 200th anniversary of our national existence heavily burdened with the weight of grave, unsolved domestic problems and a long roster of critical, unmet human needs.

If we are to solve these domestic problems and respond adequately to these human needs, we must be prepared to plan for peace as energetically and effectively as we have planned for war.

A Conversion Plan Is Needed Now

IT IS not enough to have a plan for the withdrawal of troops from Vietnam. There must also be a plan to absorb the human and economic impact of ending the war, withdrawing the troops, cutting back on military production and reducing the size of the military establishment.

Senator Ralph Yarborough (D.-Texas) performs a distinct national service in

scheduling these hearings on the problems of conversion. They are serious problems and they are upon us now.

We read in **Business Week** of Nov. 22, 1969, these headlines: "Workers Brace for the Layoffs: Pentagon-ordered reduction in defense contracts sends tremors through an already toughening job market."

The magazine reports:

"Red warning lights are flashing on production lines that supply the U. S. war effort in Vietnam. The effects of the Pentagon-ordered cutbacks are mild as yet but defense contractors are getting set for a shock. And their employes nervously await being tossed into a toughening job market. By next July, about 280,000 civilian jobs in the defense industries and in the Defense Dept. will be wiped out . . .

"Every economic indicator (including reductions in overtime and curtailment in back orders) points to the inevitability of a big downturn in defense employment . . .

"**Gloomy outlook:** The 280,000 workers, displaced by the defense industry and Defense Dept. will face a discouraging job scene. They will be looking for new employment at the same time that the Pentagon is slicing its Armed Forces strength — a move that will put another 220,000 men on the job market. Add to this the 1.7 million high school and college graduates who are expected to go job-hunting next year, and you get a total of 2.2 million potential job seekers . . .

". . . Employes likely to be hit hardest by the cutbacks are those in small towns — where many ammunition plants are located — and the former hardcore unemployed who have been given jobs under the minority group training programs of the past four years . . .

"**Skills and Seniority:** Lack of skills and lack of seniority are a particular threat to the job future of defense workers employed under minority group training programs . . ."

Our conversion difficulties will continue to grow as the war comes to an end and can affect several million breadwinners. Direct defense employment in industry alone, according to **U. S. News and World Report** for April 21, 1969, amounts to 3.8 million workers.

These difficulties will be aggravated as a result of whatever agreements emerge from current talks between the United States and the Soviet Union aimed at checking further escalation of the nuclear arms race and eventually scaling down nuclear arsenals. (And we must also be prepared for cutbacks that may affect programs of the Space Agency and the Atomic Energy Commission.)

It is unfortunate that the Congress did not address itself to the human and economic problems of conversion long since. Senator George McGovern (D.-S.D.) provided the opportunity as long ago as 1963 when he and 29 of his colleagues introduced a forerunner of the present McGovern-Hatfield Bill (S. 1285) in the Senate.

As a result of the government's failure to think and plan ahead for the war's end, the nation now faces not some remote eventuality but a present crisis. And as the **Business Week** report indicates, the major victims of our failure to plan for peace will be those very Americans who are least equipped to weather the shocks and bruises of displacement and unemployment.

We cannot reclaim the past; but legislation to guide this nation through the transition from a war-oriented economy to a peace-oriented economy should be placed high on the agenda of the present Congress.

It is good, after all, to beat our swords into plowshares. Peace in the world should be a hopeful prospect. And one of the ways to create such a prospect is to assure, through rational conversion planning, that the anvil on which peace is hammered out is not the heads and backs of demobilized servicemen and displaced defense workers and their families.

Help for People And Communities



OUR ADJUSTMENT to the economic effects of pulling out of Vietnam and of eventual arms limitation agreements should reflect a fundamental will to minimize disruption in the lives of people—whether workers or returning soldiers—and in the ongoing life of communities where the transition from war to peace can have painful consequences in the absence of adequate advance planning.

It is already, as we have said, late in the day for such planning. Here again, we believe that Senator George McGovern has pointed the way. In introducing S. 1285 on March 4, 1969, for the purpose of establishing a National Economic Conversion Commission, he made a particularly apt reference to the nature of the conversion problems we face, in the following passage from his remarks:

"But most important, conversion is a problem singularly unsuited for broad generalizations; it must be dealt with in a series of microcosms. What happens to the individuals and groups who are directly affected?"

That, as we see it, goes to the heart of the problem. Planning for an orderly and humane conversion must be relevant to the individuals and groups who are directly affected. Aggregative measures such as policies designed to maintain the general level of demand in the economy are blunt instruments; they cannot be timely and precise enough to meet the specific needs of workers in plants and communities hit directly by contract cancellations and terminations.

Workers in California, or in Connecticut, or in Massachusetts, or in Michigan, or in Texas, may need help more or less quickly than workers in other geographical areas.

Wherever help is needed, it should be forthcoming without delay, according to conversion's uneven impact on workers and communities.

Families in immediate need should not be expected to suffer patiently while fiscal measures are applied and slowly have their effect.

Even if fiscal measures are successful, they will not necessarily offer the kinds of help needed where it is needed. The July 1965 report of the Committee on the Economic Impact of Defense and Disarmament found:

"Appropriate fiscal adjustments can help to maintain high employment even in the face of sharp reductions in the demand for defense goods and services. But even if the necessary fiscal adjustments are made, so that the pressure of total demand in the economy is maintained and the total number of jobs in the Nation grows in line with the growth of the labor force, it does not follow that jobs will be provided for the workers that may be laid off, say, in a west coast missile, aircraft, or electronic factory that completes its contract and does not win a new one. A cut in personal income taxes to offset the decline in defense spending might create ex-

actly the same number of extra jobs in automobile plants in Detroit, in shoe factories in Missouri, in night clubs in Chicago, in retail and service establishments throughout the country and in all the firms that supply them.

"But the west coast missile or electronics workers may not know about, or be able to fill, many of these jobs. And their employers are not likely to go into the business of meeting the alternative civilian demands developed by fiscal policies. Problems of occupational, local, and industrial adjustments will remain."

Taking Conversion Seriously

THE UAW has already endorsed the objectives of the proposed National Economic Conversion Act.

Senators McGovern and Hatfield, Representatives Bingham and Morse, and their cosponsors in both Houses are to be commended for calling attention to the serious and urgent need for conversion planning, and for having come forward so many months ago with legislative proposals to get such planning under way.

We are convinced, however, that whatever legislation comes out of these hearings, if it is to be effective, must address itself specifically and practically to the task of meeting the problems of adjustment when and where they occur, plant by plant, company by company, community by community.

We believe that the proposal offered in this statement will facilitate such an adjustment, by eliciting the necessary response from employers at plant, company and area levels.

We believe this proposal will have such an effect because it will offer a practical inducement to the defense em-

ployer to take conversion and its human aspects seriously, by making it profitable for him to plan for an orderly and humane conversion, and costly not to.

Conversion to Meet Domestic Needs

OUR INTEREST in conversion, however, is not limited to the immediate problems of transition and adjustment.

There is a fundamental public interest not only in a conversion in which the direct economic and human costs are held to a minimum; but also in a conversion which puts this nation in a stronger position to meet urgent domestic priorities to which tragically little attention has been given over the years since our entry into the Second World War.

One of our highest priority needs, for example, is the need to put decent housing within the economic reach of every American family.

Conversion of defense plants to the mass production of low-cost housing would not only provide jobs for returning servicemen and displaced defense workers; it would enable this country at long last to honor a national commitment officially embodied in the Housing Act of 1949.

The American public has a large investment in the war and defense plants.



In 1968 large defense contractors "were using an estimated \$13.3 billion worth of already nationalized plant and equipment" (J. K. Galbraith, *New York Times Magazine*, Nov. 16, 1969) and in June 1969 were using \$9.5 billion of public working capital in the form of progress payments on contracts, "the payments depending, broadly speaking, on the need for the capital, not the progress toward completion of the contract." (ibid).

Investment or not, planning for conversion of war facilities to peacetime uses would be inefficient and wasteful

'We have a new opportunity to manage conversion from war to peace in a manner calculated to meet critical national needs'

if it were not directed first to the meeting of high-priority domestic needs.

In the summer of 1945, when war plants were being shut down as expendable and hundreds of thousands of defense workers were being thrown on the streets to swell the ranks of the unemployed, I proposed that certain war plants be converted for the mass production of low-cost housing. If that proposal had been implemented a quarter of a century ago, we would not today have a national housing crisis and the Secretary of Housing and Urban Development would not be desperately seeking a "breakthrough" on the low-cost housing front.

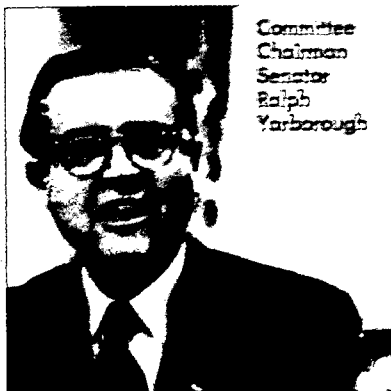
We have a new opportunity to manage conversion from war to peace in a manner calculated to meet critical national needs. The Congress should insist on relating conversion planning to such ends.

Again, however, the key to meaningful conversion, with minimal disruption in the lives of Americans and the communities where they work and live, lies in the readiness of the defense employer to cooperate in planning for such a transition.

It Couldn't Be Done, But They Did It

THE RECORD of industrial performance in conversion to a war footing and defense employer attitudes toward reconversion to civilian production do not promise such cooperation eagerly or in time in the present emergency ("emergency" being defined as dislocations critical in the lives of workers and their families and in the communities where such disruption is already occurring or will take place).

In 1940, with Britain standing alone against the Nazi onslaught, and with the American automobile industry conducting business as usual, which in those days meant production at 50 per cent of potential capacity, I developed a plan for utilization of that unused capacity



Committee
Chairman
Senator
Ralph
Yarborough

and available semi-skilled and skilled manpower to produce 500 military planes a day for the defense of the free world.

The program met favor with President Roosevelt but industry leaders balked, claiming they could not convert their machine tools, which they insisted were single-purpose and usable only to produce cars.

After Japan's attack on Pearl Harbor forced them to do what they could and should have done a year and a half before, they boasted about their conversion miracles.

In 1944 Senate hearings on the National Defense Program, Mr. K. T. Keller of Chrysler, with reference to the belated success of the industry in converting those machine tools, stated: "We think we did a splendid job on that," and fixed the percentage of tools converted by his company at "around 89 per cent."

Mr. Wilson of General Motors was less forthright, but the figures he offered left no doubt that the proportion of machine tools converted from civilian to defense production at GM was also very high.

Now, 30 years later, defense employers are pursuing essentially the same stubborn line taken by the pre-Pearl Harbor automobile industry.

Having found a sheltered and highly profitable berth resting on the dangerous assumption of perpetual confrontation and conflict among the major powers in a nuclear age, they are determined not to be dislodged from it.

They are making claims that their plants cannot be converted to peacetime uses, thereby attempting to enlist defense workers and communities in a common lobbying effort for an endless flow of new weapons systems and defense contracts.

They are attempting to convince the American people that war and preparation for war constitute a normal way of life and that genuine efforts to lay the foundations of a peaceful world are at least foolhardy and at most traitorous.

A Profitable Partnership

Do WE require some kind of domestic Pearl Harbor to expose such folly? It is to be hoped not. But before we can plan effectively for the new conversion already upon us, we must reckon with the degree to which the military-industrial complex, psychologically no less than economically, militates against wise policy and rational priorities.

The defense sector began its ascent to its present privileged and unusually profitable position in our society with the mobilization of our national resources during the Second World War.

Throughout more than a quarter of a century of war, cold war and escalating arms competition with the Soviet Union, the major, specialized defense contractors, in intimate partnership with an expanding military establishment, acquired an unprecedented economic and political status and influence.

Former President Eisenhower warned the American people against the growing danger of the enormous power of the military-industrial complex. In his farewell speech as President, he said:

"This conjunction of an immense military establishment and a large arms industry is new in the American experience. The total influence — economic, political, even spiritual — is felt in every city, every statehouse, every office of the Federal Government. We recognize the imperative need for this development. Yet we must not fail to comprehend its grave implications. Our toil, resources and livelihood are all involved; so is the very structure of our society.

"In the councils of Government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.

"We must never let the weight of this combination endanger our liberties or democratic processes."

Today, the industry side of the "complex" has attained a status approaching that of a *de facto* arm of government.

Murray L. Weidenbaum, Assistant Secretary of the Treasury for Economic Affairs and formerly an outstanding academic specialist on military spending, is quoted in *The New York Times* of Nov. 19, 1969, as stating:

"In some ways, the Federal Government is taking on the traditional role of the private entrepreneur, while the companies are behaving less like other corporations and more like government agencies or arsenals."

Summarizing a description of this symbiotic relationship between defense contractors and the Pentagon set forth in Assistant Secretary Weidenbaum's book, "The Modern Public Sector," the paper states:

"In terms of profits per dollar of sales, the Government permits its military suppliers much less than consumer-oriented companies obtain.

"To make up for this stinginess, it builds plants and buys equipment and supplies working capital to the contractors. As a result, the return to shareholders on their investment is higher, on average, than in consumer industries."

It appears that defense contractors, in exchange for yielding to certain modest requirements of the Pentagon's procurement regulations, have won a share in the making of major policy decisions. *The Times* continues:

"Not only does the Government dole out plant, equipment and working capital to the military suppliers, but more and more management decisions are made by the Government. To keep their employes from skidding on factory floors, military contractors must follow rules laid down in Washington. In buying air-



craft tires, tubes and recapping, they must obtain 50 per cent of their rubber from the government stockpile. In seeking help, they may use advertisements in black and white, but not in color.

"By way of contrast, decisions which properly should be made by the government — what kind of weapons, if any, should be developed and how the programs should be carried out — are being made by the military suppliers."

Far from looking and planning ahead to meet peacetime domestic needs, the military contractors typically see the future as a continuation of the recent past, with high military expenditures and active joint planning by the military-industrial partners for new generations of missiles and other weapons systems.

Peace Is an Ugly Word

THIS ACTIVE planning and lobbying for new military contracts came sharply to the fore in the response of defense firm executives to questions put to them regarding their post-Vietnam prospect by **Washington Post** reporter Bernard Nossiter. In a Dec. 8, 1968, article headed, "Arms Firms See Postwar Spurt: Leaders Show Little Interest in Applying Skills to Domestic Ills," Mr. Nossiter wrote:

"The shrewd and skillful men who direct large, sophisticated defense firms look forward to a post-Vietnam world filled with military and space business. For them, the war's end means no uncomfortable conversion to alien civilian markets.

"Quite the contrary, and with no discoverable exceptions, they expect handsome increases in the complex planes and missiles, rich in electronics, that are the heart of their business . . .

". . . The great defense contractors display only a marginal interest in work outside their accustomed military-space sphere, devote only a fraction of their resources to it, and, for the foreseeable future,

see no economic reason to change their ways."

Nossiter quotes Edward J. LeFevre, vice president in charge of the Washington office for General Dynamics, termed by Nossiter "Currently the nation's largest defense contractor," as stating:

"Basically, we're a big systems builder for military weapons. Over 90 per cent of our business is military. We're in that business to stay."

After being granted a look at the LTV Aerospace Corp. "blue book" projecting future sales, profits and other data for a five-year period, Nossiter wrote of "the firm's calm assumption that it will win the development contracts for . . . two Navy Planes," and continued:

". . . But more important is the company's forecast that five years hence it will earn more than 80 per cent of its dollars from military and space work, nearly the same share it is now receiving. Moreover, this slice will come from a sales total more than twice as large as the company enjoys today."

Nossiter concedes that the "breezy optimism" of LTV Aerospace is a special case, but he finds that the defense contractors generally look forward to a strong continuing demand for new weapons systems. Citing a study by the Electronics Industry Assn. of "The Post-Vietnam Defense and Space Market Environment," he writes:

". . . The document forecasts that arms control agreements 'during the next decade are unlikely,' the 'likelihood of limited war will increase' and 'thus for the electronic firms, the outlook is good in spite of (the end of hostilities in) Vietnam.'"

At North American Rockwell, where "geopolitical scenarios are properly enough, composed by the marketing division," Nossiter finds that "the house judgment is that something between Cold and Limited War is the best bet." Nossiter continues:



". . . These forecasts govern the planning of aerospace firms and provide them with a rationale for promoting their views and wares.

"To an undetermined extent, the companies can be expected to use their influence to make their prophecies self-fulfilling. By no mean coincidence, their views of the world outlook usually coincide with conditions that would maximize their military orders."

Nossiter found that arms firms spokesmen were somewhat guarded in discussing the effects of the change in Administrations; yet

". . . They leave little doubt that an important source of their optimism lies in the departure of Defense Secretary Robert McNamara and the election of Richard Nixon.

"'People are pressing for new programs more intensely than ever,' says W. Paul Thayer . . . who runs Ling's LTV Aerospace. 'With McNamara stepping out, that was the turning point.'"

Where the Power Is

REPORTER NOSSITER quotes Richard E. Adams, director of advanced projects for the Fort Worth division of General Dynamics, as saying that in any conflict between increased spending on social programs and spending on defense:

Washington Post finds 'some of the big defense firms are acquiring nondefense companies' but 'none of this detracts from the central theme: the great aerospace firms have a strong appetite for military business'

"We know where the power is (on Capitol Hill and among the Executive Departments). There's going to be a lot of defense business and we're going to get our share of it."

Nossiter found that some of the big defense firms are acquiring nondefense companies and that even defense oriented divisions have "made some cautious stabs at nonmilitary markets." But he reports:

"None of this, however, detracts from the central theme: the great aerospace firms have a strong appetite for military business. They look forward to expanding, not contracting, their sales in this sphere."

Nossiter found differences of opinion among defense contractors regarding the process of interaction between the military and their suppliers out of which new weapons designs and contracts emerge, but the consensus appeared to be that there was indeed a close interaction. John W. Bessire, manager for pricing at General Dynamics' Fort Worth Division, said:

"We try to foresee the requirements the military is going to have three years off. We work with their requirements people and therefore get new business."

President Moore of North American Rockwell's Aerospace and Systems Group said:

"A new system usually starts with a couple of military and industry people getting together to discuss common problems. By far the largest part of the business comes from requirements established by the Defense Department or NASA.

"But it isn't a case of industry here . . . and the Government here . . . They are interacting continuously at the engineering level."

Nossiter concludes:

"One of the shrewdest and most important civilian officials at the Pentagon also sees the initiating process as a seamless web. 'Pressures to spend more are going to be here,' he says. In part, they come from the industry selling new weapons ideas, he thinks, 'and in part from the military here.'

"Each (military) guy has his own piece, tactical, antisubmarine, strategic. Each guy gets where he is by pushing his own particular thing. Don't forget, too, part of it is based on the perception of needs by people in Congress.

"If the origins of increased defense spending can't be isolated surgically, talks with the men in the industry make it clear that they are expecting enough to go around in the years after Vietnam."

No Readiness to Convert

WHAT IT all adds up to, then, is not a readiness to plan for conversion, but a drive for more and more military contracts. Nossiter puts it this way:

"Thus the end of hostilities opens up great new opportunities for sophisticated munitions makers. They and their Pentagon colleagues will press for bigger research and development budgets, an outlay guaranteed to produce new designs that military men could find irresistible . . ."

Nossiter's findings are consistent with a 1966 study by the Arms Control and Disarmament Agency dealing with prospects for successful diversification of defense industries in the event of contract cancellations or terminations. Senator McGovern cited the study in introducing the National Economic Conversion Act last March. It found that:

"Successful diversification needs the commitment of top management to the program. Such commitment is made difficult by several factors:

"There is a discouraging history of failure in commercial diversification efforts by defense firms.

"There is doubt that the defense customer wants diversification of these firms.

"There is little indication that the owners of defense firms or the financial community wish defense manufacturing to diversify."

It is interesting to note in this connection that the Armed Services Procurement Regulation (ASPR) was revised on March 6, 1964, making it possible to charge under defense contracts certain:

". . . costs of generalizing long-range management planning which is concerned with the future over-



all development of the contractor's business and which may take into account the eventual possibility of economic dislocations or fundamental alterations in those markets in which the contractor currently does business."

The citation is from the report of the Committee on the Economic Impact of Defense and Disarmament which noted that research and development and engineering costs leading to new products for sale to the general public were not allowable.

What is interesting is that the UAW's Washington office was not able to elicit from the Pentagon a single example of any defense contractor having availed himself of this provision, for what it might have been worth.

It should be clear, against this background, that economic conversion legislation will stand or fall according to its manner of approaching this fundamental obstacle to conversion: the active resistance of defense employers.

Defense contractors are not passive recipients of Pentagon orders who will amiably comply with requests that they plan and carry out plans which in their eyes will dislodge them from their privileged positions and assured markets and plunge them into the uncertainties, headaches and quite possibly reduced profits that may lie in wait for them in the civilian economy.

On the contrary. Defense contractors are active participants and partners in a military-industrial establishment which possesses its own internal, largely self-generating dynamism, whose motive power is the drive for the above-average profit that can be made producing the weapons of war.

Reluctant Constituency

WHAT IS more, after a quarter of a century of large war and defense spending and the considerable economic impact of that spending to one degree or another throughout the United States, it is not to be expected that resistance to the curtailment of the defense sector will be confined to the defense contractors.

In the above-mentioned *New York Times* article dealing with Assistant Secretary Weidenbaum's views on the nature of the military-industrial complex (Nov. 19, 1969), reference is made to part of the complex's wider constituency in the following passage:

"Arthur F. Burns, the President's chief domestic counsel, who is soon to become chairman of the Federal Reserve Board, has warned that the military-industrial establishment includes in its constituency the banker, merchant, restaurant-owner and barber of every hamlet that draws income from a nearby army camp or air base."

There are others. Throughout the country, several million American workers are dependent directly or indirectly on the military establishment for employment and income.

In the absence of clear and valid alternatives to defense production and employment, there is reason enough to such Americans to fear the impact of an unplanned conversion on the economic security and well-being of their families.

'Most Americans would prefer to live and work in peace'

Such fears are understandable, particularly against the background of a national commitment to full employment—going as far back as the Employment Act of 1946—which has never been honored. The American experience, since the Great Depression was ushered in by the 1929 crash, has taught the bitter lesson that an unacceptably high rate of unemployment is the rule in the peacetime economy, and that jobs for all come with an economy fed by war or preparations for war.

To say that these millions of Americans want work and steady income is not to say that they want perpetual war. What they really want is peace and full employment. To get them on the side of conversion, the government—and the defense contractors—must offer them valid alternatives to the degree of employment and relative security they have lately found in the defense sector.

The legislation that we hope will result from these hearings will have to take these inescapable realities as its point of departure. It will have to open the way toward those valid alternatives to defense production and employment, make those alternatives a practical option in the lives of several millions of American breadwinners who today, lacking such valid alternatives, remain the reluctant constituency of the military-industrial establishment.

That reluctant constituency is open to persuasion. Most Americans, like most people everywhere, would prefer to live and work in peace and pass on a heritage of peace to their children. But the persuasion cannot be merely rhetorical; it must be tangible, in the form of jobs, income security during the transition and, above all, practical assurance that the conversion will be managed with minimal disruption of their work and their lives.

In discussing how that assurance may best be provided, we will take as our starting point S. 1285, introduced by Senator McGovern, which we consider to be a significant and valuable contribution to the solution of one of our most urgent national problems.

A Proposal

'To assure that corporations engaged in defense production will plan seriously for conversion to civilian production'

WE BELIEVE the purposes of S. 1285, with which we are in fullest sympathy, are not likely to be achieved unless an effective mechanism is embodied in the Bill to overcome foot-dragging resistance to conversion by defense contractors who prefer the easy profits of military-business-as-usual, derived from their symbiotic relations with the Pentagon, to the rigors of the civilian market.

Section 5 (a) is the heart of the Bill. It recognizes the crucial "microcosm" aspect of the conversion problem — that conversion must be carried out on a plant-by-plant basis.

With all due respect, we submit, however, that Section 5 (a), while aimed in the right direction, is not sufficient in itself to assure that corporations engaged in defense production will plan seriously for conversion to civilian production.

Section 5 (a) calls upon the defense contractor, subject to regulations of the proposed National Economic Conversion Commission, only "... to define his capability for converting manpower, facilities, and any other economic resources now used for specific military products or purposes, to civilian uses."

The quoted language does not require the defense contractor to submit a plan for conversion of his facilities and to exert his best efforts to carry out such a plan.

He would be required merely to "define his capability for converting."

In view of the evidence of resistance to conversion which we have cited above, we think it not unreasonable to expect that many defense contractors will simply brush off the requirement by denying that they possess any capability to convert. To do so would actually strengthen their hands in enlisting worker and community support in their quest for more defense contracts.

Other contractors might respond to the requirement of Section 5 (a) merely by indicating that they could produce certain types of civilian products—without committing themselves and without

'There is nothing as effective as pressure on their pocketbook nerves to spur corporations into action'

getting down to the brass tacks of planning for such production.

We know that such responses would not satisfy the sponsors of S. 1285 or the members of the Senate Labor Committee. We believe, however, that it is possible to assure meaningful planning and meaningful action by defense contractors to convert their plants to civilian production.

In our judgment, the only effective means to overcome resistance to conversion is to provide the strongest practicable financial motivation to induce defense contractors to act as the Bill seeks to have them act.

This Committee does not need to be told that there is nothing as effective as pressure on their pocketbook nerves to spur corporations into action.

The prime purpose of corporations is to make profits and nothing stimulates their ingenuity and enlists their energies as effectively as a danger that their profits may be reduced. The hordes of corporation lobbyists who descend on Capitol Hill when there is the smallest threat to profit margins attest to the validity of a profit approach to promote meaningful planning for conversion.

Accordingly, we urge that this Committee give the most serious consideration to an approach that will propel defense contractors into action by holding over their heads the likelihood of substantial

impairment of their profits if they fail to meet their responsibilities:

- to plan soundly for conversion to civilian production; and
- to execute their plans smoothly and expeditiously so as to minimize dislocation for the families of their workers and for the communities in which they operate.

There are various methods that could be applied to enlist the profit motive in the service of smooth conversion from defense to civilian production. But not every method purporting to promote orderly conversion via the profit motive would, in fact, accomplish the avowed purpose. For example, President Johnson's Committee on the Economic Impact of Disarmament was compelled to say of one such proposal:

"The committee has rejected as completely inappropriate, as well as ineffective, the . . . suggestion that larger profit margins be allowed on defense contracts in order to provide increased corporate funds for investment in diversification efforts."

Clearly, to bestow additional profits out of the public treasury on defense contracting corporations, many of which are already highly profitable, would provide absolutely no assurance that they would do anything more than they are doing with their present profits to prepare for conversion.

It is not lack of funds that inhibits them, but lack of inclination based upon confident expectation that, in collaboration with the Pentagon, they will continue to be able to pry huge defense appropriations out of Congress.

If the profit motive is to be used to promote sound conversion planning and prompt conversion action, it must be applied in a manner which would relate profitability directly to sound planning for conversion and effectiveness in carrying out conversion plans.

We claim no monopoly on the wisdom required to devise an effective means to link profitability with responsible conver-

sion planning. We have, however, given thought to the matter and have developed some ideas which we would like to share with this Committee. Although, for the sake of brevity, we will refer to our approach as a "proposal," it is intended more as an example or illustration. Our purposes in advancing it are:

- To show that it is feasible to develop financial motivations that would induce defense contractors to plan for conversion and to execute their plans; and
- To provide grist for the committee's mill — a starting point for further thinking as to how profitability can be used to stimulate planning and action for smooth and expeditious conversion from defense to civilian production.

With those limited objectives, we offer below an outline of statutory machinery of the general type we believe to be necessary. We envision the proposal as essentially a substitute for Section 5 (a) of S. 1285. In large part, the outline is self-explanatory. However, certain features of it appear to require some elaboration which we will present following the outline. Before proceeding to the outline, however, it may be useful to describe briefly the main features of the proposal.

Essence of Proposal

WHAT THE outline proposes, in essence, is that a portion of each contractor's profits from defense production be required to be set aside as a conversion reserve to be held in a government trust fund.

Monies deposited in the trust fund would be released to carry out a conversion plan filed with the government by the contractor and to pay certain types of benefits to the contractor's workers to minimize hardships from which they might suffer during the transition to civilian production.



Impounded profits released to the contractor by the trust fund for physical conversion of his facilities and for retraining of his workers would be no different, in principle, from profits voluntarily set aside and later reinvested by a civilian production corporation to reequip and retrain for manufacture of a new product when the market for an old one dried up.

The fact that a portion of the impounded profits might have to be released to tide workers over the transition period is the spur to sound planning for conversion and effective and expeditious execution of the plans. For any impounded profits remaining after completion of conversion, plus interest on the entire amount deposited in the trust fund, would be returned to the contractor.

In consequence, successful and quick conversion, which would avoid or minimize benefits payable to workers in the transition period, would maximize the amount of impounded profits returnable to the contractor.

The fact that impounded profits would be released to meet conversion costs only insofar as such costs were incurred **under a plan** filed by the contractor would tend to assure that he would plan seriously and carefully.

The planning would be his and not the government's. Execution of the plan would also be in his hands. And his money would be at stake.

Encouragement to Diversify Into Civilian Production

ONE FEATURE of the proposal which we consider particularly valuable would provide strong encouragement for defense contractors to free themselves from dependence upon membership in the military-industrial complex.

A contractor would be permitted to borrow his impounded profits to finance civilian production operations in the same labor market area. The interest paid on such loans would be credited to his own conversion reserves. In effect, he would be paying interest to himself.

The only conditions, aside from the civilian production and labor market requirements, would be (first) that a private lending agency attest to the soundness of the loan by risking some of its own

funds for the same purpose, and (second) that the contractor commit himself to absorb into the civilian operation, to the extent possible, workers displaced from his defense operations by a reduction in the volume of defense work.

By taking advantage of this part of the proposal, a defense contractor would not only be able to obtain profits from civilian production; he would enhance his chances of recapturing his impounded profits by reducing the likelihood that his displaced defense workers might have to draw upon his conversion reserve for benefits.

While the foregoing summarizes the pivotal features of the proposal, there are quite a few detailed questions that must be answered to make the general idea workable.

The outline which follows presents possible approaches to those questions. Some of the figures in the outline are necessarily arbitrary, but we believe them to be of the right general order of magnitude. Statutory language to implement the proposal would, of course, need to be more detailed and more tightly drafted than the language in the outline.

Outline of Proposal

1.—Establishment and Uses of Conversion Reserves

A specified percentage (e.g., 25 per cent) of the after-tax profits of each defense contractor and subcontractor arising out of its defense production would be required, by the terms of procurement contracts, to be deposited in a government conversion reserve trust fund to be administered by the National Economic Conversion Commission.

Nonprofit organizations holding defense contracts would be required by their procurement contracts to deposit in the trust fund a percentage of gross revenues from the contracts equal to the average percentage of gross revenues deposited by profit-making contractors.

("Defense contractor" and "defense subcontractor" for purposes of this outline include corporations and other organizations holding contracts with the Atomic Energy Commission and the National Aeronautics and Space Administration as well as with the Department of Defense.)

'... to pay expenses of conversion . . . to finance conversion benefits for workers'



(a) Monies placed in the reserve would be loaned to the Treasury and credited with interest at a rate equivalent to the current prevailing rate on long-term Treasury bonds.

(b) The reserves would be split into two parts:

- (1) A major proportion (e.g., 90 per cent) of the amount deposited by each company would go into a "company reserve" upon which only that company or the Commission would be permitted to draw.
- (2) A smaller proportion (e.g., 10 per cent or 2½ per cent of total after-tax profits on defense work) would be placed in a pooled reserve.

(c) Company reserves would be drawn upon:

- (1) By the contractors to pay expenses arising out of the execution of their conversion plans provided for below; and
- (2) By the Commission to finance the "conversion benefits" for workers described below.

(d) In the event any firm's company reserve is exhausted, payment of conversion benefits for workers would be continued out of the pooled reserve. If the pooled reserve, in turn, is exhausted, such payments would nevertheless be continued with the cost met by the U. S. Treasury.

2.—Failure to Execute Conversion Plan

If any defense contractor or subcontractor failed to execute the conversion plan it had filed with the Commission (or an amended plan filed subsequent to the reduction or termination of its defense production), the Commission would be empowered to take over, convert and operate the facility or to contract with another company to convert and operate it, to pay the defense contractor a reasonable rent for it out of its company reserve, and to charge that reserve with

expenditures, including conversion benefits, arising out of execution of either the contractor's plan as filed with the Commission or an alternative conversion plan recommended by the Commission's staff and task forces.

3.—Return of Unexpended Conversion Reserves

Unexpended monies in the reserves would be returned to the defense contractors and subcontractors who had deposited them.

(a) In the case of company reserves:

- (1) A firm no longer engaged in defense production could reclaim the monies remaining in its reserves two years after completion or termination of its last defense contract;
- (2) A firm still engaged in defense work, but whose employment on such work during the preceding two years had been continuously more than 20 per cent below the peak annual average reached subsequent to the enactment of the National Economic Conversion Act, would be entitled to reclaim from its reserve once each year an amount equal to the excess of the monies remaining in the reserve over the same percentage of its deposits plus interest as its average defense employment during the preceding two years bore to its peak annual average defense employment;

However, no monies would be returned to any firm whose facilities were taken over because of failure to execute its plan until two years after the firm or its successor had resumed operation of the facility for civilian production and had, during those two years, financed out of its reserves the expenses and benefits called for under 1 (c).

(b) In the case of the pooled reserve:

- (1) A firm which had done no defense work for at least two years would be entitled to be paid a percentage of the monies then remaining in the pooled fund, including interest credited, equal to the percentage which its deposits plus interest formed of all monies paid into or credited to the pooled reserve.
- (2) A firm still engaged in defense work, but whose employment on such work during the preceding two years had been continuously more than 20 per cent below the peak annual average reached subsequent to the enactment of the National Economic Conversion Act, would be entitled to reclaim from the pooled reserve a percentage of its deposits including interest in that reserve equal to the percentage reduction in its defense employment, adjusted by the ratio of the total amount remaining in the pooled reserve at the time to the total of all deposits, plus interest.

4.—Guaranteed Conversion Loans

In the case of a defense contractor or subcontractor who required funds additional to the amount available from the company reserve (after meeting costs of conversion benefits for workers) to execute his conversion plan, the Commission would be empowered to direct the Treasury to guarantee 90 per cent of any loan obtainable by him for that purpose and to pay three-fourths of interest charges in excess of five per cent per year; provided that the guarantee and interest subsidy would be available only for a loan that was not in excess of the amount that might reasonably be required to provide employment for the number of workers to be transferred from defense to civilian production.

5.—Civilian Production Loans from Conversion Reserves

(a) A defense contractor or subcontractor requiring funds to carry on, expand or initiate a civilian business or other civilian activity in the same labor market as its defense operations could be permitted by the Commission to borrow from its company reserve, up to the full amount deposited, at the rate of interest currently being credited to that reserve, provided:

- (1) That an amount equal to at least 10 per cent of the amount advanced by the reserve is borrowed simultaneously for the same purpose from a reputable private lending agency which agrees to share proportionately in any losses on the combined loan; and
- (2) That the firm's conversion plan provides for employing workers displaced from its defense operations in such civilian operation to the extent that employment opportunities are available for them under a seniority or other arrangement which is fair to workers in both operations.

(b) Interest paid by the contractor would be credited to his company reserve.

' . . . To provide employment for those workers on civilian work if and when defense work is eliminated or substantially reduced'



6.—Conversion Plans Required

(a) Every defense contractor and subcontractor employing more than 49 workers on a defense contract or subcontract would be required, by the terms of the procurement contract, to file with the National Economic Conversion Commission, and to bring up to date annually, a conversion plan to provide employment for those workers on civilian work if and when defense work available for them is eliminated or substantially reduced in volume.

(b) Firms claiming that their defense facilities cannot be converted to civilian production would be permitted to meet the requirement for filing a plan by filing with the Commission copies of contracts with other firms (not necessarily defense contractors) under which the latter undertake to attempt to provide employment for workers displaced from the facilities believed to be inconvertible. Such contracts would be required to include a provision under which the company reserve of the firm claiming its facilities to be inconvertible would be available to meet all costs arising out of the absorption of the displaced workers, as well as conversion benefits payable to them. The contracting firms would be free to agree to any mutually acceptable division of monies remaining in the company reserve when the time came for such monies to be returned.

(c) The Department of Defense, the Atomic Energy Commission and the National Aeronautics and Space Administration would be required to file conversion plans with respect to each of their facilities in the United States and its territories, including agreements or arrangements

contemplating the operation of such facilities by other government agencies or private organizations, and to keep such plans up to date in annual reports to the Commission. With respect to facilities deemed to be inconvertible to civilian uses, the DOD, AEC and NASA would be required annually to file plans, including details of arrangements made with other governmental agencies, designed to facilitate the reemployment of civilian personnel employed in such facilities. The DOD would be required, in addition, to report annually on action taken by it, including training for civilian work, to facilitate the absorption into the civilian economy of persons released from the armed forces.

7.—*Content of Conversion Plans*

The conversion plans filed by defense contractors and subcontractors would be required to include such details as:

(a) The type of product or service to be substituted for defense work.

(b) A statement setting forth the basis for the firm's belief that a market for the proposed product or service is available, including details of any marketing studies or surveys that may have been made.

(c) A description of efforts undertaken and preparations made to market the proposed product or service including contacts established with market outlets and potential customers.

(d) A list of the machines and equipment presently used on defense work which could be directly converted to the proposed civilian production, a list of those that would require adaptation for that purpose, a list of additional machinery and equipment that would have to be procured, a description of the nature and extent of plant layout changes that would be necessary, a detailed description of the nature and amount of manpower retraining that would be necessary for conversion, etc.

'The Dept. of Defense would be required to report annually on action taken by it, including training for civilian work, to facilitate the absorption into the civilian economy of persons released from the armed forces'

(e) The estimated costs at current prices of the physical conversion and manpower retraining included under (d) above.

(f) An estimate of the time required from the initiation of the conversion process to its completion and of employment levels during each month of the period involved.

(g) In the case of prime contractors, a detailed description of contacts and arrangements made with subcontractors to facilitate the maximum possible degree of dovetailing of their respective conversion plans.

(h) A similar description, from prime and subcontractors alike, of contacts and arrangements made with other firms in the same labor market area designed to facilitate maintenance of employment levels in the area.

(i) A statement of how the above elements in the conversion plan would be affected and how they would have to be modified in the event defense production were to be gradually tapered off or reduced by stages rather than being completely eliminated at a single point in time.

8.—*Evaluation of Conversion Plans And Assistance In Planning*

The National Economic Conversion Commission would be given authority and funds to employ a staff and to set up task forces equipped with the technical competence required to assist with the development of conversion plans, to evaluate such plans, and to provide assistance in executing them.

(a) The staff and task forces would include, among others, marketing specialists, production engineers, plant layout men, manpower training experts, etc.

(b) The Commission would take all reasonable steps to encourage, and would give preference in assigning its staff and

'The Commission would . . . assist with the development of conversion plans'

task forces to assist, firms to convert to production useful for the attainment of national priority goals (e.g., housing and urban rehabilitation, educational and health facilities and equipment, elimination of environmental pollution, etc.).

(c) The staff would review the conversion plans submitted for such purposes as to determine whether they included all required information, to assess their feasibility, to ascertain whether reasonable effort had been made to coordinate with subcontractors and with other firms in the same labor market area and to determine whether they were generally consistent with the other plans (e.g., to determine whether too many defense contractors were proposing to make the same civilian product or to draw on the same inadequate supply of particular kinds of resources).

(d) In reviewing a conversion plan, the staff would consult with the union representing the defense contractor's workers and with representatives of the appropriate state and local governments.

(e) If, upon review, the staff determined that all required information had not been supplied, it would notify the procurement agency which would then be required to withhold from the contractor a proportion (to be specified by statute) of the payments otherwise due him until he met filing requirements.

(f) The staff would be required to reject any plan which calls for the expenditure of conversion reserve monies for any purpose other than conversion to civilian production or activities and the payment of conversion benefits to workers. Upon rejection of a plan, the procurement agency would be required to withhold payments from the contractor as

in (e) above, until after an acceptable plan had been filed.

(g) The staff would have no authority to alter any plan submitted but would make the results of its review available to the contractor and would offer the services of appropriate task forces to help correct any weaknesses or deficiencies that its review had revealed. Where appropriate, the staff also would direct the contractor's attention to opportunities which he may have overlooked to convert his facilities to production useful for the attainment of national priority goals.

(h) The Commission would publish periodically summary data obtained in the course of staff review of the plans in such form as to indicate production opportunities expected to be made available as a result of execution of the plans filed

with it and to indicate dangers of possible overproduction or underproduction of certain items which might result from execution of the plans. (For example, the Commission might indicate that certain types of machinery, components or raw materials are likely to be in heavy demand or that certain others, or certain end products, might be in excess supply. Such information would enable defense contractors to develop or improve their plans and would assist producers generally to prepare better for the market situation that would develop from substantial conversion of defense industry.)

(i) The Commission would alert governmental and private manpower training agencies with respect to the training and retraining requirements estimated to result from execution of the plans.

9.—*Eligibility for Conversion Benefits*

Workers certified by the Employment Service as having been laid off or downgraded (reduced in pay or status) or having suffered short workweeks (workweeks of less than 40 hours or whatever lesser number of hours has constituted the normal workweek in the establishment) as a result of a reduction of the volume of defense work in their establishment, or any part of it, would be eligible for the applicable conversion benefits described below.

(a) Each defense contractor and subcontractor would be required to report to the Employment Service all layoffs,



short workweeks or downgradings affecting workers employed on defense work and to specify, with respect to each affected worker, whether or not his layoff, short workweek or downgrading was attributable to a reduction of the volume of defense work in the establishment or any part of it.

(b) Individual workers or the union representing them would be entitled to appeal, through the appeals machinery established for unemployment compensation purposes, a claim by the employer that the layoff, short workweek or downgrading was not directly or indirectly a

result of a reduction in the volume of defense work.

(c) Workers listed by the employer as having been affected by a reduction in the volume of defense work and those found upon appeal to have been so affected would be certified as eligible for conversion benefits.

(d) Additional certification by the Employment Service would be required, however, before retraining and relocation benefits for permanently displaced workers could be charged against the company reserve.

(1) Such additional certification would require findings that the worker is permanently displaced (defined as unlikely to be reemployed by the defense firm within one year) and that retraining or relocation (or both) is required to enable him to obtain other employment comparable in pay and status to that he held with the defense firm. All workers released by a firm which had claimed its facilities to be inconvertible would be considered permanently displaced.

(e) Workers on layoff, including those permanently displaced, would be required, as a condition of preserving their eligibility for conversion benefits, to maintain active registration with the Employment Service and to accept suitable employment to which it referred them.

10.—Conversion Benefits

Workers with the required certification or certifications would be entitled to all of the following conversion benefits applicable to them and the cost would be charged against the company or pooled reserve, or the Treasury, as provided above:

(a) Maintenance of income, including supplementation of any unemployment benefits to which they are entitled (whether from the state or the company), to bring the totals to amounts approxi-

mately equal to their regular weekly wages while employed by the defense employer, for a period of two years following layoff.*

(b) Supplementation of earnings from other employers, while on layoff from the defense employer, to bring the total to the same level as in (a) above, plus an additional weekly amount sufficient to compensate for lunch, transportation and other costs incurred as a result of working, for a period of two years following layoff.

(c) Pension credit for the period of layoff under any applicable pension plan maintained by the employer and, in the case of workers permanently displaced, vested pension credit for the period of employment plus two years following separation, with the latter to be reduced by the period of vested pension credit earned with another employer during those two years.

(d) Maintenance of hospital, surgical, medical, disability, life (and other survivor) insurance coverage while on layoff and, for permanently displaced workers, continuance of such coverage for two years following separation. The company reserve, however, would not be required to duplicate coverage for workers finding employment with other employers but would be required to supplement it to the extent necessary to provide the worker with the same protections he would have had if not laid off.

(e) In the case of workers on short workweeks, supplementation of earnings to the level of full pay for a normal workweek for a period of two years following certification of the individual.

(f) In the case of downgraded workers, supplementation of earnings to the level of those from his former defense job as measured by the wage rate currently applicable to comparable jobs for a period of two years following certification of the individual.

*The European Coal and Steel Community provides benefits equaling or approximating regular wages for workers displaced under analogous circumstances.

(g) Retraining for civilian work: in the defense employer's establishment providing pay and status as comparable as possible to the defense job formerly held.

(h) In the case of workers certified as permanently displaced, retraining approved by the Employment Service and reimbursement for all reasonable relocation expenses incurred in moving themselves and their families to take advantage of an employment opportunity to which they are referred, or which is determined to be suitable, by the Employment Service.

(i) Payment of conversion benefits would be made by the appropriate unemployment compensation agency which would notify the Commission of the amounts paid with respect to each company's workers.

11.—Listing of Job Vacancies

All defense contractors and subcontractors would be required by the terms of procurement contracts to list with the Employment Service all vacant jobs in their establishments which are to be filled by new hires.

12.—Reserves Not to Be Considered Costs

The procurement agencies would be forbidden to recognize as additional costs justifying higher prices any portion of the profits required to be deposited by contractors in the conversion reserves.



Explanation Of Outline

THE OUTLINE of the proposal is largely self-explanatory. Some elaboration may be useful, however, in connection with certain of its features which are discussed below. Headings, numbers and letters used for this purpose are keyed to those in the outline. Numbers and letters relating to parts of the outline for which no elaboration seems necessary are simply omitted.

1.—Establishment and Uses of Conversion Reserves

The requirement that conversion reserves be established calls on defense contractors to do no more than any prudent businessman would do if he foresaw the possibility that the market for his product might disappear. Faced with that prospect, any reasonable firm would prepare to shift into production of other items for which it believed there would be a market. It would voluntarily set aside part of its profits to finance investments that might be required to produce the new items.

The difficulty which the proposal seeks to meet is that many defense contractors do not function like normal businesses. They hope that, through their participation in and support of the military-industrial complex, they will be able to enjoy defense-business-as-usual indefinitely into the future and they have little or no experience with, and even less relish for, the requirements of civilian markets.

(b) (2) and (d). The pooled reserve is designed to minimize the necessity to tap the U. S. Treasury (from which all defense

contractors draw their profits in the first instance) to finance conversion benefits for workers displaced from firms whose company reserves prove inadequate for that purpose. Pooling recognizes that the success of any single firm in converting will depend upon the state of the economy at the time, which, in turn, will depend in large measure upon the success of all other defense firms. To the extent that defense contractors, as a group, plan soundly for conversion and efficiently execute their plans, the drain on the pooled reserve would be reduced and deposits into it would be returned to the firms which had made them.

(c) (1) This part of the proposal allows the defense contractors to use their conversion reserves in the same manner as if they had put aside funds voluntarily to carry out conversion plans that they had developed on their own initiative.

(c) (2) This part recognizes that defense contractors who profit from defense work have an obligation to minimize hardships and dislocations for the workers without whose work the profits would have been impossible.

To place the costs of protecting the families of workers affected by the conversion process upon the defense contractor is fully justifiable both morally and economically.

Morally he has an obligation to the workers who made his profits possible. Unlike materials or machines that may be scrapped when a contract terminates, workers and their families are not expendable. From an economic standpoint, the costs of conversion are part of the costs of defense production. So long as defense industry is operated for private profit, those who enjoy the profits should bear the costs of earning them.

If the costs of protecting workers' families in the conversion process are borne as social costs, the defense contractor has no incentive to minimize them. Only as he is compelled to shoulder those costs can we be sure that he will do everything within his power to convert his facilities in the manner that will best protect both the social interest and the workers directly affected.

3.—Return of Unexpended Conversion Reserves

This part is the heart of the proposal.

It provides the financial spur necessary to assure that defense contractors plan carefully for conversion and execute their plans with a minimum of dislocation of the lives of their workers and of the communities in which they operate.

The more effective a firm's planning and the smoother the plan's execution, the larger will be the part of its reserve that will be recaptured by the firm. With sound planning, preparation and execution, it might be able to recapture its entire deposit into the reserve plus interest. If its planning and execution are less than optimum, it will have to share its reserves with its workers to protect the latter from hardship.

Since the firm will be operating with its own money, it can be expected to try to do the best job possible in the circumstances.

Provision is made in (a) and (b) to return unexpended reserves, both those earmarked for the company and those pooled with other defense contractors, in the event of partial as well as total termination of defense work.

4.—Guaranteed Conversion Loans

Amounts set aside out of profits in the company conversion reserve will not necessarily be commensurate with the amount of financing required by the particular firm to effect a successful conversion to civilian work. Provision is therefore made for guaranteed loans at subsidized interest rates to help those firms whose reserves may not be adequate.

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The guarantee of only 90 per cent of the loan assures screening for financial soundness by the private lenders. Subsidization of only part of interest rates in excess of five per cent assures that the contractor will seek out the lowest rate available.

5.—Civilian Production Loans from Conversion Reserves

This part of the proposal, as noted, is a crucially important feature.

It is designed to help defense contractors carry on, expand or initiate civilian operations that could absorb workers no longer needed in defense production as the latter is tapered off or eliminated.

It would thus help to lessen the dependence upon defense production of both the contractors and the communities in which they operate. Thus it could contribute to weakening the lobbying power of the military-industrial complex.

In effect, defense contractors needing funds for civilian operations in the same labor market area are offered interest-free use of their impounded profits. For the interest they would be required to pay on amounts borrowed would be credited to their own conversion reserves.

This feature of the proposal also heads off any objection that the creation of the reserves denies firms access to what they would doubtless consider to be their own funds.

**'... could contribute to
weakening the lobbying
power of the military-
industrial complex'**

They would have access provided they cooperated with the national purpose to effect a smooth transition from defense to civilian production.

(a) (1). The requirement that a bank or other private loan be obtained simultaneously with, and for the same purpose as, the loan from the reserve, with the lender agreeing to share in any losses, is designed to spare the National Economic Conversion Commission the necessity to screen loans for soundness. The private lender, operating in his own interest, could be counted on to do the necessary screening.



6.—Conversion Plans Required

(a) Here, again defense contractors are being asked to do no more than any prudent businessman would do voluntarily under similar circumstances. If he foresaw the reduction or elimination of the market for his present product, he would plan carefully to make other products. Employers with fewer than 50 defense workers would not be required to file formal plans but would be covered by the rest of the proposal.

(b) Inevitably, some firms can be expected to claim that their facilities cannot be converted to defense production. As noted, the same claim — which proved false — was made, in reverse, by the auto industry before Pearl Harbor when, in the interests of continuing business-as-usual, it insisted that its facilities could not be converted to defense work.

Even in cases where claims of inconvertibility to civilian production have basis in fact, that alone should not relieve the defense contractor of his obligations to the workers who made possible his defense production profits.

Accordingly, this part of the proposal requires defense contractors who claim their facilities are inconvertible to make arrangements with other employers to provide for the absorption of workers no longer needed on defense production.

Such other employers would have access to the reserves of the defense contractor to help them make provision for the absorption of the displaced defense workers. To the degree that the absorption process proceeded smoothly and expeditiously, the defense contractor claiming inconvertibility of his facilities would be able to recapture a part of his conversion reserves.

He would therefore have a strong financial incentive either earnestly to seek out ways to convert his own facilities to civilian production, difficult though that may seem to him at first examination, or to make arrangements with other employers for the speediest possible re-employment of workers displaced from his establishment.

An experience of the automotive industry is instructive in this connection.

The industry was long notorious for the instability of employment caused by its erratic production scheduling. The auto corporations claimed it was beyond their power to avoid violent fluctuations in employment.

**'Auto corporations
discovered they could
level out production'**

After the UAW negotiated supplemental unemployment benefit plans, which shifted part of the economic burden of instability from the backs of the workers to the corporations, the situation improved markedly. The resulting pressure on profits impelled the auto corporations to discover that they could, after all, level out production and employment to a significant degree. And they have done so.

7.—Content of Conversion Plan

The elements of a conversion plan listed in the outline are presented merely by way of illustration. The specific kinds of information to be required would have to be thought through with great care in drafting legislation.

A detailed listing along the general lines included in the outline does seem to us to be essential to give meaning and substance to the intent of the requirement of Section 5 (a) of S. 1285 that each defense contractor "define his capability" for converting to civilian production.

The necessity to supply details of the type we propose would compel defense contractors to think seriously and systematically about their conversion problems and possibilities and to plan carefully for conversion. As noted above, we fear that the broad and unspecific language of Section 5 (a) of the Bill, particularly if not backed up by strong financial motivation, would tempt many defense contractors to take the easy way out by doing no hard thinking or plan-

' . . . the proposal would impel defense contractors to do the best conversion planning job of which they are capable'

ning and responding with vague generalities.

8.—Evaluation of Plans And Assistance With Planning

(g) The only portion of Part 8 of the outline that seems to need elaboration is that denying to the Commission's staff the authority to alter defense contractor's conversion plans.

We have proceeded on the assumption that the financial motivation offered by the proposal would impel defense contractors to do the best conversion planning job of which they are capable. The financial penalty for failure to plan soundly would make it unnecessary to impose second guessing from Washington. However, the proposal would make technical assistance available to those contractors desiring it and would provide them with information useful for sound planning in their own interest.

10.—Conversion Benefits

The types and levels of benefits proposed are fully justified on the basis of both sound principle and precedent.

The principle that informs our recommendation with respect to conversion benefits is simple and fundamental enough. It is that government has a responsibility to safeguard from harm those among its citizens who suffer as a result of national policies undertaken in the national interest.

It is a principle recognized by the countries that form the European Coal and Steel Community. It has been recognized more recently by the Government of the United States in providing adjustment assistance to workers adversely affected as a result of the Trade Expansion Act of 1962 (TEA).

Former Secretary of Labor Arthur J. Goldberg expressed the principle in testimony on the Trade Expansion Act, in the following terms:

"The Government has a special responsibility to these workers who suffer hardship because of its own trade policy. Such workers are not casualties of supply and demand, technology, or any other impersonal force. In a very real sense their displacement is the price of our decision to expand trade to improve conditions for our people as a whole. As the President has suggested, the obligation we owe such workers is akin to that we owe to the veteran. We have long considered it appropriate to provide special programs for that group which exceed those for the general population. We should do likewise in this case.

"I have discussed that part of the act which is the particular responsibility of the Department of Labor and to indicate the care that the administration has taken to insure that those workers who do suffer hardship from our trade expansion program — however few in number — will not be neglected.

"As my remarks have indicated the administration has proposed a generous trade adjustment program for workers injured by imports as an integral part of the Trade Expansion Act. As a humane Government we recognize our responsibility to provide adequate assistance to those who may be injured by a deliberately chosen Government trade policy."

Mr. George P. Shultz, Secretary of Labor in the present Administration, affirmed the same principle in a Nov. 18, 1969, address dealing with the adjustment aspects of liberalization in international trade, or what he called "the human aspects of the process of change."

Traditional conservative opinion in the United States has held that such "human aspects" of change as the displacement and income loss of workers were, as the phrase went (and still goes in unenlightened circles), "part of the price 'we' have to pay for progress." The "we" was

the weasel word attempting to cover up a multitude of sins committed in the name of progress against working people and their families who found themselves, exposed and vulnerable, on the cutting edge of change, condemned to take its brunt while the immediate managers of change, hiding behind the "we," reaped its immediate benefits.

Secretary Shultz was at pains to convince his National Foreign Trade Convention audience that the days of that hypocritical cop-out had ended. He said:

". . . We know that people may be hurt in the process of change. And we also know that such adverse effects give rise to a degree of opposition which in turn can be a drag on progress itself. Perhaps the most important thing we have learned is that anticipation of the adjustment problems in the cases where they occur, and easing those adjustments, can be a most important step in assuring a smooth and free-flowing process of change."

Referring to rapid domestic change, he went on:

". . . We have developed new ways by which we can help people adjust to these changes at the same time that the entire nation reaps the economic benefits of the changes themselves."

The Secretary alluded to the lead taken by advanced European nations in developing civilized adjustment policies:

"A positive approach to the problem of adjustment has already been taken by Western European countries, who have also recognized that the process of freeing up markets will require special attention and action. The Coal and Steel Community since its inception has had arrangements under which there would be common sharing and financing of special measures to ease the adjustment process, and there have been a number of such actions taken. There are similar provisions in the Common Market treaty, and these will become of increasing significance when the duties within the Common Market finally fall and there is in fact internal free trade."

Turning to the responsibilities of employers, Secretary Shultz said:

"The concern of private enterprise should not be limited to seeing that the government's programs are adequate and that they work. Enterprise should also be concerned with the additional things that only private enterprise can do to make the entire process of adjustment a smooth one.

"The government's programs will provide training and some income assistance during a transition period.

"It may be that stronger efforts should also be made in such related areas as funding and vesting of pension rights. But, as we have found in our domestic manpower programs, the provision of actual jobs — and the assurance that they will be there and be there quickly — is a key matter. This will be particularly important for those who will need to be re-employed as result of trade impact: they are employable people, trained, often skilled, used to the process of earning a living and often with many years of experience in doing so. They can and should go into jobs much more quickly than many of those who are the special clients under our manpower programs.

"In many cases, of course, they will need either special training or the assurance that a job in fact lies ahead — a job in the same community or nearby, usually without the need for a major disruption of personal life. And the provision of jobs will sometimes call for the channeling of investment to the spots where the jobs are needed."

And the Secretary told employer members of the Foreign Trade Council:

"The Council can similarly aid the nation in many of the adjustment problems which its members will have to face in the future — often facing them together with the unions which represent its members' workers. The Council might well consider the development of special mechanisms and procedures for this purpose, and the encour-

ment of fruitful labor-management discussions on these matters. We in the Department of Labor who have been especially concerned about bringing a viable adjustment system process into being, as part of the process of insuring that we in fact do have a liberal trade policy, would be glad to join with you in such efforts."

What Secretary Shultz said regarding the adjustment assistance responsibilities of government and employers applies fully to their responsibilities in facing up to the human aspects of converting war and defense facilities to peacetime uses.

Particularly in point, in relation to the conversion benefits listed in the outline presented above, are his comments on the obligation of employers to maintain certain fringe benefits (pension rights was his example) as well as wages for their displaced workers.

The difficulty lies in closing the gap between the profession of principle and actual performance both by government and employers. In the matter of performance, American adjustment policy, as reflected in the TEA, is still largely in the grip of Social Darwinism, and far behind accepted practice in Western Europe. Under TEA, maximum readjustment allowances stop at 65 per cent of the worker's wage. In contrast, the European Coal and Steel Community provides allowances for workers running as high as 100 per cent of wages, plus other forms of assistance including supplementation of reduced wages received on new jobs.

And workers may continue to receive assistance from the Community for up to two years.

There is no inherent law of nature which decrees that the United States must balance its technological boldness with such blatant social timidity and miserliness. We, with our far greater wealth, should be setting an example to the Europeans in the matter of enlightened social policies in stipulating the level and range of adjustment benefits in the economic conversion legislation we earnestly hope the Congress will soon enact.

11.—Listing of Job Vacancies



The requirement that job vacancies to be filled by new hires (as distinguished from those filled by transfers or promotion from within the establishment) be listed with the Employment Service makes sense in any event—and as applied to all employers, not merely defense contractors—because it would be conducive both to efficiency, by promoting the rapid manning of vacant jobs, and to the shortening of periods of unemployment for workers capable of filling the vacancies. In the context of the proposal outlined above, it would be in the common interest of all defense contractors to list their job vacancies with the Employment Service because prompt placement of the workers they might be compelled to lay off would help conserve their company reserves by reducing conversion benefits otherwise payable to such workers. Conversion benefits payable from the pooled reserve would also be minimized as would the possibility that the Treasury might have to step in to backstop the pooled reserve after it had been exhausted.

12.—Reserves Not to Be Considered Costs

We recognize that it would not be possible to achieve perfect enforcement of this part of the proposal. Nevertheless, we believe it would serve a valuable purpose.

This feature of the proposal would have direct relevance to procurement contracts awarded on the basis of negotiations rather than competitive bidding.

It would place the procurement officers on notice that profits to be deposited in the conversion reserves would not change in nature because of that requirement. They would continue to be considered profits and could not legally be treated as costs. Procurement officers would be aware that contract prices that deviated from costs by wider margins than those negotiated earlier for comparable products would be scrutinized to determine whether potential conversion costs had been added. With reasonable vigilance on the part of the General Accounting Office, price abuses could be minimized.

Where contracts are let on the basis of competitive bids, bidders might be tempted to pad their prices in anticipation of possible conversion costs. But the temptation would be offset by other considerations. The least padding would be added by the bidder with the greatest confidence in his ability to convert with minimum dislocation of his workers. Other things being equal, he would obtain the contract. That, in itself, would be a desirable result because, assuming his confidence were justified, giving the contract to him rather than to some other bidder would minimize both individual hardship and the social costs of conversion.

But the gains would not stop there. Each bidder would be aware that competitors who were better prepared for orderly conversion would, to the extent of their superior preparations, be able to reduce their bids relative to his. In order to stay in competition, therefore, all the competitors would feel under pressure to give serious thought to planning for conversion.

Other Suggestions

WHILE we are aware that the Committee, at this time, is not addressing itself to any particular bill, S. 1285 does provide occasion to comment on certain other matters related to the economic conversion problem. This we shall do briefly in the following paragraphs.

Chairmanship Of Commission

We are in agreement with Senator McGovern and the other sponsors of S. 1285 that conversion and the reallocation of resources now employed in defense production to the nation's priority civilian goals is a matter of the gravest urgency that fully justifies the involvement of the Cabinet members and other high officials whom the Bill would enlist as members of the proposed National Economic Conversion Commission.

We believe, however, that economic conversion is much too big a responsibility to handle on a part-time basis.

For that reason alone we would urge that no one carrying a heavy burden of other responsibilities be asked to act as Chairman of such a Commission. To make the Secretary of Commerce the Chairman of the Commission, as S. 1285 would do, would not provide for

the conversion task the undivided attention that the magnitude of the problem requires. Moreover, the Secretary of Commerce is widely regarded as the spokesman for industry within the Administration whereas the conversion problem is primarily one of protecting workers, communities and the general welfare—concerns which are often at variance with the interests of industry.

We would therefore urge that any Commission established to prepare for, guide and monitor the conversion process, be headed by a qualified person who would be given Cabinet rank but be burdened by no other governmental responsibility.

Labor and Management Participation On Commission

S. 1285 calls for a Commission consisting of eight Cabinet members plus four heads of other agencies, 12 persons in all, with provision for the addition of up to six other members upon the invitation of the Commission.

We believe that the practical industrial experience that competent labor and management spokesmen could bring to the Commission's work would add greatly to its effectiveness. Accordingly, we would urge that a National Economic Conversion Commission consist of 19 persons—the 12 listed in S. 1285, plus the full-time Chairman proposed above and three representatives each from labor and management.

Size of Unit To Be Covered

The provisions of S. 1285 would cover defense contractors whose employment on defense work exceeded 49 persons or 25 per cent of the total number of employees at the establishment.

***' . . . the practical industrial experience
that competent labor and management
spokesmen could bring to the Commission's work . . . '***

We are troubled by the 25 per cent cut-off point because it would in some cases exclude very sizeable defense operations.

For example, we are advised that the Long Beach plant of McDonnell-Douglas Corporation employs a total of 16,000 workers of whom about 1,500 are engaged in defense production. Since 1,500 is less than 25 per cent of 16,000, that plant would be excluded from coverage under S. 1285.

It seems anomalous to cover a unit of 50 defense workers while excluding 1,500 workers employed in a part of another unit. The latter, obviously, presents a more serious conversion problem than the former.

Inclusion of NASA Contractors

We note that although the Administrator of the National Aeronautics and Space Administration is included as a member of the Commission proposed to be established under S. 1285, only DOD and AEC contractors, but not those who hold contracts from NASA, are included under Section 5 (a) of the Bill.

This seems to be an oversight.

In any case, we believe NASA contractors should be covered.

We would urge, in fact, that a review be made of contracts let by all agencies of the government to determine whether others present conversion problems similar to those of the three agencies named above. If so, economic conversion legislation to be proposed should apply to all such contracts, regardless of the agency involved.

Conclusion

WE EMPHASIZE again that the conversion crisis is already upon us.

If we acknowledge that fact and plan now for an orderly conversion, we still have time to seize the opportunity to prevent much unnecessary hardship and to redirect facilities and resources to meet high-priority domestic needs.

Conversion, through the legislation this Committee can write, can be a hopeful turn for the whole country, enabling us to mobilize labor and resources for long-neglected tasks of construction and renewal. It can mean more jobs rather than less, more homes, schools, hospitals, clinics, day-care centers, rest homes, libraries, cleaner air, purer water.

Properly planned, conversion to peacetime production and jobs can mean a better life not only for defense workers and their families and communities, but for the whole country.

The key to an orderly and humane conversion, we are convinced, is enlistment of the concern, the ingenuity and the energies of the defense contractors. Their wholehearted cooperation can be

assured only by making the size of their profits dependent upon fulfillment of their conversion responsibilities to their workers and the nation.

They are used to responding to the profit motive and there is no reason to believe that they will respond any less eagerly when that motive is applied in the social interest than when it tempts them into irresponsibility. A profit-oriented mechanism of the kind we have outlined in this statement, although it will doubtless be opposed vigorously by defense contractors, would, beyond question, evoke a positive and constructive response from them once it became a fact of corporate life.

We are convinced that such a mechanism is essential to assure meaningful conversion planning and determined effort to execute conversion plans quickly and smoothly. And we are sure that this Committee will be performing a public service of the highest order if it expedites these hearings and comes forward promptly with effective conversion legislation for enactment by the Congress.



Oral Presentation

After submitting his prepared statement, UAW President Reuther spoke extemporaneously.

I AM privileged to come here this afternoon to represent 1,800,000 wage earners who are in the automotive and agricultural implement and aerospace industries. With me is Mr. Nat Weinberg who is director of the UAW's Special Projects Dept.

I would like first to express our very sincere appreciation to the chairman and the members of this Committee for convening this meeting. We believe that America must of necessity devote increasing attention to the problem of how a free society must deal with the very complex problems that will result from the de-escalation of our efforts in Vietnam and hopefully from de-escalation of the arms race.

How do we go about trying to facilitate the rational shifts of defense facilities and manpower to civilian production?

I think we can all agree, Mr. Chairman, that history will judge the quality of American society, not by the destructive capability of our nuclear arsenal or by the material wealth that we have, or our productive power, or by our technological progress.

I think that we are going to be judged by how we order our priorities, how we allocate our resources, how we pursue our national purpose, and how practically we demonstrate our social responsibility in translating technical progress into such human progress as raising living standards, extending educational opportunities to every American child and youth, providing security and dignity to our older citizens, providing a decent house and wholesome neighborhood for every family, and dealing with broad problems of environment, transportation, and so forth.

I believe that as we deal with the question of the conversion of defense facilities and manpower to civilian purposes, we will have access to greater economic resources and potential to deal with these very serious social and human problems.

During the last 30 years, history has compelled America to plan for war. Nothing could be more dangerous, nothing could be more tragic, nothing could be more incompatible with the values of our free society than a failure to demonstrate an equal resolve and national commitment to plan for the rewarding purposes of peace.

That is what is involved in this matter of reconversion.

I would like to stress the urgency that the UAW associates with this problem of postwar economic conversion. We believe that we need to come to grips with this problem now and that any delay will merely mean very difficult complications at the point that the actual shift from defense to civilian production takes place.

Business Week of Nov. 22 said that by July of 1970, about 280,000 workers will be displaced from current defense jobs. Now 280,000 workers are a lot of people. I personally think that is an understatement of the impact we can expect, based upon the experience that we are having in the industries that we are associated with.

I think that as we get a reduction in the troop commitments in Vietnam and as there is a de-escalation of that war, these figures will increase very rapidly. And we believe, therefore, the Congress as of now ought to come to grips with this problem.

We hope that the talks that started in Helsinki several days ago will be successful. There, the United States and the Soviet Union now are beginning hopefully to lay the groundwork for what can be a meaningful reduction in the pace of the nuclear arms race. If we are fortunate enough to bring about a reduction in the levels of armament, then we must be prepared to deal with the problems

that reduction will create, by shifting from defense to civilian production.

There are roughly 3.8 million workers engaged in defense production currently. This does not include the workers in the space program nor the workers who are related to the Atomic Energy Commission's projects.

We believe that the workers in these industries, whose employment security and economic well-being are directly affected by government decisions, whether through a reduction in the level of arma-

**'By July of 1970, about
280,000 workers will be
displaced from current
defense jobs'**

ments or a shift to other types of weapons, that these workers have every right to expect that their government will take the kind of practical steps in advance that will assure them some security in the period of transition from defense to civilian production.

Therefore, I would hope, Mr. Chairman, that as a result of your hearings there will be a greater sense of urgency on the part of the people in Washington in coming to grips with this problem.

I think it would be tragic if we failed to deal with this problem and thereby encouraged workers in defense industries to equate their economic security and their material well-being with the continuation and escalation of the arms race.

I think it is a terrible thing for a human being to feel that his security and the well-being of his family hinge upon a continuation of the insanity of the arms race. We have to give these people greater economic security and greater job opportunities in terms of the rewarding purposes of peace, and that, I think, is what this hearing is all about.

I would like to underscore and emphasize the point that Senator McGovern made in introducing his conversion bill: that conversion planning cannot be done within the framework of broad generalities. Conversion planning, to have meaning and to be workable, has to be translated from the generalities of the national scene to the specifics of each local community and each plant within that community.

A worker in Texas, or a worker in Connecticut, or a worker in Massachusetts, or a worker in Michigan or California who is involved in defense production will get no reassurance out of a plan limited to broad generalities.

He doesn't want to know what you are going to do in general. In the aggregate the statistics may make him look very secure, but in terms of the individual worker and his family, he wants to know what you are doing about the conversion of his plant and his job and his community.

It is at the community level that conversion takes on meaning and significance in his life. Therefore while planning has to be structured within the broad framework of a national approach to national problems, I strongly urge that we translate the generalities into the specifics of each plant and each job and each community in order to come to grips with the problem in realistic terms.

We support the broad purposes of Senate bill S. 1285, but we believe that the key to whether or not we are going to make a reconversion program really function lies in the kind of economic incentives that we build into the program to stimulate managerial initiative, imagination, and ingenuity. That is the key, because no group of government technicians that you may assemble and put on the staff of a national economic and conversion commission, will have the wisdom or the know-how to work out specific and practical workable conversion plans for each plant.

That, of necessity, must be done at the plant and company level by the management people who are best equipped to



do it. The key, we believe, to bringing that about is to find the practical economic incentives that will, in effect, spur management to do the job which only they can do well.

President Eisenhower warned us all that the growing power of the military-industrial complex was something that we had to watch carefully. I think that the problem is that there are corporations in America, whose whole experience is tied in with military efforts, and they think of their relationship with the military in terms of continuing and higher levels of military production as a way of life.

They have a vested interest in the continued escalation of the arms race. I think that is the nub of the problem that we are talking about.

THE CHAIRMAN: Is that what you call the military-industrial complex?

MR. REUTHER: That is correct. This has a sort of built-in, self-generating dynamics. They are dreaming up new weapons and they are selling the new weapons to the Pentagon and they get into an alliance where sometimes it is very difficult to draw a line of demarcation between industry and the Pentagon.

They have a vested interest. Somehow we have to shatter that kind of negative mentality on the part of many corporations which are incapable of thinking in terms of an economic future in civilian production.

It is this kind of business as usual, tied exclusively or in large part to an expanded defense budget, that I think is the crux of the problem.

Now, in 1940, Mr. Chairman, we were confronted with a very serious problem in the world. Adolf Hitler was marching madly all across Europe and threatening the peace of the world and America was just in the very beginning of its defense efforts.

I came down to Washington where I served on a number of commissions in the early period, and one of the things that we needed to shore up in the free world was defense aircraft. We practically had no defense aircraft industry,

and on the drawing boards there were many plans, but they all entailed a very long timelag.

I came up at that time, Mr. Chairman, with a proposal to convert the unused productive capacity of the automobile industry—and there was very large unused capacity at that time—to the production of defense planes. In our proposal we demonstrated, we thought, that we could turn out 500 defense planes a day if we converted the unused capacity.

THE CHAIRMAN: What is the date of that?

MR. REUTHER: This was in August of 1940, 16 months ahead of Pearl Harbor.

THE CHAIRMAN: If you have an extra copy, I would like to print that.

MR. REUTHER: We have copies, Sir. I came to Washington in that period. I met with President Roosevelt; I met with other people who were deeply involved in the early beginnings of our defense efforts. When the industry was asked about the feasibility of this program they responded almost unanimously by saying that the machine tools in the automotive industry were single-purpose machine tools and could not be converted to the production of any defense items.

They were very happy with business as usual, making automobiles and other gadgets, and so forth. And then Pearl Harbor came along about 16 months later and that shocked the automobile industry out of its business-as-usual attitude. Then all of a sudden when they were told that they could not continue to make automobiles, that the materials and the manpower and the facilities were needed for a desperate all-out war production effort, suddenly these single-purpose machine tools, which we were told 16 months earlier could not be used for anything but the production of automobiles, were found to be convertible to the production of all kinds of defense items: airplanes and tanks and many of the other things we needed.

Toward the end of the war, when a Senate committee addressed itself to the broad problems of war production and reconversion, Mr. K. T. Keller, who was

then president of the Chrysler Corp. appeared before that committee, and I would like to quote several questions and his answers to those questions.

Mr. Fulton of the committee's staff asked the following questions of Mr. Keller: You succeeded in making a really very high conversion, percentagewise, of your tools to Government work?

Mr. Keller: We think we did a splendid job on that.

Mr. Fulton: That must be about 60 per cent?

Mr. Keller: It runs around 89 per cent.

Then Senator Ferguson asked the question: Can you do the same thing in converting to civilian production, if you have the time?

Mr. Keller: Yes, sir; we can convert those machines back to civilian production.

So that the automotive industry, which technologically is, I think, perhaps one of the most sophisticated industries in America, had demonstrated great capa-

'We have got to find a way to achieve a sense of urgency'

bility and adaptability in moving from civilian production to defense production, and when the war was over from defense production back to civilian production.

Now, I think that same capability exists today, but Pearl Harbor gave us the kind of shock therapy on that tragic day in December that compelled us to do it. We have got to find a way to achieve a sense of urgency and a sense of commitment, to be prepared to do the same kind of a job if not on the same scale, converting defense production facilities to civilian production when the de-escalation of the Vietnam situation and hopefully the de-escalation of the broader arms race will make it possible for America to reduce its expenditures for military procurement.

There is a complicating factor this time that was not present in the conversion from defense to civilian production at the end of the last great war. During the war our civilian economy was greatly restricted and many plants that normally would have been engaged in civilian production were converted to defense production. So their going back to their old line of civilian production was really easy. But in the interim since the end of the last great war there has developed in America a tremendous new defense industry that has had no experience in civilian production.

They have nothing to go back to because they didn't come from civilian production and that complicates our problem. For anyone to say that somehow in the long pull this thing will equalize is not an acceptable answer. When a defense worker gets laid off in a helicopter plant in Texas or in a plant in the southern part of California, or in Connecticut or in Massachusetts, he will not be quiet if you tell him that the economy will eventually solve his problems, by creating a job for him half way across the continent, if he somehow finds it possible to survive.

You can't solve such problems in the aggregate. You have to solve them in terms of the needs of an individual worker, an individual family, an individual plant, in an individual community.

The only way that you can do that rationally and responsibly is to begin to plan to do it far enough in advance so that you can act as the need arises. So we insist that the key to this problem,



Senator
Gaylord
Nelson

Mr. Chairman, the core of the proposals that we make here today on behalf of the UAW, is to build into a conversion program the kind of powerful economic incentives which alone can move industry at the plant level to undertake the kind of practical conversion that is necessary.

Otherwise, these great defense industries that came into being, not by conversion from previous civilian production, but originally as defense establishments, whose managements have no history of past civilian production, these managements will walk away from those plants just the same as the Navy walks away from an obsolete carrier.

That is the experience we had at the end of the last great war. I personally was privileged to participate in a ceremony at the Willow Run Bomber Plant where we turned out more bombers than any plant in the history of the free world.

When we got to the end of that tremendous production achievement the Navy sent its brass and the Army sent its brass and we had a big ceremony and I represented, as the spokesman for the UAW at that ceremony, the 20,000-odd workers. The Navy brass and the Army brass thanked the workers for a tremendous production achievement and they gave them the "E" award for excellence.

Then they told them: "The plant is expendable and you all are going to be laid off." That was the reward. If we are not careful the major defense industries with no civilian production experience, the corporations operating those plants, will walk away from them on the theory that they are expendable.

When that happened at Willow Run I was asked by the workers in that plant to come up with a proposal for converting the defense plants that came into being during the war, and which were largely financed by the government, and I came up with this plan entitled "Are Our War Plants Expendable?"

I proposed that such plants be converted to the mass production of low-cost housing and modern transportation rolling stock. I would like to suggest, Mr. Chairman, that if we had done that at the end of the war in 1945, I believe that the very serious crisis that we now have in housing and in transportation could have been averted, and I would like, if I might, to put this in the record as part of my testimony.

THE CHAIRMAN: I order this pamphlet "Are Our War Plants Expendable?" by Walter P. Reuther, published at Willow Run, dated July 4, 1945, be printed as an appendix to the record.

MR. REUTHER: Mr. Chairman, I have had the privilege of sitting at the bargaining table for 30 some years now with the largest corporations in the world, and I believe that I have spent more time at the bargaining table than any other living American.

I have learned a few things, and one of the things I have learned is that giant corporations are most attentive and most responsive when their profit position is threatened.

What moves great corporations to make decisions and to act? When their economic welfare and their profit positions are in jeopardy, then they move. I



do not believe that you can solicit their active cooperation and participation or get the kind of initiative and ingenuity and social invention that is required to work out a practical conversion program at the plant level unless you build into the plan the kind of powerful economic incentives that relate to their profit position.

This is what we are proposing that you give consideration to.

We are not wedded to the specific details of our program, but we propose that a portion of the profits of every defense contractor be impounded in a special conversion trust fund and that the government hold those monies in trust and that each defense contractor be obligated to submit to a National Economic Conversion Commission a detailed plan on how he intends to deal with the practical program of converting the plant and the facilities that he currently is using for defense production.

Such a plan would include time schedules, products to be manufactured for civilian use, the number of jobs, the job qualifications, the skill makeup of those jobs, and a market study indicating that there was a demand and a need for the products that he contemplated producing.

Now, the monies in the trust fund which would be held by the government would be used for three purposes. One, to carry out the cost of the physical conversion of the plant: equipment and the floor space and so forth.

Second, to retrain the workers to acquire the skills needed for the new civilian jobs, and thirdly, to pay certain reconversion benefits to workers and their families to tide them over until the civilian jobs would be available.

The whole conversion program on a plant-by-plant basis would be worked out by the contractor. The Commission would not have any authority to change that plan other than the fact that they may have some technical resource people who would be available to work with the contractor and perhaps help work out certain technical problems that they may find are beyond his capability.

'... relying essentially upon the production of civilian goods for their economic security ...'

But the program of conversion must of necessity be the responsibility of the contractor, since it is his plant and his money that are involved, and you can only make him respond as he knows that he has to assume the responsibility of devising the program and being obligated to back it up with his own resources.

This is not a novel idea that we are proposing. In the general operation of the marketplace, if a corporation is manufacturing a certain civilian end product and they find that the market for that product has changed, they don't just blindly go on making that product.

They earmark a portion of their earnings in order to develop new products and to shift their productive capability from the old product to the new product. All we are proposing here is to apply what normally is a practice of industry when they respond to market pressures, except that we propose it be done in the case of a defense contractor by governmental obligation so that he is required to set aside these resources necessary to facilitate the conversion.

We believe that until we provide powerful economic incentives to bring this about, we will continue to have the very serious problem of large corporations and their workers and the communities in which they are the principal employer and job provider, all relying almost exclusively upon defense contracts as the basis for their economic welfare.

We believe that somehow we must get enough leverage into this picture to impel them to begin to think in terms of the long pull, of relying essentially upon the production of civilian goods as the basis for their economic security and economic well-being.

'Their level of profitability in terms of return on investment is almost double that of an average company in manufacturing'

We have arbitrarily proposed that 25 per cent of the after-tax profits of defense contractors for their defense business, not their civilian business, if they are in both, be set aside in this trust fund. Now I don't have any specific, accurate figures on the profitability of defense contractors, but from studies made by a number of congressional committees and private economic organizations, we are led to believe that their level of profitability in terms of return on investment is almost double the return for an average company in manufacturing industry.

I have heard figures of 17½ per cent for defense contractors as contrasted to something around 11 per cent for civilian manufacturers. I have heard figures that put the defense industry's profitability much higher than that, but there is no question about it that, in general, defense contractors have gotten a more than satisfactory return on their investment.

THE CHAIRMAN: Pardon the interruption just a minute. I think Senator Proxmire's committee studied the economics of it and found that in certain contracts the profits were several hundred per cent, were they not, over the amount involved in the contract, itself?

MR. REUTHER: That is correct. I had the privilege of appearing before Senator Proxmire's subcommittee and there were several very shocking economic facts revealed with respect to the level of profitability of some defense contractors.

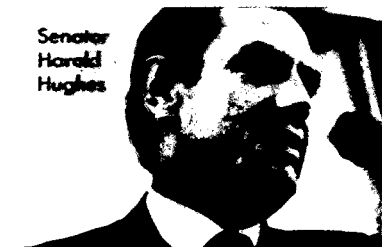
But, in general, I think that one can accept the fact that profits are much higher, that is, the return measured against investment, and I think that is the only reasonable way of measuring return, much higher in the defense industries than in industry generally in terms of civilian production.

So what we are proposing is that 25 per cent of the profits after taxes of defense contractors be earmarked in a special trust fund and that that money be held in trust by the government and be available to the defense contractor to help finance the conversion to civilian production, to help pay for the training of workers, and for the cost of providing the worker a transition benefit so that his family is not victimized by unemployment and the community, which has a tremendous stake in this, is not victimized by being asked to absorb the heavy cost that reconversion would thrust upon the community in the absence of some conversion benefits.

QUESTION: You mentioned 25 per cent of the profits after taxes of a defense contractor. Would you define what a defense contractor is?

MR. REUTHER: Well, this would only be the profits, the return from defense work. If the company has a mix of 50 per cent civilian work and 50 per cent defense, it would only put aside 25 per cent of its after-tax profit from the defense work. It would not put any of its earnings from civilian production into the trust fund.

QUESTION: What about this kind of a problem? You have a large number of very small people who do some defense contracting. They may be a plant of 100 or 200 or 500 or 1,000, and they bid occasionally, and occasionally get a defense contract. It may represent one-half of one per cent of their business over a period, and these fellows have enough difficulty getting any of the defense business and I am wondering about the additional bureaucratic tape—red-tape—of then setting up a separate contract for one little item out of a number



that they produce, that is No. 1, No. 2: These aren't people who are going to convert back into anything anyway. The defense contracting business is such a small percentage of what they do that the problem that you are talking about doesn't apply to them. What about this situation?

MR. REUTHER: I think that in the practical implementation of the concept that we are advancing here one would need to work out provisions and procedures to deal with that kind of problem because that is a marginal part of the problem.

QUESTION: I understand.

MR. REUTHER: When a small company can go back and forth from civilian to defense work, getting a small defense order and doing it without breaking their stride, we could work it out so they would not be penalized or overburdened by unnecessary redtape and paperwork.

The big problem is the big contractor, the defense contractor who essentially is almost exclusively a defense contractor. He has had no civilian production experience. He is not even thinking in these terms, and until we can really, in effect, begin to discipline him into thinking about civilian production through the kind of economic leverage that this proposal would provide, we are not going to change his mentality. That is where 90 per cent or more of the problem resides, not in the area of the marginal plants.

QUESTION: Wouldn't you then have to establish some formula which said that a firm whose military production was only five, or 10, or 20, or some percentage wouldn't be bothered with this requirement?

MR. REUTHER: That is right. I think you could work out as a practical matter the kind of exemptions that would meet the problem you raise without diluting the central thrust, which is the effort to really deal with these massive industries that are essentially militarily oriented and almost psychologically incapable of thinking in terms of civilian production.

They have had it made, they like it just the way it is, and it is very difficult for them to think in terms of their place and

responsibility in a civilian economy. This would put a leverage on these people.

Now, we would propose in our plan that the trust fund be shared two ways. Ninety per cent of the profits that would be impounded would be in a company reserve and 10 per cent would be in a pooled reserve, and the purpose of the pooled reserve obviously would be to spread the risk, to spread and share the cost in a broad sense.

The company reserve would be available and the company could get back every penny it put into the trust fund for the purposes of facilitating the reconversion to civilian production and meeting the benefits of the workers, if it converted smoothly.

We would also suggest very strongly that the contractors involved in the space program—where we have essentially the same problem, where workers displaced



because of governmental decisions, and the Atomic Energy Commission's program—also be included.

We have learned that when you provide powerful economic incentives you get corporations to do the things that they normally consider to be impossible, and we believe that this is the key to a realistic, meaningful, workable conversion program.

We would hope that the National Economic and Conversion Commission would have a fulltime staff. We would suggest that it have a fulltime chairman. We do not believe that a member of the present Cabinet who has a multiplicity of other responsibilities can devote the time and attention that this job requires and we would propose a fulltime chairman with Cabinet status and we would hope

that both labor and management would have adequate representation on the commission so that they could make their contribution to the work of the Commission.

The Commission would be charged with evaluating and reviewing each conversion plan submitted by industry. It could not change the plans, as I said before, but would work with the company to make the plans more workable and more realistic.

We are persuaded that this kind of an approach would provide the powerful economic leverage that we need, on the basis of some experience we have had in the automotive industry.

The automotive industry historically was a most erratic, unstable industry. The average worker in the automobile industry in the early days worked a couple of months and then he walked the streets a couple of months and then he worked a couple more months and then again walked the streets, sometimes seven months out of 12.

One of the demands that we raised very early at the bargaining table was that an attempt be made to work out some way to stabilize employment in the automobile industry. When we raised this demand with the industry they said to us that the American car buyer was the

most fickle consumer in the world and that you could not possibly begin to build into this erratic industry any employment stability.

So in 1955 we raised at the bargaining table and we successfully negotiated what we call our supplemental unemployment benefit plans, under which the industry had to begin to pay for the erratic fluctuation in the levels of employment.

It was a very strange and interesting thing, Mr. Chairman, that to the extent that we were able to begin to shift the economic burden of unemployment from the backs of the wage earner on to the backs of the employer, the employers had the economic incentive and found the means to do what they said in the early period was impossible.

They began to have an economic incentive to deal with the fluctuation in levels of employment and we have achieved a very high degree of employment stability. Just as the auto industry recognized that instability was an economic cost that they would have to carry, so when a corporation that has been a defense contractor knows that 25 per cent of its after-tax profits are on the line, and they begin to have an economic incentive to begin rationally to plan the conversion to civilian production, you will find that the leverage of that economic incentive will get them to do things that they would otherwise have said were impossible.

We would propose also that the Defense Department assume a comparable obligation to plan for conversion where it is operating its own facilities, so that it, in effect, is being given the same consideration as a private employer. We would hope, also, that every employer would be obligated in this program to list with the public employment service all job openings beyond the reemployment of his own manpower. This would make meaningful the computerization and updating of our employment service, which is antiquated and wholly inadequate to implement an up-to-date manpower program, because many employers do not list their job vacancies with it.

***' . . . an economic incentive
to begin rationally to plan
the conversion to
civilian production . . . '***

I would like to conclude by saying this, Mr. Chairman: I believe that America is capable of planning for a rational and orderly conversion of defense production facilities to civilian production, but we will do it only if we have the will and the national commitment to do so.

Like millions of other Americans, I was thrilled when Neil Armstrong left man's footprints on the face of the moon. Last week we were all thrilled at the success of Apollo 12. We went to the moon, Mr. Chairman, I believe, not only because we had the technological and scientific capability, we went there because we made a national commitment to go to the moon and I believe that we have to make a comparable national commitment to deal with urgent problems that we have in our cities, the urgent problems in education and housing, and the whole broad question of health care and the problem of pollution of our air and water and man's living environment, and until we make that kind of a national commitment we are in deep trouble.

I share the view we aren't going to save the cities in America unless we can afford to rebuild them, and I don't think we can afford to rebuild them unless we apply to housing construction the most advanced technology, the most advanced design capability, the most advanced materials that come out of the space program, because other than that, we will not be able to afford the kind of hous-

ing that we need and that every family ought to have access to.

I believe that a rational conversion of our defense facilities to civilian production will add a new and decisive dimension to America's effort in dealing with these very urgent social problems. I say in conclusion that my work with people has given me tremendous faith in the capability of the average American and our free institutions.

I believe that we are equal to these complex challenges. I believe that America is equal to the call to greatness, but I believe that nothing would reassure the American people more and give them a deeper sense of national purpose, or a clearer sense of national direction, than adoption by the Congress of the United States of a realistic, workable program to cope with this complex problem of conversion of defense facilities to civilian production. For people then would know that America's future is not wedded to the economics of war and the escalation of the arms race, that America is thinking in terms of peace and all of the rewarding purposes of peace.

I think that action on the part of your Committee and the Congress in this respect would raise the hopes of the American people because it would give them the feeling that peace is essentially the image in which we are going, hopefully, to shape America's future.

Thank you.

Questions And Answers

The UAW's presentation brought on questions from the senators. Some of their questions have been abbreviated

QUESTION: In the Public Works Committee, we are thinking of the post 1975 highway program in this country, not just in highway programming of various sorts but other types of transportation, including public mass transportation. I hope we will have the privilege of your testimony as we consider those matters.

MR. REUTHER: I would be delighted to come back for those hearings.

QUESTION: I just have two or three different areas of inquiry, Mr. Reuther. You talked in your summary statement about contrasting the difference in our economic situation today vis-a-vis the end of World War II when we had the release of some eight million men from the armed services. As I understand it, there were an additional four million that moved out of defense-oriented jobs yet, in that period immediately following World War II, as I understand it, unemployment never rose above four per cent.

With maybe a million or so who might come out of the armed forces with the end of the Vietnam war, and with the reduction of defense spending, the impact on our economy in terms of both disruption and unemployment could very well be even more dramatic than it was at the end of World War II. Is that your feeling?

MR. REUTHER: That is correct. And I think that there are two very essential differences. The first point is that the major defense establishments, the new plants that came into being as defense plants, are totally oriented in that direction, with no civilian experience and therefore they create a different kind of problem than the General Motors Corp., going back to the production of civilian cars.

Second, there also was a tremendous backlog of consumer demand, which built up to a very high level during World War II, when we were forced to curtail very seriously the production of civilian goods. That backlog does not exist today, and it was that backlog plus the experience in civilian production that most defense producers had, which made for a much more orderly transition at the end

of the great war than we are confronted with now when we are dealing essentially with a large concentration of employment in large defense establishments with no prior civilian production experience.

QUESTION: What happened after the Korean war? There was a reduction of about \$10 billion in terms of defense spending, from approximately \$50 billion to \$40 billion. What happened in terms of our economy?

MR. REUTHER: Well, we went into the 1954 recession, which was severe, and I think a very important factor in generating that recession was the fact we had not prepared for an orderly transition in terms of the phasing out of defense production and moving into civilian production.

QUESTION: I suppose what you are saying now is that even the industries which were involved in defense production today are much more oriented toward purely defense production, even than they were in the Korean war.

MR. REUTHER: That is right.

QUESTION: And therefore now reduction in defense spending or reduction in the number of troops that would be involved abroad through our Vietnam effort would have a most significant and potentially detrimental effect on the economy.

Let me ask you this: as a person who has broad experience and understanding of many of these defense-related industries, can you give us any information you might have on what any of these major corporations or industries are doing today in this field of conversion? Are there any industries that are dealing with this problem?

MR. REUTHER: I don't know of any corporations that are essentially defense oriented that are really coming to grips with this problem and I think the very fact that I am advised that your Committee has been unsuccessful to date in getting a top management person to come before your Committee to testify is an indication that if anything is being done it is not of a significant magnitude.

I think that the real difficulty here is that these people have lived their lives in a kind of protected defense-oriented industry and it is very difficult for them to project themselves into the difficulties of the marketplace in terms of a competitive relationship with other companies making a civilian product.



Senator Edward Kennedy

I mean they have been sheltered and they would like to continue that sheltered existence and it is rather frightening, I guess, for them to be thinking in terms of civilian production, so they shy away from it. And I suppose they consider the effort that they would have to make to convert to civilian production and all the problems entailed in a highly competitive marketplace, as against less than half of that energy that might be devoted to getting another defense contract, which might be another way out.

Another thing that complicates this is that some of these large defense industries were very deliberately located in areas where there was an insufficient economic base and they became almost the sole producer of job opportunities and the economic base for the community developed around them. And at the point they go under as a defense establishment and are not converted, you leave stranded tens of thousands of workers who purchased homes in those communities, you leave those communities high and dry with a tax base that dries up almost overnight, and you, in effect,

penalize the workers and the people in that community for a decision over which they have no control.

And it seems to me that since many of these large defense plants are in this situation, a double burden of responsibility is placed upon government to see to it that every effort that can be made to insure a rational program of conversion to civilian production will be made.

'Here is an industry that has the highest technological and scientific capability in the world'

QUESTION: If these companies have the kinds of incentives which your type of proposal would provide, with their skills they can really begin to move into social areas where the needs are so great, don't you think?

MR. REUTHER: Well, I am of the opinion, Senator Kennedy, that the people who are involved in a most sophisticated technological effort, producing ever-new generations of weapons have the technological and engineering capability of making a tremendously important contribution to the solution of some of these urgent social problems. But I think the key to it lies in providing an economic incentive to make the shift, so that they will begin to apply those tremendous capabilities to these other jobs.

So long as they are sheltered, and they obviously are, in a defense-oriented industry and there is no economic incentive to move them into a new area, they are going to stay precisely where they are.

UAW members in the North American Rockwell plant in the suburbs of Los Angeles built the major vehicles for the Apollo program, both the 11 and the 12. That happens to be the vehicle in which

they are lifted off the launching pad and put into orbit.

That happens to be the most sophisticated vehicle ever put together by man. It has everything, its own water system, air system, electronic system, communications system, its own computers. That very complicated, sophisticated vehicle was put together with a work force that is 15 per cent skilled and 85 per cent unskilled.

Yet we build a thing as primitive as a house, which is a box with some holes punched in it, very primitive; and the labor mix there is 90 per cent skilled and 10 per cent unskilled.

Now why is that? Well, it is the technology. So here is an industry that has the highest technological and scientific capability in the world. And our job is to get that capability committed to the solution of these urgent domestic problems.

Now, you can talk about it all you want in terms of abstract values. You will not move them. And so we have come up with what we think is the economic leverage that will provide the incentive to move them into these other areas, move them to help solve the problem of the transition from defense to civilian production. They can make a tremendous contribution to the well-being of our society in helping find answers to these urgent problems.

QUESTION: Mr. Reuther, what do you think that the unions can do? You talk about what management ought to do, and what we in Congress ought to do in terms of legislative responsibility. I was wondering what you see in this that the unions themselves can do?

MR. REUTHER: Well, I think the unions can make a contribution at two levels. I think the unions can make a contribution at the national level in terms of developing the broad framework in which the total program would operate. More specifically, however, I think the unions could make a contribution at the operational, plant level in terms of dealing with problems such as the retraining of workers, and with the ways and means of making the transition successful at the plant level.

They also can, I think, make a great contribution in helping to weave together the fabric of the community, to hold it together during the transition period. Because if you lose all the top people because they don't think there is any future, and you strip the labor market in that area of those people and they all run off someplace else and scramble for their own individual economic security, then only the less skilled are left behind, and that makes the transition that much more difficult.

I think the labor movement can, in that kind of role, make a meaningful and constructive contribution.

MR. WEINBERG: In response to your previous question, I would like to point out that the suggestion we have laid before this Committee includes a provision that would help to shift defense contractors over into civilian work while they are still engaged in defense production, because it provides what amounts to interest-free access to their conversion reserves for civilian operations to be conducted in the same labor market area.

MR. REUTHER: I think that is a very important feature in what we proposed. Because the earlier you can get a defense contractor to think in terms of conversion, the more smoothly the conversion can be made.

QUESTION: You are satisfied that the 25 per cent fund that is set up will actually move to meet the problem of the Willow Run type of situation?

Do you feel that the fund really will help in the conversion of a particular plant, and the needs of those particular people, and that it won't just end up in a loss where a company moves out of the area?

MR. REUTHER: Let us take our proposal and let us apply it to the Willow Run situation. When the Willow Run plant had completed its production schedules and we had this big ceremony, the principal officer of that company made a speech and his speech said this plant, like an obsolete battleship, is expendable.

If he had had 25 per cent of his profits in a fund, he wouldn't have thought it was expendable because he could have recaptured that diverted profit only by working on the conversion of that plant to civilian production. If they chose not to operate it, then they could have found some other firm that could have, in effect, come in and operated it and could have used those same funds.

So that at the point they have an economic incentive to do something about the problem, we think that that will trigger the kind of initiative, the kind of ingenuity, the kind of imagination and social vision necessary, that these fellows are capable of when the nickel under the foot is what tickles them.

QUESTION: Would they have to use those resources that are in that fund actually at Willow Run? Say it is a company that owns three plants in different parts of the country, say in Connecticut, Texas, and California. All three do defense-related contracting. They set aside their 25 per cent profits in these different kinds of plants. Then at the end of the Vietnam war they go into making toys, but they can only make toys in two of those plants, in California and Texas, because all the markets are there.

What happens to the plant in Connecticut?

MR. REUTHER: Well, in each case they would be obligated to pay the workers a conversion benefit to tide them over the period of the transition and if they choose not to use the third plant, they would then have to carry the cost of those conversion benefits for a two-year period.

We haven't worked out the details but just as a rough framework we would suggest a worker would get the security of a period equivalent to his seniority not to exceed two years. If he had only worked there six months in the plant, he would only get six months. But if he worked there more than two years he would get two years.

So the company could choose to pay those benefits and not operate that plant;

'... the new technology (could) add a new and decisive dimension in our efforts to find answers to urgent social problems'

or they might find another company to convert and operate the plant. By saving a portion of what it might cost to pay benefits to workers, the two companies would be able to protect the reserve and share in the returned profits.

In other words, there is every incentive for them to shop around to find a way to maintain the levels of employment in all three of those plants. How they do it, how they achieve it gives people broad latitude and flexibility but the economic pressure to do it cannot be escaped.

QUESTION: Of that 25 per cent, you are not designating that five per cent has to go to retraining?

MR. REUTHER: No.

QUESTION: There is no designation. That will be a managerial decision?

MR. REUTHER: That is right. If a management group, starting with a long enough lead time before actual layoffs, did their preparatory work so well that the layoff was insignificant and, therefore, the cost of conversion benefits was relatively small, they could spend the whole 25 per cent on converting physical facilities and so forth. So that it is up to them.

QUESTION: It is an additional incentive?

MR. REUTHER: Exactly. The quicker they can make the transition, the smaller the amount that they would have to allocate from the 25 per cent for workers' benefits, and the more they could put into expanding their physical plant or get it back in cash if they don't spend it all.

QUESTION: I'm sorry, Mr. Reuther, that I was unable to be present for all of your oral testimony. I understand you were

developing the thought of conversion of today's technology to the unmet needs of today. This went to housing and the other areas where there has been great lack of attention to the basics for poorer people?

MR. REUTHER: Yes, I made the general statement that if we worked out a comprehensive program that would bring about the conversion of our defense industries to civilian production, then the new technology and new concepts that were developed in the defense programs would, I thought, add a new and decisive dimension in our efforts to find answers to urgent social problems, such as housing, education, transportation, air and water pollution, the whole broad problem of man's living environment — that this offers us not only an opportunity to deal with the problem of providing employment for the workers in those industries who are going to have to be given other job opportunities, but also gives us a tremendous leverage in dealing with these urgent social problems.

QUESTION: In your testimony you refer from time to time, to practical and powerful economic incentives as being necessary in order to have defense industries give greater thought to this matter. I dare say that your use of the word "incentive" would be disputed by others who might view it in a slightly different context—not so much as an incentive as a club. That is, you are not by sweet reason and sweet persuasion, whether by tax credits or fast tax writeoffs inducing planning by the carrot-and-stick approach, but rather with a 25 per cent tax on net profits you are clubbing it into existence.

Is my summary of that approach a fair summary? And is it not better to try in-

ducement at the outset rather than strong-arm persuasion?

MR. REUTHER: Well, I have always been in favor of trying to use persuasion but I have lived through certain experiences and I know that sometimes words, even though they are very carefully chosen and sometimes rather eloquent, sometimes fail to persuade people.

I think you cannot escape the fact that there are two sides of the coin. One is incentive and one is penalty. If one wants to debate which is the more important face of that coin, I am quite willing to listen. The point is that every incentive has a negative. It has a penalty. If you don't do the things for which you are rewarded, then you are penalized for not having done them.

Therefore, I think it is perfectly legitimate in our kind of free enterprise system, which has essentially as its motivating power the marketplace and pursuit of profits, to say to a company that when you take a major contract with the U.S. government to do something which is abnormal—and defense production is abnormal or otherwise it wouldn't be given the kind of special treatment we give it—when you take on the task of a contractor to do those things for the government and the government makes the decision to terminate that contract under circumstances that leave a lot of workers in a community high and dry and in serious economic difficulties, we believe the government, under those circumstances, has a special obligation.

Since it was its decision that created the contractor's opportunity, it ought also to have the authority and responsibility for making decisions that give the contractor a continuing obligation in the

period of transition from defense to civilian production.

I don't think that is unreasonable, and I would believe that if a person who is red hot for our free enterprise system would understand that if the economic incentive, the pursuit of the profit motive, is what makes the machinery of our economy function, then that ought to be a sound principle to apply to this difficult problem, so that we can get the same kind of economic incentive, the same initiative on the part of industry.

So I am quite willing to face up to this as both a penalty and an incentive. If you do the thing that is necessary, then you get the rewards of the incentive; and if you fail, you pay the penalty for your failure.

MR. WEINBERG: May I add, as Mr. Reuther said before, what we are asking defense producers to do is no different from what any prudent businessman would do if he saw the possibility that the market for his present product would dry up. He would then set aside money to reequip his plant to produce another product in order to stay in business. And that is all this conversion reserve we are proposing amounts to.

MR. REUTHER: That is right. But since his original product was sold to the government and flowed from the government's decision, in effect, to ask him to do that, and now the government makes a decision to terminate that market, we think the government has an obligation, in effect, to say you have to earmark this portion of your profits in a contingency fund to help meet this problem.

QUESTION: Under the present Internal Revenue Code, as I understand it, new

***'If you do the thing that is necessary,
then you get the rewards of the incentive;
and if you fail, you pay the penalty . . .'***

civilian production costs are tax deductible so, if Boeing Aircraft wants to try to develop new civilian products on its own, it can deduct that as an ongoing cost of doing business.

By keeping the tax laws the same and permitting the defense contractors in their bidding procedures to build into the bidding cost the cost of developing new civilian products, could we not leave them in a more permissive rather than compulsive posture?

MR. REUTHER: Well, I would take a very pragmatic approach to that kind of question by saying that I would not be averse to providing options, provided that in the end a defense contractor has to deliver at the price of yielding some of his profits. If, in the end, that is the final option, then I think you might get some built-in incentives that would produce action.

I, frankly, do not believe that, unless you have some economic incentive and penalties to stir them into action, you are really going to get these people seriously involved. And I think that one of the reasons why—and I would share your general evaluation of these—is that some of these social studies private industry has made, while some of them have been quite good and helpful, were really very small side efforts in which some very junior executives were involved.

We have to get the top man in the corporation involved. We have to get the executive vice president, the chairman of the board interested. And at the point 25 per cent of their profits are involved, I can assure you no junior executive is going to be making the decisions.

QUESTION: You mentioned in your testimony the early history of the UAW when there were seasonal layoffs. Some worked two months and others might be off as much as seven months. You finally resolved that economic dilemma at the bargaining table.

What attempts has organized labor made at the bargaining table to try to cope with the problem of economic conversion?

MR. REUTHER: Well, it is a very difficult problem to cope with for a number of reasons. Management has always been overly sensitive in this country about the labor movement trying to intervene in an area that it considers to touch upon management's sacred prerogatives. Every time you remotely talk about getting into this area they draw a very sharp line and they tell you that they are not about to share the responsibility for the management of the company.

They have an emotional block and we have enough other practical problems to wrestle with, so we try to stay away from that kind of thing. But I do believe when we first raised these kinds of questions, the industry felt that they were not appropriate matters for collective bargaining, but the courts ruled that they were and ultimately we bargained about them.

We said that trying to handle the production schedules and the market of the industry in ways enabling us to achieve a greater degree of employment stability was a matter subject to legitimate collective bargaining demands. But let us pick North American, which I think is the largest defense contractor that we deal with. They are now primarily in the space program rather than in defense, although they have some of both.

If we said to them at the bargaining table we would like now to make as an official, formalized collective bargaining demand the discussion of what you are going to do with this plant, what products you ought to be thinking about in terms of civilian production, how you are going to market those, and the price structure on that product and all that, I think that we probably would never get around to talking about anything in our collective bargaining agenda, because this thing would get us so deeply involved emotionally.

So we have stayed away from it primarily because of the over-sensitivity of American management about their right to make unilateral, exclusive decisions in the area that they consider to be managerial prerogatives.

Now, this will all change in time be-

cause I think more and more the whole evolution of our kind of free enterprise economic system is going to require both labor and management to act less and less as narrow pressure groups in their relationships and to develop a higher level of relationship, in which they recognize that while they have separate responsibilities and perhaps separate economic interests which sometimes may be in conflict one with the other, they do share many common responsibilities to the totality of our society, and that those common responsibilities of necessity must transcend their more narrow interests.

But it is going to take time for both labor and management to grow into what I think will be a much more productive and responsible relationship in the community as a whole.

QUESTION: Let me ask you this. Do you view the concept of requiring a company to give some thought and attention and planning, programming to conversion as a potentially bargainable point?

MR. REUTHER: I view the question of the economic security of the worker during periods of unemployment as a proper collective bargaining demand and we have bargained on that and, as you know, in 1955 we obtained supplemental unemployment benefits (SUB) and we built that in stages into what became the guaranteed annual income that we achieved in 1967.

So that is quite a proper demand. But when you equate that, the question of employment security or in the absence of work some sort of a guaranteed income, when you equate that with the question of product designs and kind of products you are going to build and market, then you bring in a new element which, I think, as of now would be rejected by American industry almost universally; and I think that if we made such a demand tomorrow we would be tied up in the courts for the next four or five years and I don't look at that as a practical solution.

There is a further problem. You might disadvantage the workers who are perhaps the most victimized because in some cases they might not have a strong

union to represent their interests, and the corporation might be one of those corporations that would not be prepared to act reasonably in the absence of a strong union.

How would you protect workers who haven't got a strong union to speak for them and fight their battle? So this is a broad question that requires a legislative approach, although where you can supplement the basic program by collective bargaining action I would be in favor of that. But I would not try to make collective bargaining action the essential approach to the central problem.

'How do you protect workers who haven't a strong union? This requires a legislative approach'

QUESTION: Mr. Reuther, I would like to ask you a little bit more about the National Economic Conversion Commission. In your testimony on more than one occasion you stated that this Commission could evaluate and review a plan sent up from defense contractor "X" but could not change the plan. I am not quite sure I understand what you mean.

MR. REUTHER: Well, I think you have to start out on the assumption that the company whose 25 per cent of profits are at stake has to assume the ultimate responsibility for its conversion plan.

Now, if the plan comes in and you have a highly competent staff working under the chairman of the Commission and they sit down and evaluate it and the Commission and the staff feel that it is unworkable, then I think they are obligated to sit down and try to persuade the company involved that the plan is not soundly structured, but in the end the company has to accept the responsibility because if it fails, then its 25 per cent goes down the drain because if they don't make a success of it, then they have in effect invested 25 per cent of their profits in a venture that fails.

So it would seem to me that unless the company was just arrogant and arbitrary they would respond to the constructive suggestions of the staff, although in the end the responsibility for the plan must be that of the company whose 25 per cent is impounded. They will have to be disciplined by trying to save that money because if they adopt a plan that won't function, then they will waste the money and they will have to pay workers who are unemployed the benefits that the plan would require them to pay.

So I think that you can't get away from the fact that the money that they otherwise would lose has to discipline them into a sense of responsibility.

THE CHAIRMAN: I want to say this. It might show how reasonable this proposition is of yours in terms of the amount of money.

In World War I we had a tax on excess war profits. It raised 31 per cent of the total national revenues during World War I. During World War II we had a tax on excess war profits. It raised 30 per cent of the total national revenues. In the Korean conflict we had a tax on excess war profits. We have had four big foreign wars, World War I, II, the Korean conflict and this one, and this is the biggest of all, except World War II, in terms of cost.

I noticed last year it cost \$104 or \$106 billion, second only in expense of all American wars. We had a bill last year to levy a tax on excess war profits. I am a coauthor. We got only 16 votes. Congress was sensible enough to levy this tax in the three previous foreign wars. We have that bill pending now. We expect another vote this year.

The first \$25,000 profits would run from nothing to a very low percentage on excess profits, that is, not normal profits, only on the excess profits up to a maximum of 37½ per cent. That would raise the estimated calculated total by the experts on this of \$9.5 to \$10 billion a year.

That shows vast tens of billions of excess profits and the highest of all excess

'... the money that they otherwise would lose has to discipline them into a sense of responsibility'

profits tax would be 37½ per cent, not on the total profits, but only on the excess profits.

The surtax extension which I just voted against raises \$9.5 to \$10 billion a year. It is levied on the backs of the middle income and lower income people of America. I think it a very unjust tax. I think we should have had this tax on excess war profits, since we didn't levy any tax on the war industries, on excess war profits, as we did for the three previous foreign wars. I think it is only just that some fund be set up to help them as well as the workers. They are getting off lighter by having this put up to help their own reconversion than if they paid a tax.

QUESTION: Do you have a ball park estimate on what this 25 per cent after tax profit would cost, how many dollars we are talking about?

MR. REUTHER: We do not, because we do not have access to the kind of reliable information that would enable us to make a projection so we have stayed away from that for that reason.

QUESTION: General Electric, I understand, does about 75 per cent civilian work and about 25 per cent defense work.

Have you given any thought as to how a company with a multiplicity of items, multiplicity of plants, can precisely narrow down the defense profits and extract the 25 per cent from that without touching civilian profits? What criteria would you use?

MR. REUTHER: I think since the major portion of the problem flows from major defense contractors and not small marginal contractors, and all of these major contractors have a highly sophisticated accounting department which is computerized, I think you could work out a formula that could be fed into the computers that would, in effect, give you the kind of separable result that I think the government and the contractor could both accept.

QUESTION: From the exchange between yourself earlier and Senator Nel-



**'When we
de-escalate
in Vietnam,
what happens
to the workers?'**

son, where Senator Nelson was pointing out the very small fabricator, of perhaps 100 to 200 people, making one item on a one-shot basis—a widget that goes into a bigger defense item — you are concerned about the employes who work there, of course, but the intensity of the problem, as you view it, is not as severe and gigantic in that endeavor as it would be in one of these giants, some of which have been previously mentioned.

MR. REUTHER: I think you can work out the exclusion of those kinds of plants, those marginal plants, since the aggregate number of workers involved would not be sufficiently large to generate a problem. The real problem arises with a plant like the Bell Helicopter plant in Texas. That plant is producing exclusively for Vietnam.

Well, when we de-escalate the operation in Vietnam to the point where those helicopters would no longer be needed, what happens to those workers? They

'We ought to start planning before defense production stops so we can minimize the hardships'

are a massive portion of the work force in that area. The economics of that helicopter plant is the economics around which the community has developed.

That is the kind of problem that we have to deal with, as contrasted to this marginal producer who has one or two per cent defense production and therefore can absorb all of the workers by expanding his civilian production, if they are unemployed. In some labor markets they might be absorbed by someone else, but if you shut down the Bell Helicopter plant and don't have any plans for its conversion to civilian production, you, in effect, have made a massive adverse impact on the labor market, you have generated a lot of unemployment and no one else will hire the unemployed up because there are no other job opportunities in the community.

QUESTION: Backtracking a bit. When we were talking about the National Economic Conversion Commission and I asked you what would happen if this Commission found the plan as submitted by the contractor to be unsatisfactory, and your answer was it would be in their best interest to try to work out something which hopefully was workable because they were putting 25 per cent of their profits into it. Would you build into this discussion process between the Commission staff, the Commission and the contractor, any participation or any representation by the employe?

MR. REUTHER: Yes. Very specifically we would let the employes participate because they obviously have a stake in the success of any conversion plan. We would also at the appropriate time provide for a role of consultation for the local government and the state govern-

ment, if it were a major contractor, because the local community obviously has an interest in an orderly conversion. So there would be provisions for all of these people and levels of government to be consulted in the whole process of shaping the plan.

QUESTION: For the record, how many of your 1,800,000 members are in defense work?

MR. REUTHER: I would think we probably have between 200,000 and 250,000 of our members who would be directly related. That would also include the space program.

QUESTION: Is it fair to expect management to pay the entire cost of conversion, et cetera, when the government is the sole buyer? In other words, the government is the creator of the demand and can cut the contract off in a year or less, when we know it takes almost two years, to physically convert facilities.

Is it fair under these circumstances where the government itself is creating the burden and the demand, to impose the sole cost of the conversion on the employer?

MR. REUTHER: Well, to begin with I think it would be a very exceptional situation where it would take two years to convert. I mean it is possible that there could be situations that would require that much time but I think that would be a most unusual situation.

Here again the advanced planning is very crucial. We ought to start planning before this defense production stops so that we can minimize the timelag between the cessation of defense production and the beginning of civilian production.

But it would seem to us if defense industries are yielding a profit return on their investment approximately double the level of profits of manufacturing corporations engaged in civilian production, that earmarking of 25 per cent of their profits for this purpose would still leave them 50 per cent better off than the average manufacturing plant engaged in civilian production.

So I don't think that is a great penalty. It is really not a penalty. If they do a good job they will get the money back either in cash or in terms of improved plant that had been converted to civilian production. Otherwise they would have had to spend their other resources for that purpose anyway.

QUESTION: How long would it take under this one-year estimate that you have given us to retrain industrial workers from making airplanes or tanks or whatever, to the building of housing?

MR. REUTHER: I would just say that the break-in time would be normal. We take thousands of college students into our plants during summer vacation because the normal work force is taking their holiday. If we can in two days' time teach a college student how to wire a Lincoln Continental, which is much more complex than the wiring in a house, we can break in production workers in the field of mass production of housing in two or three days on the most difficult job in the line, because the tools are where the sophistication is.

Sophistication in the mass production, highly technological plant is in the tooling. It is not in the worker. That is why the labor mix becomes a much different kind of thing when the tooling is sophisticated than when the tools are primitive. Then the worker has to have the skills

because he makes up for the lack of sophistication in the tools.

So if you are talking about using advanced technology then the break-in time in developing the new skills and so forth will be relatively short. And this will be done on the job because on-the-job training has been proven to be the only practical way to train people. They learn by doing. You might have a break-in period in some sort of a training program but the real skills are acquired by doing the job on the job.

QUESTION: You described this trust fund as having three ingredients and you listed them without giving any weight by the numerical listing. You said first, reconversion of the plant. Second, train workers. Third, reconversion benefits. I take it from your subsequent testimony that if you were to list the imperatives of these in the order of how this money should be paid out, reconversion benefits would come first. The longer the man is unemployed and not on a new job the greater the need to receive some kind of unemployment compensation out of this fund; is that correct?

MR. REUTHER: That is right. I think that the individual worker and his family, since they are in the least favorable position to defend themselves against the economic impact of the government's decision to cease production of a defense item, ought to have priority claim. They are in the least favorable position to deal with the problem because of their own limited resources.

But this is not just a matter of economic justice to the wage earner and his family. The objective is really to get employers to do something, because to the extent they can minimize the timelag between the layoff on defense work and the resumption of work on a new civilian product, to that extent they economize by saving the cost of those benefits. This is not a new idea in the economic communities of Europe. The first meaningful program that they worked on to bring about the essential economic integration of the six countries in the Common Market was the Iron and Steel Community, where they began to structure that industry in



Senator Jennings Randolph

'We are dealing here with problems that flow from government decisions'



Senator Thomas Eagleton

terms of the six countries rather than each country having its industry structured on a national basis.

They knew that there were uneconomic producers in the iron and steel industry and that ultimately they would get shaken out as production moved into more efficient plants which could compete not only in Europe but in the world market.

So what did they do? They said that the workers should not be penalized because we are going to shift production from an inefficient plant or a marginal plant to an efficient plant, and they provided that a worker would be guaranteed from 80 to 100 per cent of his wages during the period of that transition.

We are dealing here with transition problems and we believe that since their transition problems would stem from governmental decisions and the problems of conversion flow from governmental decision, American wage earners ought to get similar protection during the period of transition.

QUESTION: What would you think of trying to set up a supplemental and ancillary unemployment compensation system, specifically geared to defense workers, that in some way would try to integrate the present system by expanding unemployment insurance under Manpower and Development Training Act of 1962? In other words, try to utilize some ongoing structure that is already on the book to assist workers during conversion rather than beginning another new system from the start.

MR. REUTHER: Well, the difficulty I think is if you try to take an ongoing program like the unemployment compensation system, and try to somehow restructure that, then you spread the pressure and you take some of the pressure off the defense contractor, who in the absence of the maximum pressure will not make an adequate response. And I think you defeat your purpose.

QUESTION: Would you be willing to give—by legislative enactment—authority to the National Economic Conversion Commission to excuse specific defense

contractors when good cause is shown that there is no civilian convertible utilitarian use? Where would this decision be made? Would you let the National Economic Conversion Commission make the decision?

MR. REUTHER: I think if you are going to charge any governmental agency with the administrative responsibilities for the implementation of the complex program, that you must also give them that measure of administrative discretion that will make it feasible for them to operate, otherwise you in effect have made all of the operating decisions by legislative dictation, and I think it wouldn't work.

Obviously, a company that would fall in the category such as we are discussing would have to present the kind of testimony and kind of facts that would persuade any reasonable persons that their case was well founded. And if it were marginal, I think the burden of the argument would have to be on their shoulders.

MR. WEINBERG: May I say, Senator, we can easily underestimate the ingenuity of American industry. When they are put under enough pressure in relation to their profits they do things repeatedly that they have previously claimed to be impossible—when it makes a difference in the level of their profits. I think it would be necessary to proceed very cautiously in giving them opportunities to claim they can't convert because that would be desirable from their standpoint. It would enable them to enlist their workers and their communities in which they operate as part of a lobby to get more defense contracts, whether these contracts were for things really needed for defense or something they could sell to the Pentagon.

So any provision that was made would have to be a sharply restricted one.

QUESTION: I agree with you, I wouldn't want the loophole to be so huge that the whole defense industry could drive through it. We would be back where we started. We would have a law on the books that sounded nice but without practical effect.

MR. REUTHER: Unfortunately that is the case, too often. It is like the Employment Act of 1946 which committed this country to pursue programs and policies to insure maximum levels of employment, production and purchasing power. We have never achieved any one of those three goals.

I mean, just having a legislative declaration of purpose with no practical machinery to achieve it, I think is an exercise in futility because people think you have done something when in fact you haven't done anything.

QUESTION: I take it that with all due respect you feel that the McGovern bill, of which I and all of these Senators who were here today are cosponsors, falls somewhat into that category — pious in sentiment and hope and noble in conception but without much chance to accomplish what it was intended to.

MR. REUTHER: It is a declaration of purpose which I share and I think that the motives that prompted the people who have joined as its sponsors are noble, but I think unless you put some teeth into it, put some bite into it, that it will remain a noble declaration of purpose without any practical hope of being implemented and I take it the worker in Texas, who is about to be laid off, will not be able to give a copy of that to the landlord or the guy who is trying to collect the next payment on his house.

He will not be able to say this is the best I have got, I will give you an embossed copy of the declaration of purpose of the Congress. You have to put some guts in the thing, and we have been wrestling with the problem of how

to do just that, and we have come up with an imperfect thing, but we think it is worthy of serious consideration.

QUESTION: I am especially interested in your prepared statement regarding guaranteed conversion loans and civilian production loans from conversion reserves. Other parts of your program are interesting as well. It is thoughtful and provocative.

I am a co-sponsor of the McGovern bill. I think it is a very decent start but I pointed out earlier when Professor Melman was here, I think it is too pious and not persuasive enough.

If we could have Utopia we could draw a balance where we persuaded sufficiently to cause industry to respond voluntarily.

But that is a pretty tough balance to draw. The pendulum can easily swing from meaningless persuasion to unpleasant compulsion. We would like to try to draft something that was blissfully in between.

MR. REUTHER: If we had that kind of human perfection in the world, then probably the arms race and all the other things that create the problems would not be taking place.

QUESTION: Well, in conclusion, let me thank you very, very much, Mr. Reuther, and your entire staff, for the obvious thought you have given to this. This is a very, very interesting document. I think it will give this Committee lots of food for thought.

MR. REUTHER: Thank you for the opportunity of being with you.

Chairman PROXMIRE. Thank you very, very much, Mr. Woodcock.

Before I get into questioning I do want to announce that tomorrow we are going to have Senator Mansfield, the distinguished majority leader, as the leadoff witness: Whitney M. Young, Jr., executive director of the Washington Bureau of the National Urban League, and the three witnesses scheduled.

Senator Symington?

Senator SYMINGTON. Mr. Woodcock, I have read a good many prepared statements since coming to the Senate, and have never read a more thoughtful one than yours here today. Today is a bad day for me, because we are marking up the armed services bill, and I am giving a luncheon for some students who have come to Washington and have won awards. So I must leave. But I read your prepared statement this morning, and think it great. Every American ought to read it.

It has been a pleasure to listen to you.

Mr. WOODCOCK. Thank you.

May I introduce my colleagues who were in a large part responsible for the prepared statement: Mr. Carrol Coburn and Mr. George Schwartz of our research staff.

Senator SYMINGTON. I congratulate them as well as you.

Chairman PROXMIRE. This is a brilliant explanation of our problem, but it is more than that. I think Senator Symington is absolutely right. But what this is really is a demonstration of remarkable courage. Because what you say is not the kind of expression that you can expect from a labor leader. I do not mean that labor leaders do not represent among the very best people in our country, I think they do. But on many of our most important and significant points, you take a position that is very difficult for a labor leader to take.

You say, for example, that you want noninflationary wage settlements. You accept your responsibility as a negotiator to negotiate a settlement that will not increase the price of automobiles. And I think this is most unusual and most helpful. If we are going to overcome inflation we have to get this kind of statesmanship and this kind of courage to work.

In the second place, you oppose the high level of military spending, although you have thousands and thousands of workers whose jobs depend upon that military spending. It is not hard for either a Senator who comes from a State like Wisconsin, where we do not have much military spending, or a labor leader who represents perhaps some phase of our economy where military jobs are not directly involved, but you do, and the fact that you are coming before us to make this kind of a statement is most helpful. And then to have the head of the United Auto Workers of American make a strong plea for the abolition of the highway trust fund and call for a mass transportation program is another demonstration of courage and foresight.

And it indicates to me that although I think all people, regardless of whether they agreed with Walter Reuther or not—feel that his death was an enormous tragedy, and I think we are reassured by the fact that we have a man really in the Reuther tradition, and a man of most

unusual statesmanship and courage at the helm of this vital and important union.

I think of all the things that Walter Reuther did—and he did many fine things—one of the most useful actions that he took was to build leadership in the UAW to carry on. It is very difficult for a leader to do this. And Mr. Reuther has obviously done that in you.

I congratulate you, as I say, on your recommendation for a Price Wage Review Board as a way to control price and wage increases.

Can you elaborate a little bit on how this Board would operate both for management and labor?

Mr. WOODCOCK. As the statement sets forth, the initiative would come from the Board itself. And it would go only to companies that had a dominant position in a given industry. We have suggested 25 percent or more of sales. And quite obviously that would mean in the automobile industry the General Motors Corp. without question, and possibly the Ford Motor Co. And if it were to be proposed that General Motors Corp. said that because of anticipated labor cost increases that they were going to have to increase price, as Mr. Henry Ford unfortunately has already said for the 1971 models, they would be required to come forward, and under oath, and with proper witnesses, and the right of the Board to get all relevant data, and justify why in fact this was necessary.

And the Board would not have under our proposal the right to say the company could not do that. The company would still have the right to go ahead after this delay period of 60 to 90 days. But this would be a public record, and the only police power, as I have said, would be that of public opinion.

Chairman PROXMIRE. How would that Board be composed? Who would appoint it?

Mr. WOODCOCK. We have suggested various ways; by the President with the consent of the Senate, or in some other fashion.

And of course unions too, the union or unions involved with that employer would have to be subject to the same process, they would have to be able to defend what they were proposing, that it does not go so far beyond the long-range productivity trend of that company as being in fact demand that would force upon that employer price increases in order to maintain a reasonable degree of profit.

Chairman PROXMIRE. That is most helpful.

I asked last year as chairman of this subcommittee and vice chairman of the Joint Economic Committee, I asked the administration to determine the basis for the increase in automobile prices last year, what were the cost factors involved. And they would not even do that.

It seems to me this is not jawboning really, it is not a wage price institution that will achieve what you are trying to achieve, but at least it is a beginning. And so far the administration has not seen fit to give us that very modest and vital beginning. I am glad you stressed that, the fact that you have to have knowledge if you are going to have any kind of discipline on prices.

It seems to me, as I stated in my opening remarks, the administration has adopted a policy which, while it may eventually slow down the rate of inflation, is unquestionably increasing unemployment now. Can you comment on this and tell us, first, your forecast for unemployment this year?

Mr. WOODCOCK. Of course we are most worried about the problem of unemployment, because it has a greater impact on the automobile industry. The rate of unemployment nationally is currently 5 percent but in the State of Michigan it is 6.2 percent. And, of course, we know that those who are in Government training programs are being paid a pittance for their time and are not considered unemployed when in fact they are unemployed.

And we are also very conscious of the fact that those who have dropped out of the market looking for jobs because they have concluded it is hopeless are no longer counted as being unemployed. And they are lost as a statistic.

In the city of Detroit, for example, right now among young male blacks the rate of unemployment is 40 percent. I do not care whether those people are black or white or pink or yellow, that is the making of social turmoil.

Chairman PROXMIRE. This is unemployment for teenage blacks?

Mr. WOODCOCK. The young male blacks between the ages of 16 and 19.

Chairman PROXMIRE. 40 percent?

Mr. WOODCOCK. 40 percent. And when you get young people idle without money, with all the time in the world—

Chairman PROXMIRE. It is really social dynamite.

Mr. WOODCOCK (continuing). I do not care what race they are, that spells trouble.

Let me say this, Mr. Chairman, that there are predictions that in the fall of this year there will be an upturn in the economy. I hope that prediction has a little more substance to it than previous predictions that have been made by the administration. And we certainly get no comfort out of the fact that last October the President told us that his administration had not yet licked inflation, but they are slowing down the rate of increase.

Of course, unfortunately for him, from April to the time he was speaking in October the rate of increase had been 2.7 percent. In the 6 months since he made that promise the rate of increase has been 3.2 percent. So that I am a little hesitant to accept the promise of an upturn in the fall.

But if it should be there, then quite obviously a prolonged strike in the automobile industry can be a great hazard to the Nation. And I would sincerely hope that the industry does not take advantage of encouragement from the administration about the health of the economy in strikes by labor unions such as was suggested by the former Secretary of Labor, but that the industry, together with ourselves, who are in fact mature bargainers, and who have knowledge of the Nation's problems, reach an equitable agreement without any loss of time, so that if the economy is coming into an upswing, we do not dampen that upswing by a prolonged stoppage.

Chairman PROXMIRE. Thank you very, very much, Mr. Woodcock. I deeply appreciate your excellent statement. And as I say, I concur with Senator Symington about it.

The subcommittee will stand in recess until 10 o'clock tomorrow morning to meet in the auditorium, room G-308, New Senate Office Building, to hear Senator Mansfield, Whitney Young, Ralph Lapp, Seymour Melman, and Bernard Udis.

Thank you very much.

(Whereupon, at 1:45 p.m., the subcommittee recessed, to reconvene, at 10 a.m., the following morning, Wednesday, June 17, 1970.)

CHANGING NATIONAL PRIORITIES

WEDNESDAY, JUNE 17, 1970

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to recess, at 10 a.m., in room G-308, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Sparkman; and Representative Conable.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Richard F. Kaufman, economist; and Douglas C. Frechtling, economist for the minority.

Chairman PROXMIRE. The subcommittee will come to order.

What we are attempting to explore in these hearings are ways the Nation can move out of the trap of a defense oriented and waste-infested economy to one in which our manpower and resources will be more peacefully and usefully employed. No one can doubt that much work needs to be done to clean up, build up, and straighten out our cities and rural communities.

No one can doubt that in the face of unemployment, widespread malnutrition and deprivation, a policy of high employment and maximum production is essential to a reordering of our priorities. Unfortunately, it is also becoming difficult to believe that the present economic policies being followed by the administration will bring us any closer to the desired goals.

An editorial in the *Washington Post* this morning states that "Our greatest needs, from the viewpoint of a sound economy and a healthy social structure, lie in the fields of housing, the reconstruction of our cities, conservation, expansion of educational facilities, the building of parks, and so forth." The question is, how do we get out of the rut of depletion and deterioration to where we want to be?

We have a long and distinguished panel of witnesses this morning and will, therefore, start right in with Senator Mike Mansfield, the majority leader of the U.S. Senate.

Senator Mansfield, we are very proud and happy to have you here. Go right ahead.

STATEMENT OF HON. MIKE MANSFIELD, A U.S. SENATOR FROM
THE STATE OF MONTANA

Senator MANSFIELD. Thank you, Mr. Chairman and gentlemen of the committee. As the chairman was making his introductory remarks, I happened to pull out a sheet of paper which I have carried with me for several weeks which indicates the difficult economic situation which confronts the Nation today. Unemployment is at 5 percent and will increase with the closing of the high schools and the colleges for the summer, so we can anticipate that it will go above 5 percent. Inflation is up to 7.2 percent, according to the U.S. News & World Report and a study issued by the St. Louis branch of the Federal Reserve last month based on April's figures. The market is up and down. I suppose its instability has some significance. I have been told that that is the case. I have no stock so I cannot speak from firsthand knowledge.

Interest rates are up, the highest in over 100 years. Credit and money supply is tightening up. Profits are down and the international payments deficits are on the rise which means, of course, that the dollar is in trouble and its stability endangered.

Mr. Chairman and gentlemen of the committee, I wish to thank you for extending me this opportunity to appear before you this morning. There is no single expert when it comes to assigning priorities or even to defining all of the various problems that confront us as a nation, both at home and abroad. I do, however, profess certain notions about the order of things. And I prefer to look at them in terms of balance, of emphasis, and choice.

Today we face perhaps the gravest choices of all. To be sure, militarily we are a strong nation. We are a nation that has produced a stockpile of weapons and weaponry sufficient to destroy the earth many times over. Since World War II, we have spent \$1,250 billion on national defense—I repeat, \$1,250 billion on national defense. But the security of a nation cannot be measured solely by the amount of money spent on military hardware—even if each dollar spent were spent for weapon systems that worked. The decision to allocate so much of our resources for military might—in many cases—all too many cases—purchasing military white elephants with billion-dollar price tags—has cost us dearly in terms of satisfying what to me are the essential ingredients of a healthy and secure society—good education and health, decent living conditions for all, a safe and clean environment and the absence of poverty.

Over the years as we continued to build militarily, we allowed the cities to rot, we allowed the slums to grow and the ghettos to simmer and erupt. Only recently have we recognized that the whole fabric of our society has begun to unravel at the seams. Only recently have we begun to talk in terms of shifting the emphasis, of establishing a better balance with respect to these fundamental needs at home and our continuing involvements abroad.

It has been right here in this committee, I might say, that much of the recognition was first indicated. It has been your efforts, Mr. Chairman and members of the committee, that have done so much, I believe, to highlight the imbalance on the priorities scale. It is

through your efforts that the public has become aware that out of \$956 spent by our government for every man, woman and child, \$400 goes to the Pentagon.

But expenditure size alone is not the only startling revelation; there is the immense waste that has accompanied our vast military disbursements and it is this gross inefficiency that has lent so much impetus to the struggle over priorities. For example, the additional \$2 billion spent to correct wrong estimates on the C-5A cargo plane alone, equaled almost all of the money spent on health and mental health programs this year. It more than doubles the administration request for Federal urban renewal funds. It is more than eight times what the administration requested last year for pollution control; more than eight times that requested for vocational education; more than 20 times that for education for the handicapped; and more than \$600 million more than was allocated last year for elementary and secondary education. And the C-5A is only one small example that tends to support the view of those who say that the Pentagon and its countless contractors have simply spilled money down the drain—enough wastage alone perhaps to fund adequately the needed pollution and environmental programs throughout the entire Federal Government. Maybe it overstates and oversimplifies the matter, but it clearly demonstrates the dilemma in which we find ourselves.

If my memory serves me correctly, the chairman of this committee made a statement a few months ago to the effect that the overcost on weapon systems conservatively estimated and on the basis of information furnished by the General Accounting Office was somewhere in the vicinity of \$21 billion. Now, one expects a certain amount of waste in the military. One can stand a certain amount of waste, but, certainly, when contracts are let which indicate such a tremendous overcost and in some instances the Government going in and bailing out some of the contractors, then I think it is time for all of us to sit up and take notice.

That is not to say that the elimination of waste alone is enough. It is not. What is needed is a change in basic attitude by Government at all levels but especially at the Federal level where the real meaning of a safe and healthy society must be considered anew.

The clear awareness that our resources are not unlimited, that our wealth is not endless is finally being understood. If it has proved anything, the war in Southeast Asia has established that fact beyond all doubt. That is why, also, the Congress last year went at least part of the way in attempting to respond both to the question of priorities and to the matter of our limited resources.

First of all, it cut \$5.6 billion from the President's overall budget requests for fiscal year 1970. And an additional \$1.4 billion ahead of time for the fiscal year 1971. Most of those cuts came out of programs sought by the Pentagon and the military—requests for more weapons and weapon systems. Congress reduced the foreign aid program by \$1 billion. In turn, it added a small fraction of the total savings—about \$1 billion—to health and welfare needs, to education programs, to pollution programs, manpower programs, and the like. This was not enough—not enough in terms of the areas where reductions were made or where additions were granted—but it was a beginning. It

was an indication that the Congress, and especially the Senate, had begun to take the lead at long last in what I think is the right direction. Congress demonstrated that it was willing at least to face the issue of priorities. In all candor I must state at the same time that the President reduced expenditures by approximately \$3 billion last year—which also was a very good start.

But to complete the whole story, it should be said that not everyone was in agreement. After Congress had endeavored to face the question of priorities by slicing sharply the defense budget and rechanneling a small fraction of the savings into health, welfare, education, and environmental needs, the administration struck down the action with a veto of these vital additions to our most pressing domestic needs. That, gentlemen, is the real dilemma we in the Congress confront.

For it is one thing to grasp the question of balance and emphasis. It is another to implement a new order of priorities. We are only now recognizing those areas of domestic concern that have for too long been ignored in favor of a global concern based on a costly network of international agreements, commitments, and policies established decades ago for circumstances that were then only marginally relevant and that today serve no purpose whatsoever.

There are currently over 3 million Americans in uniform around the world. Secretary Laird recently stated that perhaps a 1-million-man reduction could be achieved. There is simply no justification for the fact that about 1.5 million uniformed Americans are stationed overseas at more than 3,000 installations and bases in 30 countries at a cost of \$4.8 billion a year—outside of Southeast Asia and Europe. And with them are about 500,000 of their dependents. Take Western Europe alone. What is the sense of maintaining about 250,000 American troops there along with their dependents—the number in total is about 525,000—25 years after World War II. This costs the taxpayer an exorbitant amount—running into the billions each year. If I recollect, the distinguished Senator from Illinois, Mr. Percy, has made the statement several times on the floor, and it has not as yet been contradicted, that the cost of maintaining the U.S. forces and their dependents in Western Europe amounts to approximately \$14 billion a year. That is a lot of money. Far too much.

As another example, since World War II we have spent \$131 billion in total disbursements to foreign nations. In that same period we have spent little more than 1 percent of that sum in seeking the causes and prevention of crime. Yet today, I ask, what force is it that circumscribes our freedom of movement on the streets of every city in this Nation? Certainly it is not a foreign power. It is crime right here at home.

Crime is one of the most important issues facing our Nation. Time and again our national advisory commissions on crime have warned that we must commit ourselves fully to winning the war on crime. But even this year there is budgeted only \$480 million to help our States and local governments fight crime. That is about one-fourth of the amount that was squandered on the C-5A cargo plane in cost overruns alone. It is about one-half of 1 percent of the total Federal budget.

What I am saying is that as easily as we can recognize the problem areas, as clearly as we can point to the needs, we must be prepared as well to devote all that is needed to solve the problems and meet the needs. If we are told a missile system is necessary—but cannot be assured it will work—we must be willing to judge independently its necessity and demand reasonable assurance of its operational capability or else be willing to eliminate it. If it means that a veto must be overridden, then we must override the veto. In any event, the same measure of cooperation, dedication, and devotion that has characterized past investments in military programs and hardware must be applied with the same resolve and effect to the programs of human investment that are so vital now and in the future.

With respect to our programs for education, health, and poverty, we have always demanded that they prove effective or we eliminate the funds. In the case of a missile system that most feel will not work even if built to design, we insist that the money be spent regardless of the impediments. That can no longer be the practice. Let us apply the same standards in each case.

Let us as a nation make a contract to clean our rivers and our air, a contract to assure every American child a quality education, to assure every American pedestrian a safe street on which to walk, to assure everyone a decent home in which to live. Let us assure the availability of all of the training and the skills needed for a decent job and then, Mr. Chairman, let us withstand the overruns on these contracts and commitments that will assuredly provide America with the security it has sought these past three decades.

Thank you very much.

Chairman PROXMIRE. Thank you, Senator Mansfield, for a superlative statement, the kind of statement that I think the country needs and certainly this committee welcomes.

It seems to me that the first step in extricating ourselves from what I call the trap of a defense-oriented economy, is to cut defense spending and cut it sharply. I would like to ask you as a Senator and as the Senate majority leader, has the time arrived, in your judgment, when the U.S. Senate can responsibly and decisively reduce defense outlays to a level where we can begin to achieve a balance between defense and civilian expenditures?

Senator MANSFIELD. Mr. Chairman, in response to your question, I am glad you emphasized the word "begin," because that is all we can do, and I think that the Congress last year made a good start but only a start, in that direction.

I would point out that the Committee on Armed Services itself cut the budget requests of the administration by approximately \$2 billion, that the administration itself—seemingly aware of the difficulty which confronts all of us, as I tried to indicate during my statement—cut expenditures by approximately \$3 billion.

I think both branches have to work together in this respect because it is a problem which confronts all of us and I am certain that the administration is just as interested as we are in finding the proper level; one that will bring the needed equilibrium between defense and domestic spending. We do not have all the money in the world.

We are beginning to realize that. We have a huge debt. We will be facing up to that very shortly and the request for debt interest calls, I believe, for \$18 billion additional. To put it another way, we have got to establish a balance between our security needs and our domestic needs because if one is weak and the other strong, then both are weak and we shall fail as a nation.

What I am trying to say is that we can spend hundreds of billions of dollars on defense and not take care of our needs at home or take care of them in only skimpy and inadequate fashion, and if that is the case, the security system we build will not suffice to keep this Nation together. Hence, my emphasis on the word balance because there is a need to maintain security and there is a recognition that in so doing there will be a certain amount of waste. That is understandable. But we will have to keep on in this direction—it is only a beginning. We will have to reorder our priorities to the end that these internal difficulties which can cause us so much trouble and which in many instances are so combustible will have to be met if we are to survive as a Nation, as a Nation united.

Chairman PROXMIRE. You see, what I would like to get at is the area where there is a difference and where we can perhaps help the administration or improve on the administration's recommendations.

Yesterday Governor Romney appeared as a spokesman for the administration in housing. He made an excellent statement. He argued that the administration was cutting the military budget by \$7.3 billion in the 2 fiscal years 1970 and 1971. It is hard to see that that will develop in view of what has come to us so far in the first 9 months, first three quarters of fiscal year 1970. Our military spending is higher than it was in 1969. So, this administration's military spending cut is all prospective. But he says that is what they are recommending.

Now, it would seem to me that we have a very good opportunity to make some cuts in some expenditures that are going to affect our appropriations for the next 3 or 4 or 5 years in the military authorization bill that comes before us in a few weeks. For example, the B-1 plane, the underseas long-range missile, the F-14, the F-15, the aircraft carrier, the S-3 antisub, the shipbuilding program, all of these suggest a relatively modest beginning of expenditures that can make the difference in 1972, 1973, and 1974 as to whether we have the resources to do the big job in the cities and on other domestic programs that you and I agree we should do or whether we will not.

My question is, do you feel that we will be in a position to make a concerted effort to eliminate at least the redundancy in these weapons and to cut down on the weapons that are marginal and that we can make a case on their justification?

Senator MANSFIELD. Yes. My answer would be in the affirmative. I believe I get the point that you are trying to make. These authorizations seem to be of little significance at the time they are granted but once the contract is awarded, as the years go by, the costs increase. What you would like to see done and what I would like to see is a reduction of these contracts which have resulted in overruns, a more thorough preparation, more careful scrutiny before recommendations are made and contracts let.

For example, with respect to the ABM which I referred to indirectly during the course of my remarks, if the ABM is needed and the need is proven, I will be for an ABM system. I would be for it provided that the radar system is no longer vulnerable. At the present time it is my understanding that it is most vulnerable and if knocked out the whole system fails. If needed, I would be for the ABM, provided further that the computer system which is necessary, is reliable and accurate, and I understand there are very grave questions about the reliability and the accuracy of the computer system. It has not been proven out.

These are the questions which we have gone into in the past several years. We will continue to go into them in the future with the objective of obtaining the best possible and accurate and reliable defense, not necessarily at the cheapest cost but at the least possible cost allowing for a certain amount of wastage which must be expected, anticipated and understood in any military system.

Chairman PROXMIRE. That brings me to the question that puzzles many Senators and I am sure many people in the public. Because these systems are so complicated, and you discussed the ABM very well, it is hard for us to evaluate all of them. I think we have got a good understanding of the ABM in the case of many Senators but so many of these other systems are too involved, with great complexities. I am wondering about the wisdom of trying for something like an across-the-board reduction in military expenditures and if you think that that might be feasible, how much do you believe the defense budget ought to be cut in the coming fiscal year?

Senator MANSFIELD. Well, I would hope that we would do at least as well this year as we did last when Congress cut on the order of \$5½ billion with the addition of about \$1.4 billion for the coming fiscal year.

Chairman PROXMIRE. That would be on the overall cut, the cut—I mean, on the overall appropriation for the Defense Department, the \$71 billion?

Senator MANSFIELD. Yes; that is right, but I am not too happy about cuts across-the-board in any department. You simply do not know who or what is going to get hurt or what will be eliminated. I think that there are specific examples—you have brought out a number of them over the past several years—which should be faced up to. The Secretary of Defense, Mr. Laird, has canceled contracts for the Cheyenne and other military systems. Each item perhaps should be appraised independently and I am assuming that Secretary Laird is doing that because having served up here, he is aware of the situation which exists. He wants to do a good job. He does not want to trim any of our security, but I believe he would like to get a dollar's worth of value in return for a dollar expended.

On another aspect of the problem, I do not think we can continue to go in and bail out these contractors after signing the contract with them. I hope that from now on, and I am assuming it will be the case, that any contracts awarded will be ironclad and the loopholes reduced to a minimum. No longer should companies be allowed to get around what they contracted to do in the beginning. If they sacrificed to get the contract in the first place, they should pay the price, not the Government.

Chairman PROXMIER. Some critics of the administration are saying what has been followed so far is essentially a hands-off do-nothing economic policy and that high unemployment, the downturn in production, continuing inflation are the inevitable result of such a policy. Would you tell us what you think ought to be done to corral these three horsemen of economic chaos, that is, high unemployment, low production, or slow growth, and inflation?

Senator MANSFIELD. Well, I wish I could give you the answer, Mr. Chairman. I cannot. I can make some suggestions as I have over the past several years. I am looking forward to what the President will say at noon today and hopefully it will be reassuring and he will have some concrete proposals to bring about a reduction of the high interest rates, the high unemployment, the high inflation. I hope he will have ideas for the balance-of-payments question, and the housing slump, and all these other matters. But I have suggested to both this President and the previous President on a number of occasions that they ought to give consideration to such matters as standby wage, price, and profit controls and that they ought to consider the reimposition of regulation "W" which calls for greater downpayments on the part of people who operate on a credit basis.

I think some of these matters are getting entirely out of hand, such as credit buying. If a depression occurs, and we have now a recession in both the housing and lumber industries that is verging on a depression, it will mean that payments cannot be made. It will affect the creditor most severely as well as the debtor. Merchants today are stretched pretty thin along with the consumers and what this country cannot afford and must not afford under any circumstances is another depression because the times are very different today from what they were in the late twenties and the thirties. There are too many people who do not recall those days and what some of us had to go through. Today it is a different era and the Government will have to step in and soon to take up the slack, and meet the crisis.

Now, when you speak of standby wage, price, and profit controls, some recognition must be given to the farmer, the wheat rancher, for example, who is still operating in the face of a bushel of wheat selling below \$2, a level where it has remained for the past two decades. At the same time, the price of bread has increased from somewhere around 18 and 20 cents up to around 40 cents. So in any fight to restore a healthy economy, the farmer should be given some consideration. His costs are high. His income is decreasing. And there are exceptions to the rule.

But in general, these types of proposals must be gone into. Furthermore, I think it would not harm the President of the United States no matter who he may be if he were to take an active personal interest in these difficulties that arise between organized labor and management. He should try to exert his influence to establish guidelines of a sort. Perhaps they do not need the force of law but influence should be tried in an effort to bring about some control over the economic difficulties which confront us all.

It does not do a laborer any good to get a 10, 15, or 20 percent increase if at the same time inflation continues to eat up those gains. It is like being on a treadmill. You are not getting anywhere. In fact you may be going backwards.

Chairman PROXMIRE. As I understand it, you favor the passage of the standby wage-price controls but you do not favor putting them into effect necessarily immediately or do you?

Senator MANSFIELD. No. Let me make myself clear on that. It would be my suggestion, it has been my suggestion to two Presidents, that standby wage, price, and profit controls and the restoration of regulation "W" be considered by the administration. They may or may not be effective. They are not being favorably received at the present time. But certainly, all possibilities and proposals at our command ought to be considered because inflation is affecting everyone and if something is not done, it could well continue out of control and if it does continue, there would be the devil to pay.

Chairman PROXMIRE. Congressman Conable?

Representative CONABLE. Thank you, Mr. Chairman.

Senator Mansfield, allow me to express my profound respect, sir, and thank you for your statement here today.

I think it was John Gardner who said in "No Easy Victories" that the inexorable demands of large-scale organization, the constraints of the constitutional situation, and so forth, all operate against the public's vision of capricious power where the man in power presses a button and achieves the desired results quickly.

You said a good deal about what is wrong with our Nation's priorities here 10 years after you became the majority leader of the Senate, and that implies, of course, that the leaders of the country do not have the power to change our priorities. I understand very clearly what you are saying and that you are exercising leadership in this forum as well as in other forums in expressing your desires about our priorities, but I wonder if something should be said about ways in which the Congress itself, of which you have been one of the major leaders over the past decade, should cut itself into the process of establishing priorities to a greater degree.

Quite obviously, you have as much to say about priorities as anyone here in the Congress and yet you are clearly dissatisfied, and this implies that there may be something wrong either in the power of the Congress to influence the priorities of the Nation or in the organization of the Congress to exercise that power. I wonder if you have anything to say in that respect, sir, at this point in the light of the positions you have taken here.

Senator MANSFIELD. Yes, indeed. May I say that I am not shirking or denying the responsibility of the Congress, let us say over the past 10 years—you used that figure—nor am I saying that we have not made plenty of mistakes. I am saying that we have shirked to a certain extent the responsibilities which are ours. I am hoping that on a nonpartisan basis the Congress and the administration can work together to try and bring order out of the chaotic situation which I see developing economically speaking, and not for the purpose of achieving political gains. I think as far as we are concerned personally, and as members of a party, that those factors should be given the most secondary consideration and the welfare of the country placed first.

In my view, the Republic must stand. The Republic will continue and it will under any and all circumstances but it is up to us to admit

our mistakes, to shoulder our part of the responsibility, and we have, we should, and to try and work in tandem, so to speak, with the President on an accommodating and cooperative basis to the end that together we can hopefully achieve some of the right answers and help to bring about a degree of equilibrium in the field of economics and all its appurtenances as they exist at the present time.

Representative CONABLE. The economic issue is, of course, the primary concern of this subcommittee. I notice, sir, that you urge the passage of standby wage and price—

Senator MANSFIELD. The consideration by the President of the standby wage, price, profit controls, and the restoration of regulation "W."

Representative CONABLE. Do you feel that profits are too high at this point in the light of their having gone down by about \$10 billion over the first quarter of last year? Do you feel that this is a serious part of our problem? Is it not true that profits are one of the major casualties of the economic pressures that face the country at this point?

Senator MANSFIELD. That is correct. I was going back to the time when I made the original suggestion when we entered this inflationary period, profits were extremely high. Even today, bank profits are at their highest levels. The point is, I do not think we ought to consider just wages and prices alone, but bring in profits and if there is justification for eliminating excess profits from controls then do so just as I think there is a justification for eliminating farmers and others of like character from any controls which might be needed. Those who stand in special circumstances deserve special consideration. That is all I am saying.

Representative CONABLE. What impact do you think standby controls over wages, prices, and profits might have if they are not used?

Senator MANSFIELD. Perhaps it would be just like jawboning. All sides—business and labor—would be aware of them. You have got nothing to lose and maybe something to gain. The authority could be used only if needed. It has worked on occasion. I recall well the good effect obtained when President Kennedy took a strong stand against steel price increases. If you do not try it, you will never know whether it will or not. President Kennedy tried, and it worked. In any event, it is a question which should be gone into quite thoroughly. I do not know all the answers but it is a suggestion which I have made in response to the question asked by the chairman and on the basis of my own initiative over the past several years because the way we were going, we were bound to have an adverse reaction. I would like to see these conditions brought under some degree of control.

Representative CONABLE. As a member of the House Ways and Means Committee, sir, I am happy to have the opportunity to ask you this question. In the light of the great social needs that we have in this country, members of my committee were somewhat perplexed by the extent to which the Senate turned the Tax Reform Act into a tax relief act, thus insuring, I would judge, a substantial reduction in revenues over the next 4 or 5 years and the probability of a deficit. I realize this is only part of the fiscal picture but I wonder, considering our priority needs now, if you have any comments to be made about this major tax reduction which was engrafted on top of what we thought was a Tax Reform Act.

Senator MANSFIELD. Only that we are on opposite sides of the picture on this particular matter. I think it was a good tax relief, tax reform bill. With it, there is a sizable revenue gain. I think it will react to the benefit of the Nation as a whole and I am very happy that the Congress assumed that initiative and did what needed to be done in that area.

Representative CONABLE. You do acknowledge, however, that it is going to result in some embarrassment in meeting our public needs.

Senator MANSFIELD. I would not blame the tax bill for that. The fact that next year I believe we are going to raise exemptions to \$650 and the next year to \$700 is something which I think is long overdue. After all, the \$600 exemption was put in decades ago, for example, when a dollar was worth a great deal more, incomes were not so high, and a dollar stretched a good deal further, but the idea of a \$600 exemption today, I think, is ridiculous and ludicrous.

There were other factors which were put into that bill which, on the whole, I thought was quite good. It went a long way in redistributing the tax burden more equitably and in the process obtained more Federal revenue. That cannot be ignored.

Representative CONABLE. Well, sir, how are we going to meet our needs in this respect?

Senator MANSFIELD. Well, I think we have a responsibility in the Congress to cut appropriations and I am happy to say that for the past 10 years at least, and very likely longer, the Congress has reduced the President's budget requests. I would say that these reductions have been well in excess of \$5 billion a year on the average. I was glad to note that President Nixon reduced expenditures by around, approximately \$3 billion last year and I would hope that he would cut selectively here and there and that we would cut selectively here and there and that together we could bring about less in the way of appropriations and expenditures and, in that respect, may I say that the Congress bears a heavy burden on the basis of the authorization bills which it passes. Of course, they are a pledge in effect that will be followed. But as time goes on, the costs increase and an imbalance is the result.

So, the main responsibility is with us and not the President, although I think that he is part of the team or rather we are part of the team with him. He has made a good start. I hope he will continue on that basis and I would say the same for Mr. Laird as well. But again I say that the main burden of responsibility will lie with the Congress as a whole.

Representative CONABLE. One last question, sir. It relates to regulation W, the requirement for increased down payments. At this stage in the cooling of the economy I wonder what you think the impact of a change in regulation W might be on the big ticket items, the cars, the refrigerators, the color TV's, that are a large part of the products bought with consumer credit. Sales of these have been soft. They are inevitably the harbingers of any cooling of the economy. And those who have opposed any change in regulation W have been concerned about the probability of further unemployment in these fields which are a sensitive part of our industrial economy.

Do you feel that increasing unemployment in this area is not sufficiently dangerous so that we can afford to attack this type of consumer credit?

Senator MANSFIELD. I am not cognizant of the figures in the economic areas which you mention, but anything we do is going to be harmful to someone and all one can do is to make suggestions on the basis of proposals which have worked in the past, at least, to some degree.

It is my understanding that there is something on the order of about \$150 billion, if not more, outstanding in the field of consumer credit. It is a lot of money, and what you have got to achieve, I think, is some degree of a secure balance between the consumer who buys on credit and the merchant who sells on credit because it would not take much to upset the balance which exists today. Therefore, if any suggestions are made, I would assume they would be given the most serious consideration. Every suggestion I made may be inappropriate, may not be applicable to the situation, but at least they are suggestions, and they are offered in good faith and with good heart. But people throughout the land are being hurt now without any of the suggestions being enforced. People might be hurt if regulation W was reimposed but maybe it could be done gradually and in such a way so that the harm would be as little as possible.

Representative CONABLE. My time is up.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Senator Sparkman?

Senator SPARKMAN. Thank you, Mr. Chairman.

Senator Mansfield, I enjoyed along with the others, the statement that you made and the discussion that we have had so far.

With reference to this consumer credit, it seems to me that perhaps some good can be derived from that, particularly if it were not imposed to such a heavy degree that it would produce the results that Congressman Conable referred to. However, I believe you would agree with me that the great need today to the national economy and the healthy economy across the board does not lie so much with the matter of consumer credit as it does with the allocation of credit for the various needs according to the priorities that may be established. Would you not agree to that?

Senator MANSFIELD. Yes, I would. May I say that in reference to consumer credit, maybe if some restriction could be placed on it, it would benefit the consumer as well, he would not stretch himself so thin and make himself so liable to any imbalance which might result because of it.

Senator SPARKMAN. I agree with you on that. By the way, you realize that the President has the authority now to exercise such controls.

Senator MANSFIELD. Regulation W.

Senator SPARKMAN. To impose—

Senator MANSFIELD. Yes, my understanding—

Senator Sparkman (continuing). Credit controls voluntarily or involuntarily. Credit controls generally. We included that in a bill we reported out of our committee, Banking and Currency Committee, in the early part of the year. Was it this year?

Chairman PROXMIRE. This year.

Senator SPARKMAN. Yes; this year we included that in legislation which he signed.

Chairman PROXMIRE. I beg your pardon; it was December.

Senator SPARKMAN. Right at the end of the last session. He signed the bill but in signing it said he had no intention of using those controls.

Senator MANSFIELD. That is right. That bill passed on the 23rd of December, as I recall.

Senator SPARKMAN. Twenty-third day of December. I believe it was signed on December 30.

Senator MANSFIELD. The President did not look upon it as a Christmas present, though, I do not believe, so far as the authorities granted to him by the Congress were concerned.

Senator SPARKMAN. Now, of course, I am greatly interested in the housing situation, as we all are. You mentioned, I believe, the drag—I will not use that term—it was used by somebody else, feet-dragging, but the pitiful condition that prevails in the housing industry and for the “would-be” homebuyers throughout this country at the present time. According to a goal that was established by law in 1968, we were committed to build 26 million units by 1978 or an average of 2,600,000 a year. Last year we built 1,400,000, between 1.4 and 1.5, I believe it was, and at the present time we are much below that. As a matter of fact, just a month or so ago I saw it was down to a 1.1, the lowest level it has been since World War II, I mean on an annual basis, and I notice in this morning’s Post—I did not read the whole article, just saw the figures—housing starts dropped considerably in May again. So, we are not anywhere near reaching the goal that we established by law and a goal that is realistic in order to meet the needs of the family formations in this country and to replace wornout housing.

Now, I just estimate if we build 2,600,000 units a year, at an average cost of \$20,000, and I think that is pretty close to what it is, that would be \$52 billion that we would need, that is, credit that we would need to produce the housing that we need. Housing got nothing like that last year, and in fact, there is no hope of it getting it during this year.

In 1966 we had a money crunch and Governor Maisel, who has testified before this committee and before the Banking and Currency Committee, testified that even though it represented only about 3 to 3½ percent of the national product, gross national product, it absorbed 70 percent of that money crunch, it is pretty close to that again during this period of time.

Now, while that was taking place, the big industries in this country were spending between \$80 and \$85 billion for plant expansion and new equipment—that was in 1969. In 1970 it is estimated that will increase, I believe, 11 percent over that year while at the same time we are using only 80 percent of our plant capacity now. Does that not constitute a considerable imbalance that needs to be corrected?

Senator MANSFIELD. It certainly does. There is nothing I can add to what you have said, Senator Sparkman, because you are an expert in this field. Nobody in the Senate is better qualified than you, certainly, as far as the housing industry is concerned. You have been the leader in that field. You have passed legislation which I—well, which nobody thought could be passed. It is on the books. But it is not being applied for reasons which have been brought out, for example, the high interest rates and the like.

Senator SPARKMAN. Now, you mentioned jawboning. That has been kind of a sore spot with me for the last year and a half almost. I remember last year, early in the year, as different people came before both this committee and the Banking and Currency Committee, they rather—I am going to say people, I mean Government, Government officials, the new administration—they rather boastfully said that they were not going to resort to jawboning as that had been used before.

Now, I took the attitude that that was wrong, that we needed some jawboning, and it seems to me during this year when we have so many wage contracts to negotiate which, as they get higher wages will produce higher prices, that it is a time that calls for jawboning, would you not think so?

Senator MANSFIELD. Yes. I do not see where you have anything to lose, possibly something to gain.

Senator SPARKMAN. I am pleased to note in the press yesterday, I believe it was, that the President is appointing at long last a commission of private citizens to supervise or look over, to watch the contracts—wages and prices as they develop.

Senator MANSFIELD. To publicize them.

Senator SPARKMAN. What is that?

Senator MANSFIELD. Publicize them.

Senator SPARKMAN. And publicize it, and I am glad to see it done. I think that will have a good effect. But I think there is an obligation on the part of the Government to try to exercise some influence through—I am not saying through compulsion but through moral persuasion—

Senator MANSFIELD. I would agree.

Senator SPARKMAN (continuing). Because every time wages and prices go up, inflation is given another push.

Senator MANSFIELD. And what happens to the persons living on social security, annuities, retirements and the like? They cannot keep up with it.

Senator SPARKMAN. Congress votes an increase and as that goes up, prices go up again and we are on a treadmill.

Well, there are many things that I could discuss but I think you have covered the field quite well and I join with the others in expressing appreciation for your presentation.

Chairman PROXMIRE. Senator Mansfield, thank you very, very much for your appearance. It has been most useful for us. We are very grateful that you appeared and I think it is going to be a fine record.

Senator MANSFIELD. Thank you, Mr. Chairman and gentleman of the committee.

Chairman PROXMIRE. Our next witness is Mr. Whitney M. Young, Jr., executive director, National Urban League.

Mr. Young, we are delighted to have you. Mr. Young has been a visiting scholar at Harvard University, has received numerous honorary degrees and awards from universities across the country, has served on seven presidential commissions under the Kennedy and Johnson administrations, is the recipient of the Medal of Freedom, the Nation's highest civilian award, is an author, also President of the National Association of Social Workers and Past President of the National Conference on Social Welfare. We are proud to have you. Please identify the young lady with you.

**STATEMENT OF WHITNEY M. YOUNG, JR., EXECUTIVE DIRECTOR,
NATIONAL URBAN LEAGUE, ACCOMPANIED BY DOROTHY NEW-
MAN, DIRECTOR OF RESEARCH FOR THE NATIONAL URBAN
LEAGUE**

MR. YOUNG. Yes. This is Dr. Dorothy Newman, the Director of Research for the National Urban League, and who has collaborated in preparing this testimony and is here to protect me from technical questions that this erudite committee might ask.

I am delighted to have the opportunity to testify on behalf of the National Urban League before this committee on what we regard as one of the most crucial decisions this country is going to have to make. The National Urban League is a 60-year-old community services agency with the primary purpose of bringing about equal opportunity for black Americans and other minorities. We are an interracial organization, professionally staffed, located in 95 cities throughout the country, with close to 2,500 full-time staff people supported by several thousand volunteers many of whom serve on our boards.

I have a prepared statement which I will not impose upon this committee to read in full. I would like to draw from it and make several other comments.

Our staff has spent considerable time in researching this, pulling it together, and I hope the committee at its convenience will find an opportunity to read it.

The question of reordering priorities is crucial. It is a question, really to me, of the survival of both this Nation and a concept of democracy that is really at stake. I want to identify myself as being in complete sympathy and support of what Senator Mansfield has already presented. I will omit that part of my prepared statement that also treats the relative amounts spent for hardware and defense as against what is spent for domestic problems because Senator Mansfield has covered this.

There are two things primarily I want to do and then just touch on one or two points in the prepared statement.

Point No. 1, the concept of defense in this country, I think, is one that needs examination. My own personal feeling is that the national defense of this country will ultimately best be served by an American system that provides equity for all of its citizens, that removes all of the social disorganization, the poverty, the bad housing, the ill health, that the rest of the world, given our sophisticated kinds of communications, is so completely aware of. I think that when the American ideal really works, then the need to have vast amounts of armaments and men scattered throughout the world, dying in all of these places, becomes less necessary because then the idea will somehow be imbedded in the minds of people in these other countries.

To me it is a source of great shame when I observe that Russia did not lose a single person in the Korean war. China does not lose anybody in the Vietnam War. Somehow these other nations are able to sell a concept and idea, however wrong many of us may think it is, so that people will die and fight for it. I happen to think we have a better idea in America, but I do not think we have made it work. I do not

think we fool anybody. I think the rest of the world is cynical and quizzical about a nation that has a gross national product of almost a trillion dollars that still has almost 20 million people living in squalor and in poverty. That is point one.

Point No. 2, we keep talking about correction of our domestic ills in terms of expenditure. I think we have got to get over this and start talking about investment. We need to talk about what it is going to cost this country, what it is now costing this country and what it is going to cost in the future for not doing these things and I submit that the cost is going up and up and up. We have a choice between either investing in welfare or investing in the removal of conditions that put people on welfare. They are either going to be productive, constructive consumers or they are going to be destructive dependents. We are either going to spend money for prevention or we are going to spend money for crime and welfare, and it will escalate. Take for instance the GI bill. This country spent about \$20 billion on the GI bill after World War II. Recent research shows that the return based upon the increased earning capacity of the veteran due to increased education has turned back to the country more than the \$20 billion invested.

If we are going to continue with small expenditures we are in trouble. We are dealing here not with minor shifts and changes in attitudes and slight degree turns. We are talking about a rather radical reformation of a system that at the present time is not doing what Roosevelt said it must do. It is giving more to those who have but ultimately it is going to be judged by giving more to those who have not.

I make no apology for singling out black Americans as the main focus of my comments. I think that black Americans ultimately will be the barometer by which the validity of this system is determined around the world. When you consider that 75 percent of the world's population happens to be nonwhite, to the rest of the world, what happens to that black American who has been here more than 400 years, who has paid his dues both in terms of slave labor as well as cheap labor and died in every war, is very important indeed. If he cannot make it in America, then nobody anywhere is ever going to believe that this system is capable of granting equity across the board to people regardless of color.

So, I do push that point of the black American. I am concerned about brown Americans, I am concerned about Indians and Puerto Ricans and Mexican-Americans, and poor whites too, but I think the problem of black Americans is really the cutting edge, and until we cope with that we are in trouble.

Now, quickly let me mention one or two additional points here. The first is that we do not lack for programs in this country—for proposals, and for legislation, if you will. Senator Mansfield mentioned and correctly so, the role that Senator Sparkman has played in housing. It has been a magnificent role and I am delighted to be complimentary to the Senator from Alabama on this. But if you go all the way back to 1934 when we first had a housing act, this Government, this society is filled with pledges and programs and promises and the gap between the program, the pledge, and the performance, the dream and the attainment, is wide.

What happens? We get the programs and then they are completely sabotaged and undercut by failure to appropriate the money. You raise aspirations of people and then you douse them by simply not appropriating the money.

I have the feeling now that some of our great friends who are concerned about social problems do not do their homework nearly as well as some of those not concerned about social problems in the Congress; that those who fail in their efforts to defeat social education rely on the fact that those who have passed it get lazy, go off shooting rabbits, taking a trip or something, while they stay and do their homework and cut the appropriations of social programs so that they become meaningless.

We are now victims in this country of giving the appearance of change and progress without substance. We get rhetorical changes. This is creating cynicism, skepticism, despair, and hopelessness such as I have never seen before in this country. It is not confined solely to minorities, black Americans, but to the young as well.

Senator Mansfield has already given the figures. Let me just touch on housing and one or two other issues. Employment has already been mentioned. I will not pursue that point here, except to say that Senator Mansfield is correct. It is quite clear to me, and I am not an economist, that as long as we spend so large a percent of our national product on nonconsumable goods, such as bombs, we are going to be in trouble. As long as we try to act as though we are not in a war when we are spending as if we were, we are in trouble.

We must have some kind of controls. What is more important, it seems to me, is that we recognize that the whole thing could be turned around if we were in fact spending the money on housing and in our cities, because then we would be producing consumable products. The people producing nonconsumable products are competing for consumable products. Inflation is inevitable in that kind of situation.

Think of what construction in this country could do to employ people, not just for housing people but in using the whole range of construction skills. If we began to put substantial sums of money in housing, it would make a tremendous difference in solving domestic problems.

Unemployment has gone up. Black Americans are hit hardest. There is some talk that the unemployment rate is not rising quite as fast for blacks now as it is for whites, but the black rate is still close to twice the white rate. At least half of all Americans have been priced out of the new housing market. New housing for low- or even middle-income groups is almost impossible to find. At the same time the administration is saying let us get a Philadelphia plan going and get more black people in construction jobs. Money policies are introduced which, in effect, cut down the amount of work construction workers can do. This kind of doubletalk increases frustration.

On the question of housing, right now over 4½ million American households are living in homes deemed unfit—more than 4½ million or roughly about 10 million people all told. Roughly we can say that about 20 percent of black Americans live in housing that is declared substandard. Government has contributed to this. Government has concentrated blacks in the central city. Most of the public housing is

there, and blacks are excluded from the suburbs, which have been built up with Government-backed loans. These loans for many years were not granted to blacks because the neighborhood had to be homogenous. So, now we are faced with wholly black neighborhoods in the central city. Blacks moved into the old housing whites left—housing that was run down before blacks moved in. Other generations of ethnic groups had come in, had emigrated, from deteriorated housing, yet when blacks move in they are said to cause the depreciation of the property.

And education—this is where we should emphasize investment and not expenditures. Probably in no other field in America are we further apart from what we say and what we do. We set up title I in the Education Act. It has all kinds of weaknesses. It is inefficient. It does not reach the people we really expect it to reach. It purchases more hardware than instructional programs. Now we are cutting back on this and on other areas of education in which we should invest. The budget for fiscal year 1971 will kill or drastically reduce several programs vital to higher education in this country including grants and loans for graduate and undergraduate academic facilities, aids to land-grant colleges, grants for basic library resources, and grants for foreign language and area studies. These will all be directly affected. The institutional requests for the educational opportunity grant program for fiscal 1971 was \$245 million, which I thought was terribly conservative. The President asked for only \$185.6 million.

We know now how we can take dropouts through our street academies—we now have the know-how and techniques for training everybody in this country. We have seen the Army take rural people from Mississippi, from Alabama, from Appalachia, take people who have had limited educations, and in a short period of time, develop skills and accelerate the pace at which people can get high school equivalency. We know all of this. The issue is that we do not have the will and resources to do these things on a scale commensurate with the need. We have demonstrated how it can be done in the Urban League.

The Urban League supports national health insurance. Again, the need for medical care compared to its delivery is one of the tragedies of our society. Perhaps four in 10 of all black women who have children do not see a doctor until just a few months before the birth. In many cases they do not see a doctor then.

The price we pay for the failure to have adequate maternal and prenatal care, in terms of child development is fantastic and tragic. Everybody is affected, not just blacks, by the inefficiency in the delivery of health care. About \$60 billion is spent in this country for health care and yet we are 17th in the world among nations in the life expectancy of men. We are 10th in the life expectancy of women. We are 13th in the rate of infant mortality. And that is not just because of the poor and blacks and Puerto Ricans and Indians, who can't afford medical attention. The same figures for blacks alone are greatly disproportionate. But even when you eliminate them the figures change only slightly.

We spend more than any nation. We have the greatest technology of any nation, and yet we have this kind of record, this is a further reflection of our inability to allocate priorities properly.

I hope that this committee is not set up just for a short time. I recommend a permanent committee like this to watchdog, monitor, and needle. I thought the questions you asked, Mr. Chairman, of Senator Mansfield were crucial. They are questions the kids are asking. If a man as powerful as Senator Mansfield, who has been in the Senate over many administrations, has to cite disproportionate expenditure for defense as against domestic programs, then how in the world are you going to make youngsters on college campuses feel they can make the system work for them if Senator Mansfield cannot make it work for him? I think this is a very basic problem.

This kind of committee ought to stay in force. I am surprised you do not have a full turnout because of the importance of your hearings. So much of what is being said on priorities elsewhere is just rhetoric. All of the waving of the flag, all of the shouting of our love for country means nothing if our deeds speak so loudly as I have suggested here they do today. The best way we can show our love for America and whether we are patriotic will depend on what we do about the Nation's priorities.

I think we will either do the necessary things or the country will go down the drain and will probably deserve to do so unless there is immediate radical reform—an almost 180-degree turn. We have a plan for space. We have a plan for highways, we have a plan for war. We do not have a plan for human beings in this society.

I suggested a plan in 1963—a domestic Marshall plan—with a timetable. If we had begun it when I asked for it, if we had set aside—then I said about \$10 billion, now with inflation it is probably \$20 billion—if we could have said you, poor people, black people, and others, you can expect within 1 year to be employed, you can expect within 3 years this kind of housing, in 4 years this kind of education, just as we plan space exploration, if we had done this, we would not have had riots, we would not have had unrest, would not have had tension. We would have been well on the road.

Nobody paid any attention until after the riots. Now they call me up and say what about that domestic Marshall plan? When is this country going to learn? Must we always have five accidents before we get a stop sign at the corner? Three floods to get a floodwall? Experience a Pearl Harbor before we think Hitler is a menace?

When are we going to act on the basis of logical review of history and understanding of human nature? You know as well as I do that the poor in this country today are not going to sit idly by and permit unprecedented affluence across the street and starvation in their household. They will be joined increasingly by a lot of other people. We will not solve such problems with suppression. It now appears that we propose solving the problem of the anger of the poor in this country the same way the problem of labor's anger was treated in the early days in the labor movement and the same way we treated the anger of the Irish, Italians, and many other groups. People who lived through such periods forget they appear unmoved by the oppressed today—people who cut their eye teeth on WPA, CCC, FERA, NYA, and WPA. WPA provided an average annual income of approximately \$1,800 in today's dollars back in 1933, 1934, 1935. Now we balk at giving \$1,600 as a guarantee.

Thank you for hearing me on these vital issues. I hope you read my statement in addition. I trust I have conveyed to you the depth of our feeling about national priorities. In expressing our concerns this way, I think we best show our love for America and our hope for it before it is too late.

(The prepared statement of Mr. Young and a statement of the National Urban League's position on public assistance, entitled "Toward an Unencumbered Income Guarantee," follow:)

PREPARED STATEMENT OF WHITNEY M. YOUNG, JR.

Mr. Chairman and members of this Committee, my name is Whitney M. Young, Jr., Executive Director of the National Urban League. I appreciate the invitation to appear before this Subcommittee on Economy in Government to discuss the reallocation of resources in an effort to reorder our national priorities. This is a subject which is critical to the minority community and the Nation's domestic tranquility.

The National Urban League is a professional, non-profit, non-partisan community service organization founded in 1910 to secure equal opportunity for black Americans and other minorities. It is governed by an interracial Board of Trustees and is concerned with fostering good race relations and increased understanding among all people of these United States.

The League seeks solutions to problems of income, employment, education, housing, health, and civil rights for the masses of black and brown Americans who want a better way of life. It recognizes that any meaningful and significant changes in these problem areas rest with changing the network of systems which produce black-white disparities.

It works through local affiliates in some 95 cities located in 36 states and the District of Columbia, five regional offices, and a Washington Bureau. These units are staffed by some 1,600 persons, trained in the social sciences and related disciplines, who conduct the day-to-day activities of the organization throughout the country.

Strengthened by the efforts of upward of 10,000 volunteers who bring expert knowledge and experience to the resolution of minority problems, the National Urban League is unique as the only national education community service agency which devotes its entire resources to the use of social work and research techniques for bettering the lives of the disadvantaged and for improving race relations.

Mr. Chairman, in reviewing your proposed schedule of witnesses, we note that others much better qualified to discuss the national economy are appearing before this Committee. While we may not have their degree of expertise in the discipline of economics, we have had long and varied experience in the "lack of meaningful economics" as it affects the ghettos and central cities of America. We would, therefore, like to confine our discussion to methods of improving the lives of minorities by changing our national priorities.

It gives me great pleasure, in fact, that this august body is considering this matter. I feel that a permanent bi-partisan group in Congress should regularly assess the relative merits of programs for which money is to be spent. Competing claims must be reviewed comprehensively by the legislative as well as by the executive arm of government. It is because this has not been done in the past that fads in spending have occurred and crowded out programs of much greater priority.

I was heartened when, in the 1960s, important national commitments for domestic affairs were made and were translated into a set of vital programs for the people of this nation. The original funding was just the beginning with promised increases to fill present and future gaps.

These have not been forthcoming. We see, instead, no real national commitment for meeting the most critical domestic needs of the day. Where programs have been proposed and authorized, they have not been fully funded. What we have is the rhetoric of commitment which gives way to competing needs outside the domestic scene—the semblance of action without the substance.

It is obvious, Mr. Chairman, that domestic programs cannot survive on rhetoric and promises, and it is equally as obvious that the Nation cannot

survive without viable domestic programs to keep the economy and the society healthy and growing. We cannot maintain the national health by trading off the livelihood of millions of people as an offset to rising costs. Who will buy the goods and services industry produces when people lose their jobs or live in fear of losing their jobs?

About a month ago the National Urban League prepared a monograph which it called *The Decade Ahead*. In this monograph the League attempted to find new alternatives, new ways of attacking urban and rural problems and to highlight the failure of current approaches. The foreword to the monograph said, in part:

Any nation's most precious resources are its citizens, imbued with a spirit of national pride and a concomitant sense of responsibility. Far too many black people, unfortunately, do not have a spirit of national pride. Their spirit has been beaten and downtrodden by the onslaught of inadequate education, poor health services, unequal job opportunities, substandard housing, hunger, malnutrition, and generations of racial injustice.

These conditions have been brought about by a system of priorities which put defense spending, space, and ultra-conservative budget management before people. While we do not want to use this platform to discuss the "merits" of the Vietnam war, we cannot talk about the economy without talking about the war. In addition to its staggering toll on human life, the war, along with the absurdity of balancing the budget and reducing taxes, have drained the funds available for domestic spending and contributed to inflation.

It is something of a paradox that even with a war economy and inflation, we are experiencing soaring unemployment, production slowdowns, and a slump in straight and overtime hours worked. The earliest and heaviest impact of present economic policies to beat inflation have been in the industries and services where blacks have recently progressed. That impact has also been in the cities where these industries and services are concentrated—and where the blacks and other minorities are segregated and are the first victims of any economic slowdown.

These are the places where unrest is highly concentrated and where domestic problems converge—problems which form a tangled skein—unemployment, poverty, powerlessness and poor, as well as segregated, housing in an inadequate supply for those who need it most. Lack of commitment as well as lack of funds have fostered conditions of poor and deteriorating educational and health systems and inadequate public services. They have perpetuated demeaning and insufficient financial assistance to the poor while we provide anonymous and generous subsidies to the non-poor in the form of tax escapes, housing, health, and education aids. Paradoxically, only the well-off can take advantage of most Federal subsidy programs today.

Mr. Chairman, I would like to point out briefly some examples of what we consider to be an imbalance in our priorities.

The 547 F-111 planes constructed or on order have already cost us \$6.8 billion. Almost \$600 million is in this year's budget. All of the 300 F-111's so far built are grounded because of structural difficulties.

As you know, we have spent more than \$2 billion on the C-5A and are seeking more than half a billion more in fiscal 1971, although only six production aircraft have been delivered, plus eight research and development aircraft. The Defense Department plans to buy 81 more planes at an estimated \$4.2 billion.

Spending for the proposed supersonic transport (SST) is close to \$300 million annually now.

Compare these billions for aircraft alone, many of them useless, with only \$1 billion spent for desperately needed low-income housing in 1970, and with the \$1.4 billion projected for 1971.

Compare the billions for useless planes with the \$15 million funded for rat control in 1969, to which \$12 million was added in 1970.

Compare the billions also with the \$223.5 million for riot assistance approved this year, to help rebuild gutted parts of 21 of our inner cities. Of the \$223.5 million, only \$37.5 million have been disbursed.

Hundreds of millions were appropriated to refurbish the Merchant Marine, but a few million for the Teachers Corps.

Only \$65 million was spent in fiscal year 1970 to combat drug abuse and alcoholism.

Only \$3 million was made available to the Department of Housing and Urban Development and the Justice Department to enforce the fair housing provision of the 1968 Civil Rights Act in fiscal 1970.

Only \$14 million went to assist districts desiring to desegregate schools in 1970. About \$9.5 million was spent in the prevention of juvenile delinquency.

What I am talking about, Gentlemen, is the miniscule amount we are willing to pay to eradicate pollution in the inner city, which has been suffering from it for generations—money for our people and their environment—compared with the staggering amounts we cheerfully shell out for machines.

While we cannot be partisan about national priorities, we have tended to note a difference in tone in the present Administration and the previous one. This can be seen by some examples taken from the Economic Reports of the President. In his 1969 message, President Lyndon Johnson said "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."

President Nixon, in his 1970 report, says "Personal freedom will be increased when there is more economy in government and less government in economy . . ." In citing his basic goals, Mr. Nixon puts first the integrity and purchasing power of the dollar, the utilization of the Nation's productive resources, and the management of the economy. When, in his final point, he speaks of "equal opportunity for all," he still couches it in terms of the "free economy of the future."

In Mr. Johnson's initial economic report in 1964, he placed first on his list of challenges to the American economy the need for offering productive employment to all, operated at the full potential of our human resources. Again, he ended his listing of goals by stressing the need for a fair distribution of the fruits of economic growth among all segments of the population and eliminating "with compassion and foresight" the suffering and insecurity from the lives of people.

Mr. Chairman, there is no question about the seriousness of the economic situation. Unemployment has now reached five per cent, or 4.1 million persons, out of work. Some 1.3 million have lost their jobs in the past year. The increase in unemployment this year has been the sharpest five-month increase in the past decade.

While people are losing their jobs and finding it more difficult to find new ones, the cost of living continues to rise. Living costs have risen six per cent since December, the largest increase in the past two decades. Real income, or take-home pay, has dropped 2.8 per cent since September 1968. Overtime is becoming a thing of the past.

Interest rates have reached a 100-year high, and Federally financed mortgage rates have risen 25 per cent in the past 17 months. Housing starts dropped 42 per cent in 1969. Even though housing demand is higher than ever, with vacancy rates at a 10-year low, it is estimated that at least half of all American families have been priced out of the housing market. Some college students must now pay as much as 12 per cent interest for loans to finance their education.

These indicators affect the poor and the black most. They affect cities most, and more than half of all blacks live in the central cities of metropolitan areas. Words like "inflation" and "recession" have little meaning to the family who does not have adequate money to pay bills, meet house notes, purchase food for stable diets, buy clothes, or keep the family car going. These are the people for whom a reordering of our national priorities will mean a reordering of their lives—an opportunity to participate in the American dream instead of continuing to read about it.

Let me spend a few moments at this point discussing some of the most critical areas for which more funds are urgently needed. There are other areas, to be sure, but housing, health, and education are especially vital.

HOUSING

The National Urban League presented testimony before the Housing Subcommittee of the House Banking and Currency Committee a week ago in which it made known its views on the HUD Act of 1970, but I feel the need to talk generally about housing here.

The black housing deficit is huge and complex. First, a larger proportion of black than whites has always lived in substandard dwellings and still does. Second, the black housing market has been severely limited by discrimination. The new supply has gone almost exclusively to whites and to the suburbs. Third, the inner cities where so many blacks live have lost as much or more dwelling units by Federal programs than were built there during the past 30 years.

According to the Douglas Commission study of 74 cities, 40,000 more units were destroyed than built in those cities since 1937. Most of the units destroyed were those in which low-income people lived. In Baltimore, for example, between 1959-64 the demolition of housing for government programs—occupied mostly by low-income blacks—was equal to about one-fifth of the entire housing stock occupied by the black and the poor in that city. Nine of every 10 displaced households in Baltimore have been occupied by blacks, although blacks make up less than 50 per cent of the city's population.

It has been estimated that uncompensated losses to households forced to move could come to 20 or 30 per cent of a year's income at the rate of \$800 to \$1,200 for displacement cost.

Over 4½ million households live in housing deemed unfit, according to American standards. This means that probably as many as 10 million people—and a larger proportion of blacks than whites—lives under conditions hazardous to health and security.

We need a comprehensive national housing policy. The housing programs of the Federal government for low-and-moderate-income housing require commitment on a much larger scale. Emphasis must be given to assisting the rehabilitation and purchase of existing housing as well as the construction of new units.

In the field of housing, I see a picture of criminal neglect, blind to the present and to the future. We are letting cities decay, housing deteriorate, grey areas become irrevocably blighted and people live in slums while we squander billions on machines.

EDUCATION

Nowhere is the paradox of "what we say" and "what we do" more obvious than in education. Every American recognizes the importance of a good education and its relationship to keeping the nation strong. Education is the key to upward mobility in this country—the open sesame for blacks and minorities. Government officials constantly talk about the need for more doctors, more scientists, more teachers, but we remember that the Labor-HEW Appropriations bill was vetoed as being "excessive."

When we think of how difficult it is for a "dropout" to find employment in this period of rising unemployment, the importance of education takes on added meaning—especially for the young. Youths drop out of school for many reasons, but primarily because the educational system is not meeting their needs. This failure to meet the needs of students is expressed in many ways; among the most important are inadequate school budgets and classroom-laboratory aids which affect the quality of the teaching and of the curriculum.

When Congress enacted the Elementary and Secondary Education Act (ESEA) in 1965, it was assumed that the legislation would be a start in solving many problems, especially as they applied to poor children. Instead, we find that the special Title I, to help the poor:

Has not reached eligible children in many instances;

Has not been concentrated on those most in need so that there is reasonable promise of success;

Has purchased hardware at the expense of instructional programs;

Has not been used to meet the most serious educational needs of school children, and

Has not been used in a manner that involves parents and communities in carrying out Title I projects.

In Mr. Nixon's first budget request for education, he asked for nearly half-a-billion dollars less than Congress had appropriated for the preceding year. He did this in spite of the fact that during his Presidential campaign he told the American Association of Universities: "When you talk about the expense of government—either Federal, state or local—the one area we cannot shortchange is education . . ."

In Title I of ESEA, the level of funding is \$90 per year per child, although the Office of Education, HEW, estimates that the cost of an academic program should be about \$300 per pupil—more than three times as much.

In the "Right to Read" program (combining Titles II and III), the sum of money provided is less than \$5 per retarded child (so-called).

The proposed budget for fiscal year 1971 would kill or drastically reduce several programs vital to higher education in this country, including:

Grants and loans for graduate and undergraduate academic facilities ;
 Aid to land grant colleges ;
 Grants for basic library resources, and
 Grants for foreign language and area studies.

Current Administration requests for funds for low-income students are grossly inadequate. Institutional requests for the Educational Opportunities Grant program for fiscal 1971 total about \$245 million, but the President asked for only \$185.6 million. The Administration's request for the National Defense Student Loan and Work Study programs for fiscal 1971 represents a net decrease of \$3.4 million at a time when institutional requests were almost double that amount.

Actually, we do not know who can and cannot learn and what to do about it. The right questions are not being asked, nor are any being answered. Why can the Mississippi recruit be taught things in the Army the schools do not teach him at home? When the school gives up, why do the National Urban League Street Academies succeed?

I ask you, Gentlemen, what is the present rank order of education in our Nation's priorities? What should it be?

HEALTH

Again, Mr. Chariman, we speak with no medical credentials in the field of health, but we come as spokesman for the thousands of the poor who sorely need improved health services. The overall annual expenditures for health care in this country is some \$60 billion, but in spite of this, we have failed to establish the national priorities necessary to provide every citizen full access to humane and comprehensive health care.

The obvious important step is a comprehensive national health insurance program which should include a well planned and carefully coordinated system of health care for all Americans. This Nation must make health services accessible—both physically as well as financially.

The National Urban League supports the principle of a national health insurance program which provides universal coverage without exception to all persons, so long as such coverage is based upon the development of a national health care delivery system which will provide equal access to all.

The League's Board of Trustees has endorsed a national health program in which are included the following components:

- General tax revenue as the source of financing ;
- Emphasis on improving the geographic distribution of health services ;
- No reimbursement formulas or use of private insurance carriers, and
- Funding for the education of health manpower.

While medical care cost the people of this Nation some \$60 billion, the United States still ranks 17th among all nations in the life expectancy of men; 10th in the life expectancy of women, and 13th in the rate of infant mortality. One-fourth of all children face the probability of untreated physical and mental disorders.

As in other areas of our national life, health care for blacks presents an especially dismal picture. Consider the following:

Life expectancy is lower for blacks than for whites at all ages ;

The average black male baby cannot expect to live long enough to collect social security ;

The black maternal death rate is almost four times the white rate, in spite of substantial reductions during the past three decades, and

Almost twice as large a proportion of black as white families have no hospitalization or surgical insurance coverage.

As you know, Mr. Chairman, morbidity and mortality increases as income levels decrease. That is another way of saying that poverty, sickness, and premature death are closely linked.

It is important to bear in mind that the problem is now more than the inadequacy of medical care available to the poor. As medical technology has advanced, it has also raised the cost of care beyond the reach of many poor people. There is, Mr. Chairman, a clear and present trend toward making good medical care a privilege of the monied class.

It is imperative, Mr. Chairman, that we move rapidly toward a national system of health insurance and delivery of medical care and medical education on an equal basis for all.

I have tried here to show briefly some imbalances I perceive in how Federal funds are used, and some of my priorities. The problem is not always one of budget. Adequate funds are sometimes available, but often a good deal of money goes to finance causes in vogue, without regard to need. This has been true, not only of Federal programs, but of Federal aid and grant programs—many thousands of miles of highways and sewer and water facilities and a token number of houses and schools, for instance.

WHAT MUST BE DONE

The question which must be answered now is "Who determines national priorities?" How? If the Congress is to determine the priorities, it must develop a system for doing it. The Committee system prevents comprehensive examination of the relative merits of competing needs. Committee members become experts in specific areas, but do not always have the time or facilities for evaluating the consequences of their decisions on other programs or in terms of overall national need.

Since Committees usually respond to individual budget presentations prepared by the Executive arm of the Government, there is no opportunity to assess the relative importance of items before they find their way into the budget. When one considers the number of different Committees studying budgets of the major Federal agencies and departments, the complexity and fragmentation of the process is bewildering.

I should like to recommend a permanent committee on priorities, adequately staffed and composed of members of each of the important domestic, military, and foreign relations committees. This is especially important in view of the new Office of Management and Budget. The Congress should have an equally effective mechanism for studying and evaluating national goals and priorities.

It is widely known that a substantial portion of Federal dollars are committed to fixed and seemingly immutable expenditures, and that a very small percentage of the public budget is available for allocation among other choices. A permanent priorities committee should be structured to deal with this and other policy for determining both the amount and allocation of Federal funds at all levels.

INCOME SECURITY

In conclusion, Mr. Chairman, I want to talk briefly about the Urban League's income maintenance position for an unencumbered income guarantee—Federally established, financed, and administered—at a floor that meets our standards as a Nation. This surely would require reordering our national priorities, but it would go a long way toward solving many of the ills which plague our country.

We advocate full Federal funding and full Federal administration public assistance in order to eliminate the gross inequities between categories of persons equally in need, and variations in the levels of assistance from State to State.

Administrative procedures are being proposed in pending legislation which create at least as many inequities and complexities as the present welfare system, some of them brand new. A multiple system is being proposed defying equitable administration from coast to coast.

While we do not wish to place a specific figure on the level of grant that should be established by the Federal Government in moving toward an income maintenance system, it is fruitless to establish a grant level at less than what it costs a family to live in a standard of health and decency. We propose moving rapidly toward this level and establishing a timetable for reaching it.

It is also essential that an adequate income guarantee be extended to all equitably, in all its dimensions. A plan which separates the working from the non-working poor in terms of cash benefits and administrative procedures, and then separates the blind, the aged and the disabled from both, cannot be said to represent evenhanded treatment of people equally in need.

We strongly urge a simple affidavit system or declaration of need. More than a year ago, the Department of Health, Education, and Welfare stipulated the acceptability of such a procedure. Several States, in wisdom and humanity, have adopted it. This is no time for reversion to a means test which is more punitive than that prevailing in most States at this time. This is no time, as in pending legislation, to exempt certain categories of the poor from the means test while

imposing it on others. Categorical distinctions should be eliminated and a uniform program established which is simple, dignified, and easily administered in order to get the best results at least cost.

We react negatively to the rhetoric of "workfare." It implies that people who are in economic need and applicants for public assistance are lazy, shiftless, and unwilling to contribute to their own support to the extent of their capabilities. The majority of the poor *do* work. The vast majority of those receiving public assistance who do *not* work are dependent children and the disabled. It is dangerous folly to perpetuate the myth that the poor must be forced to work.

We are not unmindful of manpower and training needs, but it is our position that manpower and fully employment issues are best treated in the context of a comprehensive manpower policy designed to make the widest and fullest use of all citizens to the limit of their abilities.

Employment and training measures should be designed not as a coercive device but to provide opportunity and services to all.

Mr. Chairman, I have a separate, more complete statement presenting the National Urban League's position on public assistance, entitled "Toward an Unencumbered Income Guarantee." It is available for distribution and for inclusion in the record of these hearings, if you so desire.

I believe that the first essential is income security through the natural workings of the economy. A high level, healthy economy is necessary to meet all of our present and future goals, including the eradication of racism and poverty. We are in serious trouble today. The economic indicators say "recession" to me. Positive action and careful attention to national priorities are required now more than ever. We must regain maximum employment, rising real incomes, production, and productivity, and a social economy responsive to the needs and welfare of all Americans. You can help us achieve this.

I thank you.

TOWARD AN UNENCUMBERED INCOME GUARANTEE

(A Statement of the National Urban League's Position on Public Assistance)

In view of the National Urban League, Federal responsibility for a minimum income guarantee to all people, Federally administered and financed, is essential to any satisfactory resolution of this nation's increasingly complex and controversial crisis in public welfare. We believe that the nation has passed the point when piecemeal reform of the welfare system can succeed. We need, in effect, repeal of the welfare system and the substitution of an unencumbered income guarantee.

The welfare of individuals at the low end of the economic spectrum is a national problem requiring a national response. A Federally established, Federally financed and Federally administered income floor below which no individual can fall in this affluent nation, whatever the adversity of his circumstances, is essential to the public welfare and now past due. A basic income floor for all Americans wherever they live and find themselves in need is our great hope for an equitable society. Such an income guarantee is the only means to appropriate compensation for the economic and social dislocations of an advanced economy.

Full Federal funding and full Federal administration are the only means of completely eliminating both the gross inequities that exist between categories of persons equally in need and those resulting from variations in the levels of assistance on a State-to-State basis.

The Federal Government's full assumption of financial and administrative responsibility for the program is the only way to insure equitable and even-handed administration throughout the country, the only way to create uniform standards. The present welfare system has shown its most singular failing in its administrative procedures. Any plan that fails to simplify them will do the nation a profound disservice.

Federal assumption of the full responsibility would insure a consistent program that would not vary from jurisdiction to jurisdiction for any arbitrary reason, a matter of renewed importance since the Supreme Court has eliminated residency requirements. To proceed otherwise is to perpetuate differential practices which now exist from jurisdiction to jurisdiction with all their built-in inequities, arbitrary judgments, questionable interpretations and failures to meet Congressional intentions. Assistance must be seen as a right and not as the product of a locally administered means test based on local will and ability to pay.

Administrative procedures have been proposed and given serious consideration which are cumbersome at best and which create at least as many inequities and complexities as the present welfare system, some of them brand new. It has been proposed, for instance, that each State have three administrative options: to allow the Federal Government to administer such a program; to handle it themselves; or to set up a dual system with both State and Federal Government handling their respective phases in parallel structures. Under these circumstances, the inevitable result must be multiple standards and multiple results. This does not represent a uniform Federal system but the same old sawtooth arrangements. It is a multiple system, defying unified and equitable administration from coast to coast.

Of the three options, we infinitely prefer the first—administration by the Federal Government. This permits all moneys to flow through one channel, creating a strong form of administration. We would countenance administration by the State with the Federal Government monitoring the operation. Complete reliance on the States in welfare matters is an idea that should no longer be entertained. But a hydra-headed arrangement wherein the State administers its phase of the program, the Federal Government administers its phase of the program and the client has to deal, separately and independently, with both is intolerable and should not be entertained.

While we do not wish to place a specific figure on the level of grant that should be established by the Federal Government in moving toward an income maintenance system, it is fruitless to establish a grant level at less than what it costs a family to live in a standard of health and decency. The Administration's proposed floor of \$1600 is totally inadequate, less than half of the Government's own identification of what constitutes poverty. Without an adequate floor, there is nothing equitable about such a program within the framework of this society.

We would propose two things. First, the principle should be established of moving rapidly toward an adequate income floor with the level of grant based on actual living costs and related to standards of health and decency as contained in the Bureau of Labor Statistics Index. Second, we would propose the establishment of a timetable for achieving an adequate floor. We are disposed toward setting 1976, our 200th anniversary year, as the target, as the year in which we can say in all honesty that deprivation of the kind that now plagues us no longer exists in this country, that everyone in the nation is at or beyond this level of adequacy.

In regard to both goal and timetable, we would strongly urge that the responsibility be fixed with the Secretary of Health, Education and Welfare to report to the Congress in one year's time on alternate ways and means by which an adequate guaranteed income can be achieved and annually, thereafter, on its progress.

It is also essential that an income guarantee be extended to the working poor, as has been proposed by the Administration. The recognition that having a full time job in this country doesn't guarantee a living wage is a major step forward within both the framework of social legislation and the life of this nation.

The working poor are, by definition, those who work full time and still remain poor. It is essential that they be treated on a par with all other recipients, receiving the same benefits on the same terms.

We in America cannot escape the fact that despite a prolonged period of continuous economic growth we still have more than 30 million people living in poverty, the bulk of them in families clearly classifiable as the working poor. Only a short time ago, most of us believed that emerging general prosperity would solve the problem but it has now become obvious that it will take more than general prosperity to free these citizens from the bonds of poverty. The economic and social rewards of the present fall as unevenly among us as did the scarcer rewards of the past. Our present machinery for rectifying the situation has not allowed us either to prevent poverty or to make freedom from want the national norm.

It is of great importance that any plan for an income guarantee, in its final formulation, be equitable to all in all its dimensions. There is no acceptable rationale for establishing differentials among the poor. The retention of categories and a proliferation of differentials can only lead to needless administrative complexities and further serious inequities in the treatment of

individuals and families. A plan that would separate the working from the non-working poor in terms of cash benefits and administrative procedures, and then separate the blind, the aged and the disabled from both, cannot be said to represent evenhanded treatment of people equally in need.

As for qualifying procedures, we strongly urge a simple affidavit system, a simple declaration of need. The present trend is already in this direction. More than a year ago, the Department of Health, Education and Welfare stipulated the acceptability of an affidavit procedure throughout the country. Several States, in wisdom and humanity, have adopted this system. This is no time for a blanket reversion to a means test which is more punitive than those prevailing in most States at this time. Nor is this the time to exempt certain categories of the poor from the means test while imposing it on others.

Proposals for intensified investigations, quarterly reporting on the parts of recipients, work registration requirements and the Federal prosecution of absent fathers whose families are receiving assistance are *more* punitive than the present antiquated and outmoded system.

The problems underlying the present crisis in public welfare require progressive, not regressive, action. There is no need to codify inequities or make harsh, not to say brutal, assumptions about the poor. Categorical distinctions must be eliminated and a uniform program established which is simple, dignified and easily administered in order to get the best results at the least cost.

We react negatively to the rhetoric of "workfare" which has accompanied the recent debate over public welfare. It carries with it, whether intentionally or not, the implication that people who are in economic need and applicants for public assistance are automatically regarded as lazy, shiftless and unwilling to contribute to their own support to the extent of their capacities. The majority of the poor *do* work. An experimental program in New Jersey which gave men public assistance with no work requirement showed that those receiving assistance wanted more, not less, work. A cursory view of the mothers of dependent children receiving public assistance have worked, do work and would be happy to increase their hours of work or enter the labor market full time if jobs were available and there were suitable care for their children. The vast majority of those receiving public assistance who do *not* work are dependent children and the physically disabled.

It is folly, and dangerous folly, to perpetuate the myth that the poor must be forced to work and it is worse to convert the myth into precepts upon which reasonable men must legislate.

In accord with the philosophy of "workfare," it is proposed that everyone, with the sole exception of female family heads with preschool age children, but including 16-year-olds, must register for work or work training regardless of all other considerations.

Proponents of this school of thought hold that a woman with school age children should have no freedom of choice in the matter of work although this judgement is made, free of coercion, by millions of other women throughout the nation. This outlook rests upon a frightful judgement about the character and characteristics of the poor, that they are somehow different from the rest of us, that they require different and special measures for the regulation of their lives as apart from the rest of us. Compulsory work provisions wedded to an income guarantee are, again, punitive, censorious, moralistic and inconsistent with the facts.

We are not unmindful of manpower and training needs but it is our position that issues of manpower and full employment are best treated on their own merits in conformity with their importance as such. The issue of an income guarantee should not be confused with either the regulation of work or the training of people for the labor market. This is not to minimize the importance of manpower policy, but rather to emphasize it. Manpower considerations are best treated in the context of a comprehensive manpower policy designed to make the widest use of the contribution and potential of each of our citizens to the fullest of his or her ability. The key in any measure for income guarantee must be opportunity, not employment and training measures designed to coerce those who merit, not punishment, but generous and warm-hearted assistance.

Chairman PROXMIER. Thank you, Mr. Young, for a most eloquent and appealing statement and most helpful and informative, too.

You would say, as I understand it, very simply that we should put our money where our mouth is and we have not done that.

Mr. YOUNG. That is right and we have not fooled anybody.

Chairman PROXMIRE. We have to watch our mouth as well as our money. If we are going to make promises we ought to see that those promises are responsible, that they can be kept and can be kept within our resources, and, of course, that is what this committee is meeting about, to determine where our priorities should be and how much of our resources we can free to put into these areas.

You spoke very eloquently recently, I understand, in saying that the problem of solving our housing difficulties, what we need is commitment and would you just give me a word or two now on what you mean by commitment in solving what seems like a tough economic and technical problem?

Mr. YOUNG. Well, there are three or four problems and until we face up to them we are not going to do anything about housing in this country. The tight money, higher interest rates, is just part of the major problem. I would be interested in seeing whether Senator Sparkman agrees that a major problem is zoning. We will not be able to build low or middle income housing in the suburbs and get anything like diversified housing (I am not talking just about racially but economically diversified housing) until we do something about zoning law. There must be a national zoning regulation.

Secondly, we are not going to be able to solve the housing problem unless we do something about land acquisition. Any time we want to build a defense plant on a highway, we do not hesitate to take land under eminent domain and give people a fair price. But we hesitate in the case of desperately needed land to provide basic shelter for people.

Code enforcement is another requirement. I think that Secretary Romney is to be commended for his push on Operation Breakthrough. I think we have to use modern technology to reduce housing costs to a reasonable figure and build housing faster. I am delighted to see finally that the building trades, even though reluctantly, have agreed to certain cooperation in this regard. But, again, we must have a plan to move people out, build more housing, low-cost housing for low-income groups, outside of the central city. Until we do this, not much will happen.

The housing we build in this country now is being built for the well-to-do. I think \$25,000 is the average price of a new one-family house today. What is that going to do for the average black family with less than \$6,000 income?

Chairman PROXMIRE. Mr. Young, you bring a particular perspective to these hearings because it is easy to take for granted our individual situations and preconceptions and to neglect the problems of groups with whom we have too little contact and often too little understanding. The question of national priorities is in danger, perhaps, of being subsumed by the white middle-class majority of Americans. If this occurs, the issue will inevitably be raised whose priorities, just as the question is often raised whose law and whose order. But the difficulty that many Members of Congress and the general public have with income security or family assistance proposals is that they all appear to perpetuate the kind of welfare system that now exists.

As you know, it is a system that has grown by leaps and bounds and with billions of dollars spent annually, ostensibly for the benefit of the poor and underprivileged, but to the satisfaction of literally no one. I do not think I have met anyone who is happy with our existing programs of welfare and income assistance; further, the current programs are deeply resented by large segments of the public.

Would you care to comment on these points and answer the question, how can we reconstruct public welfare so that its benefits will exceed its costs and so that it will be generally acceptable to the American people?

Mr. YOUNG. Well I would like to say that the National Urban League is on record as being strongly in favor of an income maintenance program with an unencumbered income guarantee, federally established, federally financed and administered. We believe it will go a long way toward reordering our priorities. The notion that there are people who do not want to work, so, therefore, draw welfare, is entirely inaccurate. Most of the poor do work. The poor who do not work are usually children or they are parents or mothers or they are disabled or they are old. That is 95 percent of the people who get welfare in this country.

I would like to make it clear that we would not wish to place a specific figure on the level of grant that should be established by the Federal Government as we move toward an income maintenance system but we do think that it is fruitless to establish a grant at a level less than what the Federal Government itself says it costs for a family to live at a low budget and still maintain a standard of health and decency. I think the figure now is over \$6,500 for a family of four. The Bureau of Labor Statistics itself set forth this figure. We think we ought to move rapidly toward what is required.

Chairman PROXMIER. You say "move rapidly." Would you agree that it is pretty hard for the Congress to take on a \$6,000 a year per family program now? The cost would be, what, \$30 billion, \$40 billion?

Mr. YOUNG. Yes; that is right. I think that is probably unrealistic, given the mood, given the value systems of our society, given the attitudes of Congress, but I think we ought to set that as a goal. We ought to move toward it and certainly we ought to move far away from the \$1,600 we are talking about even with the value of food stamps added. We ought to be talking at least about what the Federal Government says constitutes a poverty level, which is about \$3,600 for a family of four.

Again, I am talking about investment and I want to weigh that expenditure against the cost of not doing it, in terms of inadequate nutrition, housing environment, health, and security.

I think we have here an opportunity for leadership. You talk about this so-called middle American and his present attitudes. What Congress, people like yourself, must do is to convey to people that it is not just poor people who get support from the Federal Government. Support has different names. When the rich get it they call it defense contracts. They call it farm subsidy when the farmers get it. They call it research grants when it goes to the universities. The only difference is the poor get less but everybody gets a subsidy. Everybody gets a cut out of this Federal business but they just call it a different name when it goes to the poor.

I think we ought to remind them also, as I said earlier, that when white people who represented great unemployment in this country were about to start a revolution, we introduced FERA and NYA and CCC and WPA. I think this same group of middle Americans you are talking about need to know they are not going to have safe streets, the respect of their kids, and any end to demonstrations and tensions until such things happen for those in need today. Our leadership in the country seems to take a poll these days to see how people feel and then simply reflect their fear and attitudes, whatever they are, instead of molding and leading them.

What we are getting is simply a regurgitation of ignorance, and panic and fear, and even exploitation of it, if you will. I would like to remind this committee that that particular practice is not a phenomenon that need only be restricted to national white leadership. The blacks could do the same thing. I, too, could go into the ghettos of this country and exploit the anger and despair and hopelessness. I do not choose to do this, because I think that is irresponsible leadership. It might make me popular for a moment as some national leaders or State leaders seem to feel, by catering to a backlash or to a silent majority, but it is not leadership and history will some day curse us for following that route.

Our people have to be educated, Senator. If you can frighten them enough so that they are afraid that if they do not spend billions in Vietnam, 10,000 miles away; if you can cause them to think that if we do not stop communism over there it is going next to Thailand, the Philippines, San Francisco, even Cicero, Ill.; if you can get people thinking that, and willing to spend taxes on that, you ought to be able to convince them there is a greater danger 20 miles away in the central city about to explode.

Chairman PROXMIRE. Let me ask one final question. This will require a great deal of candor, if not bluntness, on your part.

What is the response within the black communities, to the best of your judgment, to the programs and policies of the Nixon administration? Are you satisfied that the needs of the minority groups are being met with reasonable dispatch or are present policies and practices driving people into various camps of militancy and extremism?

Mr. YOUNG. Quite candidly, and I have said this before, I think there has been disappointment. I recognize that positive steps have taken place more recently but the overall record is disappointing. I personally met with the President shortly after he was elected, at his invitation, and said to the President that he had one of two choices. He could either say to the black community, you did not support me, so I owe you nothing, or he could say to the black community, you did not support me because you did not know me and did not understand that I am a man who has feelings and I understand your problems and I am going to show you that you misjudged me.

I said he had one of two choices. I think the record will show that the President has been influenced by those who feel that the important thing is being reelected, not by the good people in his administration, who I think wanted to appeal to a broader base of America. I think the biggest disappointment is in trying to translate the rhetoric into the deeds—to get us together, to get more housing,

to get people off welfare rolls and to full employment. In fact, unemployment is going up. I think it has been a frustrating experience. I believe that there is some soul-searching going on at the present time, though. I think it has been influenced somewhat by the stock market. I think it has been influenced by the murders at Kent. I think even Mr. Wallace's election might cause some soul-searching. Here, again, I think the President has one of two choices. Either intensification of an effort to win that particular beknighted mind in the south that is racist, and to out-Wallace Wallace, or to say he cannot out-Wallace Wallace without alienating and destroying this country, so he will now have to broaden his base.

The Urban League position at this point is an open door. We do not appreciate this stand-off glaring across a chasm at each other. We are ready to meet with the President, talk with him, try to turn this thing around, but I would be less than candid if I did not tell you that the attitude in the black community is one of great frustration, great skepticism, great despair about anything happening. It makes it difficult for responsible leadership to continue to insist that the way to work things out is through the system, to appeal to the system, and to participate. It does not make us look like great prophets really, and the greatest thing the administration could do would be to shore up responsible leadership and not to weaken us by having our appeals go unanswered.

Chairman PROXMIER. Mr. Conable?

Representative CONABLE. Thank you, Mr. Chairman.

How did the black community feel about the Johnson administration?

Mr. YOUNG. The black community has never felt that any administration has given it top priority. I would say that the black community felt that President Johnson did more than any other President all the way back to Abraham Lincoln, that in spite of the fact he was a southerner, he knew what poverty meant, had a deep sensitivity to it and was quite sincere in what he tried to do. He put a black man on the Supreme Court. He put a black man in the Cabinet. He got programs passed like OEO, the civil rights bill. He got educational programs moving, other domestic programs that benefitted all of America but certainly, the black people being disproportionately represented among the poor, they benefitted a great deal.

Many were disappointed in his Vietnam decision, the war decisions, but as far as his domestic programs were concerned, we did have a feeling that we were moving.

Representative CONABLE. Was there not a general feeling that there was a serious gap between performance and promise?

Mr. YOUNG. Toward the end, yes. As the war took more and more of his attention and the resources, there was a feeling that the great society dream was becoming less and less crucial.

Representative CONABLE. I do not understand your position, sir, and I wish you would spell it out a little further, about the family assistance plan. I understand you feel it does not go far enough. Do you feel it is a step in the right direction? Does the Urban League support it or does it feel that it is again so inadequate they would prefer not to support it?

Mr. YOUNG. No; we have supported it because we think the concept is terribly important. While supporting it, however, we have pointed out three or four things that we are terribly concerned about, that we hope are changed in the bill, aside from the amount. We are concerned about the concept of workfare so some people have described it, the implication being that means tests and punitive requirements are necessary to make sure that people work rather than draw welfare. We do not think we need to do this.

Representative CONABLE. You realize that the WPA was a work program?

Mr. YOUNG. I understand this, but my own feeling is that people prefer to work than to draw welfare if given the opportunity. I feel that way and I give every other man that same respect. So, I am afraid that there will be the possibility for abuse of a bill that says you must take a job if it is available without spelling out in fact whether that job fits the person, whether you got all the built-in protection of the minimum wage and other safeguards. I can see abuses in certain sections of the country with this kind of legislation but we support it as one of the positive things that I was thinking about. Even though it is at too low a level, we can increase it later.

Representative CONABLE. You mentioned the fact that most of the poor work. I agree with you. Is that not one of the most revolutionary things about the family assistance plan?

Mr. YOUNG. You mean the work incentives?

Representative CONABLE. I mean that—

Mr. YOUNG. That it addresses itself to the working poor?

Representative CONABLE. For the first time it addresses the problem of the working poor.

Mr. YOUNG. That is right.

Representative CONABLE. And is this not a major step forward in the whole concept of public assistance?

Mr. YOUNG. Mrs. Newman, would you address yourself to this?

Representative CONABLE. Let me say I had the pleasure of sitting next to Dr. Newman on a plane recently and enjoyed our conversation very much.

Mrs. NEWMAN. Mr. Conable, on the matter of the working poor, one of the problems that we see in the Act is the fact that the supplements to the States are not being supported by the Federal Government. The supplements even in the recently announced revision of the FAP will exclude not only the working poor male parent but also the unemployed parent. Including the unemployed parent was a real step forward in earlier administration of welfare. So, in effect, the Federal Government is not supporting the working poor except in the 8 States which do not supplement the Federal guarantee.

Representative CONABLE. Well, is the 30 percent contribution left out of the revision?

Mrs. NEWMAN. Yes. Both for the unemployed parent and the working parent.

Representative CONABLE. Is anything substituted for it?

Mrs. NEWMAN. No.

Representative CONABLE. The State has to pay the entire supplementation in the revised plan?

Mrs. NEWMAN. Yes.

Representative CONABLE. Is there some reason for this? Is it because of the increased cost of the revisions?

Mrs. NEWMAN. It is because it reduces the amount of money that would be required, as I read it, according at least to the statements in the recent press conference.

Representative CONABLE. What does the Urban League anticipate will be the course of this legislation in the Senate? Do you have any prediction?

Mr. YOUNG. Frankly, I am afraid that this legislation is going to have tough sledding and you will have a curious marriage that will be working against it of the extreme right and extreme left.

Representative CONABLE. What is the alternative, sir?

Mr. YOUNG. For the intelligent majority in the middle to go ahead and pass it.

Representative CONABLE. But I mean, I wonder how we can avoid this kind of marriage on this type of legislation. This is a real problem in tactics that we had in the House, of course.

Mr. YOUNG. Leadership—

Representative CONABLE. You understand our problems on this.

Mr. YOUNG. Yes, I do.

Representative CONABLE. And in balance you still think it is a step forward.

Mr. YOUNG. Yes. I would also say that the recent allocation of funds for assisting schools to achieve integration was a step forward. I am a little bit concerned about who is going to implement it. I want to be sure who is going to have the responsibility for carrying it out but I thought that recent action on the part of the President was a step forward without getting into all this business of busing and other red herrings.

Representative CONABLE. In the final analysis it is going to be performance. Performance is going to be the basis on which you judge the Nixon administration and not the rhetoric; is it not?

Mr. YOUNG. Up to now nothing has been worse than the gap between rhetoric and performance.

Representative CONABLE. I notice your comments about how you say there is a difference in tone relative to Mr. Nixon putting first the integrity and purchasing power of the dollar. Inflation is a problem for everyone but inflation is more a problem for the poor than for those who own property.

Mr. YOUNG. I would not agree with his method of handling the problem. It should not come out of the backs of the poor. I do not think it should increase unemployment. I do not think anybody would institute that type of policy if they themselves were going to be the victims.

Representative CONABLE. What kind of policy do you think we should have?

Mr. YOUNG. Wage and price controls. I thought we should have had it long before. This is not a peaceful operation. This is a war. We are spending at that rate.

Representative CONABLE. Once again we run into some serious problems. Does Leonard Woodcock agree with you at this point?

Mr. YOUNG. I understand George Meany has even come out for wage and price controls. I do not know what Mr. Woodcock thinks on this issue.

Representative CONABLE. Before the UAW contract settlement?

Mr. YOUNG. I have no idea what his position would be.

Representative CONABLE. Well, I do. I think this points out the problem of wage and price controls. There has to be a sufficient flexibility built into it so that there is bound to be a good deal of political maneuvering within the framework of wage and price controls. Also, there is always this serious problem of what it does to the dynamics of an economy which has to provide a staggering number of new jobs every year just to place the new people coming into the job market, the people that we hope are going to be coming into the job market as a result of our efforts at manpower training, et cetera, in connection not just with the welfare reform movement but in connection with all the more traditional manpower training programs that we have.

Mr. YOUNG. I would certainly move this way before I would introduce credit controls. I think we are coming to wage and price guidelines at least. I think we are already in a jawboning phase. They call it an educational program. I think we are going to have to move this way. We do not have much choice.

Representative CONABLE. But is it not true that generally inflation hits the poor to a much greater degree than it does those people who own property?

Mr. YOUNG. It does not hit them as hard as unemployment. That is what the poor man is faced with now. Indications are that in the central cities of the country, the unemployment rate of young blacks could be close to 35 percent at the present time, and adults in places like Watts and others are up substantially, perhaps as much as 20 to 25 percent at this moment.

Representative CONABLE. Is it not true, though, that there has been an improvement in this area despite the increased unemployment among the more highly skilled whites?

Mr. YOUNG. Yes. There has been a slight improvement. I mean, it is less bad, but it is still bad and it is like a man who has a 105-degree temperature. If he has got 104 he is still a pretty sick man.

Representative CONABLE. Thank you, sir. I hope that we will not be trapped in the roller coaster of aspiration and disillusionment that John Gardner talks about by insisting on rhetoric as a substitute for performance and I do think that it is important that all elements in the country be addressed by the rhetoric of any administration and not simply those elements who may be the more politically sensitive.

Chairman PROXMIRE. Thank you very, very much, Mr. Young and Dr. Newman. We very much appreciate your testimony. It was most helpful.

Mr. YOUNG. Thank you, Senator.

Chairman PROXMIRE. Next we will hear from a panel of experts in the fields of science, engineering, and economics.

Dr. Ralph E. Lapp is a physicist and author of many articles and books. He has served as Scientific Adviser in the War Department, was the Executive Director for the Atomic Energy Research and Development Board in the Department of Defense from 1948 to 1949, and has also served as an adviser for the Navy Department.

Dr. Seymour Melman is a professor in the Department of Industrial Engineering at Columbia University and has also authored numerous articles and books.

Dr. Bernard Udis is a professor in the Department of Economics at the University of Colorado and has specialized in the economic impact of reduced military expenditures.

Gentlemen, I want to apologize for the late hour. I am sure you understand the difficulty we have of two distinguished witnesses who have appeared previously. They did a fine job.

We notice, Mr. Udis, you have an extremely substantial and very fine prepared statement and the other gentlemen have excellent prepared statements, too. The entire prepared statements will be printed in full in the record and we would appreciate it to the extent you think you can do it, if you would highlight or summarize your statements and then we will begin with our questions.

Dr. Lapp?

STATEMENT OF RALPH E. LAPP, AUTHOR AND CONSULTANT

Mr. LAPP. Thank you very much. I appreciate the opportunity to speak this morning on priorities in science and technology and I think the backdrop of the two previous witnesses will bring strange contrasts to some of the things about which I am going to speak.

My prepared statement comes in three parts. The first has to do with research and development priorities—how we spend the R. & D. dollars? The second has to do with the U.S. space program and specifically the space shuttle program that is now proposed. And third, some remarks on energy in the course of energy utilization in the 20th century.

I will summarize the first section in almost one sentence by saying that the bulk of the R. & D. dollar is spent exclusively in the area of atomic, space and defense to the extent of around 86 percent for the past 10 years, meaning that you have only 14 percent left over.

Now, as an example of the way in which funds are being used and will be used, I would like to pick out the space program and show that there were some rather outlandish projections made last year for the future of the space program. Specifically, the Space Task Group appointed by President Nixon in February reported out in September a three-option program. By picking off the data from the curves presented in this report, I find that the first option, for the next ten years, would be \$74.3 billion, option 2, \$53.6 billion, and option 3, \$50.2 billion, to which one has an additional and parallel set of military options ranging from \$32 billion to \$20 billion, leading to a maximum expenditure in space activity of \$106 billion to a lowest option of \$70.7 billion.

Chairman PROXMIRE. Could I just interrupt to ask, you are now talking about the manned space exploration?

Mr. LAPP. I am talking about the total space program, both military and civilian.

Chairman PROXMIRE. Do all these options include manned space exploration?

Mr. LAPP. Yes, they do.

Chairman PROXMIRE. Both the first and second sections of these?

Mr. LAPP. Yes, they do.

Chairman PROXMIRE. All right.

Mr. LAPP. Specifically, the big program that is involved here, and especially the new program, is the space shuttle which is costed at \$6.8 billion and a space station which is priced out at \$5.1 billion for a total of \$11.9 billion with no allowance for cost overruns or escalation. I estimate that the shuttle itself would escalate to \$10 billion before it operates successfully later than 1978, which is the present estimate and that the space station would increase to \$7 billion. In fact, this whole space shuttle program would be a transportation system to nowhere if you did not have somewhere to go and, therefore, if you are talking about the whole program you have to talk about the station to which the astronauts would commute. So, if you talk about the cost of the manned space program you have got to include the total package.

Now, here I have listed what I believe are the actual costs we are going to have. The main rationale of the space shuttle program is to produce a reusable space craft which is a booster of some four million pounds thrust which then has a returnable to earth feature and sends into orbit a 12-man, 50,000 pound cargo shuttle.

I might mention here, I might interpolate, that the cargo characteristics, the cargo bays of this space shuttle are determined by military requirements even though this shuttle system is entirely NASA funded. The history of the whole more or less shuttle program goes back to Dinosaur. In fact, you might call the space shuttle Dinosaur 3 because Dinosaur 1 was the one on which they spent half a billion dollars and then the manned orbiting laboratory which was Dinosaur 2, they spent \$1.495 billion before it was cancelled last June.

I suspect that a deal was made because the Air Force made very little criticism, did not complain very much about having the manned orbiting laboratory program cancelled, and I strongly suspect a deal was made that they would get a piece of the action in the space shuttle. At least, the characteristics of the space shuttle are being determined by the military even though it is being funded by NASA.

NASA makes the main pitch for its space shuttle program on the basis it will reduce the cost of transporting a pound of something from earth to orbit, a low earth orbit. Now, this price is presently put at \$1,000 per pound and the argument is made it can be reduced to under \$100 per pound. Well, first of all, I cannot find in all the hearings of the House and Senate Space Committees, any justification for the \$100 per pound except unlimited optimism of the technologists. I have given in my testimony numbers as to what I think the cost will be and mind you, I have not included the space station and to spare you the calculations, I simply come up with a minimum price of \$300 per pound but this assumes that flights will go every week for 15 years with 50,000 pounds which puts 40 million pounds in orbit. Now, we have really got the cart before the horse.

Chairman PROXMIRE. How much in orbit?

Mr. LAPP. Forty million pounds. This really puts the cart before the horse, because instead of asking what the price per pound is of going into orbit, you ought to ask what the pound is for, just what are you going to do with this, and I have not seen any justification on the basis of the thousands of hours of manned space flight we have had to prove that man is worth his weight in orbit.

His weight is very considerable, I might add. It is not just a 165 pound astronaut. The care and feeding of an astronaut requires that you have many consumables and a life support system, so you end up with several tons of space craft weight per astronaut. So, you have got to count the real cost of the astronaut when you export him from earth. Bear in mind if you take and include the space station costs, instead of \$300 per pound you will run up to \$470 per pound.

Chairman PROXMIRE. For how long a period?

Mr. LAPP. Over a 15-year period. If you have any less aggressive program than that the cost will skyrocket, but I think you now have to consider what is the value of the space shuttle in comparison to what you have presently by way of space trucking equipment. That is what we are talking about this morning, space trucking to take things from one place to another in a large amount. So, the orbital shuttle is essentially a space trucker. In this case, it would be trucking objects from several points on earth to 200 mile low orbits around the earth and I think that the present system, and they are defined in a NASA publication which I have referenced, they include Titan III, they include other NASA rockets, are presently capable of inserting high payloads into orbit. If you do not mission these frequently, you can use the existing system simply by producing more Saturn IB's and producing more Titan III's. You can mission these in the coming years before developing a new space shuttle system.

So, my advice to the Congress on this is to scuttle the shuttle and save itself some \$17 billion during the next 10 years. I find it a very outlandish, if you will pardon the expression, proposal.

Chairman PROXMIRE. You gave us a good slogan, scuttle the shuttle.

Mr. LAPP. I think slogans are important in the political arena and in the area of space science, I think we have to come down to earth. Well, now, one final thing.

Chairman PROXMIRE. That is even a better slogan.

Mr. LAPP. Well, I cannot add a third. Things are supposed to come in triads. I cannot add a third except to depart from the remarks on space with one question to be raised and it is a question to which I do not have an answer. That is that science today is in a depressed condition. We have the many universities and educational institutions finding that a researcher in organic chemistry or fundamental physics is not being funded. He cannot get money to do work at the rate of, let us say, \$30,000 a year, vital work which we believe here on earth will have a payoff. Nonetheless, we have projects in NASA, not the manned space program projects but, for example, Project Viking, which is in 1975 to be launched to orbit Mars and to send a lander down to Mars.

The cost of this project is conservatively \$1 billion. Now, \$1 billion for space science which has practically no economic value one can dream of must be contrasted with the value of research done in the laboratory here on earth at the rate of \$30,000, \$40,000 a year for support, and I think if you ask the question how much is pure knowledge worth, you then have to get into the heart of some of the support by the Government of pure science today.

I do not know how to answer this question but up to now scientists have avoided coming to grips with any priorities in science because the trough has been very large and they have been getting all they

wanted. Well, now, the level has gone down. They are not getting what they want and I think you are going to see increasing complaints about the U.S. space program from people who are working in earth-bound laboratories and not getting support.

I have detailed this in my testimony. I will now simply refer to this and relate two excerpts from a chart I have here in which I have attempted during the past 5 years to compress data about the 20th century and I put this on a series of semilogarithmic charts, two of which I presented to you. Yours happens to be colored, so it is a little more graphic, and what I have done here is to present the 20th century from the year 1900 to the year 2000 and I have plotted various data with respect to energy.

One curve shows the total energy increase in the United States and the other curve shows the electric power. If you look at the electric power you see a really skyrocketing curve. At the beginning of the century, 1900, there was an average 50 kilowatt hours of electrical energy per capita in the United States. At the end of the century if the present projections continue it will be closer to 30,000 kilowatt hours per person in the United States, giving us a fantastic increase. Actually, the total kilowatt hours increase by a factor of 2,000 over the course of a century.

You cannot have exploitation of this kind in the 20th century without making deep inroads on material resources and upon the environment itself, and it seems to me, if I may comment without going into detail on the energy mixes which I am sure your committee will be going into, if I may comment for the first two-thirds of the century we had a dig, burn, and dump philosophy with regard to generating our power. I think for the remaining third of this century we are going to have to adopt the philosophy of conserve, plan and control.

Thank you very much.

Chairman PROXMIRE. Thank you so much, Dr. Lapp.

(The prepared statement of Mr. Lapp follows:)

PREPARED STATEMENT OF RALPH E. LAPP

PRIORITIES FOR SCIENCE AND TECHNOLOGY

One way of sizing up the present priorities for science and technology is to set down federal funding for research and development. In most cases simply naming the federal agency receiving the funds defines the field of science and technology involved. For example, Table Q-1 of the Bureau of the Budget's *Special Analyses* (Fiscal Year 1971) lists the following:

FUNDS FOR BASIC AND APPLIED RESEARCH

[In millions of dollars]

	Amount	Percent
1. DOD.....	\$1,461	26.0
2. NASA.....	1,428	26.0
3. HEW.....	1,183	21.0
4. AEC.....	418	7.5
5. NSF.....	307	5.5
6. Agriculture.....	286	5.0
7. Interior.....	187	3.0
8. Others.....	304	5.0
Total.....	5,574	100

TABLE Q-2 IN THE SAME REFERENCE ITEMIZES THE FOLLOWING FUNDS FOR DEVELOPMENT

[In millions of dollars]

	Amount	Percent
1. DOD.....	\$6,134	65.0
2. NASA.....	1,903	20.0
3. AEC.....	901	10.0
4. HEW.....	140	1.5
5. Others.....	330	3.5
Total.....	9,407	100

It's clear that defense, space and atomic activities form the backbone of the government's support in science and technology, accounting for 82 percent of federal R&D funds. Over the past 10 years the federal funds for research and development total almost \$150 billion of which 86.5 percent fall in the defense-space-atomic category.

It seems to me that if Congress is to rearrange its national priorities in the area of science and technology, it should subject the defense, space and atomic R&D funds to a careful study. As an example of priority assessment in a specific field, I would like to discuss the program of the National Aeronautics and Space Administration.

Last year a Space Task Group (STG) was created by President Nixon and it reported its findings in September of 1969 in a report titled: "The Post-Apollo over the past decade, before it plunges ahead into even greater spending in this form of three optional programs (Table 2, page 22) which involve the following totals:

Fiscal years 1971-80

	Billion
Option I.....	\$74.3
Option II.....	53.6
Option III.....	50.2

In addition, Figure 5 of page 24 allows one to define the following numbers for defense space activities for the same time span:

Fiscal years 1971-80

	Billion
Option A.....	\$32.1
Option B.....	25.1
Option C.....	20.5

A combination of Options I and A adds up to a \$106.4 billion U.S. space program for the next decade. The lowest priced set of options amounts to \$70.7 billion. Even this latter combination would lead to a NASA budget of \$5.5 billion in the post-1975 period.

I would urge the Senate to take stock of the return on its investment in space over the past decade, before it plunges ahead into even reater spending in this one. The United States has appropriated \$40.5 billion for the 1962-1971 fiscal years, of which two-thirds to three-fourths of this sum went into manned space flight. If one writes off this part of the investment on a national prestige basis, it leaves unanswered the question of manned space flight in the future. No space act comparable to the lunar landing of last July is possible in this decade. A manned expedition to Mars is possible only for the 1984 and beyond period.

What then forms the basis for the STG program that will cost so much money? The answer to this question is to be found on page 25 of the Agnew report. The bulk of the new funds for NASA will go to the development of a new venture in manned space activity, namely, the space shuttle and orbital station. For the eight year period ending in fiscal year 1979 one deduces the following STG cost estimates:

	Billion
Space shuttle.....	6.8
Space station.....	5.1
Total, Shuttle-station.....	11.9

There is no allowance for cost overruns or escalation in prices, so I would estimate that the shuttle itself will run to \$10 billion before it operates successfully and the station will increase to \$7 billion.

The space shuttle will be a reusable booster-orbiter combination employing a 4 million pound thrust booster whose stages are returnable to the launch site. The orbiter will be designed to carry 12 men or a cargo of 50,000 pounds to a low earth orbit. NASA experts claim that the present \$1000 per pound figure for transporting things from earth to orbit can be reduced to under \$100 per pound by reuse of the space shuttle. In fact, the cost reduction to transporting objects from earth to orbit—a trucking operation—is cited as the principle virtue of the new space transportation system.

NASA officials merely assert that a \$100 or lower figure can be attained by use of the space shuttle. In Congressional hearings this year they provided no back-up to support their contention. There are only two ways to arrive at such a low figure. One is to completely disregard the cost of development and figure in only the production cost of shuttles. The other is to assume such multiple reuse of the shuttles that eventually the high R&D cost will be amortized sufficiently to make the \$100 per pound figure come into view.

Here is my own estimate of the trucking costs for the shuttle :

	<i>Billion</i>
Program development cost-----	\$10
Production costs added-----	1
Operations—800 missions-----	2
Total -----	13

Unit mission cost=\$12,000 million/800=\$15 million.

Per pound cost=\$15 million/50,000=\$300 per lb.¹

¹ [This assumes 800 missions over the period ending in 1993 and a full cargo load. Any variation from this schedule will send the costs up and this serves to raise the issue of using existing space tracks on less frequent missions. Unless there is a mission requirement for a 50,000 payload, it is foolish to talk of lower-per-pound costs. Furthermore, one has to have a national requirement for one-per-week missions of this high payload to justify the big shuttle.

Full utilization of the space shuttle's payload capability could involve hoisting 40 million pounds into orbit over a period of 15 years. Even if the \$100 earth-to-orbit trucking price per pound could be achieved we would have an orbital trucking bill of \$4 billion. It seems to me that someone has to make a weight-benefit analysis. This brings us to the critical question of assessing orbital applications for earth-circling devices.

Last year the U.S. National Academy of Sciences published an extensive series of studies on "Useful Applications of Earth-Oriented Satellites." These analyses show that instrumented satellites can perform many earth survey services of considerable value to the nation, but they excluded manned satellites from their studies because of the high expense of such devices. The Academy studies demonstrate that platforms in orbit can carry a variety of fully automated, miniaturized instruments of rather modest weight. No national requirement was indicated for a space shuttle for earth orbital applications.

NASA's Office of Space Science and Applications has published a report ("Launch Vehicle Estimating Factors, Jan. 1970") in which it gives the technical characteristics of a wide variety of multi-stage rockets. For example, in the heavyweight category it lists :

Saturn IB (uprated)-----	40,000 lb. orbital payload
Titan IIIC-----	23,000 lb. orbital payload

Fig. IV-A-5 of this report lists 7 booster-rocket combinations with orbital payloads in excess of 10,000 pounds. I would recommend that NASA provide up-to-date data on mission costs using such rocket combinations and that these be compared with space shuttle costs for a variety of traffic assumptions.

It is pertinent to note that man is no longer a stranger in space. The United States has accumulated thousands of astronaut-hours of space experience. One should therefore be in a position to make some positive findings about man's value in space vehicles when these are missioned for orbital applications. To date nothing that NASA has published illustrates that there is an urgent need for man in orbit. I believe that this is the conclusion of the Space Science Board of the National Academy of Sciences. It is certainly the Board's conclusion that manned space ventures of an interplanetary type are not attractive. For example, a Space Science Board task force reported in 1968 that: "We were unable to identify a need in planetary exploration, in the foreseeable future, for the unique abilities of man."

A year ago the Manned Orbiting Laboratory program of the U.S. Air Force was canceled after \$1.495 billion had been spent on the project. The U.S. Air Force announcement (Congr. Rec. June 12, 1969, page S6307) stated:

In arriving at this decision, a number of factors were considered. First, it was determined that the most essential DoD space missions could be accomplished with lower cost unmanned spacecraft. Second, the potential worth of possible future applications of the experimental equipment being developed for MOL, plus the information expected from the flights on man's utility in space for military purposes, while worthwhile, did not equate in immediate value to other DoD programs.

Obviously, the Defense Department was forced to make choices and a cost-benefit analysis and it concluded that military man-in-space was not worth his weight—or more correctly, the boost-power necessary to place and support him in orbit.

Given the Air Force conclusion on MOL for military purposes, I cannot help but conclude that NASA's space shuttle system is even less cost-effective. I do not see any conclusive evidence that NASA needs a space shuttle to carry out its future missions in space. I would therefore recommend that the Senate scuttle the shuttle this year before more money is spent on this new development.

If we eliminate the space shuttle and the space station, then the NASA budget can be trimmed to a level below \$3 billion per year throughout the rest of this decade. Such a decision will shift NASA's priorities from sensational manned space ventures to space science and its applications.

If the U.S. space program is restructured to this new pattern and the Apollo manned lunar program is allowed to run out, it should be possible to effect further economies in the NASA budget. After all, when NASA shifts to a science base, it would be desirable that the scientific community give some expression of its sense of priorities for space science with respect to the rest of science. The quest for new knowledge of the solar system must be reckoned as pure or basic or fundamental research. As such it should be related to the federal support of all other basic research.

In its *Special Analyses* for fiscal year 1968 the Bureau of the Budget detailed the following agency support of basic research:

[In millions of dollars]

	Amount	Percent of total
1. NASA.....	\$875	38
2. HEW.....	375	16
3. AEC.....	321	14
4. DOD.....	270	12
5. NSF.....	226	10
6. Other.....	113	5
7. Agriculture.....	106	5
Total.....	2,286	100

I would suggest that of all these funds the most valuable are those spent by HEW and NSF. These contribute most fruitfully to the life sciences and the truly basic sciences in the United States. A sum of \$30,000, for example, may provide essential support for a university researcher working on experiments in the main line of science, where new knowledge may contribute most significantly to enrichment of our lives.

A single space experiment such as the Viking Project to dispatch a NASA orbiter and lander to Mars in the mid-decade will cost \$1 billion. The same amount of money can support the basic investigations of tens of thousands of scientists in their earth-based laboratories. The same amount of money would fund the National Science Foundation for almost four years in its support of all basic research at hundreds of U.S. educational institutions. I submit that science priorities are non-existent or at least topsy-turvy when space activity so eclipses the funding of basic research by agencies other than NASA. It do not believe that the United States can continue to buy many more bottles of NASA's heady wine. I think we need to sober up and look at the depressed condition of U.S. science here on earth.

This particular committee does not need to be reminded that the United States is rapidly being challenged in some areas of technology by other nations. While

the United States has been busy developing monstrous apparatus of space and defense technology, Japan has been at work perfecting marketable packages of modern electronics. NASA's colossal F-1 engine for the Saturn moon rocket looks impressive on its stand at the Smithsonian Institution but it has no commercial market. It is an outstanding example of techno-giantism. It, like many of the hardware items for which U.S. research and development dollars are spent, is a far-out item in today's economy.

The U.S. Department of Defense no longer attempts to advertise its R&D activities as contributing to the national economy in terms of useful products. NASA, however, has trumpeted "technological spin-off" or "fall-out" i.e. benefits deriving from the space program. To be sure, I think there have been some economic benefits. To my mind no government agency is ingenious enough to be able to spend \$40 billion in ten years without producing something of benefit. But I believe NASA has greatly exaggerated the extent of the technological fall-out; it's more of a drip-out. I would suggest that the subcommittee might wish to pursue this point and inquire into dollar benefits of the NASA products.

Returning to the topic of science priorities, I believe that the Congress should force the National Academy of Sciences to come to grips with this issue. The Academy has made many detailed studies of the various fields of science, but it has signally failed to make any coherent recommendations on science priorities. Individual Boards, Panels and Committees within the Academy structure make specific recommendations in special fields, but the Academy has not aided the Congress by giving it a set of recommendations for the funding of the various fields of science.

Although the following remarks may be more pertinent to the subcommittee's energy hearings at the end of the month, I would like to append some data on U.S. energy consumption because I believe the United States badly needs to establish a national energy policy and to promote certain research and development activities in order to implement the prudent exploitation of U.S. energy resources.

Over the course of the past five years I have plotted various aspects of the 20th century's technology on a series of semi-logarithmic graphs. I have redrawn some of the curves on the two graphs in appendix I and II. Appendix I illustrates the growth of U.S. electric energy production since 1900. At the turn of the century only a few percent of U.S. homes were wired for electricity; this was the gas-lit era. A projection of U.S. electric energy consumption to the year 2000 shows a more than 2000-fold growth in kilowatt-hours over the course of the century. Since the population will probably quadruple, this represents a 500-fold per capita increase.

The changing pattern of fuels to provide U.S. electricity is reflected in the bending over of the four curves corresponding to coal, oil-gas and uranium. The fuel curves are smoothed out and do not reflect annual values; in addition, the fuel data are for utility consumption and thus the total, which includes non-utility power, is somewhat more than the sum of the component curves.

If we look at the fuel curves, we see that coal has been the dominant source of electric power and will continue to be so until about 1982 when nuclear power will overtake it. By the year 2000 uranium will supply about 45% of all U.S. electric power, whereas coal will supply only 13% of the power then. Water power, a major electric energy source in the first half of the century will become less important, dropping off to a mere 5% by the end of the century. Petroleum and natural gas, least important in the first 50 years, will compete with uranium as the dominant power source in the post-1975 period.

Since electric power is most efficiently produced in single plants of high capacity, now going above 1,000,000 kw, the tendency will be to proliferate even larger powerplants of double and triple this capacity. This trend to accentuate the concentration of pollution hazards and in the case of nuclear powerplants, it brings the thermal pollution hazard into sharp focus. Over the course of the century the fuel mix for generating electricity will undergo profound changes with coal-steam and hydroplants playing a minor role by the year 2000.

If we examine the graph showing the U.S. total energy consumption, the first thing that is evident is that the rate of growth is much more sluggish than that for electric energy. Over the course of the century the increase is almost 30-fold, depending on the choice of curve, A or B. Total energy (B) corresponds to an estimate made by a number of current projects. Coal, which accounted for 82 percent of U.S. energy in 1900 will contribute between 10 and 15% in the year 2000. Both petroleum and natural gas exhibit a spectacular growth, with petroleum displacing coal as the prime energy source at mid-century.

I think that examination of these growth curves must take into account such factors as (a) pollution (b) resources (c) plant siting (d) energy-distribution (e) fuel transportation and, of course, economics. Research and development may play a very large role in the evolution of national energy policy as is evident from the emergence of nuclear power in the 1970s, resulting as it does from research in the preceding quarter century. An entirely new element, hydrogen (together with lithium) offers the possibility of fusion power. For example, the heavy hydrogen in one cubic foot of ordinary water could release energy equal to 1,600 gallons of petroleum. The development of fusion power would open up a virtually unlimited energy resource, but the feasibility of light element energy has yet to be established.

A prudent national energy policy would, I believe, attach a high priority to converting coal into a gaseous fuel. I would also think that the requirements of public safety and concern for thermal pollution should make it necessary to develop cheap methods of long lines distribution of energy.

In conclusion, I would list the following recommendations:

1. That the Congress recognize a severe imbalance in the funding of research and development and that it set a national goal of establishing a rational set of priorities for American science and technology.

2. That a beginning be made toward this end by avoiding excessive expenditures of federal funds for projects of dubious value or of little promise in terms of economic pay-off. The NASA-funded space shuttle project is an example of such a project.

3. That the U.S. National Academy of Sciences be requested to provide the Congress with recommendations for a rational and balanced funding of the various fields of science.

4. That the U.S. National Academy of Engineering be requested to make an analysis of the economic benefits of the present federal program of development and engineering.

5. That the Subcommittee on Economy in Government authorize a staff study of the productivity of science and engineering in countries like Japan and Germany.

6. That the Congress consider reorganization of agencies of the Federal Government concerned with basic research and bring them under the administrative control of a single Department of Science.

7. That the Congress recognize the urgent need for establishing long term energy goals for the United States and establish a national energy policy consistent with the requirements demanded by these goals.

8. That research and development be intensified to assure that the long term energy requirements of the United States can be met. Energy technology should provide for the protection of the environment in the year 2000 and thereafter.

9. That facilities and manpower of the U.S. Atomic Energy Commission be more fully utilized in solving the problems of pollution and in meeting the U.S. energy requirements of the future. In this connection, it might be prudent policy to reorganize the AEC and convert it into a National Energy Commission, giving it a broader mission than that of exploiting atomic energy.

10. That NASA facilities suitable for energy research and development be transferred to the new National Energy Commission, if it is established.

Chairman PROXMIRE. The next witness is Dr. Melman. Go ahead, Doctor.

STATEMENT OF SEYMOUR MELMAN, PROFESSOR OF INDUSTRIAL ENGINEERING, COLUMBIA UNIVERSITY

Mr. MELMAN. Every serious approach to the national priorities problem with a view to restructuring and improving the way we use public responsibility money requires that we cope with the question of "post-war planning." Unlike the Second World War, the quarter-century of cold war includes no understood theory or built-in mechanism for the termination of the cold war. Nevertheless, that

U.S. Total Energy 1900-2000
 Measured in heat equivalent,
 Btu.

Summary of U.S. Energy Sources 1969

Petroleum	43.2 percent
Natural Gas	32.1
Coal	20.5
Hydropower	4.0
Uranium	0.2

100 Quadrillion Btu
 British Thermal Units

10 Quad. Btu

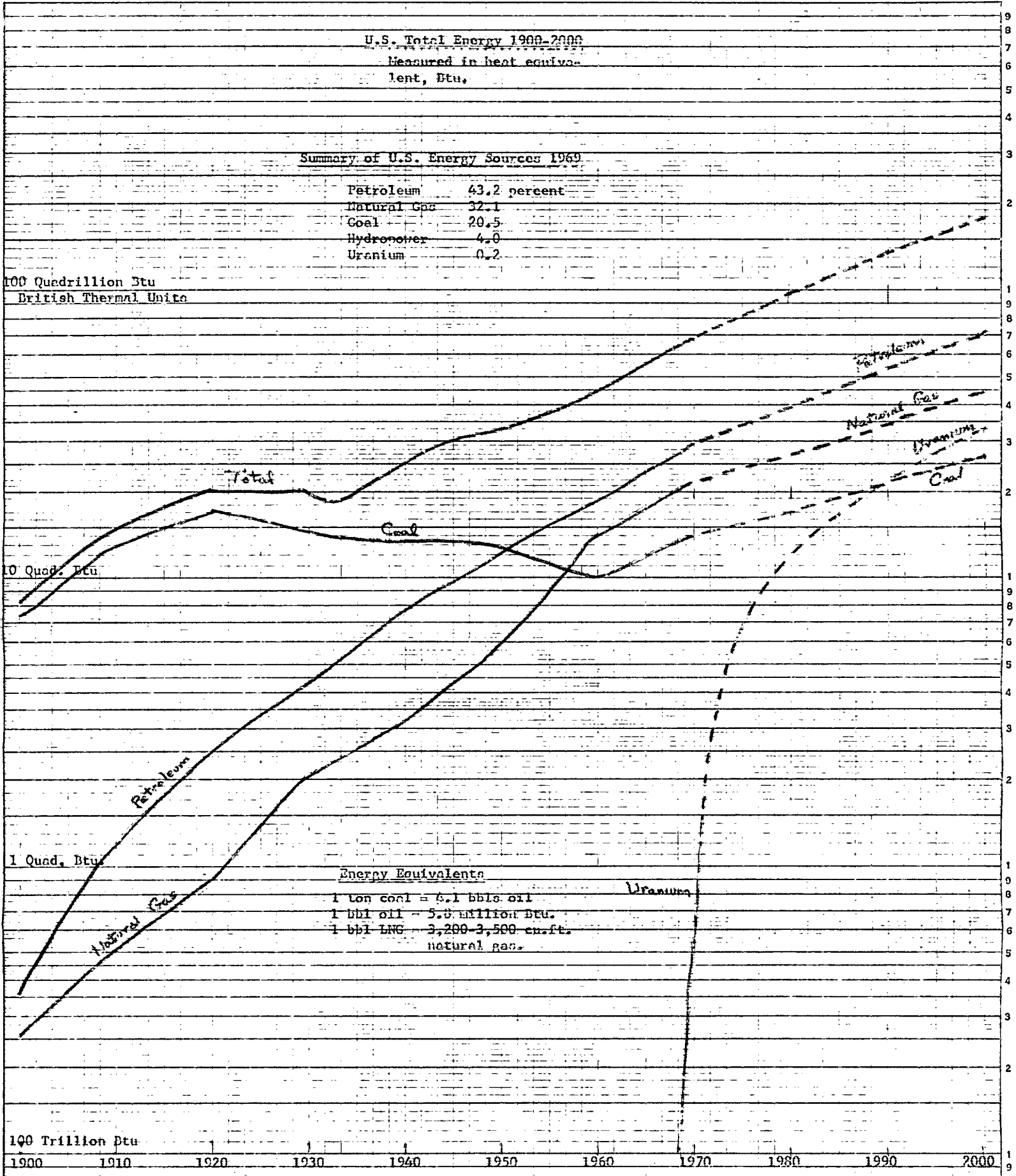
1 Quad. Btu

100 Trillion Btu

1900 1910 1920 1930 1940 1950 1960 1970 1980 1990 2000

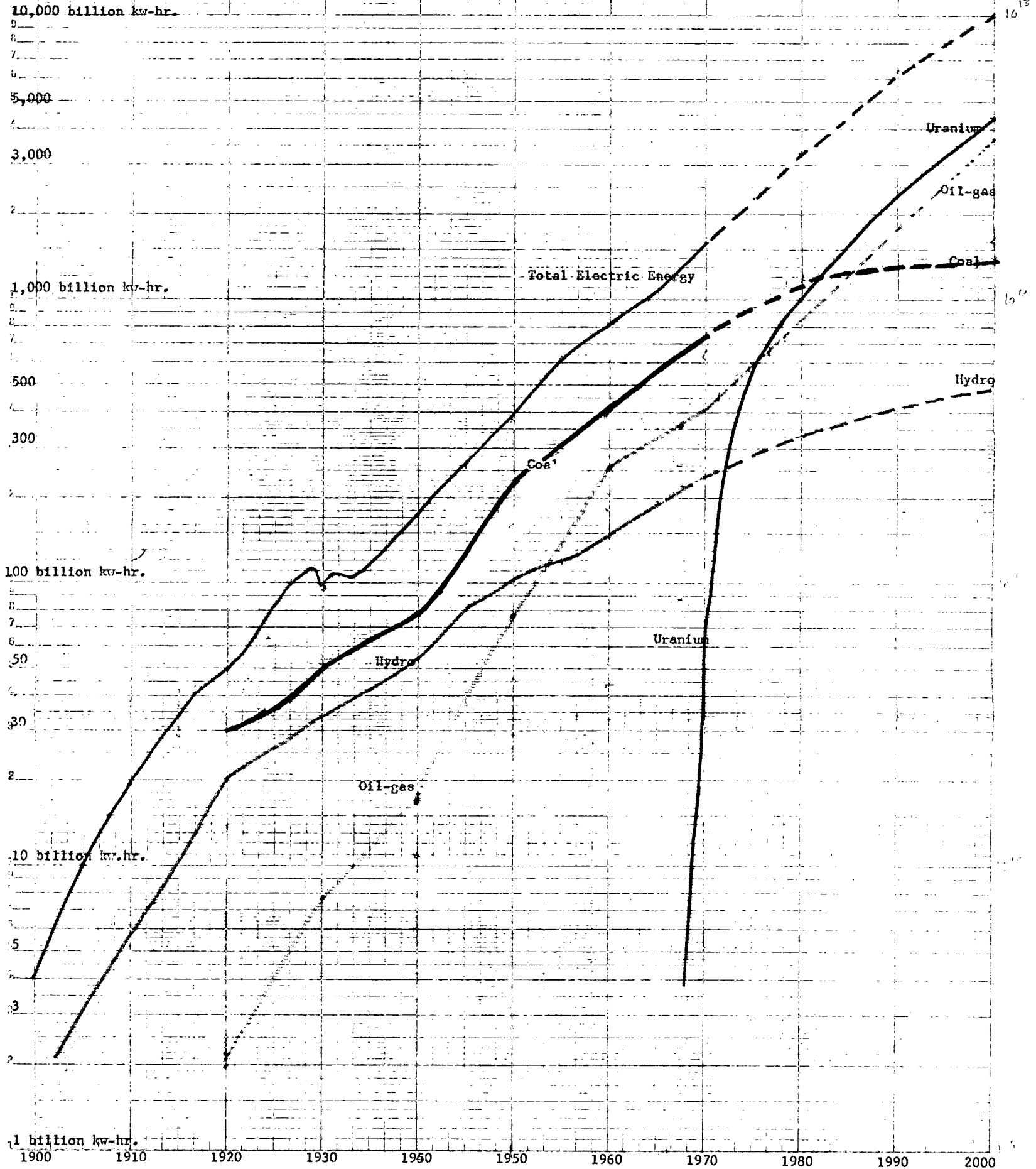
Energy Equivalents

- 1 ton coal = 5.1 bbls. oil
- 1 bbl oil = 5.8 million Btu.
- 1 bbl LNG = 3,200-3,500 cu.ft. natural gas.



Electric Power Production-U.S.A. 1900--2000

Electric energy use rises more than 2,000 fold in the course of the century--or roughly 500-fold per capita.
 Generating efficiency increases 10-fold in the century, increasing from a value of 7 lbs of coal per kw-hr to a value of 1 kw-hr per 0.62 lbs of coal by the year 2000.
 Projection for coal is that for its use as a solid mined fuel. Projection for oil-gas may include coal-derived gas.



is an important aspect of the long conflict in which this country has been involved. The learned testimony given before this committee supports the proposition that only if there is a serious change in the present priority given to military and allied expenditures will it be possible to make significant productive investments that improve the quality of life for all in this country.

Therefore, I wish to focus on the preconditions for a "post-war" and the requirements of "planning." Finally, I wish to identify certain actions that may be taken by the Congress of a productive sort for post-war planning.

American initiatives for a post-war, apart from international agreements, critically a basic revision in military security policies for the United States. Since about 1961 this country has built and operated military forces designed to conduct three military operations at once, a war in Europe, presumably nuclear, a war in Southeast Asia, and a lesser military engagement in Latin America. For these military security goals the Armed Forces were enlarged from 2.4 million men to $3\frac{1}{2}$ million men, the Department of Defense budget was run up from \$45 billion in 1960 to \$80 billion, plus, a year ago. These are the goals in terms of which an open ended requirement is imposed on weaponry and forces.

The openendedness derives from the fact that there is no available science or technology from which to specify superior military power, either in nuclear war or in a guerrilla-type war, as in Indochina. So long as military security policy requires superiority in weaponry and forces for multiple wars then there is a built-in pressure to define new types of technology which hopefully, though not yet predictably, might break the barriers to the achievement of a defense shield that stem basically from the overwhelming offensive advantages from nuclear weapons. The quality of openendedness and its consequences are illustrated by the plans for an ABM system.

A heavy ABM system would cost about \$50 billion, we are told. Knowing that characteristically, large weapons systems cost about three times their initial estimate, prudence suggests that going through an ABM system development would mean a basic system cost of about \$150 billion. Such a system would generate collateral pressures to install a fallout shelter system and that would cost, for a nation of 200 million people (allowing for no cost overruns) a sum of \$500 billion. Hence, going into a growing ABM system predictably involves the Nation in an outlay of \$650 billion. If such work were done in a period of say, 5 years, that would require an increase in Federal taxation of approximately \$130 billion a year. Obviously, the burden on resources of every kind to such an endeavor would cut short any possibility of reordering national priorities for productive use.

A second requirement for a postwar, is a reduction of armed forces commensurate with revised military security goals. Instead of three wars at once as a military security goal, it is plausible to define three main military security goals for the United States: operation of a nuclear deterrence force until there is international nuclear disarmament; the operation of a force competent to guard the shores of the United States; and third, operation of a force to participate with other nations in international peacekeeping.

A force competent to perform these these military security functions would require 1-1.5 million uniformed men, clearly a major reduc-

tion from the present three-wars-at-once force of 3½ million men.

A defense budget of about \$25 billion would support a force of 1-1.5 million men. This enables a reduction in the order of magnitude of \$50 billion from present DOD budgets.

A fourth precondition for a postwar for American society is recognition by the Congress and the Nation that the economic, technical, and moral consequences of a sustained and open-ended arms race produced depletion in American life of such intensity as to make the very viability of the society problematic.

In the absence of economic opportunities that would be given by productive investment, the Nation is in grave danger of being on collision course between the races. How is one to expect men in existing occupations in the working class, in the middle class, to regard the upward mobility pressure of economically deprived Americans, when the attainment of that mobility means sharp competition for a limited number of new jobs for displacement of persons holding existing jobs?

There is an alternative to this grim prospect and that is a growing "economic pie." The growth that would come from productive investment would enlarge economic opportunity for all, with expanding job opportunities so all would gain something and no one's gain need be at the expense of another person's loss.

A further aspect of these comments concerns essential conditions for the planning elements of postwar planning. The first requirement is that the Congress redefine its responsibility in certain areas of its traditional concern.

Thus, in connection with functions like the operation of post offices, water supply, and public education, a new responsibility should include significant improvement of the quality of performance in each of the sub-spheres.

A second requirement is the acceptance of responsibility by the Congress for performance in new areas of public life. This should include, critically, provision of central power, an adequate communications system and an adequate transportation system. One way to highlight the meaning of this recommendation is to note that economists generally understand that one of the hallmarks of an underdeveloped country is the absence of a competent infrastructure, where that means competent communication, transportation and central power supply.

Mr. Chairman, in New York City in August, 1969, there was, at once, failure in these three aspects of industrial life. Hence there appeared in New York City a year ago the conditions known everywhere in the world as economic underdevelopment. The Congress should take explicit responsibility for improving the quality of performance in these basic functions of an industrial society.

A third precondition for planning is the definition of division of responsibility among Federal, State and local governments, and this includes, critically, agreement as to the limit of feasibility or desirability of centralized controls by the Federal Government. There is no a priori reason why governments of States or of localities cannot be effective bodies for either regulation or productive initiatives in relevant areas of economic planning. At the same time, there are strong theoretical and pragmatic grounds for defining real limits of feasi-

bility for planning the economic life of 200 million people from one center.

A fourth requirement for competent planning is the abandonment of the ideology that public money and public decisionpower may be properly used without stint in the name of defense while public responsibility for productive economic investment is regarded as socialism. A more balanced view is indicated.

The fact is that the military establishment has come to include some of the most deplorable characteristics of state-capitalist control, while various areas of public responsibility initiative, such as the Tennessee Valley Authority, the operation of national parks, and the operation of the GI bill of rights, are outstanding examples of productive investment in the public interest.

Finally, Mr. Chairman, may I outline a number of steps by which the Congress may take important initiative in putting the country on the road to meaningful postwar planning in order to implement substantial change in national priorities.

First, the committees of the Congress can conduct hearings that would define new markets and new jobs for Americans in a post-cold-war period. Such hearings could draw together blueprints in hand in various Government agencies, and among various committees of the Congress. These hearings would define both the nature of new investments and their job effects.

Second, the Congress should implement legislation for establishing a National Economic Conversion Commission as in Senate bill 1285. The meaning of these proposals is indicated estimates of the effects from a major turn to productive priorities.

In 1965 I calculated an agenda of postwar productive investments. These amounted to \$70 billion of fresh annual productive outlays generating 7 to 9 million new jobs.

Chairman PROXMIRE. Could I ask you, Dr. Melman, if you could get some excerpts from any of your books relating to these productive outlays of \$70 billion and provide them for the committee so they can be included in the record?

Mr. MELMAN. I shall do that, Mr. Chairman.

(The following information was subsequently supplied for the record by Mr. Melman:)

[Excerpt of chapter 10 entitled "Our Depleted Society" from book entitled "New Markets and New Jobs for Americans," by Seymour Melman, Dell Books, 1965.]

In the next pages I give the size of some of the major markets and new areas of job opportunities that could open for Americans when we decide to put the brakes on spending that depletes our country and our lives, and to encourage, instead, productive investments of every sort. These productive investments can be undertaken by individuals, by firms, by corporations, by towns and counties, by state and Federal governments. For example, the initiative for new jobs and markets in water supply is generally accepted as the responsibility of government—local, state, and Federal. In the case of housing, on the other hand, American practice has emphasized private investment. However, it is now appreciated that for millions of Americans, there will be no opportunity for living in decent housing until the community, using the instrument of government, helps to make this possible.

NEW MARKETS, NEW JOBS

Housing: An informed estimate by Federal housing experts counts 9,225,000 substandard housing units in the United States as of 1963-64. It is hoped that the private sector will renew or replace 2,225,000 of the present substandard units over the next 5 years. This leaves 7 million housing units, each "unit" a family

dwelling, to be replaced by the initiative of the community. Of these 7 million units, 4 million could be upgraded at an average cost of \$3,000 per unit. The \$12 billion required for this purpose, spent over 5 years, would lead to an expenditure of \$2.4 billion per year. The remaining 3 million housing units would have to be replaced completely. Assuming that this could be done at an average cost of \$10,000 per unit, the total expenditure of \$30 billion would amount to \$6 billion per year over 5 years. By this reckoning the total outlay needed to improve or replace present substandard housing would be \$8.4 billion per year. On the assumption that this much money would have to be used to buy all sorts of production services to get the work done, \$8.4 billion per year would generate the annual employment of 950,000 men at an average rate of cost of \$8,000 per man year.

Health Care: From 1950 to 1963, physicians in practice in the United States dropped from 109 doctors per 100,000 population in 1950 to 97 per 100,000 in 1963. The availability of physicians per 100,000 of the population varied considerably. In the state of California, one of the states best served with physicians in practice, there were 128 physicians per 100,000 population in 1963. The nation's requirement for new physicians in practice can be plausibly based on the following: Estimated growth in the population up to 1975; the desirability of bringing the national average at least up to the California level; producing enough trained medical men to staff medical schools and research laboratories; and finally, it would be highly desirable for many reasons if the United States were to produce a modest surplus of medical men who would be available to extend medical education and medical services to the one half of the human race that has very little of them.

To achieve these goals, the United States will have to build up medical education to a level of 200 physicians for every 100,000 of its population. This rate of medical training would allow for the usual number changing their career plans, an adequate number for research and teaching purposes, and a number sufficient to raise the U.S. level to the 1963 California standard. It would also provide a certain number to work abroad. Currently our medical schools graduate 7,700 physicians each year. The new requirement, taking into account the expected growth in population, is about 22,000 physicians graduating each year. Preparation must be made for graduating about 15,000 additional physicians per year.

The cost of training a medical student is about \$3,000 per year. Direct costs for training and additional student body of 60,000 medical students (to get 15,000 added graduates per year) would require an annual outlay of \$180 million. The increased number of students would require the construction of about 150 new medical schools at an estimated average capital investment of \$15 million per school, or a total outlay of \$2,250,000,000. Because new buildings and new equipment can be produced far more rapidly than the teaching and related staffs required to staff them, it should be assumed that a program to increase the number of medical schools needs at least 10 years of effort. On this assumption, the capital outlay would be about \$225 million per year for new construction of medical schools. Again, reckoning the man-years involved for this work at \$8,000 per man-year, the new medical construction program would involve 280,000 man-years of work each year for the duration of the program.

Education: Public schools, secondary schools, and colleges of the United States currently educate 44 million students. The operation of these institutions in 1964 cost the people of the United States \$26.8 billion, i.e., 4.3% of the value of all goods and services produced in the United States during 1964. For all that, this is a modest sum, amounting, for the elementary and high schools, to an annual expense of about \$455 per student.

In order to do an acceptable job of training our young, and to make educational opportunities available to as many adults as desire them, our educational systems are badly in need of major beefing up.

During the last decade, the true cost of cheap education has begun to come to our attention in vivid fashion. We know that there is human damage caused by segregated or inadequate facilities, by understaffing and other skimping and deprivations. There is no assurance that it is possible to make up for such experience once endured for a sustained period. Nevertheless, we owe it to our children to make an effort, with a program of remedial education, to make up for some of the deprivation. Allowing for the extent of segregated and grossly inadequate educational facilities, I estimate that a remedial education program will require an annual outlay of \$2 to \$4 billion over a five-year period. This includes all teaching staff and materials required.

Improving the educational system as a whole is essential if we are to provide education of a reasonably good quality for all the youth of our nation. A first step in this direction should be an increase in the salary of teachers by 50%. In 1964, the average annual salary of classroom teachers in primary and secondary public schools was \$5,963. Whatever else may be said about it, this is not a salary level that will attract hundreds of thousands of higher-caliber men and women to careers in teaching. By way of contrast: Early in January, 1965, the Atomic Energy Commission announced a program of one-year internship for college graduates. The salary offered to men with a master's degree in engineering or science was \$7,950 to start and as much as \$8,935 by the end of the first year. It is perfectly clear that we have no trouble attracting able people to activities that have financial priority. We now have to give such priority to our educational system. An increase of 50% in instructional salaries will cost, over a 5-year period, \$17.85 billion.

The construction of new classrooms urgently needed to replace outmoded equipment and to be ready for a growing school population will require \$20.36 billion over 5 years. At the same time, it is prudent to provide for improvement in the art and science of teaching, including the training of teachers and research in educational methods. I estimate that this would cost, over a 5-year period, \$3.49 billion.

Finally, colleges and universities urgently need funds to build up teaching staffs and expand laboratories, allied teaching facilities, and dormitory space. The universities must be relieved of pressures to look for scraps from the Defense Department table to meet their needs. Over a 5-year period the universities will require \$14 billion.

These 5-year programs of improvement of the educational system will require \$55.8 billion, an annual outlay averaging \$11.16 billion.

A third category of new education effort is required in job training and retraining. Here the purpose must be to provide for the nation's working population the skills necessary for their continued employment, and thereby the continued productive growth and prosperity of the nation. To begin, it is important to provide a high-school diploma for 2,500,000 among the unemployed. This will cost us in facilities, teachers' salaries, and the like, \$1.25 billion over 5 years. In parallel, we should provide job training for 4 billion of the unemployed, many of them unemployable because of a deficit in their work capabilities. The job-training aspect of education improvement would cost us \$5.25 billion over 5 years.

Altogether, the 5-year programs for bringing our education system up to a reasonable standard will cost between \$14.2 and \$16.2 billion per year. Assuming an annual outlay of \$14 billion per year, at an average man-year cost of \$8,000, the new educational effort will generate directly 1,750,000 jobs.

The total education program outlined above is by no means a complete tally of our requirement. In 1963, 83,200 teachers in the elementary and secondary schools of the United States had substandard credentials, and 1.5 million students in the elementary and secondary schools were taught in grossly overcrowded conditions. In October, 1964, for example, the Board of Education of the City of New York devised a 5-year "crash program" to provide quality education for all the children in America's largest city. The Board estimated the total cost of the program at \$8.1 billion over a 5-year period. Of this amount it proposed that \$4.7 billion come from the city budget, \$1.9 billion from the state, and \$1.5 billion from the Federal Government. The program called for the construction of 300 new schools to eliminate overcrowding, short-time class sessions, and obsolete facilities, and for the expansion for school programs in accordance with modern standards.

The programs for improvement in education outlined here are not based upon "gold-plated" conditions. Rather, the idea has been to reach a reasonable standard of educational competence that will wipe out the block of massive functional illiteracy in our country and give our children the opportunity, which they can only get through education, to find their personal fulfillment to the limits of their capability in a productive society.

A fourth and final category of education is nursery schools. Educators and psychologists have come to place great value on nursery schools, which care for children 3 to 6 years old. Of the 12.3 million children aged 3 to 6 in America today, 2.1 million are now accommodated in public school (mainly 5-year-olds). This leaves a 1963 nursery-school population potential of 10.2 million. Nursery schools are good for the children and good for their parents.

For the 3-year-olds, a pupil-teacher ratio of 7 to 1 is desired. For the 4-year-olds, 10 to 1, and for the 5-year-olds, there may be 18 pupils to each teacher. For each

class group of the 3- and 4-year-olds an assistant is needed for the teacher. The assistant should be an adult who has a good feeling for taking care of small children. That is the main formal requirement for this job.

The establishment of nursery schools in the United States would require 600,900 teachers at an estimated salary of \$7,000 per year, and 498,000 teacher's assistants at \$5,000 per year, a full-salary load cost of \$6.7 billion per year. In order to accommodate this work, 568,000 classrooms would have to be constructed, and equipped at a total capital outlay of \$14.2 billion. Buses would have to be provided to bring these young children to and from their schools. This would require an outlay of about \$1 billion. If this construction were carried out over a 5-year period, the average annual construction cost during the first 5-year period would be \$3.04 billion.

The jobs that would be generated by the nursery-school market would include 1,098,900 teaching and teaching assistant jobs and 380,000 additional man-years for each year of the 5-year buildup period, assuming an average annual man-year cost of \$8,000.

Clean Water: Drinking water of acceptable purity is absolutely essential for the maintenance of life, and we are running short of water in the United States. In December, 1964, Dr. Hollis S. Ingraham, Commissioner of Health for New York State, warned that the water shortage being experienced during the winter of 1964-65 will become a normal condition by 1985 owing to the growth of population and the increased demand for water by industry. The total available water supply is being severely diminished in New York State because of years of unrestrained pollution of lakes, streams, and rivers. Cities, large and small, and many industrial plants have proceeded on the assumption that their increment of waste to the total water supply was sufficiently small to make little difference. Over the years, the growth of population, and the size and diversity of industrial activity, have resulted in an emission of waste that now blights a substantial part of the natural waterways of the State of New York. On the basis of a close analysis of the sources of pollution and the requirements for municipal and industrial sewage-control plants, Governor Rockefeller has proposed a \$1.7 billion program of capital outlay extending over 5 years to halt the pollution of waterways from 2,100 identified sources. These sources include 1,167 communities throwing poorly treated and even raw sewage into the state's waterways.

The condition in New York State is not unique; the same sorts of causal factors are at work throughout the nation. Therefore, the New York State plan can be used as a basis for an estimate of the national requirement. The population of New York State is 9.4% of the nation. Accordingly, we may estimate that the national requirement to insure a fresh-water supply by the minimal act of curtailment of pollution of natural sources will require an investment in the order of magnitude of \$17 billion. Again, using our previous mode of reckoning of \$8,000 as the worth of an average man-year of activity required in this program a national effort to control waterways pollution would generate 425,000 man-years of work each year over a 5-year period.

Once the massive pollution of the nation's sweet-water sources has been stopped, it will be necessary to undertake a nationwide effort to expand the availability of sweet water for human and industrial uses. Mr. Terence McCarthy, consulting economist in New York City, estimates that annual capital outlays of not less than \$4 to \$5 billion per year will be required thereafter. For further development and expansion of our potable water supplies, these investments do not begin to take into account the possible large-scale use of nuclear reactors for desalting ocean water on a large scale.

Railroads: The technological and economic decline of American railroads since the Second World War is one of the grim chapters in a national depletion process. Under the impact of heavily subsidized competition from trucks, airplanes, buses, and private cars that use government-built roadways, airports, and traffic control, the railroad network of the country, long pre-eminent as a means of transportation, has been decaying.

By 1963, there were 214,500 miles of railroad routes, and the railroads represented asset values of \$25.7 billion, after allowance for depreciation. From a low point in annual capital expenditures of \$646 million in 1961, the railroads began to refurbish their equipment and roadways. By 1963, annual outlays had risen to the level of \$1 billion. This is far short of what is required to bring American railroads up to economic and technically feasible transportation standards.

It is reasonable to assume that not less than 50% of the principal equipment and roadways of American railways require replacement or majority renewal. A 5-year capital investment program with this goal would require an average

expenditure of \$2.58 billion per year. Since American railroads are investing at a rate of \$1 billion per year, the increment required to accelerate this renewal process is an added \$1.58 billion per year. With 214,500 miles of railroad routes, this total capital outlay amounts to \$12,000 per mile per year. This compares to the current outlay for maintenance per mile of about \$5,500. All this new capital outlay would mean that in 5 years there would be an average expenditure of \$60,000 per route-mile. This becomes the obvious best buy in transportation right-of-way, compared with the cost of superhighway construction, which runs at \$1 million per mile and more. The proposed increment to present capital outlays in railroads would generate a requirement for 197,000 man-years of work annually.

It is altogether possible that this desired increase in the rate of capital investment in American railroads could be generated entirely from the private market, especially if the railroads were given some form of tax incentive to accelerate this process during the desired period.

(It may occur to some readers that it doesn't seem reasonable to assume the possibility of replacing heavy equipment bought many years ago with currently produced equipment on the basis of depreciated value of the original purchase. Prices have risen so much during the last decade that there is a real gap between the original and the replacement price. While that is so, it also remains that the use of modern production techniques for manufacturing railroad equipment yields many economies. Furthermore, depreciation funds, if accumulated and compounded over a long period, have grown in magnitude as much as or more than price increases of the last decades.)

A new chapter in rail transport remains to be written. In 1964 San Francisco was the scene of a ground-breaking ceremony for a billion-dollar rapid-transit system in the Bay area. The planned 75-mile rapid-transit network will be the first new rail rapid-transit system constructed in the United States in half a century. A superhighway system with the same capacity would have cost at least five times as much to build and would have required four times as much land.

Furthermore, a simple human factor argues powerfully for extended use of railroad systems. The National Safety Council announced in January, 1965, that during the previous year 48,000 persons were killed in traffic accidents on American highways. In addition, more than 2 million persons were injured in auto accidents and the cost of damages has been estimated at about \$8 billion during 1964. A modernized rail system for short and intermediate distance will prove to be attractive to many people as an alternative to crowded roads.

Natural Resources: Stewart L. Udall, Secretary of the Interior, informed us in 1964 that a prudent Federal effort for natural resources development and conservation should amount to \$4 billion per year, over a period of ten years. This would be twice the current rate of expenditure for conservation and development of natural resources. The additional \$2 billion for development of resources would generate a quarter of a million new jobs. The new money would be expended in parks and recreational areas that have been used increasingly, in fish and wildlife conservation, and in restoration of the great public grasslands domain (130 million acres). These lands have become badly eroded and an erosion-control program would produce a massive return in increased output of forage. In addition, public forest lands are in need of extensive work, says the Secretary, if they are to produce their fair share of timber needed during the coming decade. Several million acres require reforestation. Finally, soil- and watershed-conversion projects would show quick results on millions of acres of eroded or strip-mined land. Contour terracing, stripplanting, and gully control would restore these areas for the protection of watersheds and would improve the quality of their water yield.

These eminently plausible investments for conserving the very soil of our country take on critical importance in view of the role we are destined to play as the breadbasket of the world.

An analysis by the Department of Agriculture underscores the point that, before the Second World War, American grain exports of 5 million tons were 22% of the total movement of grain among major regions of the world. By 1960-61, North American exports of grain were 39 million tons, 86% of the world's interregional grain shipments. By 1980, these could amount to 58 million tons of grain on the basis of world requirements and North American production capability.

New Water and Hydro-power: A highly imaginative scheme has been devised for a North American Water and Power Alliance. Using streams in Alaska,

Canada and the continental United States as a source of supply, a vast interlocked network of canals, dams, and lakes would use for power, drinking water, and irrigation water that now goes to sea. The Ralph M. Parsons engineering firm, which authored this plan, estimates that vast quantities of water could thereby be supplied to water-short areas of the United States and Mexico.

Using established engineering methods, the network would require a capital investment of about \$100 billion over 20 years of construction, and would pay for itself with estimated sustaining revenues from sale of water and power of some \$4 billion per year, as against annual operating costs of about \$500 million per year.

The work would require treaties between the United States, Canada, and Mexico, planning time of 10 years and large quantities of steel, cement, earth-moving equipment, pumps, generators, and the like. Various by-product effects of this enterprise would include increases in land values, because of productivization, by some \$48 billion.

Annual construction spending of \$5 billion means (at \$8,000 per job year) 625,000 job-years.

Renewal of Depleted Industries: How much fresh capital investment would be required to reconstitute the depleted industries of the American economy? A reliable reckoning of this sort is preferably based upon detailed studies, industry by industry. These do not exist. In their place I will attempt a rough estimate, starting with the shipbuilding industry as a base.

An American version of one of the most mechanized yards in the world would cost an estimated \$70 million. Assuming competitive costs and pricing, and a merchant shipbuilding market for the United States alone of about ten times recent levels, rising efficiency in the use of ships, and ten years' amortization of vessels, a capital investment of about \$5 billion would be required for shipbuilding alone.

For the whole set of depleted industries the necessary capital investment for renewal could not be less than five or ten times that amount, or \$25-\$50 billion. (This would include, for example, the construction industry which, with its largely archaic methods in dwelling construction, accounts for about 5% of America's Gross National Product.)

Annual investment for industrial renewal of \$5-\$10 billion over a 5-year period would generate 625,000 to 1,250,000 job-years of work requirement.

Recreation: Let us examine one part of the lighter side of life before concluding this sample agenda of new markets and new job opportunities for Americans. Many of us enjoy swimming pools in and around our communities. In 1960, there were 132 cities of 100,000 population or more with a total of 50 million residents. What would it cost to construct large swimming pools and allied facilities for public use on the basis of one pool for every 10,000 city dwellers?

New York City, with a population of 7.7 million, now has 17 public pools or one per 450,000 residents. San Francisco has one for each 350,000 and the District of Columbia has one public swimming pool for every 250,000 people.

A large community-size pool with related buildings and equipment can be built for \$100,000. This does not include the cost of land, which varies considerably around the country. For a total price of \$500,000,000 we could build one pool, fully equipped, for each 10,000 city dwellers in cities of 100,000 people or more. Again, suppose we spread this capital investment over a period of 5 years. With an outlay of \$100 million per year this would involve an assortment of equipment purchases and construction work. Calculating the man-years that would be purchased with this outlay on the basis of \$8,000 per man-year, the public-swimming-pool program would generate 12,500 man-years of work each year—and obviously would add to the enjoyment of our people's lives.

What is outlined in this chapter is only a very partial agenda of things that need to be done in our country in order to bring economic competence and the level of living up to a reasonable standard. Furthermore, every one of these activities involves capital outlays and continuing efforts that generate a market for equipment and services of every kind—and jobs for millions of Americans. All together, the new jobs directly accounted for by opening up the new markets that we have discussed total 7,200,000. Since each one of these involves productive work, there are indirect results that ramify widely. I suggest that these estimates be understood as giving us the order of magnitude of what is plausible in terms of new markets and new job opportunities for Americans—within the framework of available institutions and accepted methods.

The meaning of 7.2 million new jobs from this group of activities alone becomes clearer as we take into account all the things that I have not even begun to detail. Hospitals and nursing homes are now short of meeting present requirements by as much as a million beds. Most of the country has deplorable ambulance services. In New York City it is not uncommon to have to wait 20 minutes and longer for an ambulance to arrive at the scene of a street accident. Fire engines get to a fire a lot faster. It is entirely plausible to establish networks of emergency ambulances stationed on the streets to reach medical emergencies as quickly as one can now dispatch a police car by radio.

Urban renewal that extends to major rebuilding of our cities has been estimated as requiring capital investments of \$10-15 billion per year. Of this sum, my housing-renewal estimate accounted for \$8 billion. Assuming the need to invest an additional \$4 billion for the wider functions of urban renewal, this means a further requirement for 500,000 job years.

In my lengthy agenda on education no mention was made of the retraining of military industrial technicians, workers, and managers that will be required on a large scale in order to equip them for civilian vocation. Air-pollution control is just as important as water-pollution control and we have only begun to try to take this set of problems in hand. Transportation to our airports is now a national inconvenience, with many of the journeys from airport to city center taking more time than the air journey from city to city. Professor John E. Ellmann of Hofstra University has suggested that Pennsylvania Station is the natural airport terminal for New York City since rail lines from that point could reach LaGuardia Airport, Newark Airport, and Kennedy International Airport. The modest development of rail transportation to make this possible has not, to my knowledge, ever been planned. We spend 10% of our Gross National Product on automobile transportation, but very little effort seems to be invested in designing and manufacturing a safer automobile or a safer airplane. One would think that these projects are worth major investment, in view of the human lives now taken by accidents.

Scientific work which improves our knowledge of nature could be substantially expanded in the interest of eradicating disease, lengthening and improving human life.

None of these estimates includes the capital investments that must be made for economic development of depleted and underdeveloped regions of the U.S., and for city building.

Two other calculations of potential investments and jobs for Americans during the next decade have been prepared. In *The Economic and Social Consequences of Disarmament* prepared by the U.S. Arms Control and Disarmament Agency, there is an impressive agenda of ways to use the resources freed from military work.

Professor Emile Benoit has compiled a further set of estimates, by amending the U.S. ACDA study, which total \$65.0 to 67.4 billion annual outlays equivalent to over 8 million job-years.

If we add to my previous estimates the Benoit figure for new health-care (\$7.8 billion), urban water, sewage, and waste disposal (\$4.5 billion), then the estimated job effects move from 7.0 million to 9.0 million.

This gives us a measure of the extent of depletion caused in American society by the failure to invest capital and talent in our civilian economy. At the same time, these estimates tell us that there is no problem of job openings for the 6.7 millions now in the armed forces and in military industry.

All of these estimates refer to direct employment effects only. No effort is made to estimate the possible multiplier effect of a major turn to civilian, productive investment and operation, and away from military work and products. The military goods and services enter into no further production, once created. The alternative civilian investment and work is self-multiplying. All the new civilian investments are productive and their sustained use creates fresh value and work requirements.

High-school graduates are more productive and earn greater income than the men without this investment in their capability. Civilian investments of every sort add to the useful life span of our people. Civilian investments are used over and over again, thereby "turning over" the capital many times. The whole society reaps increased social return from productive capital that is kept in motion: There is more (real) income and spending; the tax base is enlarged; and tax returns grow.

Consider the effect of one factor, adding to the working life of men. If we add two years to the working life of 40 million males, then, at average earner income of \$7,300, that means added value of products produced in the amount of \$292 billion. This illustrates the massive return to the whole society from investment in health care and education.

Once the depletion process is reversed by a turn to productive investment, it is altogether likely that a major shortage of manpower will speedily develop, especially in the skilled occupations.

Against these perspectives it is interesting to examine the judgment that areas of neglect in American society could be repaired from the additional wealth created by general economic growth. From 1963 to 1964 the Gross National Product increased by about \$40 billion. Let us assume that 25% of this, \$10 billion, becomes available, through taxes, for allocation by government. Compare this total of \$10 billion with the requirement in the sphere of education alone. The need is for new annual investment in education of about \$16 billion.

How do the new investments get organized? Who is to be responsible for these classes of capital investment? And how can we see to it that the depleted industries of the United States are made competent once again?

Mr. MELMAN. Further, there is the problem of economic development needed for 20 to 30 million Americans who clearly need it. That would involve outlays of about \$37 billion a year additional to the ones previously suggested.

Finally, may I note that the report of the President's Committee on Post-Vietnam Planning in late 1968, defined a workable post-Vietnam war agenda of Federal productive programs totaling \$39.7 billion. This agenda appears in the record of the previous hearings of this committee.

In sum, it appears that even the most preliminary estimate of plausible postwar productive investment include an agenda of activities probably in excess of the ability of the present labor force and economy to perform them. This means that we have allowed depletion to become a characteristic of very many areas of life, and that given a major turn to productive investment priorities, the prospect is for full employment in this Nation for the rest of the century.

Legislation to facilitate specific forms of economic conversion is an essential component of this process. In addition to the economic conversion of industries, of base areas, of regions, it is critical to take into account, Mr. Chairman, the economic conversion of individuals. In many circumstances, even with the best thought-out plans, it will not be possible for individual defense contracting firms, individual base areas, individual regions, to afford work for the persons presently employed in military industry.

Accordingly, it is appropriate to prepare a bill that amounts to a military-industry employees' bill of rights. Such legislation would provide the following sorts of support for former military-industry employees: Minimum maintenance for the ex-employee and his family during 1 calendar year; payment of tuition to an accredited educational institution for purposes of professional training and retraining; payment of health insurance to protect the ex-employee and his family; availability of moving allowances to support a change of job location; moratorium on mortgage and credit payments during the period of retraining. By such means the former military-industry employee can be converted swiftly into a productive person participating in a civilian economy.

Lastly, Mr. Chairman, the Congress can, if it chooses, establish through its committees productive relationships with the university

community. I know that my colleagues in the engineering and other faculties of American universities would regard it as a privilege and an opportunity to serve the Members of the Congress and their committees through research and allied activities in support of postwar planning.

Mr. Chairman, it is a privilege to participate in these important hearings, for I believe further that a postwar planning process initiated by the Congress will be a signal to the Nation for the mobilization of constructive effort in every sphere of life.

Chairman PROXMIRE. Thank you very much, Dr. Melman.

(The prepared statement of Mr. Melman follows:)

PREPARED STATEMENT OF SEYMOUR MELMAN

POST-WAR PLANNING—THE RESPONSIBILITY OF THE CONGRESS

Unlike the Second World War, the quarter-century of cold war includes no understood theory or built-in mechanism for its termination. The Second World War included, on all sides, the understanding that military victory or a military-political settlement was the way of ending the war. The end of the war was understood to involve the end of the war economy. In the expectation of such a termination, the government of the United States began, in 1944, an extensive process of post-war planning for all sectors of the economy. There has been, until now, no post-cold-war planning.

Because of the lack of a generally-understood theory of post-cold-war planning, it is important to formulate the preconditions for "post-war" and the requirements for "planning" under these conditions.

Preconditions for a post-cold-war involve a definable set of policy changes that can be made autonomously by the United States, to improve its own security, *apart from international agreements and alterations in international relations.*

(a) A revised military security perspective for the United States. Approximately since 1961, the military security objectives of the United States have included the requirement that armed forces be constructed and operated with competence to successfully cope with three military operations at the same time: a European nuclear war, a Southeast Asian war, and a lesser military engagement in Latin America. These military security goals are, in effect, open-ended in terms of the requirements they impose on weaponry and forces.

The open-endedness derives from the fact that there is no available science or technology from which to specify "superior" military power, either in nuclear war or in the guerrilla type war of Indochina. When the military security goals of the United States are revised to more manageable objectives, it will then be possible to stipulate meaningful limits on armaments and armed forces. Conceivable military security objectives for the United States at the present time could include the following: nuclear forces as a deterrent against nuclear attack until there is international reduction or disarmament in nuclear weapons; forces to guard the shores of the United States; and finally, forces to participate with other nations in international peacekeeping operations.

(b) A second requirement for a post-cold-war is the reduction of armed forces commensurate with revised military security goals. Thus, the reduction of armed forces from present level of 3.5 million uniformed men to 1-1½ million would define, concretely, a condition of post-war for planning purposes.

(c) A third precondition for a post-cold-war is reduction of military budgets in keeping with revised military security criteria. A defense budget of about \$25 billion would support a force of 1-1½ million. Such a budget would, of course, involve a lesser requirement not only for uniformed personnel but for supporting civilian staffs in military bases and in military-supporting industry.

(d) A fourth precondition for a post-cold-war is recognition by the Congress and the nation that the economic, technical, and moral consequences of a sustained and open-ended arms race produced depletion in American life of such intensity as to make the viability of the society problematic. For example, limitation on productive job opportunities owing to priority use of government funds for non-productive economic growth restricts upward economic mobility for all, underprivileged Americans, black and white. In the absence of new job opportunities from fresh productive investment, pressure for upward mobility means,

inevitably, a collision with those who now occupy the whole spectrum of medium- to higher-level occupations. This condition would be transformed once the problem becomes one of dividing a larger "economic pie." With priority to productive economic development, all will gain something as the underdeveloped part of American society improves its lot.

It is also possible to define certain essential conditions for the planning element of post-cold-war planning.

(a) A first requirement is acceptance of redefined responsibility by the Congress for the traditionally defined areas of public responsibility in American economy and society, including, for example, responsibility for the post office, for the water supply, for public education, and for similar functions. In each case, the new responsibility must also include the quality of performances of the service in each area. Thus, modernization and substantial improvement in the quality and quantity of these services is obviously called for.

(b) A second requirement for post-cold-war planning is acceptance of responsibility by the Congress for performance in new areas of public life. These include provision of an adequate power supply, an adequate communications system, an adequate transportation system. These three areas of economic functioning have the special importance in that they comprise the main elements of the "infrastructure" of an industrial society. There is accumulating evidence that precisely these areas have undergone unacceptable deterioration in parts of the United States. Thus, in New York City, in July-August 1969, there was simultaneous breakdown of central power supply, central communications, and rail transportation in and out of the city. Thus, New York City showed the symptoms of an underdeveloped economy. Until now, these areas of economic activity have been treated as appropriate areas for "public regulation." What is now required is a new definition of public responsibility and initiative, precisely in these spheres.

(c) A third precondition for planning is a definition of division of responsibility among federal, state, and local governments. This includes, critically, agreement as to the limits of feasibility or desirability of federal control. There is no *a priori* reason why governments of states or of localities cannot be effective bodies for either regulation or productive initiatives in relevant areas of economic planning. At the same time, there are strong theoretical and pragmatic grounds for defining real limits of feasibility for planning, centrally and in detail, even a limited number of key economic functions for a society of two hundred million people.

(d) A fourth requirement for competent planning is abandonment of the ideology that public money and public decision-power may be properly used without stint in the name of defense—while public responsibility for productive economic investment is regarded as "socialism." A more balanced view is indicated. The fact is that the military establishment has come to include some of the most deplorable characteristics of state-capitalist control, while various areas of public responsibility initiative, such as the Tennessee Valley Authority and the operation of national parks, are outstanding examples of productive investment in the public interest.

An array of particular actions by Congress can be defined for post-war planning. These can include four major elements:

(a) Hearings by committees of the Congress to define new markets and new jobs for Americans in a post-cold-war period. Such hearings would call upon various departments of the government to disclose blueprints and investment plans already available for investment in defined public responsibility areas. The same hearings would also disclose areas of gaps in particular planning operations. On the basis of such hearings, committees of the Congress could frame well-thought-out legislation for deploying large funds that would be released for productive use from reduction in military activity.

(b) The Congress should implement legislation for establishing a National Economic Conversion Commission, as in S 1285, sponsored in 1969 by thirty-two members of the Senate (with similar legislation offered in the House).

A few years ago, I formulated an agenda of post-war productive investments in American economy and their employment consequences. This appeared in Chapter 10 of my book *Our Depleted Society* (Dell Books, 1965). This post-war investment list amounted to an estimated \$70 billion of annual productive outlays, with employment effects (at 1965 prices and wages) of 7 to 9 million men required per year for the relevant work. This agenda is, in fact, an understatement of plausible economic development requirements for the United States, which should plausibly include an economic development program for thirty

million Americans in need of this process. Such a national economic development operation would involve an estimated outlay of not less than \$37 billion per year for each of ten years.

The December, 1968 report of the President's Committee on Post-Vietnam Planning defined a workable agenda of federal productive programs totalling \$39.7 billions (*The Military Budget and National Economic Priorities: Hearings before the Subcommittee on Economy in Government of the Joint Economic Committee, Congress of the United States, Ninety-First Congress, First Session, Part 1. 1969*).

In sum, it appears that even the most preliminary estimates of plausible post-war investment prospects for the United States would include an agenda of activities rather in excess of the ability of the labor force and the economy generally to perform them. The implication is that, given a major turn to productive investment priorities, the prospect is for full employment for the rest of this century.

(c) Legislation to facilitate specific economic conversions is an essential component of competent post-war planning. Even in the presence of a National Economic Conversion Commission, and far-ranging post-war planning initiatives by the managements of firms, trade associations, governments of cities, states, counties, etc., many particular plants, industries, and localities will not be able to make use of their present military-industry employees in converting existing military-product facilities to civilian production. For that reason, it is essential to frame legislation for occupational conversion, providing for a "military-industry employees' bill of rights." Such legislation should provide the following supports for former military-industry employees: minimum maintenance for the ex-employee and his family during one calendar year; payment of tuition to an accredited educational institution for purposes of professional training and retraining; payment of health insurance to protect the ex-employee and his family; availability of moving allowances to support a change of job location; moratorium on mortgage and credit payments during the period of retraining, with subsequent compensation to a government agency for the payment support during that period. By such means, the former military-industry employee can be converted into a productive person for participation in civilian economy. Such legislation is bound to produce a large manpower asset of durable worth to the nation. (For a comprehensive view of the conversion problem, see the series in six volumes. *Conversion of Industry from a Military to Civilian Economy*. S. Melman, editor, Frederick Praeger Publishers, New York, 1970.)

(d) The Congress can establish, through its committees, productive relationships with the universities of the nation in support of the post-war planning process. I know that my colleagues in engineering and other faculties of American universities would regard it as a privilege and a great civic opportunity to serve the members of the Congress and their committees in whatever aspect of research and allied activity may be appropriate in support of post-war planning functions that are appropriate to the Congress.

I hope that these hearings will produce recommendations by the Joint Economic Committee for an effective post-war planning process. This is of the greatest importance at a time when the very viability of American economy and society has been cast into doubt as a result of the far-ranging depletion owing to sustained cold war priorities. Indeed, the utopians of our time are all those who still believe that a viable, productive society may be attained or sustained with a continuation of the priorities of the last quarter-century.

A post-war planning process initiated by the Congress will be a signal to the nation for mobilization of constructive effort in every sphere of life.

Chairman PROXMIRE. Dr. Udis?

**STATEMENT OF BERNARD UDIS, PROFESSOR OF ECONOMICS,
UNIVERSITY OF COLORADO**

Mr. Udis. Thank you, Mr. Chairman. I want to apologize for the length of my prepared statement. I understand you are alarmed, and I will try to vindicate myself by making a short verbal statement.

Chairman PROXMIRE. It is an excellent prepared statement; 65 pages including the appendix.

The entire prepared statement will be printed in full in the record.

I might say that you only ran second—yesterday we had Mr. Woodcock who lived up to the Walter Reuther tradition with a 91-page prepared statement. Both of you men ought to be in the Senate.

Mr. UDIS. I am delighted to be here, and I might introduce my comments by noting that I am going to speak on a very narrow subject: what we have discovered about the likely economic consequences of reduced military spending.

The reason for the inclusion of this topic in the general priorities hearings of this committee, I think, is to look into the fears that military expenditures are a necessary prop to the American economy. We have examined this question and we find it is a view which is still rather widely held by a particular group of Americans. Almost regardless of anything else, age seems to be the principal determinant. Senator Mansfield spoke of those remembering the depression and I think that has a lot to do with it. Those Americans who are old enough to have been adult and troubled during the depression years, are those who still have this lingering fear that it took World War II to get us out, and in some sense if we cut military spending today, we might find ourselves in economic difficulty.

Our findings indicate this is an old saw. It is a canard. Most people I think recognize this today. We looked into the matter but I think it is still necessary to do away with this outmoded view.

Military spending is one form of Government expenditure, and obviously the fact that it is military is not what is unique. The fact is that it is adding to aggregate demand and the same kinds of effects could be generated by alternative Government spending programs or indeed by private spending, either by households or by business investment.

Looking specifically at the Vietnam war. I spent some time looking into the buildup period to see if it would give us any insight into what we are likely to encounter on the way down. We find that the mobilization period was much more moderate than the predecessor engagement in Korea in terms of number of men under arms. In terms of defense spending, rates of growth, that is, in terms of almost any measure of its impact, it has been much less severe than the Korean war.

Also, it has been a rather conventional kind of military engagement in terms of equipment needs and those industries which have benefited largely have been conventional industry groups. By and large we anticipate that this will be an advantage during the demobilization period since there are industries which have traditional civilian markets to which they can reconvert. This is quite a different kind of problem from that which would be encountered in a major cutback, let us say, in missileery or the more sophisticated areas of defense production.

We have had the difficulty in our project of trying to determine what would be a reasonable kind of assumption to make concerning economic impact. We needed a measure of defense spending and this is a can of worms as far as the ability to make realistic projections is concerned. We finally settled on those that the distinguished military scholar, Prof. William Kaufmann, of MIT, put forward to this committee a year ago. He presented seven alternative post-Vietnam de-

fense budgets. We settled on five of them and subjected them to rather detailed analytical treatment.

Prof. Lawrence Klein, of the University of Pennsylvania, one of my colleagues on this project, ran five of these budgets through the Wharton-Brookings model and a group also working with us at the University of Maryland did similar work utilizing an interindustry model.

By and large the findings were that the American economy did not require large military spending. The group of military budgets analyzed covered a range from—these are in 1972 dollars for fiscal year 1972—a low of \$59.4 billion to a high of \$93.6 billion. We found no reason to anticipate extensive economic dislocations nationally.

On the other hand, in particular regions, and I might add we did attempt to regionalize our finding so that we could say something about the likely consequences for each State and each standard metropolitan area, there may be some painful transition problems.

They vary, of course, in terms of their overall dependence on military spending. Again, while there will be some areas of particular difficulty where groups and regions have become unduly dependent upon military spending, this is not anticipated to be a major problem which cannot be overcome by rational policies. There were various members of our research team that looked into specific problems such as experience during the decade of the 1960's with base closings, the impact on the balance of payments of the United States, progress in industrial diversification, impact on Defense Department civilian employees, as well as ex-military personnel, and certain administrative problems likely to be encountered in transferring resources from military to civilian purposes. I won't go into these now except to indicate I have summarized each of them in my prepared statement.

I think in particular, however, we would emphasize the need to expand such projects as "transition" now in the Defense Department which is designed to serve as a bridge, as it were, wherein servicemen with inadequate skills or training in their premilitary careers would have a better opportunity at finding placement when they leave the services.

There are many facets of our study including an analysis by my colleague, Kenneth Boulding, of longrun changes in the structure of the American economy which might be attributable to the growth of defense spending.

Some of his findings indicate that consumers in fact have paid the bulk of the bill for increased military spending.

I think I will stop right here, in the interests of time.

Chairman PROXMIRE. I want to thank all of you gentlemen for a superlative presentation. This is really very helpful. It is new. It is most relevant and important for this committee and for the Congress.

(The prepared statement of Mr. Udis follows:)

PREPARED STATEMENT OF BERNARD UDIS

ECONOMIC CONSEQUENCES OF REDUCED MILITARY SPENDING

I have been invited to discuss my recent work on the likely economic consequences of reduced military spending. My group has been concerned with both a cessation of hostilities in Indochina and some agreement to limit the strategic arms race.

VIETNAM BUILDUP

In attempting to understand the process of economic adjustment to reduced military spending, it may be helpful to review the reverse side of the coin—the military buildup as well as earlier experience with the conversion process. This is not to suggest that the phenomenon is symmetrical or that past experience will necessarily be repeated. However, certain insights into the nature of the demobilization process may be gained from an examination of how we got where we are today. In particular, I should like to stress that a look at the composition of military spending may be as important as its overall level.

TABLE 1.—NET VALUE OF MILITARY PRIME CONTRACT AWARDS OF \$10,000 OR MORE BY PROCUREMENT PROGRAM AND PERCENTAGE OF TOTAL: ALL STATES AND THE DISTRICT OF COLUMBIA
 * [In thousands of dollars]

Procurement program	Fiscal year 1962		Fiscal year 1963		Fiscal year 1964		Fiscal year 1965	
	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total
Total.....	\$25,038,690	100.0	\$25,233,240	100.0	\$24,411,107	100.0	\$23,268,080	100.0
Airframes and related assemblies and spares.....	3,178,091	12.7	3,657,508	14.5	4,492,918	18.4	3,993,504	17.2
Aircraft engines and related spares.....	1,200,986	4.8	1,118,450	4.4	1,121,156	4.6	1,105,576	4.8
Other aircraft equipment and supplies.....	775,115	3.1	1,703,846	2.8	533,295	2.3	670,325	2.9
Missile and space systems.....	6,827,276	27.3	6,894,957	27.2	5,805,764	23.8	4,435,952	19.1
Ships.....	1,558,548	6.2	1,745,755	6.9	1,328,797	6.3	1,435,270	6.2
Electronics and communication equipment.....	3,343,011	13.4	3,141,995	12.5	3,012,120	12.3	2,933,306	12.6
Subtotal.....	16,883,027	67.5	17,222,511	68.3	16,515,050	67.7	14,974,173	64.4
Combat vehicles.....	553,816	2.2	573,884	2.3	253,135	1.7	265,652	1.1
Income tax vehicles.....	492,548	1.9	458,692	1.8	435,676	1.7	598,606	2.5
Weapons.....	272,677	3.9	216,572	9	213,238	2.8	301,276	1.3
Ammunition.....	923,899	3.7	894,076	3.5	672,237	2.8	774,703	3.3
Petroleum.....	844,187	3.4	838,301	3.3	761,584	3.1	775,865	3.3
Other fuels and lubricants.....	36,354	0.1	34,445	0.1	22,272	0.1	29,490	0.1
Separately procured containers and handling equipment.....	1,106	(3)	779	(3)	1,632	(6)	7,732	(3)
Textiles clothing and equipage.....	419,369	1.7	266,006	1.1	271,860	1.1	367,123	1.6
Military building supplies.....	23,175	0.1	40,973	0.2	20,084	0.1	28,348	0.1
Subsistence.....	637,292	2.5	585,715	2.3	582,612	2.4	652,725	2.8
Transportation equipment.....	3,470	(3)	2,805	(3)	677	(3)	569	(3)
Production equipment.....	102,501	0.4	105,228	0.4	59,964	0.2	63,301	0.3
Construction.....	1,205,142	4.8	1,117,439	4.4	1,296,351	5.3	1,272,789	5.5
Construction equipment.....	97,758	0.4	111,114	0.4	91,795	0.4	59,549	0.3
Medical and dental supplies and equipment.....	105,469	0.4	66,557	0.3	77,473	0.3	112,776	0.5
Photographic equipment and supplies.....	72,562	0.3	62,313	0.3	65,646	0.3	99,846	0.4
Materials handling equipment.....	40,867	0.2	66,319	0.3	53,927	0.2	35,872	0.2
All other supplies and equipment.....	824,096	3.3	735,373	2.9	715,451	2.9	760,519	3.3
Services.....	1,554,874	6.2	1,834,188	7.3	2,216,423	9.1	2,096,565	9.0
Subtotal.....	8,155,663	32.5	8,010,729	31.7	7,902,057	32.3	8,293,907	35.6
Total.....	\$31,713,303	100.0	\$31,381,709	100.0	\$30,248,134	100.0	\$29,248,791	100.0

See footnotes at end of table, p. 594.

TABLE 1.—NET VALUE OF MILITARY PRIME CONTRACT AWARDS OF \$10,000 OR MORE¹ BY PROCUREMENT PROGRAM AND PERCENTAGE OF TOTAL: ALL STATES AND THE DISTRICT OF COLUMBIA—Continued

[In thousands of dollars]

Procurement program	Fiscal year 1962		Fiscal year 1963		Fiscal year 1964		Fiscal year 1965	
	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total
Airframes and related assemblies and spares.....	\$4,601,870	14.5	\$6,752,611	18.1	\$6,090,934	16.3	\$5,071,126	14.4
Aircraft engines and related spares.....	2,159,308	6.8	2,097,969*	5.6	2,449,381	6.6	2,094,364	5.9
Other aircraft equipment and supplies.....	1,030,083	3.3	1,237,043	3.3	1,104,147	3.0	1,169,119	3.3
Missile and space systems.....	4,358,839	13.7	4,563,518	12.2	4,945,440	13.3	5,473,989	15.5
Ships.....	1,407,691	4.4	2,198,897	5.9	2,055,086	5.5	1,581,365	4.5
Electronics and communication equipment.....	3,791,544	12.0	4,388,495	11.7	3,979,906	10.7	4,036,476	11.5
Subtotal.....	17,349,335	54.7	21,238,533	56.8	20,624,894	55.4	19,426,439	55.1
Combat vehicles.....	577,452	1.8	616,758	1.7	612,618	1.6	465,750	1.3
Noncombat vehicles.....	981,738	3.1	825,268	2.2	828,013	2.2	540,598	1.5
Weapons.....	506,790	1.6	620,665	1.7	665,982	1.8	633,339	1.8
Ammunition.....	2,854,635	9.0	3,597,479	9.6	4,539,998	12.2	4,876,302	13.8
Petroleum.....	859,520	2.7	997,745	2.7	1,103,298	3.0	1,132,144	3.2
Other fuels and lubricants.....	27,369	.1	24,844	.1	23,867	.1	23,826	.1
Separately procured containers and handling equipment.....	6,952	(²)	10,516	(²)	3,934	(²)	5,397	(²)
Textiles, clothing and equipage.....	1,260,930	4.0	1,160,475	3.1	726,520	1.9	622,313	1.8
Military building supplies.....	361,314	1.1	165,127	.4	228,981	.6	129,076	.4
Subsistence.....	1,047,350	3.3	1,122,618	3.0	1,068,531	2.9	1,103,697	3.1
Transportation equipment.....	7,573	(²)	1,686	(²)	2,010	(²)	1,165	(²)
Production equipment.....	178,237	.6	192,742	.5	177,775	.5	99,005	.3
Construction.....	1,002,866	3.2	1,157,202	3.1	1,217,130	3.3	1,301,526	3.7
Construction equipment.....	214,318	.7	228,134	.6	180,178	.5	131,562	.4
Medical and dental supplies and equipment.....	214,307	.7	187,704	.5	185,300	.5	185,176	.5
Photographic equipment and supplies.....	163,787	.5	159,098	.4	133,425	.3	127,526	.4
Materials handling equipment.....	104,449	.3	112,162	.3	93,348	.3	82,169	.2
All other supplies and equipment.....	1,387,904	4.4	1,651,869	4.4	1,239,487	3.3	955,925	2.7
Services.....	2,606,447	8.2	3,311,084	8.9	3,592,827	9.6	3,407,856	9.7
Total.....	14,363,968	45.3	16,143,176	43.2	16,623,222	44.6	15,822,352	44.9

¹ Excludes the dollar value for work to be performed in classified locations.

² Less than 0.05 percent.

Source: Office of the Secretary of Defense, Directorate for Statistical Services, Military Prime Con-

tract Awards by Region and State: Fiscal years 1962-67, table III, 1962-67 (Washington, D.C.: Department of Defense, Dec. 27, 1967), pp. 5, 5a; and the corresponding document for fiscal year 1967, fiscal year 1969 (Oct. 27, 1969), table III, p. 9.

TABLE 2.—PRIME DEFENSE CONTRACT AWARDS, BY AREA

[Percentage distribution of dollar volume]¹

Census region ²	Korean war (fiscal 1952)	Cold war (fiscal 1962)	Fiscal 1966	Vietnam war (fiscal 1968)	Fiscal 1969
Northeast:					
New England.....	8.0	10.9	11.9	11.9	10.3
Middle Atlantic.....	25.0	18.7	17.6	17.0	17.2
Subtotal.....	33.0	29.6	29.5	28.9	27.5
Midwest:					
East North Central.....	27.0	12.6	15.3	13.1	13.1
West North Central.....	7.0	6.7	7.5	7.4	7.2
Subtotal.....	34.0	19.3	22.8	20.5	20.3
South:					
South Atlantic.....	8.0	10.4	12.5	12.0	12.7
South Central.....	6.0	7.8	12.2	16.7	15.3
Subtotal.....	14.0	18.2	24.7	28.7	28.0
Far West:					
Mountain.....	1.0	4.7	2.6	2.3	2.6
Pacific.....	18.0	28.2	20.4	19.6	21.8
Subtotal.....	19.0	32.9	23.0	21.9	24.4
Total.....	100.0	100.0	100.0	100.0	100.0

¹ Excludes the dollar value for work to be performed in classified locations.² States included in Census Regions: New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont. Middle Atlantic: New Jersey, New York, Pennsylvania. East North Central: Illinois, Indiana, Michigan, Ohio, Wisconsin. West North Central: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota. South Atlantic: Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia. South Central: Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, Texas. Mountain: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming. Pacific: California, Oregon, Washington, Alaska and Hawaii.

Source: Office of the Secretary of Defense, Directorate for Statistical Services, Military Prime Contract Awards by Region and State: Fiscal Years 1962-1967 (Washington: Department of Defense, December 27, 1967), p. 1; and Office of the Secretary of Defense, Directorate for Statistical Services, Military Prime Contract Awards By Region and State: Fiscal Years 1967, 1968, 1969, (Washington: Department of Defense, October 27, 1969.), pp. 1-2. Data for Fiscal Year 1952 are from Murray Weidenbaum, "Peace in Vietnam: Possible Economic Impacts and the Business Response," September, 1967, p. 6, a paper commissioned by The Committee on the Economic Impact of Peace in Vietnam, Chamber of Commerce of the United States.

Let me then begin by making the following points:

The Vietnam War has been a conventional one and the military buildup has stressed conventional weapons and equipment rather than more sophisticated weapons systems. This has had an observable effect on the industrial and geographic distribution of defense procurement.¹ Note the burgeoning growth in contract awards for combat vehicles, weapons, ammunition, textiles and clothing, military building supplies, and transportation equipment after fiscal 1965 shown in Table 1. On the other hand, such specialized and sophisticated products as aircraft, missile and space systems, ships, and electronic and communication equipment have declined from approximately two-thirds of the net value of military prime contract awards in the first half of the decade to 55.1 percent of FY 1969. The corresponding geographic effects are shown in Table 2. The share of the highly sophisticated weapon systems producers in the Far West has declined sharply since FY 1962, while the traditional heavy goods centers in the Midwest have marginally improved their position in the same period.

Part of the shifts may be due to regional specialization in particular military goods, the importance of which will vary with different strategic programs and their concomitant procurement mixes. Thus, from 68 to 75 percent of all tank-automotive contracts have been awarded in the East North Central region in recent years. (See Table 3.) That this is not a complete explanation is evident from the appreciable regional shifts *within* the various classes of military equipment. Of particular interest is the gain in the share of aircraft prime contracts awarded in the South Central region—from 7.5 percent in FY 1962 to approximately 25 percent. The same region also showed an impressive gain in ammunition prime contracts. (See Table 3.) Indeed, the South seems impervious to cycles

¹ For a recent detailed effort to trace the employment impact of Vietnam induced military expenditures on particular industries see Richard P. Oliver, "Increase in Defense-Related Employment During Viet Nam Buildup" *Monthly Labor Review*, Vol. 93, No. 2 (February, 1970), pp. 3-10.

in either the size or composition of defense spending having steadily increased its relative standing as a defense producing region from the Korean War through the Cold War and Vietnam. (See Table 2.)

KOREAN COMPARISON

By almost any measure, the military buildup resulting from the Vietnam hostilities has been smaller than that which occurred during the Korean War. Examination of the relevant periods in Table 4 shows much larger numbers of men inducted in the first period. The highest month for military inductions during the Korean War was January, 1951 when 87,053 men were called. By comparison, during the Vietnam hostilities the record month was October, 1966 when 49,481 men were drafted. Further, selective service had to begin from a skeleton organization in the summer of 1950 as no men were inducted into the armed forces from July, 1949 to August, 1950.

TABLE 3.—MILITARY PRIME CONTRACT AWARDS OF \$10,000 OR MORE FOR MAJOR MILITARY HARD GOODS—BY GEOGRAPHIC REGION,¹ FISCAL YEARS 1962-69

Program and geographic area	Percent of program total							
	1962	1963	1964	1965	1966	1967	1968	1969
Aircraft.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
New England.....	18.7	13.7	12.5	14.7	20.9	15.2	18.6	15.7
Middle Atlantic.....	20.3	17.9	13.6	14.2	14.5	12.6	13.1	11.1
East North Central.....	12.8	16.9	12.4	10.5	13.1	10.6	11.2	13.8
West North Central.....	12.1	13.7	22.2	17.9	11.4	19.0	9.1	9.0
South Atlantic.....	6.0	7.6	8.4	10.4	8.9	10.6	10.2	12.8
South Central.....	7.5	10.2	11.9	14.5	17.0	21.1	26.7	25.0
Mountain.....	.6	.9	.5	.9	1.3	.9	.8	.7
Pacific.....	22.0	19.1	18.4	16.8	12.9	10.0	10.4	11.9
Alaska and Hawaii.....	(?)	(?)	.1	.1	(?)	(?)	(?)	(?)
Missile and space systems.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
New England.....	8.0	6.3	8.1	9.1	9.7	10.2	11.7	12.8
Middle Atlantic.....	10.6	9.6	9.6	11.7	12.1	10.2	11.7	13.8
East North Central.....	3.8	3.2	3.5	4.5	3.7	4.6	4.0	2.3
West North Central.....	1.8	2.5	3.1	2.8	4.5	2.5	3.0	2.2
South Atlantic.....	8.9	8.2	10.2	10.8	11.8	9.7	10.4	9.1
South Central.....	1.3	2.2	3.2	3.1	3.0	3.2	2.9	2.3
Mountain.....	11.9	14.3	11.2	7.8	6.5	6.9	5.3	5.8
Pacific.....	53.7	53.7	51.1	50.2	48.7	52.9	51.1	51.6
Alaska and Hawaii.....	(?)	(?)	(?)	(?)	(?)	(?)	(?)	(?)
Ships.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
New England.....	25.4	19.6	18.0	27.6	24.4	18.1	25.2	13.5
Middle Atlantic.....	25.3	29.8	20.9	13.7	24.2	17.2	19.4	29.6
East North Central.....	6.2	6.0	6.2	3.4	7.5	6.7	5.1	4.6
West North Central.....	.7	.3	.1	.3	.4	.3	.6	.2
South Atlantic.....	18.7	19.7	31.8	17.7	19.2	19.6	19.2	28.6
South Central.....	7.9	10.3	5.3	11.1	6.6	13.5	17.5	9.3
Mountain.....	(?)	(?)	7.1	.1	.2	(?)	(?)	.2
Pacific.....	15.8	14.3	1.6	26.0	17.4	24.5	12.5	14.0
Alaska and Hawaii.....	(?)	0	(?)	.1	.1	(?)	.4	.1
Tank-automotive.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
New England.....	.5	.6	.4	.5	1.3	2.3	1.4	1.8
Middle Atlantic.....	9.0	2.4	4.7	8.1	7.1	9.1	6.2	6.1
East North Central.....	67.8	72.5	73.5	75.5	75.6	68.2	68.9	67.6
West North Central.....	.9	.8	1.2	2.1	2.0	2.7	2.4	1.6
South Atlantic.....	5.2	11.7	7.0	7.9	7.9	7.2	10.8	5.3
South Central.....	3.5	3.0	3.8	3.0	3.7	4.1	5.3	6.1
Mountain.....	.3	.5	.2	.3	.2	.4	.7	.3
Pacific.....	12.8	8.5	9.2	2.6	2.2	5.9	4.3	11.0
Alaska and Hawaii.....	(?)	(?)	(?)	(?)	(?)	(?)	.1	.1
Weapons.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
New England.....	37.3	24.2	20.7	14.4	37.1	25.8	34.5	35.5
Middle Atlantic.....	17.1	19.0	33.3	25.2	16.3	18.9	18.6	15.1
East North Central.....	22.2	25.4	16.0	13.4	14.5	12.8	15.0	10.6
West North Central.....	3.1	7.6	5.1	21.1	8.2	12.4	7.8	12.4
South Atlantic.....	2.9	6.9	4.9	6.0	3.3	4.2	3.8	3.7
South Central.....	4.1	3.2	4.4	3.8	4.7	5.3	3.7	4.3
Mountain.....	.2	1.0	.3	.3	1.0	1.4	.8	1.8
Pacific.....	13.1	12.7	15.3	15.8	14.9	19.2	15.7	16.6
Alaska and Hawaii.....	0	0	0	0	0	0	0	0

See footnotes at end of table, p. 597.

TABLE 3.—MILITARY PRIME CONTRACT AWARDS OF \$10,000 OR MORE FOR MAJOR MILITARY HARD GOODS—BY GEOGRAPHIC REGION: FISCAL YEARS 1962-69—Continued

Program and geographic area	Percent of program total							
	1962	1963	1964	1965	1966	1967	1968	1969
Ammunition.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
New England.....	6.5	5.6	9.9	8.4	6.9	4.3	5.5	5.7
Middle Atlantic.....	9.8	8.6	12.8	13.3	13.6	10.2	13.0	15.1
East North Central.....	20.1	20.8	21.0	18.0	20.7	18.9	20.7	21.7
West North Central.....	21.4	20.1	17.0	12.9	16.4	22.2	19.9	18.2
South Atlantic.....	9.3	12.5	6.9	10.9	5.8	7.1	6.2	5.5
South Central.....	15.1	14.4	15.5	12.6	17.7	24.6	25.1	22.7
Mountain.....	4	.6	1.0	1.0	.9	1.2	1.1	1.6
Pacific.....	17.4	17.4	15.9	22.9	18.0	11.6	8.7	9.5
Alaska and Hawaii.....	0	0	0	0	0	(?)	(?)	(?)
Electronics and communication equipment.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
New England.....	9.5	9.6	9.5	12.9	11.5	13.1	13.9	12.1
Middle Atlantic.....	38.6	38.5	35.4	32.5	29.9	27.3	27.5	25.4
East North Central.....	16.2	9.7	10.5	10.1	10.3	9.7	10.3	11.1
West North Central.....	5.8	4.7	3.8	5.0	6.8	5.6	4.8	5.5
South Atlantic.....	10.8	11.8	12.8	11.6	14.1	15.2	13.1	14.8
South Central.....	3.3	4.4	4.6	3.9	6.8	5.3	6.4	6.5
Mountain.....	1.4	1.3	3.1	2.4	2.3	2.0	2.7	2.4
Pacific.....	14.2	17.9	19.3	21.0	18.3	21.5	20.9	21.6
Alaska and Hawaii.....	.2	2.1	1.0	.6	(?)	.3	.4	.7

¹ Excludes the dollar value for work to be performed in classified locations.

² Less than 0.85 percent.

Source: Office of the Secretary of Defense, Directorate for Statistical Services, "Military Prime Contract Awards by Region and State: Fiscal Years 1962-67" (Washington: Department of Defense, Dec. 27, 1967), pp. 3-4; and the corresponding document for fiscal years 1967-69 (Oct. 27, 1969), p. 5.

TABLE 4.—TOTAL INDUCTIONS OF SELECTIVE SERVICE REGISTRANTS TO MEET REQUISITIONS OF THE ARMED FORCES

Calendar year	Annual total	Monthly average	Calendar year	Annual total	Monthly average
1950 (August-December).....	219,765	43,953	1960.....	86,602	7,217
1951.....	551,770	45,981	1961.....	118,586	9,882
1952.....	438,479	36,540	1962.....	82,060	6,838
1953.....	471,806	39,317	1963.....	119,265	9,939
1954.....	253,230	21,103	1964.....	112,386	9,366
1955.....	152,777	12,731	1965.....	230,991	19,249
1956.....	152,450	12,704	1966.....	382,019	31,834
1957.....	138,504	11,542	1967.....	228,263	19,022
1958.....	142,246	11,854	1968.....	296,406	24,701
1959.....	96,153	8,013	1969.....	283,586	23,632

Source: Annual Report of the Director of Selective Services, 1967, pp. 85-86, Semiannual Report of the Director of Selective Service, for the Period July 1-Dec. 31, 1967, p. 37, and Selective Service System, Selective Service News, vol. XX, No. 3 (March 1970), p. 2.

In the five months between August, 1950 and the end of the year, almost 220,000 men were drafted, yielding the second largest monthly average in the 1950-1969 period.²

The same rapid and heavy shift to military operations during the Korean War *vis-à-vis* the present hostilities is shown in Table 5. The annual rate of Federal purchases of goods and services for national defense increased 41 percent between the fourth quarter of calendar 1950 and the first quarter of calendar 1951. During the present hostilities the largest rate of increase was 8.2 percent between the second and third quarters of 1966.

Table 6 indicates that military manpower jumped by almost 30 percent between the second and third quarters of calendar 1950 compared to the maximum of 4.9 percent between the third and fourth quarters of calendar 1965. A similar pattern in the growth of civilian employment in the Defense Department is shown in Table 7.

² Annual Report of the Director of Selective Service, 1967, pp. 85-86; Semi-Annual Report of the Director of Selective Service, for the Period July 1 to December 31, 1967, p. 37, and Selective Service System, Selective Service News, Vol. XX, No. 3 (March, 1970), p. 2.

As a result of the more rapid pace of mobilization, the impact on price levels was larger and more rapid. Price behavior in the two periods may be traced in the figures presented in Table 8. Implicit price deflators for various components of gross national product are shown by quarters for the 1950-1954 and 1965-1969 periods together with percentage rates of change. The comparison is striking. The fighting began in late June of 1950 and the peak quarterly rate of price advance (3.03%) was registered shortly thereafter, between the fourth quarter of 1950 and the first quarter of 1951. The next highest rate of price gain was only 1.28% and was recorded between the third and fourth quarters of 1951. In the successive twelve quarters to the end of 1954 the rate of price change was zero twice, marginally negative twice, and did not exceed 1.24%. The sharp climb in early 1951 was paced by price increases in consumer goods. During the same period, the prices of goods and services purchased by the federal government increased by only 0.13%.

The Vietnam hostilities began to escalate in August of 1965. As shown in the preceding tables, the military buildup was more gradual than at the start of the Korean War. The rate of price advance was also more moderate and did not reach 1% until the interval between the second and third quarters of 1967. However, after that it did not climb by less than 0.9% in any interquarter period and consistently attained or exceeded 1% per quarter from the spring of 1968 through the summer of 1970. The peak interquarter gain was not attained until early 1970 and at that time the gain in consumer prices was lagging far behind that for government purchases. In fact this pattern has been typical through much of the period.

There were of course important differences in policy. A price-wage freeze order was issued on January 25, 1951 and even before that some halting efforts at stabilization had begun. The Korean stabilization program has generally been judged as much less satisfactory than that of World War II.^{2a} Perhaps more important in moderating the inflationary pace of prices were the three major pieces of tax-raising legislation passed in 1950-1951.^{2b} The delays in requesting and in attaining tax increases during the Vietnam conflict stand out on comparison. Okun has recently presented a detailed account of this period.^{2c} In any event the inflationary pressures were permitted to go unchecked longer in the present situation and the tax surcharge which was finally adopted was short-lived and mild.

^{2a} See Gordon F. Bloom and Herbert R. Northrup, *Economics of Labor Relations* (Homewood, Illinois: Richard D. Irwin, 5th Edition, 1965), pp. 569-577.

^{2b} Arthur M. Okun, *The Political Economy of Prosperity* (Washington: The Brookings Institution, 1970), p. 65.

^{2c} *Ibid.*, pp. 62-99. For a review of monetary policy during the same period see Darryl R. Francis, "Let's Not Retreat in the Fight Against Inflation," *Federal Reserve Bank of St. Louis Review*, Vol. 52, No. 5 (May, 1970), pp. 7-11.

TABLE 5.—FEDERAL GOVERNMENT PURCHASES OF GOODS AND SERVICES, NATIONAL DEFENSE

[Annual rates, seasonally adjusted, billions of dollars]

Quarter	1950	Percent change	1951	Percent change	1952	Percent change	1953	Percent change	1954	Percent change	1955	Percent change		
I.....	\$12.5	-----	\$24.1	+40.9	\$42.5	+1.0	\$49.2	+1.4	\$44.4	-6.7	\$38.7	+0.5		
II.....	12.6	+0.8	30.4	+26.1	45.7	+7.5	49.5	+0.6	42.0	-5.4	38.2	-1.3		
III.....	14.2	+12.7	37.7	+24.0	47.0	+2.8	48.4	-2.2	39.9	-5.0	39.2	+2.6		
IV.....	17.1	+20.4	42.1	+11.7	48.5	+3.2	47.6	-1.7	38.5	-3.5	38.1	-2.8		
	1964	Percent change	1965	Percent change	1966	Percent change	1967	Percent change	1968	Percent change	1969	Percent change	1970	Percent change
I.....	\$50.5	-----	\$48.6	-0.6	\$55.3	+5.3	\$69.9	+6.5	\$76.3	+2.1	\$78.6	-0.7	\$79.3	+0.6
II.....	50.7	+0.4	49.2	-1.2	58.5	+5.8	71.8	+2.7	77.8	+2.0	77.9	-0.9	76.8	-3.1
III.....	49.8	-1.8	50.1	+1.8	63.3	+8.2	73.0	+1.7	78.6	+1.0	79.8	+2.4	-----	-----
IV.....	48.9	-1.8	52.5	+4.8	65.6	+3.6	74.7	+2.3	79.2	+0.8	78.8	+1.3	-----	-----

Source: U.S. Department of Commerce, Bureau of the Census, Defense Indicators, Series ES4, No. 68-3 (August 1968), p. 19 and No. 70-8 (August 1970), p. 18.

TABLE 6.—DEFENSE DEPARTMENT MANPOWER, MILITARY, AT END OF PERIOD, NOT SEASONALLY ADJUSTED

(In thousands)

Quarter	1950	Percent change	1951	Percent change	1952	Percent change	1953	Percent change	1954	Percent change	1955	Percent change		
I.....	1,474		2,962	+25.7	3,675	+6.1	3,518	+0.3	3,342	-1.8	3,105	-2.4		
II.....	1,460	-0.9	3,249	+9.7	3,636	-1.1	3,555	+1.0	3,302	-1.2	2,935	-5.5		
III.....	1,889	+29.4	3,376	+3.9	3,583	-1.5	3,509	-1.3	3,280	-7.7	2,931	-1.1		
IV.....	2,357	+24.8	3,465	+2.6	3,507	-2.1	3,403	-3.0	3,181	-3.0	2,887	-1.5		
	1964	Percent change	1965	Percent change	1966	Percent change	1967	Percent change	1968	Percent change	1969	Percent change	1970	Percent change
I.....	2,693		2,647	-0.6	2,969	+3.9	3,371	+1.1	3,467	+2.0	3,452	+1.3	3,173	-3.8
II.....	2,687	-0.2	2,655	+3	3,094	+4.2	3,377	+2	3,547	+2.3	3,460	+2	3,066	-3.4
III.....	2,690	+0.1	2,724	+2.6	3,229	+4.4	3,412	+1.0	3,490	-1.6	3,449	-4		
IV.....	2,663	-1.0	2,857	+4.9	3,334	+3.2	3,398	-4	3,408	-2.3	3,298	-4.4		

Source: U.S. Department of Commerce, Bureau of the Census, Defense Indicators Series ES4, No. 68-3 (August 1968), p. 34 and No. 70-8 (August, 1970), p. 22.

TABLE 7.—DEFENSE DEPARTMENT MANPOWER, CIVILIAN, END OF PERIOD, NOT SEASONALLY ADJUSTED

[In thousands]

Quarter	1950	Percent change	1951	Percent change	1952	Percent change	1953	Percent change	1954	Percent change	1955	Percent change
I.....	743	-----	1,150	+16.4	1,300	+1.7	1,390	+4.5	1,224	-1.9	1,181	+0.1
II.....	753	+1.3	1,235	+7.4	1,337	+2.8	1,332	-4.2	1,209	-1.2	1,187	+ .5
III.....	904	+20.0	1,261	+2.1	1,328	-.7	1,288	-3.3	1,180	-2.4	1,180	-.6
IV.....	988	+9.3	1,278	+1.3	1,330	+ .2	1,248	-3.1-	1,180	0	1,167	-1.1

	1964	Percent change	1965	Percent change	1966	Percent change	1967	Percent change	1968	Percent change	1969	Percent change	1970	Percent change
I.....	1,039	-----	1,018	-0.1	1,088	+2.9	1,268	+3.1	1,266	-0.4	1,317	+3.5	1,224	-3.05
II.....	1,030	-0.9	1,034	+1.6	1,138	+4.6	1,303	+2.8	1,317	+4.0	1,342	+1.9	1,194	-2.5
III.....	1,026	-.4	1,045	+1.1	1,184	+4.0	1,274	-2.2	1,276	-3.1	1,296	-3.4	-----	-----
IV.....	1,019	-.7	1,057	+1.1	1,230	+3.9	1,271	-.2	1,273	-.2	1,262	-2.6	-----	-----

Source: U.S. Department of Commerce, Bureau of the Census, Defense Indicators, series ES4, No. 68-3 (August 1968), p. 35 and No. 70-8 (August 1970), pp. 22.

TABLE 8.—IMPLICIT PRICE DEFLATORS FOR GROSS NATIONAL PRODUCT (1958=100)

	I	Percent change	II	Percent change	III	Percent change	IV	Percent change
KOREAN WAR PERIOD, 1950-54								
1950:								
Gross national product.....	78.3	+0.89	79.0	+2.27	80.8	+1.85	82.3	+3.03
Personal consumption ex-								
penditures (total).....	81.6	+ .49	81.7	+2.20	83.5	+1.67	84.9	+3.53
Durable goods.....	86.3	+ .81	87.0	+1.26	88.1	+1.58	89.5	+5.25
Nondurable goods.....	84.0	+ .47	84.4	+2.96	86.9	+2.18	88.8	+4.27
Services.....	75.5	+ .26	75.7	+1.18	76.6	+1.30	77.6	+1.41
Gross private domestic in-								
vestment (fixed).....	74.8	+2.00	76.3	+3.01	78.6	+1.78	80.0	+3.37
Exports.....	83.0	-1.09	82.1	+2.92	84.5	+6.27	89.8	+5.67
Imports.....	81.8	+2.44	83.8	+7.63	90.2	+7.76	97.2	+8.12
Government purchases of								
goods and services.....	69.7	+1.29	70.6	+2.54	72.4	+2.76	74.4	+1.20
Federal.....	70.0	+2.57	71.8	+2.78	73.8	+2.84	75.9	+1.13
State and local.....	69.4	+ .28	69.6	+2.29	71.2	+2.38	72.9	+1.92
1951:								
Gross national product.....	84.8	+ .70	85.4	+ .23	85.6	+1.28	86.7	0
Personal consumption, ex-								
penditures (total).....	87.9	+ .34	88.2	+ .34	88.5	+1.35	89.7	+ .33
Durable goods.....	94.2	- .96	93.3	+ .96	94.2	+1.06	95.2	+ .63
Nondurable goods.....	92.6	+ .75	93.3	- .22	93.1	+1.18	94.2	+ .10
Services.....	78.7	+1.01	79.5	+1.00	80.3	+1.49	81.5	+ .85
Gross private domestic in-								
vestment (fixed).....	82.7	+ .12	82.8	+ .24	83.0	+ .96	83.8	+ .59
Exports.....	94.9	+4.10	98.8	-1.62	97.2	- .42	96.8	+2.27
Imports.....	105.1	+4.75	110.1	- .91	109.1	-4.22	104.5	+2.29
Government purchases of								
goods and services.....	75.3	+3.05	77.6	+2.57	79.6	+ .87	80.3	- .75
Federal.....	76.0	+2.76	78.1	+3.20	80.6	+ .74	81.2	-1.6
State and local.....	74.3	+3.36	76.8	+1.30	77.8	+ .89	78.5	+1.14
1952:								
Gross national product.....	86.7	+ .46	87.1	+ .68	87.7	+ .68	88.3	+ .11
Personal consumption ex-								
penditures (total).....	90.0	+ .11	90.1	+ .55	90.6	+ .66	91.2	+ .10
Durable goods.....	95.8	- .84	95.0	+ .42	95.4	- .11	95.3	-1.53
Nondurable goods.....	94.3	- .32	94.0	+ .31	94.3	+ .31	94.6	- .53
Services.....	82.2	+1.09	83.1	+1.08	84.0	+1.07	84.9	+1.41
Gross private domestic in-								
vestment (fixed).....	84.3	+ .94	85.1	+ .82	85.8	+ .11	85.9	- .12
Exports.....	99.0	+ .70	99.7	- .81	98.9	-1.42	97.5	- .52
Imports.....	106.9	-2.06	104.7	-2.20	102.4	-1.47	100.9	-1.39
Government purchases of								
goods and services.....	79.7	+1.38	80.8	+ .61	81.3	+1.10	82.2	+ .85
Federal.....	79.9	+1.37	81.0	+ .37	81.3	+1.59	82.6	+ .60
State and local.....	79.4	+1.25	80.4	+1.24	81.4	- .25	81.2	+1.84
1953:								
Gross national product.....	88.4	- .12	88.3	+ .11	88.4	0	88.4	+1.24
Personal consumption expend-								
itures (total).....	91.3	+ .21	91.5	+ .54	92.0	0	92.0	+ .65
Durable.....	94.8	+ .10	94.9	+ .10	95.0	-2.74	92.4	+2.27
Nondurable.....	94.1	- .32	93.8	+ .10	93.9	0	93.9	+ .42
Services.....	86.1	+1.16	87.1	+1.37	88.3	+1.13	98.3	+ .44
Gross private domestic invest-								
ment (fixed).....	85.8	+ .93	86.6	+ .57	87.1	- .35	86.8	- .24
Exports.....	97.0	-2.07	95.0	- .22	94.8	- .95	93.9	+1.06
Imports.....	99.5	- .51	99.0	+ .20	99.2	- .71	98.5	+ .20
Government purchases of								
goods and services.....	82.9	-1.09	82.0	- .86	81.3	0	81.3	+2.70
Federal.....	83.1	-1.57	81.8	-1.35	80.7	- .25	80.5	+3.72
State and local.....	82.7	0	82.7	0	82.7	+ .72	83.3	+ .48

TABLE 8—IMPLICIT PRICE DEFLATORS FOR GROSS NATIONAL PRODUCT: (1958=100)

	I	Percent change	II	Percent change	III	Percent change	IV	Percent change
1954:								
Gross national product	89.5	+ .11	89.6	- .12	89.5	+ .33	89.8	-----
Personal consumption expenditures (total)	92.6	0	92.6	- .22	92.4	- .11	92.3	-----
Durable goods	94.5	-1.27	93.3	-1.29	92.1	- .33	91.8	-----
Nondurable goods	94.3	+ .31	94.6	- .43	94.2	- .43	93.8	-----
Services	89.7	0	89.7	+ .33	90.0	+ .66	90.6	-----
Gross private domestic investment (fixed)	86.6	- .12	86.5	+ .23	86.7	+ .69	87.3	-----
Exports	94.9	0	94.9	-1.48	93.5	+ .42	93.9	-----
Imports	98.7	+3.24	101.9	- .20	101.7	- .69	101.0	-----
Government purchases of goods and services	83.5	+ .23	83.7	+1.07	84.6	+ .23	84.8	-----
Federal	83.5	- .72	82.9	+1.08	83.8	0	83.8	-----
State and local	83.7	+1.91	85.3	+ .58	85.8	+ .58	86.3	-----
VIETNAM WAR PERIOD								
1965:								
Gross national product	110.2	+ .45	110.7	+ .27	111.0	+ .45	111.5	+ .81
Personal consumption expenditures (total)	108.2	+ .55	108.8	+ .18	109.0	+ .27	109.3	+ .82
Durable goods	103.4	- .30	100.1	- .90	99.2	- .40	98.8	- .81
Nondurable goods	105.9	+ .66	106.6	+ .56	107.2	+ .65	107.9	+1.39
Services	114.4	+ .44	114.9	+ .35	115.3	+ .35	115.7	+ .95
Gross private domestic investment (fixed)	108.6	+ .37	109.0	+ .37	109.4	+ .64	110.1	+ .27
Exports	104.4	+ .19	104.6	+ .29	104.9	- .19	104.7	+ .86
Imports	102.6	- .39	102.2	+1.66	103.9	+ .77	104.7	- .29
Government purchases of goods and services	118.0	+ .76	118.9	+ .76	119.8	+1.09	121.1	+ .66
Federal	114.2	+ .26	114.5	+ .87	115.5	+1.82	117.6	- .17
State and local	121.8	+1.07	123.1	+ .89	124.2	+ .40	124.7	+1.52
1966:								
Gross national product	112.4	+ .98	113.5	+ .88	114.5	+ .87	115.4	+ .69
Personal consumption expenditures (total)	110.2	+1.00	111.3	+ .54	111.9	+ .80	112.8	+ .44
Durable goods	98.0	+ .51	98.5	+ .20	98.7	+ .81	99.5	0
Nondurable goods	109.4	+ .91	110.4	+ .63	111.1	+ .63	111.8	+ .18
Services	116.8	+ .94	117.9	+ .68	118.7	+ .93	119.8	+ .75
Gross private domestic investment (fixed)	110.4	+ .81	111.3	+ .81	112.2	+ .80	113.1	+ .79
Exports	105.6	+1.23	106.9	+1.50	108.5	+1.29	109.9	+ .09
Imports	104.4	+1.15	105.6	+ .28	105.9	+ .47	106.4	+ .47
Government purchases of goods and services	121.9	+1.23	123.4	+1.21	124.9	+ .48	125.5	+ .80
Federal	117.4	+ .94	118.5	+ .93	119.6	+ .08	119.7	+ .67
State and local	126.6	+1.50	128.5	+1.63	130.6	+ .99	131.9	+1.06
1967:								
Gross national product	116.2	+ .52	116.8	+1.03	118.0	+1.10	119.3	+ .92
Personal consumption expenditures (total)	113.3	+ .44	113.8	+ .88	114.8	+ .78	115.7	+ .95
Durable goods	99.5	0	99.5	+1.11	100.6	+1.09	101.7	+ .59
Nondurable goods	112.0	+ .45	112.5	+ .80	113.4	+ .62	114.1	+1.14
Services	120.7	+ .75	121.6	+ .82	122.6	+ .90	123.7	+1.05
Gross private domestic investment (fixed)	114.0	+ .70	114.8	+1.65	116.7	+1.03	117.9	+ .42
Exports	109.8	- .45	109.3	+ .27	109.6	+ .27	109.9	- .91
Imports	106.9	- .56	106.3	+ .56	106.9	- .93	105.9	+ .66
Government purchases of goods and services	126.5	+ .55	127.2	+1.34	128.9	+1.78	131.2	+ .76
Federal	120.5	- .17	120.3	+ .75	121.2	+2.23	123.9	+ .40
State and local	133.3	+1.35	135.1	+1.92	137.7	+1.16	139.3	+1.29
1968:								
Gross national product	120.4	+1.10	121.7	+ .99	122.9	+1.14	124.3	+1.13
Personal consumption expenditures (total)	116.8	+1.03	118.0	+ .68	118.8	+1.18	120.2	+ .91
Durable goods	102.3	+ .59	102.9	+ .49	103.4	+1.16	104.6	+ .38
Nondurable goods	115.4	+1.21	116.8	+ .60	117.5	+1.11	118.8	+ .84
Services	125.0	+1.12	126.4	+ .95	127.6	+1.17	129.1	+1.16
Gross private domestic investment (fixed)	118.4	+1.27	119.9	+1.00	121.1	+ .83	122.1	+1.72
Exports	108.9	+2.66	111.8	- .54	111.2	+ .27	111.5	+1.35
Imports	106.6	+1.13	107.8	- .28	107.5	+ .56	108.1	+ .83
Government purchases of goods and services	132.2	+ .98	133.5	+2.10	136.3	+1.10	137.8	+1.23
Federal	124.4	+ .48	125.0	+2.09	127.6	+ .63	128.4	+ .86
State and local	141.1	+1.56	143.3	+1.95	146.1	+1.51	148.3	+1.42

TABLE 8.—IMPLICIT PRICE DEFLATORS FOR GROSS NATIONAL PRODUCT (1958=100)—Continued

	I	Percent change	II	Percent change	III	Percent change	IV	Percent change
1969:								
Gross national product.....	125.7	+1.19	127.2	+1.41	129.0	+1.16	130.5	+1.61
Personal consumption expenditures (total).....	121.3	+1.24	122.8	+1.14	124.2	+1.13	125.6	+1.27
Durable goods.....	105.0	+ .67	105.7	+ .66	106.4	+ .56	107.0	+ .75
Nondurable goods.....	119.8	+1.42	121.3	+1.15	122.9	+1.30	124.5	+1.12
Services.....	130.6	+1.30	132.3	+1.13	133.8	+1.27	135.5	+1.33
Gross private domestic investment (fixed).....	124.2	+ .97	125.4	+1.35	127.1	+ .71	128.0	+1.25
Exports.....	113.0	- .27	112.7	+1.69	114.6	+2.71	117.7	- .17
Imports.....	109.0	+ .46	109.5	+1.55	111.2	+2.97	114.5	+ .35
Government purchases of goods and services.....	139.5	+1.72	141.9	+2.47	145.4	+1.44	147.5	+2.71
Federal.....	129.5	+1.70	131.7	+3.49	136.3	+1.54	138.4	+3.90
State and local.....	150.4	+1.46	152.6	+1.11	154.9	+1.16	156.7	+1.40
1970:								
Gross national product.....	132.6	+1.05	134.0	.....	.....	.....	.....	.....
Personal consumption expenditures (total).....	127.2	+1.02	128.5	.....	.....	.....	.....	.....
Durable goods.....	107.8	+ .37	108.2	.....	.....	.....	.....	.....
Nondurable goods.....	125.9	+ .95	127.1	.....	.....	.....	.....	.....
Services.....	137.3	+1.45	139.3	.....	.....	.....	.....	.....
Gross private domestic investment (fixed).....	129.6	+1.08	131.0	.....	.....	.....	.....	.....
Exports.....	117.5	+1.10	118.8	.....	.....	.....	.....	.....
Imports.....	114.9	+1.13	116.2	.....	.....	.....	.....	.....
Government purchases of goods and services.....	151.5	+2.04	154.6	.....	.....	.....	.....	.....
Federal.....	143.8	+2.22	147.0	.....	.....	.....	.....	.....
State and local.....	158.9	+1.63	161.5	.....	.....	.....	.....	.....

Source: U.S. Department of Commerce, Office of Business Economics, "The National Income and Product Accounts of the United States, 1929-65, Statistical Tables: A Supplement to the Survey of Current Business" (Washington: Government Printing Office, August, 1966), pp. 158-159; "Survey of Current Business," vol. 49, No. 7 (July, 1969), p. 47 and vol. 50, No. 9 (September 1970), p. 14, table 16.

VIETNAM DEMOBILIZATION

The higher level of military preparedness from which we began in the Vietnam conflict made it unlikely that the wrenching adjustments of the Korean mobilization would be repeated, and it is not unlikely that the demobilization after Vietnam will also be smooth. Our experience with the management of fiscal and monetary policy has grown in the interim, and we should be better able to handle the short-term problems of transition. In part the conventional nature of the present buildup will probably ease the problem since most of the military procurement has been in industries where civilian markets exist, and where conversion to servicing such markets should present no great problem. An obvious exception will be ammunition plants which have been started virtually from scratch in areas relatively remote from urban industrial complexes. A special DOD study examined 292 labor market areas where defense dependency was considered significant.³ Twenty-five of them registered a defense dependency ratio of 15 percent or more, and of these communities, fifteen were in the "under 25,000 labor force size class". The communities with the highest dependency ratios were typically dominated by ammunition production.⁴

A recent study for the Arms Control Agency of an ammunition plant in Kansas indicated the work force was relatively uneducated, unskilled, and drawn from the lower-paid segments of the labor force.⁵ An important finding was that in many cases, employment at the plant yielded substantially higher earnings which "meant the difference between a comfortable standard of living and poverty".⁶ To the extent that these findings of defense worker characteristics may be gen-

³ Vernon M. Buehler, "Economic Impact of Defense Programs," in Congress of the United States, Joint Economic Committee, *Economic Effect of Vietnam Spending, Vol. II* (Washington: Government Printing Office, 1967), pp. 870-888. The measure of significant dependence on defense in a labor market was more than 500 defense-generated workers or a defense dependency rate in excess of five percent.

⁴ *Ibid.*, pp. 878-879.

⁵ Bruce W. Macy, Robert E. Roberts and Patricia Quinlan, *Measurement and Analysis of Economic Impact of Kansas Army Ammunition Plant: Final Report*, Prepared for the U.S. Arms Control and Disarmament Agency by Midwest Research Institute, Kansas City, Missouri, 12 February 1970, pp. 4-5.

⁶ *Ibid.*, p. 5.

eralized, they suggest that the burden of adjustment to reduced military spending after peace in Vietnam may fall disproportionately upon minority and other disadvantaged workers. However, the fact that many firms currently engaged in defense production do have alternative civilian markets suggests that they may be more responsive to general fiscal and monetary stabilization policies than would the major aerospace firms, for example.

At least as a first approximation, one may speculate that regions which have benefited most from the Vietnam buildup will be the most vulnerable to an economic decline after its cessation. This will be even more likely if emphasis shifts from the general purpose forces back to the strategic. Table 9 suggests that such a shift away from general purpose forces and toward the strategic has already begun.

RESEARCH AND DEVELOPMENT

Table 10 shows a relative decline in military R & D spending since the intensification of Vietnam hostilities and Table 11 reflects a similar slowdown in total federal R & D expenditures. The recent pressures on the DOD to postpone production until weapons have been more thoroughly tested, the need to remedy deficiencies in weapon systems unearthed during the Vietnam fighting, the need for more advanced inspection techniques that might grow out of the SALT proceedings and normal modernization requirements all suggest that increased military R & D may be anticipated. Research spending in the civilian area has also been restrained during the war and will likely grow too. If higher priority is awarded to civilian R & D functions, the Defense Department will resume its long term decline as a primary patron of the R & D community. (See Table 12.) In any event, those sections of the country with a comparative advantage in research will directly benefit.

TABLE 9.—TOTAL DEFENSE EXPENDITURES DISTRIBUTED ACCORDING TO STRATEGIC OR GENERAL-PURPOSE NATURE

	[Billions of current dollars and percentage of total]									
	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Strategic Forces.....	18.0	15.5	16.9	14.2	14.1	14.7	16.4	18.8	17.7	18.4
General Purpose Forces.....	33.2	34.4	34.7	35.2	51.2	58.7	60.7	60.6	59.3	54.5
Total.....	51.2	49.9	51.6	49.4	65.3	73.4	77.1	79.4	77.0	72.9
Strategic Forces (percent)....	35.2	31.1	32.8	28.8	21.6	20.0	21.2	23.7	22.9	25.3
General Purpose Forces (percent).....	64.8	68.9	67.2	71.2	78.4	80.0	78.8	76.3	77.1	74.7

Sources: Statement of Secretary of Defense Robert S. McNamara before the Senate Armed Services Committee on the fiscal year 1969-73 defense program and 1969 defense budget (Jan. 22, 1968); Statement of Secretary of Defense Clark M. Clifford: The fiscal year 1970-74 defense program and 1970 defense budget (Jan. 15, 1969); Statement of Secretary of Defense Melvin R. Laird before a joint session of the Senate Armed Services Committee and the Senate Subcommittee on Department of Defense Appropriations on the fiscal year 1971 Defense program and budget (Feb. 20, 1970). The calculations were done according to Schultze (Charles L. Schultze, et al., "Setting National Priorities: The 1971 Budget" (Washington: The Brookings Institution, 1970), p. 19) as follows: The costs of the strategic nuclear forces are an aggregate of the strategic forces program, half of the intelligence and communications program, 40 percent of the research and development program, and a varying percentage of the support programs (programs 7, 8, and 9). The costs of the General Purpose Forces are an aggregate of the General Purpose Forces program, half of the intelligence and communications program, the airlift and sealift program, the National Guard and Reserve Forces program, 60 percent of the research and development program, the support of other nations program, and a varying percentage of the support programs.

TABLE 10.—RESEARCH, DEVELOPMENT, TESTING AND EVALUATION CONTRACTS AS A PERCENTAGE OF DEFENSE PRIME CONTRACTS BY REGION, FISCAL YEARS 1962-69

[In percent]

Area	1962	1963	1964	1965	1966	1967	1968	1969
United States.....	24.4	24.6	23.6	20.2	16.6	16.0	17.3	16.9
New England.....	16.2	21.4	24.2	19.8	13.6	16.7	15.4	16.6
Middle Atlantic.....	25.5	22.2	20.8	17.2	15.1	14.7	14.4	17.4
East North Central.....	11.1	9.9	11.2	13.6	9.7	10.4	12.1	7.8
West North Central.....	5.0	6.4	7.4	6.1	6.1	4.8	5.3	6.3
South Atlantic.....	22.9	20.3	20.8	21.8	19.8	18.1	20.7	16.9
South Central.....	6.5	9.6	15.6	21.7	12.3	8.6	8.4	6.5
Mountain.....	32.8	39.1	36.6	27.8	25.9	22.8	30.3	25.5
Pacific.....	42.2	42.0	39.3	27.9	28.5	29.9	33.5	32.2
Alaska and Hawaii.....	2.1	1.3	1.3	2.7	7.3	6.5	6.5	10.6

Source: Office of the Secretary of Defense, Directorate for Statistical Services, Military Prime Contract Awards by Region and State: Fiscal Years 1962-67 (Washington: Office of the Secretary of Defense, Dec. 27, 1967), pp. 60-82 and Military Prime Contract Awards by Region and State: Fiscal Years 1967-69 (Washington: Office of the Secretary of Defense, Oct. 27, 1969), pp. 68-74.

TABLE II.—FEDERAL EXPENDITURES FOR RESEARCH, DEVELOPMENT, AND R. & D. PLANT,¹ RELATIVE TO TOTAL FEDERAL BUDGET OUTLAYS, 1940-70

[Dollars in millions]

Fiscal years	Total Federal budget outlays ²	R. & D. expenditures	R. & D. expenditures as percent of total Federal budget outlays
1940.....	\$9,589	\$74	0.8
1941.....	13,980	198	1.4
1942.....	34,500	280	0.8
1943.....	78,909	602	0.8
1944.....	93,956	1,377	1.5
1945.....	95,184	1,591	1.7
1946.....	61,738	918	1.5
1947.....	36,931	900	2.4
1948.....	36,493	855	2.3
1949.....	40,570	1,082	2.7
1950.....	43,147	1,083	2.5
1951.....	45,797	1,301	2.8
1952.....	67,962	1,816	2.7
1953.....	76,769	3,101	4.0
1954.....	71,138	3,148	4.4
1955.....	68,503	3,308	4.8
1956.....	70,461	3,446	4.9
1957.....	76,748	4,462	5.8
1958.....	82,575	4,991	6.0
1959.....	92,111	5,806	6.3
1960.....	92,230	7,744	8.4
1961.....	97,802	9,284	9.5
1962.....	106,830	10,381	9.7
1963.....	111,314	11,999	10.8
1964.....	118,585	14,707	12.4
1965.....	118,431	14,889	12.6
1966.....	134,654	16,018	11.9
1967.....	158,352	16,842	10.6
1968.....	178,862	17,030	9.5
1969 (estimate) ³	183,701	16,553	9.0
1970 (estimate) ³	195,272	16,922	8.7

¹ Beginning in fiscal year 1953 amounts for expenditures include pay and allowance of military personnel in research and development.

² "Outlays" include expenditures plus net lending. Data through fiscal year 1953 are in terms of the "consolidated cash statement" and data beginning with fiscal year 1954 are in terms of the "unified budget." For purposes of providing trend information the data are considered to be reported on a generally comparable basis.

³ These estimates are based on amounts shown in the budget, 1970, subject to subsequent administrative action. Data for 1970, moreover, do not reflect congressional action.

Note: Data for fiscal year 1952 and subsequent years are based on surveys of the National Science Foundation. Prior data were prepared by the Bureau of the Budget. Since the NSF surveys began, agencies have submitted revised data when necessary to maintain historical comparability with reporting practices of the latest period.

Source: National Science Foundation, Surveys of Science Resources Series, NSF 69-31, "Federal Funds for Research, Development, and Other Scientific Activities, Fiscal Years 1968, 1969, and 1970," vol. XVIII (Washington: Government Printing Office, August 1969) p. 3.

TABLE 12.—PERCENTAGE DISTRIBUTION OF FEDERAL EXPENDITURES FOR RESEARCH, DEVELOPMENT, AND R. & D. PLANT, SELECTED AGENCIES, FISCAL YEARS 1950-69

(Dollar amounts in millions)

Fiscal year	Department of Defense	Department of Health, Education, and Welfare ¹	National Aeronautics and Space Administration ²	Atomic Energy Commission	All agencies
1950.....	60.2	3.7	5.0	20.4	\$1,082.8
1951.....	63.3	4.1	4.7	18.7	1,300.5
1952.....	72.5	3.5	3.7	13.7	1,816.2
1953.....	79.2	2.1	2.5	12.2	3,101.0
1954.....	79.0	2.0	2.8	12.2	3,147.9
1955.....	79.5	2.1	2.2	11.6	3,308.3
1956.....	76.6	2.5	2.1	13.8	3,446.0
1957.....	75.6	3.2	1.7	14.7	4,461.9
1958.....	73.4	3.6	1.8	16.1	4,989.9
1959.....	72.1	4.4	2.5	15.1	5,802.9
1960.....	73.1	4.2	5.2	12.7	7,738.0
1961.....	71.3	3.7	8.0	12.0	9,278.1
1962.....	65.7	4.9	12.1	12.4	10,373.3
1963.....	57.1	5.3	21.2	11.1	11,988.3
1964.....	51.2	5.4	28.4	10.2	14,693.9
1965.....	45.2	5.0	34.2	10.2	14,874.7
1966.....	42.1	5.5	37.1	9.1	16,002.3
1967.....	45.6	6.4	32.2	8.7	16,841.7
1968 (estimate).....	46.6	7.1	29.0	9.5	16,576.1
1969 (estimate).....	47.2	7.3	26.0	9.9	17,567.1

¹ Federal Security Agency prior to fiscal year 1952.² National Advisory Committee for Aeronautics prior to fiscal year 1958.

Source: Computed from data in National Science Foundation, "Federal Funds for Research, Development, and Other Scientific Activities, Fiscal Years 1967, 1968, and 1969," vol. XVII (Washington: Government Printing Office, August 1968), pp. 216-217.

NEED FOR ADDITIONAL DATA

The foregoing observations suggest a relatively modest transition problem. At the macro level, this is apt to be an accurate representation. On the other hand, attempting to pinpoint and measure impacts at the micro level is somewhat more difficult. The major problem is that while improved statistical programs of recent years now provide adequate data for the measurement of broad patterns of defense spending, they are inadequate to measure the degree of dependence of particular industries and regions on defense activity at more disaggregate levels. After all, the impact is felt in a particular community rather than in some generalized abstraction called the United States. One of the most serious deficiencies remains our inability to trace prime contract awards down through the various levels of subcontracts. Such a capability is a prerequisite to pinpointing the effects of changes in particular weapon systems programs.

A similar lack of information limits our capability to accurately foresee the impact of various compensatory government spending programs. Professor Galbraith has commented that it is a matter of no great concern which government programs replace strategic weaponry provided they are "roughly equivalent in scale and technical complexity."⁷ This is true but we know very little about the characteristics of such offset programs. Oceanography and urban transit are unlikely to have the same economic impact. Particular government programs may come closer to absorbing the kind of resources liberated by reduced military spending than do others. Such information would be very valuable in transition planning. Other criteria must, of course, be considered. The program which comes closest to being a good substitute for high technology weapons production in terms of skill transfers, etc. may not be the highest priority program on the policy-maker's list. Nevertheless, this type of information would contribute much to more rational decisions.

STRATEGIC ARMS LIMITATIONS

The problem of attempting to project the impact on the military budget resulting from an agreement with the Soviet Union limiting strategic weapons is highly complex. Despite popular views to the contrary, strategic arms limita-

⁷ John Kenneth Galbraith, *The New Industrial State*, (Boston: Houghton-Mifflin, 1966), p. 346.

tions might result in a higher rather than a lower level of military expenditures for at least two reasons.

First while the major goal would be to curb the nuclear arms race, this goal would have to be consistent with the objectives of preventing accidents, errors of interpretation, and in general achieving a strategic weapons mix which would be "stabilizing." These goals could conceivably require increased expenditures. Second, a serious restriction on strategic weapons could lead to compensatory increases in non-strategic forces to prevent a net diminution in our military strength and posture.⁸

Equally plausible and no less complex is the counter argument that a necessary pre-condition for a serious agreement on the limitation of strategic arms would be a climate of mutual trust and friendship of such magnitude as to bring about not only an agreement on strategic arms but on the entire level of military forces. If we accept this reasoning the total reduction in military spending which could result from such an agreement might be some multiple of the initial reduction in spending on strategic weapons, rather than simply some fraction of the amount currently being spent on our strategic forces.⁹

Finally, during the course of this project President Nixon ordered a detailed study of American global military and foreign policy. Under the above circumstances and with a possible redefinition of our national interest and commitments in the offing, the size and structure of our future military forces seemed particularly uncertain.

ALTERNATIVE MILITARY BUDGETS

To establish the broad parameters of our analysis it was necessary to decide upon some range of alternative military budgets which might be plausible in the near future, given these uncertainties. Charles L. Schultze has recently published a careful study of the force structures and military budgets which might be envisioned in the period to 1975.¹⁰ His essay clearly illustrates the myriad of elements and difficulties which enter into such an effort at military budget projection.¹¹

The seven budget alternatives presented to this subcommittee by the distinguished military affairs scholar, William Kaufmann, were finally selected and five of them were analyzed in detail by Professors Lawrence Klein of the University of Pennsylvania and John H. Cumberland of the University of Maryland. These five defense budgets and their underlying assumptions are reproduced in Table 13. Three of them were also inserted into the University of Maryland econometric model for detailed analysis at the state and SMSA level. The salient findings will be presented shortly. In addition to these econometric studies, other members of the group investigated a variety of short and long-run influences relating to military spending. This study was a cooperative venture from the start and I appear before you today as the project director only. A full list of researchers, their affiliations and the titles of their papers appears as Appendix A.

REVIEW OF FINDINGS

National Impact

In presenting the more important findings of our study I shall speak of the impact of alternative military budgets on certain important economic variables (GNP, Employment, Unemployment Rates, and the Balance of Payments) at the national level. Attention will then be shifted to the state and SMSA level followed by an analysis of the impact upon individuals, firms and governments.

⁸ For an incisive discussion of these problems, see Thomas C. Schelling and Morton H. Halperin, *Strategy and Arms Control* (New York: Twentieth Century Fund, 1961), pp. 120-125.

⁹ The cost assigned to the core strategic forces program in the military budget was \$8.6 billion in FY 1969 and in the two Nixon Administration successor budgets it has fallen to \$7.5 and \$8.0 billion, respectively.

¹⁰ Charles L. Schultze, *Setting National Priorities: The 1971 Budget* (Washington: The Brookings Institution, 1970), pp. 17-54.

¹¹ *Ibid.*, Table 2-5, p. 28.

TABLE 13.—SAMPLE POST-VIETNAM DEFENSE BUDGETS¹ (IN 1972 PRICES)

[In billions of dollars]

Type of budget	TOA ²	Strategic forces	General purpose forces	Intelligence and communications	Airlift and sea-lift	Guard and reserve forces	Research and development	Central supply and maintenance	Training, medical, etc.	Administration and associated activities	Support of other nations	Retirement pay and pay raise
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1. Minimum deterrence	42.2	4.3	15.0	2.8	1.0	1.6	2.9	3.8	4.6	0.8	1.2	4.2
2. Streamlined baseline	59.4	7.8	19.0	5.0	1.4	2.0	5.2	4.8	5.8	1.0	1.2	6.2
3. Fiscal year 1965 inflated	67.9	8.2	22.7	5.4	1.6	2.3	5.7	5.7	7.0	1.4	1.4	6.2
4. Postwar baseline	70.5	10.6	21.6	5.9	1.5	2.0	8.1	5.4	6.6	1.2	1.4	6.2
5. Postwar superiority	93.6	16.6	26.4	10.4	1.9	2.8	10.8	6.7	8.0	1.4	2.4	6.2

¹ See p. 82 for the assumptions underlying each budget.² TOA stands for total obligational authority.

Source: William W. Kaufmann, "Alternative Post-Vietnam Defense Budgets," U.S. Congress, 91st

Cong., 1st sess., Joint Economic Committee, Subcommittee on Economy in Government, The Military Budget and National Economic Priorities, pt. 1 (Washington: Government Printing Office, 1969), pp. 163-181, especially pp. 178-179.

ASSUMPTIONS GOVERNING THE SAMPLE DEFENSE BUDGETS

1. *Minimum Deterrence*—

- a. Strategic nuclear deterrence is based solely on the Polaris-Poseidon force; Minuteman, bombers, and CONUS active defenses are phased out;
- b. Theater nuclear forces are phased out of the inventory;
- c. 6 division forces and 6 tactical air wings are dropped from the force structure, and General Purpose force planning is based on the assumption of the capability simultaneously to cope with one major and one minor contingency;
- d. Proportionate reduction in other programs associated with the General Purpose Forces (categories 4, 5, 7, 8, and 9), and a cut in military assistance;
- e. A reduction in the pay raise to reflect the reduction in manpower;
- f. The armed forces are assumed to number 2.3 million.

2. *Streamlined Baseline*—This budget is intended to reflect the following characteristics:

- a. deferral of the decision to deploy Safeguard and Minuteman III, and phaseout of older-model B-52's;
- b. cessation of further expenditures on theater nuclear forces;
- c. potential for modernization of the forces to the extent that older programs are traded off against needed new ones, and through salvage of high-value Vietnam surpluses;
- d. The armed forces are assumed to number 2.5 million.

3. *FY 1965 Inflated*—This is the original FY 1965 defense budget with the following changes:

- a. The first ten categories are inflated by 20 percent;
- b. Retirement pay and a pay raise are added;
- c. The armed forces are assumed to number 2.7 million.

4. *Postwar Baseline*—This budget reflects not only the end of the war in Vietnam, but also a reduction in the General Purpose Forces to the level of about FY 1965. However, the strategic and affiliated programs are maintained near the levels of the FY 1970 budget. The armed forces are assumed to number 2.7 million.5. *Postwar Superiority*—This budget has been arrived at by taking the following steps:

- a. Adding \$6 billion to the Strategic Forces in order to start procuring 700 Improved Capability Missiles, 210, AMSA, AWACS and the F-106X, a heavy ABM defense, and an expanded fallout shelter program;
- b. Expanding Research and Development and Intelligence and Communications proportionately;
- c. Reducing the budget by \$16.7 billion to account for the end of the war in Vietnam;
- d. The armed forces are assumed to number 3.5 million.

Table 14 contains the projected 1972 GNP and unemployment rates generated by the Klein and Maryland models for five defense budgets (Minimum Deterrence, Streamlined Baseline, Postwar Baseline, FY 1965 Inflated, and Postwar Superiority). They are all shown on both a compensated and uncompensated basis with the exception of the Maryland Postwar Baseline budget which was used as a "normalcy" base and is available only in the uncompensated form.

Given the independence of the two models, the extent of agreement between them is reassuring. The two models generate close dollar estimates of GNP for each defense assumption. The greatest divergence between the two (28 billion) is under the compensated version of the Minimum Deterrence defense budget. However, since both models are estimating GNP in excess of \$1 trillion, the percentage difference between the two is minor, i.e., slightly over 2½ percent. The mean difference of the 9 cases where comparison is possible is \$19.6 billion. The highest unemployment rate—6.8 percent—is encountered with the extremely low defense expenditures of the uncompensated Minimum Deterrence model (\$42.2 billion). The largest divergence occurs on the uncompensated Postwar

Superiority assumption for which the Maryland model yields 1.1 percent unemployment, as compared with 3.2 percent for the Klein model. In all other cases the variation in unemployment rates falls within a range of 0.2 to 1.7 percentage points. The mean difference is 1.09 percentage points. In comparing the projections of two models for each of the variables mentioned above, the compensated versions yield smaller mean differences. A fair degree of internal consistency is suggested by the inverse relationship generally prevailing between the unemployment rate and the magnitude of defense expenditures.

Both models suggest that the U.S. economy could adjust to cuts in defense expenditures far greater than those expected even in the absence of offsetting increases in consumption expenditures with unemployment rates during the transition period which could generally be considered tolerable. For purposes of perspective, Table 15 presents monthly unemployment rates for the period since 1948. The likely application of monetary, fiscal and other compensatory policies could be expected to reduce these unemployment rates even further.

TABLE 14.—COMPARISON OF KLEIN AND MARYLAND PROJECTIONS, GNP AND DEFENSE EXPENDITURES IN BILLIONS OF 1972 DOLLARS AND UNEMPLOYMENT RATES IN PERCENT

	Minimum deterrence		Streamlined baseline		Fiscal year 1965 inflated		Post-war baseline	Postwar superiority	
	Un-compensated	Compensated	Un-compensated	Compensated	Un-compensated	Compensated	un-compensated	Un-compensated	Compensated
Defense, expenditures.....	\$42.2	\$42.2	\$59.4	\$59.4	\$67.9	\$67.9	\$70.5	\$93.6	\$93.6
Unemployment rate:									
Maryland.....	6.4	3.7	4.8	3.7	3.9	3.7	3.7	1.1	3.7
Klein.....	6.8	5.4	5.7	4.9	5.1	4.6	4.9	3.2	3.5
Difference.....	.4	1.7	.9	1.2	1.2	.9	1.2	2.1	.2
GNP (billions of dollars):									
Maryland.....	\$1,066	\$1,099	\$1,036	\$1,100	\$1,096	\$1,099	\$1,099	\$1,126	\$1,094
Klein.....	1,041	1,071	1,062	1,080	1,075	1,083	1,079	1,110	1,100
Difference.....	25	28	24	20	21	16	23	16	6
Difference as a percent of Maryland GNP.....	2.35	2.55	2.21	1.81	1.91	1.45	1.82	1.42	0.55

TABLE 15.—UNEMPLOYMENT RATE, ALL CIVILIAN WORKERS (SEASONALLY ADJUSTED)

	January	February	March	April	May	June	July	August	September	October	November	December	Average
1948	3.4	3.8	4.0	3.9	3.5	3.6	3.6	3.9	3.8	3.7	3.8	4.0	3.8
1949	4.3	4.7	5.0	5.3	6.1	6.2	6.7	6.8	6.6	7.9	6.4	6.6	5.9
1950	6.5	6.4	6.3	5.8	5.5	5.4	5.0	4.5	4.4	4.2	4.2	4.3	5.3
1951	3.7	3.4	3.4	3.1	3.0	3.2	3.1	3.1	3.3	3.5	3.5	3.1	3.3
1952	3.2	3.1	2.9	2.9	3.0	3.0	3.2	3.4	3.1	3.0	2.8	2.7	3.0
1953	2.9	2.6	2.6	2.7	2.5	2.5	2.6	2.7	2.9	3.1	3.5	4.5	2.9
1954	4.9	5.2	5.7	5.9	5.9	5.6	5.8	6.0	6.1	5.7	5.3	5.0	5.6
1955	4.9	4.7	4.6	4.7	4.3	4.2	4.0	4.2	4.1	4.3	4.2	4.2	4.4
1956	4.0	3.9	4.2	4.0	4.3	4.3	4.4	4.1	3.9	3.9	4.3	4.2	4.1
1957	4.2	3.9	3.7	3.9	4.1	4.3	4.2	4.1	3.9	3.9	5.1	4.2	4.1
1958	5.8	6.4	6.7	7.4	7.4	7.3	7.5	7.4	4.4	4.5	5.1	5.2	4.3
1959	6.0	5.9	5.6	5.2	5.1	5.0	5.1	5.2	5.7	6.7	5.8	6.2	6.8
1960	5.2	4.8	5.4	5.2	5.1	5.4	5.5	5.2	5.5	5.7	5.8	5.3	5.5
1961	6.6	6.9	6.9	7.0	7.1	6.9	7.0	6.6	6.7	6.1	6.2	6.0	5.5
1962	5.8	5.5	5.6	5.6	5.5	5.5	5.4	5.7	5.6	6.5	6.1	6.0	6.7
1963	5.7	5.9	5.7	5.7	5.9	5.6	5.6	5.4	5.7	5.4	5.7	5.5	5.3
1964	5.6	5.4	5.4	5.3	5.1	5.2	4.9	5.0	5.1	5.5	5.7	5.5	5.7
1965	4.8	5.0	4.7	4.8	4.6	4.6	4.4	4.4	4.3	4.1	4.1	4.0	4.5
1966	3.9	3.7	3.8	3.8	3.9	3.8	3.8	3.8	3.7	3.7	3.6	3.8	3.8
1967	3.7	3.7	3.7	3.8	3.9	3.9	3.9	3.8	4.0	4.2	3.8	3.7	3.8
1968	3.6	3.7	3.7	3.5	3.6	3.7	3.7	3.5	3.6	3.6	3.4	3.3	3.6
1969	3.3	3.3	3.4	3.5	3.5	3.4	3.5	3.5	3.8	3.8	3.5	3.5	3.5
1970	3.9	4.2	4.4	4.8	5.0	4.7	5.0	5.1	5.5				

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Earnings and Monthly Report on the Labor Force," vol. 15, No. 8 (February 1969), p. 55 and selected later issues.

IMPACT ON REGIONS

The aforementioned reasonableness of the Maryland interindustry projections is important since the industry employment estimates associated with these projections are used as the basis for the national control totals which after various adjustments are then distributed geographically by the regional projection model in order to estimate the regional economic impact of changing defense expenditures. The regional disaggregation follows the procedures of Professor Curtis C. Harris, Jr. of the University of Maryland. Basically, the regional model utilizes industry location equations to estimate the geographic distribution of national output totals in each industry. The details of the methodology will appear in Professor Cumberland's paper in the final report.

For reasons of both budget constraints and display space limitations, only three of the five Kaufmann alternative defense budget assumptions for 1972 were applied to the regions. The Minimum Deterrence and Postwar Baseline Budget assumptions were dropped for purposes of regional analysis. However, the uncompensated and compensated versions of each of the three remaining budget assumptions were included in both state and SMSA tables.

The state results appear in Table 16. States experiencing a seven percent unemployment rate or more under the uncompensated versions of the defense budget numbered three in the Streamlined Baseline assumption, three in the FY 1965 Inflated assumption and two in the Postwar Superiority budget. If the cutoff is dropped from seven to five percent unemployment, the number of states grows to 18, 13 and three respectively. When compensatory programs are added to the model, the numbers with 5% or more decline to all for Streamlined Baseline and 10 for FY 1965 Inflated. The Postwar Superiority budget is so large that compensations really mean antiinflationary policy, hence the number of states expected to show unemployment in excess of five percent rises from three to thirteen when compensation is included. In all cases, however, the states which appear most often with relatively high unemployment rates are Alaska, New Mexico, Nevada, Wyoming and Hawaii.

TABLE 16.—SUMMARY OF UNITED STATES AND STATES EMPLOYMENT TOTALS AND UNEMPLOYMENT RATES ESTIMATED FOR ALTERNATIVE DEFENSE EXPENDITURES, 1972

[Employment in thousands]

Region	Streamlined baseline (1972)						Fiscal 1965, inflated (1972)				Postwar superiority (1972)			
	1965 employment	Uncompensated		Compensated		Uncompensated		Compensated		Uncompensated		Compensated		
		Employed	Percent un- employed	Employed	Percent un- employed	Employed	Percent un- employed	Employed	Percent un- employed	Employed	Percent un- employed	Employed	Percent un- employed	
United States	69,300	79,944	4.5	80,823	3.5	80,624	3.8	80,835	3.6	82,857	1.2	80,739	3.9	
Alabama	1,127	1,306	4.1	1,319	2.9	1,314	3.3	1,317	3.0	1,341	.6	1,308	3.4	
Alaska	105	130	10.7	130	10.4	132	10.4	132	10.5	142	9.2	141	10.3	
Arizona	508	702	5.8	708	5.2	708	5.3	709	5.3	726	3.7	710	5.4	
Arkansas	601	695	3.4	703	2.5	699	2.8	700	2.7	710	.2	692	3.1	
California	6,758	8,349	6.2	8,427	5.5	8,434	5.6	8,452	5.5	8,735	3.5	8,534	5.5	
Colorado	698	873	5.6	881	4.8	879	5.0	881	4.9	902	3.2	881	5.2	
Connecticut	1,106	1,269	4.5	1,286	3.2	1,290	3.4	1,294	3.1	1,351	.2	1,315	3.1	
Delaware	186	230	4.1	232	3.0	231	3.4	232	3.1	237	.7	231	3.5	
District of Columbia	367	449	2.4	453	2.2	452	2.2	453	2.3	461	.0	451	2.8	
Florida	1,994	2,592	5.4	2,614	4.6	2,607	4.8	2,612	4.7	2,663	3.1	2,602	5.1	
Georgia	1,560	1,874	4.1	1,892	3.1	1,887	3.4	1,891	3.2	1,930	.8	1,884	3.6	
Hawaii	282	350	6.5	352	5.6	355	5.9	355	5.7	370	3.9	364	6.0	
Idaho	237	272	5.0	274	4.0	273	4.4	274	4.2	277	2.5	271	4.8	
Illinois	4,074	4,476	3.6	4,532	2.6	4,517	2.9	4,532	2.7	4,652	.1	4,522	3.1	
Indiana	1,761	1,923	4.2	1,946	2.9	1,942	3.2	1,948	2.9	2,008	.3	1,953	3.2	
Iowa	974	1,031	3.7	1,043	2.6	1,037	3.0	1,040	2.7	1,055	.2	1,027	3.2	
Kansas	806	870	5.4	879	4.4	881	4.6	883	4.4	913	1.9	892	4.4	
Kentucky	989	1,101	3.8	1,112	3.0	1,109	3.2	1,112	3.1	1,140	.6	1,112	3.5	
Louisiana	1,088	1,295	4.7	1,307	3.6	1,302	4.0	1,305	3.8	1,324	1.9	1,293	4.3	
Maine	344	403	4.8	406	3.5	406	4.0	407	3.7	417	1.4	406	4.1	
Maryland	1,307	1,658	3.8	1,673	2.9	1,673	3.1	1,676	2.9	1,721	.4	1,683	3.2	
Massachusetts	2,040	2,246	4.8	2,276	3.5	2,269	3.9	2,277	3.6	2,346	.9	2,279	3.8	
Michigan	2,900	3,177	4.6	3,216	3.4	3,201	3.8	3,212	3.5	3,280	1.1	3,188	3.9	
Minnesota	1,241	1,385	4.2	1,402	2.9	1,395	3.4	1,399	3.1	1,421	.8	1,383	3.6	

Mississippi	716	809	4.4	817	3.2	814	3.6	816	3.3	830	1.0	811	3.7
Missouri	1,604	1,744	3.9	1,765	2.9	1,759	3.2	1,765	3.0	1,808	.4	1,759	3.4
Montana	240	276	4.8	278	3.6	277	4.0	278	3.8	283	1.9	276	4.3
Nebraska	529	591	4.4	597	3.1	595	3.5	596	3.2	607	.9	592	3.7
Nevada	171	243	7.2	245	7.0	244	7.0	245	7.1	249	6.6	242	7.6
New Hampshire	260	331	3.6	334	2.6	333	2.9	334	2.7	342	.2	333	3.1
New Jersey	2,554	2,952	4.6	2,987	3.4	2,983	3.7	2,992	3.4	3,084	.7	3,003	3.5
New Mexico	326	386	8.0	389	7.9	390	7.8	391	7.9	405	7.1	397	8.1
New York	6,940	7,893	3.6	8,001	2.5	7,959	2.8	7,985	2.6	8,141	.1	7,908	3.0
North Carolina	1,730	2,067	4.5	2,088	3.3	2,080	3.8	2,085	3.5	2,126	1.4	2,073	4.0
North Dakota	211	239	6.0	241	5.4	240	5.6	240	5.6	243	4.5	237	6.2
Ohio	3,648	3,992	4.3	4,040	2.9	4,025	3.3	4,038	3.0	4,151	.4	4,035	3.3
Oklahoma	821	913	4.5	923	3.4	921	3.8	923	3.5	945	1.0	923	3.8
Oregon	686	816	3.7	824	2.6	820	3.0	822	2.7	834	.2	813	3.1
Pennsylvania	4,169	4,537	3.2	4,595	2.4	4,574	2.6	4,589	2.5	4,699	0	4,561	2.9
Rhode Island	344	397	5.2	403	3.9	403	4.3	404	4.0	420	1.5	410	4.2
South Carolina	870	1,016	3.6	1,025	4.6	1,023	5.0	1,025	4.8	1,050	3.2	1,025	5.4
South Dakota	229	252	6.0	255	5.3	254	5.6	254	5.5	257	4.4	251	6.1
Tennessee	1,303	1,523	3.6	1,540	2.7	1,532	3.0	1,536	2.8	1,560	.3	1,519	3.2
Texas	3,679	4,281	5.0	4,322	4.0	4,317	4.3	4,326	4.1	4,434	1.9	4,330	4.4
Utah	320	401	6.1	405	5.6	405	5.6	405	5.6	414	4.0	405	5.8
Vermont	141	177	4.3	179	3.2	178	3.5	178	3.2	182	.9	177	3.5
Virginia	1,591	1,971	3.9	1,986	3.4	1,988	3.6	1,991	3.5	2,050	1.0	2,009	3.8
Washington	1,071	1,182	5.9	1,194	5.0	1,198	5.1	1,201	4.9	1,249	2.4	1,220	4.8
West Virginia	512	567	3.8	573	2.6	570	3.0	572	2.7	581	.2	566	3.2
Wisconsin	1,465	1,589	4.1	1,609	2.8	1,602	3.2	1,607	2.9	1,644	.3	1,599	3.2
Wyoming	119	142	6.8	144	6.2	143	6.2	144	6.2	147	4.8	144	6.4

This might be an appropriate spot at which to comment on a point which might otherwise appear rather odd. How, it might be asked, can one explain projected unemployment rates under various assumed sharp reductions in military spending when such rates lie below the current unemployment rate which obtains at a time when the war in Vietnam is continuing and the defense budget is still above \$70 billion? There are two parts to the answer. The first is found in the fact that for the past year and a half the economy has been subjected to conscious efforts at restraint as part of the anti-inflation program. Thus, in effect, while the level of defense expenditures has been declining government policies have tended to accentuate rather than counter the resulting dampening influences upon aggregate demand. The current well-publicized economic distress in the State of Washington for example is in no small measure a result of the failure of commercial air traffic to grow as rapidly as had been anticipated reflecting in part the current recession and the dampening effect of high interest rates upon the construction industry with consequent difficulties for the lumber and plywood industry of the state. While it is an open question as to whether a different mix of policies would have been more successful in reducing inflationary pressures with a smaller negative impact upon employment it is a fact that this period has been a most difficult one for economic policymakers.

The second part of the answer to the above question is inherent in the nature of the Klein and Cumberland projections. The economic models which yielded these findings are carefully based upon certain assumed interrelationships among many economic variables. They should be interpreted as "logically possible pathways to hypothetical futures."¹² It is important to keep in mind that in the absence of stable parameters, all projections are, at best conditional and that social systems are notoriously unstable.¹³

A major purpose of this study is to better understand the nature of the adjustment process to reduced military spending. By subjecting the economy to a range of defense budgets reflecting alternative foreign policy objectives and strategies and comparing the resulting dislocation we are, in effect, conducting a form of sensitivity analysis. If weakness is indicated in particular parts of the economic machinery an opportunity is provided for corrective action to be taken. Such corrective action may take the form of new or altered social or economic policy or improvements in existing machinery.

In any event, it would be a gross distortion to view the conditional predictions contained in the Klein and Cumberland chapters as attempts at pinpoint accuracy in predicting, say, a particular unemployment rate at a particular point in time. Rather they are attempting to determine the nature and order of magnitude of the adjustment problems which the nation and various of its regions are likely to encounter under certain assumed military budgets of varying size and composition.

Returning to our results, Table 17 summarizes employment and unemployment for Standard Metropolitan Statistical Areas. It is limited to the areas expected to experience a typical unemployment rate, either much above or below average. Of the 219 SMSA's only seven show serious levels of unemployment in excess of 10 percent of the labor force.

¹² Otis Dudley Duncan, "Social Forecasting: The State of the Art," *The Public Interest*, No. 17 (Fall, 1969), pp. 88-118, especially p. 115.

¹³ Kenneth E. Boulding, "The Verifiability of Economic Images," in Sherman Roy Krupp (ed.), *The Structure of Economic Science* (Englewood Cliffs, New Jersey: Prentice-Hall, 1966), pp. 129-141.

TABLE 17.—STANDARD METROPOLITAN STATISTICAL AREA RANKING BY UNEMPLOYMENT IMPACT ESTIMATED FOR STREAMLINED BASELINE, COMPENSATED MILITARY BUDGET ASSUMPTION, 1972

[For selected SMSA's]

Rank	SMSA	State	Employment (in thousands)	Unemployment percent
1	Lawton.....	Oklahoma.....	43	16.7
2	Duluth-Superior.....	Minnesota-Wisconsin.....	88	12.1
3	Fayetteville.....	North Carolina.....	84	11.8
4	Salinas-Monterey.....	California.....	98	11.5
5	San Diego.....	do.....	480	10.0
213	Ann Arbor.....	Michigan.....	91	1.2
214	Flint.....	do.....	199	1.2
215	Jersey City.....	New Jersey.....	264	1.2
216	Lynchburg.....	Virginia.....	59	1.2
217	Saginaw.....	Michigan.....	86	1.2
218	New Haven-Waterbury-Meriden.....	Connecticut.....	313	1.1
219	Lansing.....	Michigan.....	176	1.0

TABLE 17.—(CONTINUED) STANDARD METROPOLITAN STATISTICAL AREA RANKING BY UNEMPLOYMENT IMPACT ESTIMATED FOR FISCAL YEAR 1965 INFLATED, COMPENSATED MILITARY BUDGET ASSUMPTION, 1972

[For selected SMSA's]

Rank	SMSA	State	Employment (in thousands)	Unemployment percent
1	Lawton.....	Oklahoma.....	44	16.4
2	Fayetteville.....	North Carolina.....	86	12.0
3	Salinas-Monterey.....	California.....	100	11.6
4	Duluth-Superior.....	Minnesota-Wisconsin.....	88	11.5
5	San Diego.....	California.....	491	10.0
211	Ann Arbor.....	Michigan.....	91	1.3
212	Flint.....	Michigan.....	198	1.3
213	Lynchburg.....	Virginia.....	59	1.3
214	Saginaw.....	Michigan.....	86	1.3
215	Erie.....	Pennsylvania.....	104	1.2
216	Jersey City.....	New Jersey.....	264	1.2
217	New Haven-Waterbury-Meriden.....	Connecticut.....	314	1.2
218	Springfield.....	Missouri.....	64	1.2
219	Lansing.....	Michigan.....	175	1.1

TABLE 17.—(CONTINUED) STANDARD METROPOLITAN STATISTICAL AREA RANKING BY UNEMPLOYMENT IMPACT ESTIMATED FOR POSTWAR SUPERIORITY, COMPENSATED MILITARY BUDGET ASSUMPTION, 1972

[For selected SMSA's]

Rank	SMSA	State	Employment (in thousands)	Unemployment percent
1	Lawton.....	Oklahoma.....	49	14.8
2	Reno.....	Nevada.....	45	14.4
3	Fayetteville.....	North Carolina.....	94	10.9
4	Salinas-Monterey.....	California.....	108	10.9
5	Duluth-Superior.....	Minnesota-Wisconsin.....	88	10.5
6	Albuquerque.....	New Mexico.....	118	10.1
213	Bloomington-Normal.....	Illinois.....	40	.6
214	Des Moines.....	Iowa.....	120	.5
215	Flint.....	Michigan.....	196	.5
216	St. Joseph.....	Missouri.....	33	.5
217	Springfield.....	Missouri.....	63	.5
218	Erie.....	Pennsylvania.....	105	.4
219	New Haven-Waterbury-Meriden.....	Connecticut.....	316	.2

The top five with serious unemployment usually are Lawton, Oklahoma; Fayetteville, North Carolina; Salinas-Monterey, California; Duluth-Superior, Minnesota-Wisconsin; and San Diego, California. In the absence of compensations under the lowest defense budget (Streamlined Baseline), Brockton, Massachusetts and Johnstown, Pennsylvania also register over 10 percent unemployment. By way of balance, however, it should be pointed out that there are a number of SMSA's that will quite likely experience labor shortages, even in the presence of reduced military budgets. Among these are Flint, Ann Arbor, Saginaw, and Lansing, Michigan; Jersey City, New Jersey; Erie, Pennsylvania; and New

Haven-Waterbury-Meriden, Connecticut. These estimates suggest that the severity of the disarmament impact will probably vary widely between the various metropolitan areas of the nation depending on their industrial mix and other factors. Even within individual states the unemployment rates vary widely between metropolitan areas. For example, Oklahoma which contains the SMSA (Lawton) with the highest projected unemployment rate also contains Tulsa, which is estimated to have one of the lower unemployment rates with possibly a labor shortage developing. While special transition assistance may be needed for some areas with especially serious unemployment problems, it is likely that most of the nation's SMSA's could adapt to lower levels of defense expenditures with relative ease and that many of them would actually experience labor shortages.

I might note parenthetically that Professor Cumberland's paper also includes estimates of employment in twenty major industry groups for each state under each of the three defense budget assumptions.

The foregoing analysis of regional impact was based upon the interindustry models of Professors Almon and Harris of the University of Maryland. In recent years some work has been done on applying econometric models similar to the Wharton model of Professor Klein to subnational regions. Dr. Robert Crow of Mathematica, Inc. has experimented with this type of analysis in the Northeastern Corridor region of the United States and his findings appear as a portion of this report. Dr. Crow's work was done some time before the completion of the total report and, as a consequence, includes assumptions about the timing of the cessation of hostilities in Vietnam and of the expiration of the surtax which have proven to be incorrect. Resource and time limitations prevented him from updating his study but in view of the uniqueness of his approach, and its usefulness as an example of a state-of-the-art application, it has been included in this report.

MILITARY BASE CLOSEOUTS

One particular aspect of regional impact which has been a common subject of concern during the last decade is that dealing with military base closings. Professor Daicoff has covered this subject in great detail but I might summarize his principal conclusions. When a defense facility represents a large part of an area's economy, its reduction or closure may cause an appreciable impact. In the great majority of cases, however, the transition is smoother than anticipated and communities often find themselves better off with a more diversified and civilian-oriented set of replacement employers. Some communities have benefited from inheriting useful pieces of social overhead capital such as airfields.

Of particular importance in explaining these findings of limited impact are the consumption spending habits of servicemen as between post exchange or base commissary and community. The extent of on-base housing is also a factor. Finally, the fact that the jobs that disappear often had been filled with dependents of servicemen means that the labor force often shrinks with the job openings leaving fewer persons unemployed than might otherwise be the case. Much has been learned about the transition process and the DOD Office of Economic Adjustment has also developed an expertise which is available to communities facing the base closing experience. In addition, the Homeowners Assistance Program is designed to provide aid in one of the more troublesome aspects of the process—protection of the homeowner's equity in the case of transfer.

IMPACT ON THE BALANCE OF PAYMENTS

Professor Benoit has explored in great detail the consequences of peace in Vietnam and some further reduction in military spending on the U.S. Balance of Payments. He concludes that the Vietnam consequences for the Balance of Payments will be more important than some form of strategic arms limitations. His estimate of the peak Vietnam impact on the U.S. Balance of Payments is in the amount of \$5.3 billion. He cautions however that the internal linking of payment flows in the Balance of Payments makes it unlikely that other major flows would in fact have remained unaffected if one main flow had been different from what it actually was. However, \$5.3 billion is likely to be a maximum impact. The Balance of Payments implications of a Vietnam withdrawal are unlikely to be symmetrical with those of the buildup phase. The reason is that deterioration of the Balance of Payments which has been attributed to the war is not necessarily eliminable by ending the war. This is because defense prices move up with a ratchet-like character, going up far more readily than down;

and even if U.S. forces are completely withdrawn from Indochina, other American commitments in the Pacific area will remain (in Korea, China-Taiwan, Japan, Thailand, Indonesia, Australia, New Zealand, and the Philippines.) Also U.S. forces are likely to stay in Europe for some time.

The timing of such defense cutbacks as occur in Asia will be as important as their magnitude for Balance of Payments impact. If the process is sufficiently slow it could be more than offset by some of the rising trends in price levels. Another consideration is the possibility that Vietnam cutbacks may be partly offset by rising foreign aid requirements. This war has been a highly destructive one as far as impact on civilians is concerned and once the war ends and the full extent of damage comes to light a substantial relief and rehabilitation assistance program may be in the offing. Of course, the harmful effects of such a program on the Balance of Payments could be somewhat mitigated by tying the aid to purchases in the United States. Finally, of critical importance in evaluating the impact of new defense programs on the Balance of Payments will be the nature of these new programs and how closely they resemble those that were experienced during the Vietnam conflict. For example, while domestic defense procurement cuts into our export potential to some extent, it is cheaper in terms of the Balance of Payments than maintaining U.S. troops abroad. Even if large military expenditures occur primarily at home but contribute to continued inflationary pressures this will worsen our export balance.

This single most important conclusion is that Balance of Payments constraints on domestic adjustment policy will be greatly weakened by the end of the war. One would then hope that the administration could be more free to adopt such domestic strategy as best meets domestic needs without undue concern for their Balance of Payments implications.

INDUSTRIAL DIVERSIFICATION EFFORTS

Professor Weidenbaum, writing before he moved to his Treasury post, reviewed the postwar experiences of firms attempting to diversify into non-military areas. Perhaps one of the most difficult problems is the fact that many top management officials do not take seriously the eventuality of disarmament or even major cuts in the military budget.

At the end of World War II, the older and more established firms reconverted to civilian markets with little difficulty. The more specialized defense contractors, particularly those in the aircraft industry which had grown from job-shop operations in the pre-war period to girthhood during the war, faced a real loss of markets. There were many attempts at conversion but most of them failed. In the 1946-48 period the major aircraft firms, for example, had sales of only one-tenth their former levels and in many cases experienced large losses. Most of these diversification efforts were abandoned and Korea brought the focus back to military production. After the end of the war in Korea, major diversification efforts were directed at close adaptations of military work. For example, there was the shift of aircraft firms into civilian aircraft markets. There was also some effort to diversify into industrial markets that were closely related to defense, such as production of nuclear reactors, industrial electronics, etc. Nevertheless, most of the non-governmental sales of the major aircraft companies in the mid-fifties consisted of aircraft to the civilian airlines.

In the late fifties and early sixties attention focused on expanding military sales and sales to the related space programs. The 1963-64 cutbacks in military procurement (especially missiles) produced a new need to consider diversification toward the nonmilitary markets. The direction chosen, however, was largely toward the civilian public sector. Experience with NASA had indicated that the firms' major skill was not so much in fabricating light metal (which had dominated thinking after World War II) but rather a capability in systems management. The effort therefore was to convince non-military government units that they should explore the systems approach to civilian-oriented problems.

Of late, alternative methods of diversification have followed the following lines: 1) mergers with other companies in defense and high technology industrial markets, 2) licensing by-products of military product lines to established commercial firms, 3) joint ventures with foreign firms usually in technical areas, 4) creation of by-product exploration groups based on internal inventions, and 5) permitting military divisions to develop non-military products during slack times. The particular route chosen often varies with the size of the firm involved.

In evaluating obstacles which have been observed in the path of diversification it should be noted first that within the military and high-technology government markets, diversification has been markedly successful. One need only think of the transition from aircraft to missiles to space systems. Nevertheless, commercial experience has been rather unsuccessful. Two major problems appear to be a lack of management motivation resulting from a preference for the lower risks of military production coupled with a skepticism that the military market will shrink seriously, and the lack of required capability. The major defense firms often have low capitalization, little commercial marketing capacity, and limited experience in producing high volume output at low unit cost. Also the administrative structures of these firms are frequently geared to the unique reporting and control requirements of government purchasing with emphasis upon very high quality standards and a relatively small number of units of output. Professor Weidenbaum feels that firms with this background in the weapons systems environment lack a cost conscious orientation. It is difficult for them to know how to trade quality for cost, how to cut corners. Apparently firms operating in both military and civilian markets have engaged in very little transfer of personnel between product lines or product ideas from government to commercial work within the firm.

By way of contrast, the lack of a vast distribution network or mass production experience is hardly a drawback for government orders. The specialized defense contractors have strong engineering design and development capability and large aggregations of scientists, engineers, and supporting technicians. They can work with exotic materials at close tolerances. These components have been successfully welded together by executives skilled in systems management. For such firms thinking about diversification efforts has tended to be limited to a search for new high technology markets within the public sector.

Particularly within the aerospace complex what is revealed is development of a highly unique capability to manage the enormous problems of military and space systems work. The point which is still moot is whether this particular organizational structure will be equally efficient in dealing with civilian problems. It may be that some new kind of organization, perhaps of mixed public-private form like Comsat, will have to be developed to meet these new needs. In any event, there is no necessary reason why the form of organization which took man to the moon will necessarily be adequate to get him from home to work and back, dispose of his wastes, educate the disadvantaged or reduce crime and delinquency.

IMPACT ON INDIVIDUALS

The transition to lower levels of military spending affects three groups of individuals: those directly engaged in defense production, those directly employed by the military, and those employed in industries which depend upon the primary defense producers. Professors Eaton and Daicoff have examined the first two of these cases.

Professor Eaton analyzed studies of six major contract terminations or cancellations. These involved the cancellation of the Dyna-Soar project with Boeing in December, 1963 at the Seattle facility; the completion of work on the Titan Missile by the Martin Company in Denver in 1964; the cessation of F-105 aircraft production at Republic's Long Island plant in 1963-64; the Falcon missile termination at Hughes Aircraft in Tucson in 1963-64; and layoffs of engineers and scientists in the Boston area in 1963-64; and in the San Francisco Bay area in March of 1965.

One of the important conclusions is that while such layoffs can appear as only small ripples in a large community, they can cause severe personal hardship for the individuals concerned. While most of the studies agreed that such personal and job-related characteristics as age, sex, education and skill level were important in the reemployment experience, statistically they were able to explain only a small part of the variation between individuals in the reemployment experience. The findings indicate a synthesis of personal characteristics and labor market variables such as size, structure and tightness predicts more successfully.

With respect to occupation, engineers had a less severe reemployment experience than did social science and business degree holders. A larger proportion of non-engineers than engineers made a shift to non-defense work. Engineers who did transfer to non-defense work had no more severe a reemployment experience than did non-engineers in similar transfers. The majority of defense occupations surveyed have counterparts for which the employment outlook is good

but often geographic or industrial change is required. Most of the laid-off workers experienced a decline in salary. The specialized concept of "defense worker" does not appear to be useful and "special" policies for him do not seem necessary. General improvement in the functioning of the labor market and its institutions is necessary. Such improvements plus the maintenance of high levels of overall employment in the economy will appreciably aid the transition process.

Professor Daicoff has reviewed the adjustment process of DOD civilian and military personnel to reductions in military spending drawing upon cases observed during the last decade. He notes the general need for increased geographic mobility and an expansion in vocational training to ease transfers. Daicoff estimates that perhaps 150,000 additional civilian employees were added to the payroll of the Defense Department during the Vietnam buildup and anticipates that this number will serve as a minimum for personnel reductions resulting directly from the end of the war. During the past decade various DOD manpower and assistance programs helped to ease the adjustment process. The assistance program included the following elements:

1. The establishment of the Automated Priority Placement System;
2. The payment of moving or relocation costs associated with the acceptance of a new DOD position;
3. An income protection guarantee which assured employees that their existing rate of pay would be maintained for a two-year period if they remained DOD employees;
4. The provision of retraining service in cases where warranted; and
5. The provision of severance pay for those workers who resigned from their federal jobs. The DOD also provided each affected employee factual information permitting him to match his geographical and occupational preferences against employment opportunities within the Defense Department.

Between November 1964 and July 1967, 48,484 DOD civilian personnel were affected by the closure of DOD installations. Of this total number, 32,418 were placed in other federal government jobs and 16,066 were released from federal employment. Thus, approximately $\frac{1}{3}$ of the employees chose to accept private employment rather than to continue their federal careers. This relatively high rate of separation occurred despite considerable efforts expended in offering alternative federal opportunities. Some of the factors contributing to this high separation rate were the following:

1. The expanding economy provided many job opportunities in the local communities thus eliminating the need to move from the area;
2. Certain classes of workers such as women, who may be secondary wage earners, older people near retirement, and younger workers less committed to career channels, are less likely to make a physical move in order to find new employment within the government service. On the other hand, older more skilled primary wage earners seem more willing to move appreciable distances in order to maintain their career status.

Generalizations from this experience should be made with care. For one thing, during the 1964-67 period DOD was increasing its total employment due to the expansion of activities associated with Vietnam. Thus, federal jobs offered to the affected DOD civilian employees came from:

1. Expanded DOD employment due to the Vietnam war and
2. Normal replacement of approximately 5 percent of federal civilian employees each year.

The end of the Vietnam hostilities or an arms limitation agreement will probably have somewhat varying results. It is likely that DOD total employment will be falling at such a time and, while other federal employment may be increasing, it is unlikely that such an increase will necessarily match the reduction in DOD employment. Second, there is a possibility that the reduction rate of DOD personnel after the Vietnam hostilities are over would be more rapid than the very slow rates which characterized closures of major installations in the mid 1960's. Under these circumstances the need to maintain a high level of employment nationally becomes very great.

When one switches to the analysis of military personnel and their adjustment after the end of the Vietnam war or an arms limitation agreement, the situation becomes considerably more complex than that of DOD civilian personnel. The Vietnam buildup increased the number of those in the armed services from 2.7 million in 1965 to 3.5 million in 1968. The end of Vietnam fighting may possibly reduce the size of the armed forces by perhaps 800,000 men. Coupled with the normal retirement rate of approximately 60,000 to 65,000 a year, this will

add to the pressures upon the absorptive capacity of the civilian labor market. The timing of the demobilization and the pattern of entry into the labor market by ex-servicemen will be very important here. While perhaps 800,000 men may be potentially entering the civilian labor market, from one third to one fourth of them may be expected to seek further education or training. If the remaining 600,000 who are discharged leave the service over an 18-24 month period, the phase-out will be gradual enough to permit a smooth transition. Even so, there may still be serious structural difficulties. Important here is the question of the adequacy of training which the military dischargee and retiree has received prior to his moving into the civilian economy. Aside from the question of skill transferability as such, there is the further one of where the veterans decide to locate and how their preferences compare to the availability of job openings.

Military retirees also constitute a class that needs attention. The typical military retiree leaves the service with approximately one-half of his productive life ahead of him. Thus, the possibility of a second career is high. Present patterns indicate a tendency for military retirees to be rather immobile and geographically concentrated.¹⁴ Unlike the enlisted separatee, the retiree appears to be highly self-reliant in job seeking and is not likely to experience adjustment difficulties. For the average separatee vocational and educational training seem to be the major determinants of the ease of his transition to the civilian economy. Our experience under the GI Bills of World War II and Korea should provide useful experience in designing an effective training system. Professor Daicoff discusses some of the elements involved in training and the transferability of skills. It has been estimated that 80 percent of military jobs held by enlisted men correspond to only about 10 percent of those held by male civilian workers.¹⁵ Under these circumstances pre-separation training of enlisted men could play a major role in easing the transition. Presumably, Project Transition, which began in late 1967, was designed to accomplish this purpose. Professor Daicoff ends his paper with an extended discussion of experience thus far with Project Transition. It should be pointed out that, in addition to his discussion here, both Professors Allison and Etzioni also look into its functioning.

IMPACT ON GOVERNMENTS

Professor Allison, drawing upon the literature of organizational theory and behavior, attempts to develop a framework for understanding the organizational process. He attempts to answer such questions as:

1. From whence is the objective function of maximizing behavior derived? This question grows from the fact that people importantly affected by the outcomes of public policy differ sharply over their preferences.
2. What is the choice mechanism in important decisions about alternative allocations of government funds?
3. In determining outcomes in the real world as opposed to analytic alternatives perceived by technicians, what is the mechanism for the implementation of chosen alternatives?

Allison focuses on the gap between analytic alternatives and actual outcomes. He asks the question, "Why does government performance depart so dramatically from the analytical preferred alternatives toward which policy was presumably directed?"

The U.S. government, it must be remembered, is not a centrally-controlled, fully-informed value maximizer, but rather a conglomerate of semi-feudal, loosely allied organizations, each with a substantial life of its own. These different organizations constitute the sensors through which the U.S. government perceives problems. Therefore, the messages may be confused or conflicting.

The basic fact of life about large organizations such as the U.S. government is that their size prevents any single, central authority from making all-important decisions or directing all-important activities. The mass of government behavior is determined by previously established procedures. Existing organizational routines for employing present, physical capabilities constitute the range of effective choices open to governmental leaders when they are confronted with a problem. At such times, existing fixed programs exhaust the range of buttons

¹⁴ Albert D. Biderman. "Sequels to a Military Career: The Retired Military Professional," in Morris Janowitz (ed.) *The New Military: Changing Patterns of Organization* (New York: Russell Sage Foundation, 1964), pp. 287-336; especially pp. 299-301.

¹⁵ Harold Wool. *The Military Specialist: Skilled Manpower for the Armed Forces* (Baltimore: The Johns Hopkins Press, 1968), p. 55.

available for the leaders to push. Thus, governmental action may be viewed as the output of organizations rather than the result of deliberate choice. Organizational outputs, therefore, structure the situation and establish the constraints within which leaders may contribute their decision on an issue.

After establishing these principles, Professor Allison details the principles underlying the behavior of organizations and presents a most interesting analysis of how organizational change can be effected. Most of his examples are drawn from recent real world experiences.

After establishing the framework for his analysis, Professor Allison considers various potential non-military uses of existing military facilities. In particular, he concentrates upon the manpower area investigating Projects 100,000 and Transition. He also studies questions of health care, housing, and the maintenance of public order.

In the final section of his paper he considers various strategies which might be used to minimize organizational impediments in attaining desired objectives and draws upon the particular experience of the Israeli Defense Forces.

In conclusion, Professor Allison is somewhat more optimistic than Professor Etzioni concerning the capability of the military establishment to help solve certain problems in the civilian sector.

Professor Etzioni views the problems that society may encounter as it attempts to effect a significant shift of resources from military uses to civilian end purposes. He notes that serious shifts of resource allocation require determined leadership and a strong consensus on the part of the population. His paper is devoted to an exploration of the forces and factors which will enhance or detract from the smoothness of the shift to domestic missions after the war is over.

He begins by indicating that on occasion the values and indeed the memories held by particular elites and interest groups in society must be changed. While concluding that the U.S. is not run by one elite or class but rather a plurality of interest groups, Professor Etzioni notes the need to gain consensus among these groups in order to successfully launch and conduct new programs. Such an effort of course must overcome the fact that the interest groups themselves contest for power while some segments of society play only a minor role in the legal process (the poor, ethnic minorities, farm workers, etc.). While most interest groups would agree on the desirability of an early end to the war there is no similar unanimity of feeling on the alternative uses of such peace dividend as may be forthcoming.

Professor Etzioni concentrates on some of the problems likely to be encountered in shifting functions which are now conducted within the military establishment. In considering the re-definition of missions, he argues against the assignment of military units to civilian domestic functions. While conceding that they may be useful in the areas where the specific activity is similar (such as the use of military air transport service for domestic emergencies) he feels that the risk of their doing things in an arbitrary and "military" way overcomes this advantage. He attributes the apparent capability of the military to successfully cut red tape in particular areas where civilian efforts have been frustrated (experiments with new forms of housing construction, hospital design, etc.) to the relatively low level of such efforts. He points out that if the military tried to widely undertake civilian operations in a manner violative of such a civilian norms as building codes, etc., civilian interest groups involved would seriously oppose the program. Generally, he advocates turning resources over to civilian agencies to undertake domestic missions rather than using military units for these missions. Aside from the question of military attitudes, Professor Etzioni notes that different missions require different kinds of manpower which respond differently to alternative forms of supervision; that different technologies require different degrees of coordination and control; and that specific knowledge of one operation is rarely transferable to others. Also existing social units frequently develop personal and leadership bonds and subcultures which often oppose transition.

In discussion of the transferability of executives, Etzioni points out that organizations differ markedly in what he calls their "compliance structures." These are coercive (in which the organization primarily relies on force to keep its participants in place and these participants tend to be highly alienated); utilitarian (in which the organization relies chiefly on monetary rewards to keep the participants working and they tend not to be deeply committed to the organization); and normative (in which the leaders seek to build up and sustain the

moral commitments of the participants by the manipulation of symbols and the participants are highly committed to the organization).

Etzioni views executives as compliance specialists. He feels that the scope of their transferability hinges on the similarity of compliance structures. Executives can cross many administrative barriers while holding to the same type of compliance structure. He then applies this analytic framework to a comparison of the relative transferability to civilian functions of both combat and noncombat officers.

Within the ranks of professionals, Etzioni sees basic researchers as the easiest to transfer, followed by applied researchers and finally technicians. He sees this resulting from his belief that their skills are transferable in that order. On the other hand, with reference to guidability the order is probably reversed, making it probably easiest to transfer technicians as a group by administrative order and most difficult to do this for basic researchers. The peacetime conversion may require that large-scale units be broken up. Etzioni feels this is more likely than the overall shift of units intact. There are several reasons for this. They grow out of the several levels of difference between military and civilian operations. Military operations tend to have a high ideological content. In addition, orientation to the nature of the needs of the client vary between military and civilian areas because the military clients tend to be few, large and to have rather clearly identifiable needs and preferences while civilian clients tend to be numerous, relatively small and with needs and preferences more difficult to forecast. Also, the military generally deals with a hostile environment. One exception here used to be the key congressional committees which tended to be quite favorably disposed to military budget requests.

In the final section of his paper, Professor Etzioni considers in some detail the possibility of shifting the systems analysis approach from the military to civilian agencies of government. In terms of the characteristics which he sees as important in the application of systems analysis, Etzioni feels that it is more successfully accomplished where mass aggregate technological systems with many units are involved as well as non-human elements. He feels that these conditions are more frequently encountered in military than in civilian environments. Nevertheless, even in domestic circumstances, systems analysis may offer a powerful heuristic device since it develops a sense of the factors involved and their possible interrelationships. It also enables one to call attention to alternative possibilities and to focus clearly upon all assumptions. On the other hand, it is dangerous in rigid application and Etzioni feels that, in terms of the quality of the data and theory presently available, civilian agencies will find it more difficult to apply than the military.

The President has requested that Congress consider some new form of inter-governmental revenue transfers and Professor Daicoff has analyzed some of the issues involved in this area. If some form of revenue sharing does in fact develop, it will clearly have an impact on governments and Daicoff feels that this is more likely to occur as a result of broad shifts in defense spending rather than as a short term consequence of peace in Vietnam. The arguments in favor of revenue sharing include the following:

1. Potential growth in revenues at full employment will present us with a choice between increased government expenditures and/or tax reductions. Growing tax receipts at the federal level will provide resources for transfer to lower levels of government;
2. General dissatisfaction exists with the present state of local tax sources in terms of the well-known deficiencies of property, sales, and excise taxes;
3. Distortions inherent in the present system lead to geographic misallocation of resources;
4. The low income elasticity of local tax revenues inhibits these taxes from growing as rapidly as income grows;
5. Projected continuing deficits in state and local budgets;
6. The growing reluctance of the citizenry to approve tax increases or bond issues to finance local civil government needs; and
7. As a consequence of the other points, the increasing rate of departure from office of effective mayors and governors.

There are a number of alternative approaches which may be taken to improve the fiscal position of state and local governments. These involve changes in:

1. Debt policy which might facilitate state and local borrowing;
2. Expenditure policy wherein the federal government would itself undertake to fund more of the activities of state and local governmental units; and

3. Revenue policy, which would either permit state and local taxes to increase in like amount as federal taxes are reduced or provide federal tax credits for state and local government income taxes.

Professor Daicoff discusses some of the difficulties which may be encountered in fiscal policy due to lags between the adoption of programs and their impact on the economy and how revenue sharing would bear upon fiscal policy lags. He concludes that a good case could be made for the transfer of resources from federal to state and local governmental units and indicates a need for research on a variety of topics which would bear upon the effectiveness of such a system of revenue sharing.

LONGRUN IMPACT ON NATIONAL INCOME SHARES

Professor Boulding has written a fascinating paper containing the results of his analysis of national income accounts between 1929 and 1969. Some of the findings are most surprising but I will only attempt to relate the most important at this time.

I might note at the beginning that the concept of gross capacity product was utilized as a base rather than gross national product. Gross capacity product may be defined as what the gross national product would have been if all resources had been fully utilized. This was done so that the various uses of output could be related to the capacity of the economy to produce when all resources are fully utilized.

Perhaps the single most important and in a sense surprising finding is the sharp decline in the role of personal consumption expenditures. They dropped from 72.6 percent of gross capacity product in 1929 to 59.8 percent in 1969. This occurred despite the conventional belief that the American consumer has moved to ever higher levels of consumption and affluence at the expense of civil government. During the same period while defense expenditures increased from 0.6 percent to 8.2 percent of capacity product, federal, state and local civilian government expenditures grew from 7.4 to 13.0 percent. Between the same two years, gross private domestic investment dropped 0.7 percent and net exports by 0.8 percent. Thus it is basically the American consumer who has paid for the increasing share of governmental activities, both military and civilian, during this forty-year period.

Over the same interval, federal civilian government purchases increased from 0.6 percent to 2.4 percent of capacity product while state and local government units increased their share from 6.8 to 10.6 percent.

Within the household sector consumption expenditures also have followed interesting patterns. The share of durable goods has increased from 8.7 to 9.3 percent of capacity product. This basically reflects an increase in the automobile component of durable goods consumption. Nondurable goods during the same period declined from 35.4 to 25.3 percent and services from 28.5 to 25.2 percent. Within the non-durable category, food and clothing expenditures, excluding alcoholic beverages, dropped sharply from 27.1 to 17.7 percent of capacity product. Gasoline and oil on the other hand have increased very slightly from 1.7 to 2.2 percent of capacity product, notwithstanding the enormous increase in the role of the automobile in this period. Major components of services, housing, housing operations, transportation, and other services are all down, with housing leading the decline from 10.8 to 8.7 percent of capacity product.

When the analysis is shifted to the various sources of personal income the growing corporatization of the American economy is obvious with an increase in the compensation of employees from 48.1 to 58.6 percent of capacity product, while supplements to wages and salaries grew from just under 1 percent to 5.5 percent. The shares of business and professional income plus the income of farm proprietors which together constitute the unincorporated sector of the economy declined from 14.3 percent to 6.9 percent. Rental income of persons, net interest, and dividends also declined appreciably in the interval. Payment to old age and survivors disability insurance funds grew from zero to 3.4 percent. Despite the large numbers of citizens serving in the armed forces during this period, veterans benefits did not change much, going from 0.6 percent in 1929 to 0.9 in 1969. Corporate profits were down from 9.9 to 9.2 percent and personal saving up from 4 percent to 4.9 percent. Once again the consumer's heavy burden is indicated by the growth of personal tax and nontax payments from 2.4 to 12.2 percent. Whether by coincidence or otherwise, the increase of 9.8 percentage points in personal tax payments during the interval was not far from 7.6 percent increase in the share of defense spending.

When shorter term periods are examined, certain changes appear. For example, during the Second World War the expansion in the national defense area came largely at the expense of gross private domestic investment and the expenditures of civil government. Also, the decline in the relative importance of defense expenditures between 1955 and 1965 was largely compensated by an increase in civil government functions.

In earlier periods when the erroneous belief was fairly widespread that the American economy required military expenditures to remain prosperous, there was a belief that such military expenditures were largely costless since the resources going into them would otherwise, it was believed, have been unemployed. Interestingly, now with people somewhat better informed about the ability of the American economy to prosper without military spending the real costs of such expenditures are becoming much more obvious, forcing a concern with question of choice and priorities. The period during which a variety of needs could be met by resources being freed from the agricultural sector is over the largest remaining eligible area to be tapped would appear to be national defense spending.

CONCLUDING OBSERVATIONS

After this comprehensive review it would appear that the U.S. economy is sufficiently strong and resilient to absorb the impact of various likely military spending cutbacks without major dislocations. This is not to say that particular regions which have developed a heavy dependence on military outlays won't experience a painful period of adjustment. Nevertheless, our policy makers possess the skill and the tools to make the transition relatively smooth. This should help to demolish the old saw that our economy requires military spending to remain prosperous.

The decision to intervene in Vietnam was a political decision based upon the government's perception of American security needs and global strategic interests. The economy did not "require" this decision and, indeed, our stabilization problem would have been much easier without it. The decision to terminate the war is also a political matter in which economic considerations may be relegated to secondary rank. All of our findings suggest that the economy not only could absorb peace but would benefit from it as resources liberated from military use became available to meet pressing civilian needs. At that time we shall see, to paraphrase John Gardner, whether we have brilliantly disguised a series of great opportunities as insoluble problems.¹⁶

APPENDIX A

Overview and Summary—Bernard Udis and Murray Weidenbaum, coauthors.
The Impact of Disarmament on Aggregate Economic Activity—An Econometric Analysis—Lawrence R. Klein and Kei Mori.

Dimension of the Impact of Reduced Military Expenditures on Industries, Regions and Communities—John H. Cumberland.

Military Expenditures and Economic Growth of the Northeast Corridor—Robert Crow.

The Community Impact of Military Installations—Darwin Daicoff.

The Adjustment of DOD Civilian and Military Personnel to Reduced Military Expenditures—Darwin Daicoff.

The Individual and the Defense Mass-Layoff—Curtis Eaton.

Balance of Payments Impact of a Vietnam Disengagement and a Nuclear Weapons Freeze—Emile Benoit.

The Impact of the Defense Industry on the Structure of the American Economy—Kenneth Boulding.

Intergovernmental Resource Transfers—Darwin Daicoff.

Industrial Adjustments to Military Expenditure Shifts and Cutbacks—Murray Weidenbaum.

Organizational and Administrative Factors Affecting Shifts in Defense Expenditures—Graham Allison.

Societal Turnability: A Theoretical Treatment—Amitai Etzioni.

Chairman PROXMIRE. Dr. Lapp, your testimony is the most revealing statement I have seen on the relative amounts that we are spending on defense-oriented research and development compared to civilian research and development, and on the costs of the space shuttle.

¹⁶ *Time*, Vol. 89, No. 3 (January 20, 1967), p. 16.

Let me first ask you about the allocation of Federal research dollars. According to your figures, over 80 percent of Government outlay for R. & D. goes to defense, space, and atomic energy activities. What do you think a more proper distribution would be, and by how much do you believe Federal R. & D. outlays can be reasonably reduced?

Mr. LAPP. Well, I am not thinking so much about reduction as transfers. If we think actually in terms of the profile of the Federal R. & D. budget, it has plateaus for the past 4 years, and in terms of real dollars—go back to the 1965 dollar—we are getting less now for R. & D. I believe that you can take the present breakdown of R. & D., which is roughly half of the total research and development budget going to the Defense Department, and cut this back substantially. I think it is essential to do so because—

Chairman PROXMIRE. When you say “substantially,” what do you mean? What are the limits?

Mr. LAPP. Well, this is dependent upon, for example, what happens in the SALT talks. If there is a possibility of getting agreements with the Russians which will be conducive to a general leveling off of strategic arms, we may be able to have more confidence in cutting back defense expenditures.

Chairman PROXMIRE. Give me some estimate on the assumption, first, that they are not productive; and the assumption, second, that they are.

Mr. LAPP. I think so far as the fact of the defense and other specialized functions are concerned, we no longer see claims by the Defense Department that there is a spinoff or fallout into the civilian economy because the products now of defense are so specialized as are products of the space agency where, for example, there is no commercial market for an F-1 engine that boosts the Saturn moon rockets up. You can't sell it. You can make a nice display in the Smithsonian Institution—

Chairman PROXMIRE. They don't believe me on the floor of the Senate when I put in amendments to cut the space shuttle or some of the other—they are still talking about fallout.

Mr. LAPP. I know. It is quite monotonous. I read the Congressional Record and I read the various testimonies of the Congressmen and Senators on this, and it is a record played over and over. I have seen it many times before. There is nothing new here and it is very unconvincing, and I think it would be very useful to have a study done of what are the real dollars-and-cents fallout of the space program. I happen to think it is a dripout effect. Frankly, I doubt if any Government agency is sufficiently ingenious to spend \$40 billion during the past 10 years without producing something of value. It is incredible. You can't do it. Just fortuitously something good will come out of it.

It is not a question of whether there is any fallout. It is a question of what its value is in economic terms.

I think, if I may digress just one moment, there is a good reason for examining the productivity of the R. & D. and that is that we have some competitors who are breathing very hot and heavy on our necks. For example, the Japanese. The Japanese research and development effort does not have to put its funds into a defense effort. And the result is that they can vector their funds into areas of high pro-

ductivity and this it seems to me is what we have to learn in this country.

We are not that affluent that we can afford to waste our research and development dollars and our brains.

Chairman PROXMIRE. I have that feeling and I have read that but I haven't seen it documented, that the Japanese are putting more money into research than we are in these nonmilitary, nonspace areas.

Mr. LAPP. It is not a question of more funds. It is a question of the percentage they put in, obviously. But I think you will find documentation of this and I can give the committee staff reference on this. The OECD did a study of this about 2 years ago, as I recall it.

Chairman PROXMIRE. I am very concerned about the reference you gave—it hadn't occurred to me before—to the fact that the Air Force and Defense Department have an interest in the manned orbiting lab, did have an interest in the manned orbiting lab which was canceled, and they were bought off by indicating they might have an interest in the space shuttle.

Mr. LAPP. Yes.

Chairman PROXMIRE. I have been proposing that here is an ideal situation if we can go ahead with it to get international cooperation; if we can go ahead with the space shuttle there is no reason why we shouldn't have Russian and English, and French and Chinese, and everybody else involved in this thing if it has no military implications, and you tell us it doesn't have. It doesn't have any benefits peculiar to the United States, if there are any benefits, and I question that, but if there are any benefits, they are benefits that should help all mankind.

It would seem to me we might be foreclosing the prospects of all mankind helping us pay for these benefits if it becomes a military operation. Obviously, if the Air Force is involved and they think it has military benefits, we wouldn't want the Russians or any other potential adversary in this, would we?

Mr. LAPP. I would make two remarks. First of all, I can cite the reference in the congressional literature that the military requirements have determined the cargo specifications for the space shuttle.

Second, that the testimony of Dr. John Foster, the Director of Defense Research and Engineering, stated that the space shuttle would be used for military missions.

Chairman PROXMIRE. The space shuttle, according to their testimony, would cost at least \$12 billion; is that right?

Mr. LAPP. Well, the shuttle itself, \$10 billion.

Chairman PROXMIRE. Including a space station and not including cost overruns.

Mr. LAPP. Right.

Chairman PROXMIRE. Over what period of time will these expenditures be made?

Mr. LAPP. These expenditures would be made over the next—until 1978, although I understand this date now has been stretched. It would probably go to 1980.

Chairman PROXMIRE. An average of \$1.2 billion a year.

Mr. LAPP. That is correct.

Chairman PROXMIRE. Do you know whether the Air Force is or plans to be involved in the program in any further way than you have indicated?

Mr. LAPP. Well, I would mention that at the beginning of this year, in February, industry has had contractor conferences held in Florida on this, and the sessions were classified. They were actually classified. Security classified. And the Air Force participated in these—this is known generally as a joint NASA-Air Force project with only NASA providing the funds.

Chairman PROXMIRE. What is your expert opinion on the value for scientific research of the space shuttle? I note, for example, that it is hoped that the cost of transporting things from earth to orbit will be drastically reduced by this program. So what? Who will that benefit? How does the public gain if it costs less to take something from the earth and put it into orbit?

Mr. LAPP. I think it is a fundamentally sound question and was really answered by the National Academy of Science and Engineering Survey of the Uses of Orbital Space reported out last year in a total of 13 volumes and nowhere in any of these reports did the National Academy experts conclude that manned space vehicles were worth while for the exploitation of orbital space. It was considered too expensive.

So I would say that before one puts man in orbit in any massive way, sending him up weekly, 12 men at a time, for example, before one does that, one ought to be able to define a use for man.

Now, what is he in space? Is he a caretaker of instruments? A surveyor; a repairer? Just what is his function?

I think this has to be subjected to a good cost analysis, cost-effective analysis. I am very skeptical of man's value in space, in orbital space, as compared with the proved value of instruments, untended instruments, which are much lighter in weight than manned space missions, and which can be made because of this lightness in weight quite cost effective.

I happen to be quite enthusiastic about the uses of instruments in orbital stations because I think many of these relatively lightweight devices will provide valuable economic benefits over the long run.

Chairman PROXMIRE. It makes all the sense in the world to me, not only from the standpoint of the cost which is very, very great, but also from the standpoint of human life. We had this near tragedy with Apollo 13. If we are going to get eventually more than 100 people in the space shuttle, going to send many people to planets, it seems to me that we are going to be risking life in a very, very serious way, and you just can't put a cost estimate on human life.

Mr. LAPP. That is correct. The whole space program would be of a different complexion today if the last mission had aborted.

Chairman PROXMIRE. I can't understand why instruments can't dig holes, take pictures, do all the things that an astronaut can do up there, including planting a flag.

Mr. LAPP. Well, the thing that it can't do, it can't talk to the President of the United States. I mean an instrument cannot talk to the President of the United States.

Chairman PROXMIRE. He can talk with his instruments up there. He would probably get that—doing that now on earth.

Dr. Melman, you assert defense spending could be reduced to \$25 billion, and that is the lowest estimate we have had by any witness

who has appeared before this committee. Do you have any backup data or analysis to support that figure?

Mr. MELMAN. Mr. Chairman, I will be pleased to attach to my statement for the record a copy of a memorandum that I prepared some months ago that was submitted to the Senate Armed Services Committee and also presented in testimony to the Defense Appropriations Subcommittee of the House Appropriations Committee.

In that memorandum I outline military budget reductions field by field and function by function—

Chairman PROXMIRE. Let's see—

Mr. MELMAN (continuing). In terms of a redefinition of military security policy.

Chairman PROXMIRE. How much of your \$25 billion budget would you allocate for nuclear forces, general purpose and conventional forces, and international peacekeeping operations?

Mr. MELMAN. Mr. Chairman, there has been no opportunity, operating from outside access to the interior data of the Department of Defense, to make that sort of particular allocation. One way of estimating the appropriateness of these orders of magnitude, for example, of funds is to understand that at the present time the allocation per person in the defense budget is somewhat more than \$20,000 per person per year, somewhat less than \$25,000. That is the order of magnitude that would be involved, you see, in the proposed budget.

Second, may I note that we now operate four nuclear delivery systems, each of which is capable of major overkill on the Soviets, so a fraction of the present strategic force should suffice as a deterrent force.

Further, if the United States were not embarked on a program of operating a nuclear war, Vietnam-type war and a lesser engagement in Latin America at the same time, then a very substantial reduction in the general purpose forces would be indicated.

Preliminary estimates—

Chairman PROXMIRE. This would simply be a matter of carrying out in appropriations the spirit and meaning of the Guam doctrine enunciated by the President of the United States a few months ago.

Mr. MELMAN. May I suggest that one is at some considerable difficulty operating outside of the detailed data of the Department of Defense to be able to construct as though to blueprint an armed force. However, some very preliminary estimates suggest that the alternative military security objectives as a group that I outlined could probably be performed by an armed force of the order of magnitude of 1 to 1½ million persons.

Chairman PROXMIRE. Now, along that line, this is a reduction from 3½ million we had a few months ago to, say, 1½ million. How would you make the cuts in terms of Army, Navy, Air Force, and in terms of deployment of forces in Asia, Europe, and elsewhere?

Mr. MELMAN. Mr. Chairman, I think those would be indicated in the memorandum and other pertinent information that I will attach for the record when I review my transcript.

Chairman PROXMIRE. That will be fine.

(The following information was subsequently supplied for the record by Mr. Melman:)

Proposed Reductions in Military Overkill and Waste

Memorandum to the U.S. Senate
Armed Services Committee, May 2, 1969

1. The proposed budgets for national defense for fiscal year 1970 amount to \$80,815 million (allowing for proposed modifications in the Johnson administration budget by Secretary of Defense Laird, March 16, 1969). This is the largest item in the federal budget and exceeds annual spending for military purposes except those at the peak of the Second World War.

2. In his first official press conference in January, 1969, President Nixon announced that, in his view, what the United States required is sufficiency in the realm of defense. Sufficiency means adequacy. Definite, explicit criteria are required in order to define what is enough.

3. Since 1961 the design of the armed forces of the United States has been oriented towards a three-fold requirement:

- (1) a war in the NATO area;
- (2) a war in the China area;
- (3) a lesser military action in Latin America.

Further: the requirement has been that U.S. armed forces should be capable of fighting wars in each of these areas at the same time. This means the conduct of one nuclear war and two conventional wars at once.

4. This combination of military operations does not refer to the defense of the United States. A nuclear war is an end-of-society war. The war in Vietnam, as a model of conventional far-Eastern war is clearly a military, political, economic and moral disaster--a major drain on American society and highly destructive of this nation both materially and morally. Such wars, in combination, are the military requirements in terms of which the Congress has voted funds from 1961 to 1969: to prepare 18 Army Divisions as against 11 in 1961; 11,000 deliverable nuclear warheads for intercontinental effect, as against 1,100 in 1961; 34,000 aircraft, as against 30,000 aircraft in 1961.

5. An evaluation of "sufficiency" for the armed forces of the United States requires a basic definition of the nature of security commitment that is to be served by U.S. military

power. The following are alternative criteria of sufficiency for U.S. armed forces:

- (1) Operation of a strategic deterrence force.
- (2) Guarding the shores of the United States.
- (3) Capability for participation in International peacekeeping operations.

6. This memorandum proposes a set of modifications in the Fiscal Year 1970 budget for U.S. military forces on the ground that the above criteria are a sound basis for judging sufficiency of U.S. military security forces. It should be underscored that these criteria do not include war plan elements of the following sort: there is no intention here of preparing a nuclear force in such numbers and of such powers as to be calculably competent for a first strike operation against another nuclear power; these criteria for military sufficiency exclude the intention of preparing armed forces for wars of intervention as in Vietnam.

7. It is emphasized that after the substantial reductions recommended here are made for reasons of merit, the armed forces of the U.S. would consist of 2,300,000 men, and would operate missile, aircraft and naval forces of staggering power. These reductions are directed toward deescalating additions to already massive overkill forces.

Proposed Reductions of Department of Defense and Related Spending by Deescalation of Present Overkill Forces and Other Wasteful Practices.

A. Incremental costs of the Vietnam war. The additional military spending owing to the operation of the Vietnam war refers to the using up of ammunition, materiel, and people directly or indirectly connected with the Vietnam war. This amounts to \$20 billion per year. The Congress should reduce the budget of the Department of Defense by this amount as an instruction to the Department and to the President to terminate this war.

\$20.0 Bill.

B. Reducing additions to strategic overkill. It is generally appreciated that no present or foreseeable research effort will make it possible for the armed forces of the United States, or any other nation, to

destroy a person or a community more than once. Nevertheless, the nuclear forces and delivery systems of the United States have been built up with multiples of overkill. The exact number is, of course, unknown since we have not observed a full-scale nuclear war. Such observation is not required, however, to understand that with present capability for delivering 11,000 nuclear warheads to the territory of the Soviet Union refers mainly to 156 Soviet cities of 100,000 or over. The systems include various long and short-range missile systems; aircraft and submarines. To continue a buildup of these forces is grossly wasteful, not to mention irrational. Accordingly the following reductions in proposed budgeted expenditures are recommended:

1) New nuclear weapons production. The proposed budget for the Atomic Energy Commission includes funds for further production of nuclear materials and for further production of nuclear weapons. This activity should simply be stopped as being militarily and humanly irrational (Budget, p. 80). \$1,518 mill.

2) Research, development, test and evaluation. The descriptive material in the Budget (pp. 265,266) indicates that the major part of new military research activity is oriented to new strategic weapons delivery systems. This is part of the proliferation of overkill forces which has no rational justification whatsoever (except to keep managerial-industrial empires intact). Accordingly a substantial reduction is recommended in this budget line. \$5,000 mill.

3) Poseidon and Minuteman III. These "new generation" intercontinental missiles would make possible a multiplication of nuclear warheads beyond the present 11,000, and perhaps allow for an increased calculated accuracy. A few hundred yards closer to calculated target in such weapons should be appreciated against the fact that their destructive power extends over miles. Accordingly, a reduction is recommended to cut off this enlargement of overkill forces. \$1,000 mill.

4) ABM. The proposed antiballistic missile system has been the subject of exhaustive debate. The technical workability of the system is under grave doubt on the grounds of complexity and in terms of the experience with an unsuccessful attempt to build

an anti-aircraft defense system. The anti-aircraft system involves much simpler requirements, and we know from a principal designer of this system (Dr. Jerome Weisner of MIT) that this system has failed. There is the further prospect that the construction of an ABM system will serve to severely escalate fear among nations and hence drive forward an already irrational arms race. Accordingly, the budgeted items for their purpose (Budget, pages 264, 265, 266) are recommended for elimination.

\$ 904 mill.

5) Chemical and Biological warfare. Since 1961 the United States has been producing and stockpiling increasing quantities of these lethal materials. Outside Denver, 100 million doses of nerve gas have been placed in open storage in steel containers. The mass production of these and biological warfare materials mean more overkill weapons systems. In addition, the very existence of these materials, in quantities expose the people of the United States itself to grave hazards because of possible accidents in the handling of lethal, self-propagating organisms. It is therefore recommended that this production be stopped.

\$ 350 mill.

6) Advanced Manned Strategic Aircraft. In the face of already existing massive overkill capability the proposal to build additional and new high-speed bombers is organizational and industrial empire building and little else. This should be terminated.

\$ 102 mill.

7) Bomber defense system (SAGE). It has long been understood that the Soviets do not have meaningful long-range bomber capability. When this is coupled with the known defects in the operation of the SAGE-type system there is no reason for incurring the large cost that building this would involve since it would apparently add nothing meaningful to the defense of the United States (see discussion in the Congressional Quarterly, attached).

\$1,000 mill.

8) Surface to air missiles. Former Pentagon staff have indicated that substantial savings could be made by holding back on major spending for ineffective anti-aircraft missiles, and deferring production on apparently inadequate designs (see the discussion on surface-to-air missiles in the Congressional Quarterly, attached).

\$ 850 mill.

9) The Manned Orbiting Laboratory. This is an Air Force venture that is NASA's task on the scientific side, and an addition to overkill if used to add to nuclear delivery. Hence, reduction is recommended (see Benson paper, attached).

\$ 576 mill.

C. Reduction in additions to conventional war overkill.

1) Vietnam war manpower. The Vietnam war now uses 639,000 soldiers, sailors, airmen. As the Congress instructs the Department of Defense and the President to refrain from operating wars of intervention, these 639,000 men would not be required. Their termination (annual cost of about \$10,000 per man) would leave the United States with armed forces of 2,900,000 and an opportunity to effect a major reduction in an unnecessary military outlay.

\$6,390 mill.

2) Surplus military manpower. Analysts in the Department of Defense have reported (see Congressional Quarterly, attached) that substantial savings could be made in manpower in all the services by a 10 percent cut in "support" forces which use a lion's share of military manpower, and have been unjustifiably large compared with other armies of the world. In addition manpower savings could be effected by imposing a requirement to reduce the large category of "transient" personnel. These combined reductions in the Army, Navy and Airforce would make possible a reduction of \$4.2 billion, allowing for a cost of \$10,000 per man year.

\$4,200 mill.

3) Tactical aircraft programs. Specialists in the aviation field have indicated that elimination of overly-elaborate and impractical electronic systems, and concentration on simpler (hence more reliable) aircraft would make possible savings on a large scale. (See details in attached papers.)

\$1,800 mill.

- 4) Attack carriers. The United States now operates 15 attack carrier forces. Their justification is based on the assumption of fighting three wars at once. Even a beginning of reasonable economy in the use of these forces (see details in Congressional Quarterly, attached) make possible substantial budget reductions. \$ 360 mill.
- 5) Anti-submarine carrier forces. These forces are known to have severely limited capability in their military function, casting grave doubt on the worth of continuing them, according to Pentagon specialists (see attached). \$ 400 mill.
- 6) Amphibious forces and Fast Deployment Logistics Ships (FDL). The amphibious forces are massively overbuilt (see Budget p. 75) and are presumably oriented to a Western hemisphere war mission. These could be substantially reduced without reducing a massive military capability. The FDL's are part of an expanded Vietnam Wars program that should be stopped by the Congress (see Congressional Quarterly, attached). \$ 500 mill.
- 7) C5-A jet transport. This plane has been specifically designed to transport large numbers of troops for the Pentagon's world-wide policing and Vietnam Wars program. This capability should be curtailed. \$ 500 mill.
- 8) Military assistance. For some time it has been apparent that the U.S. military assistance program has been a major factor in encouraging and sustaining dictatorial and backward regimes in many countries. This outlay has no demonstrable relation to the defense of the United States and should therefore be eliminated. \$ 610 mill.
- 9) New naval ship construction. We are informed in the Budget for FY 1970 (p. 77) that "The largest single 1970 increase proposed for General Purpose Forces is for

a new ship construction program for our naval forces of \$2.4 billion total obligational authority." Such massive expenditures for naval forces is justifiable only in terms of the 3-wars-at-once military perspective. Even first steps towards building a military sufficiency force, as against a military overkill force for 3-wars-at-once requires elimination of this item.

\$2,400 mill.

10) Economies in Training. A former Pentagon staffer (Office of Comptroller) recommends changes in training methods that would save an appreciable sum as against present methods and costs (see Benson paper, attached).

\$ 50 mill.

11) Improved buying procedures. A series of straightforward steps can apparently produce major savings in Pentagon buying--by curtailing the pattern of costly cost-overruns. (See Benson paper, attached for details.) Therefore the following Procurement reduction is indicated.

\$2,700 mill.

12) U.S. NATO forces. Pentagon staff indicate feasibility of reducing forces in Europe by 125,000 and their backup by 50,000. (See Benson paper, attached.) At \$10,000 cost per man, this justifies budget reduction of

\$1,750 mill.

D. Miscellaneous economies.

1) Military construction. The Budget for FY 1970 (p. 266) enumerates diverse purposes for which new military construction has been scheduled. Secretary of Defense Laird proposed a reduction of the \$1,948 million military construction item by \$634 million, leaving \$1,314 million. This should be further reduced in order to limit the further over-expansion of unnecessary military forces within the United States and abroad--in terms of the requirements of defense sufficiency.

\$1,000 mill.

2) F-14 aircraft. The Navy has announced a program for constructing a new class of fighter planes to be carried by its major aircraft carriers. These fighter planes are of doubtful worth since there is no present or potential opposing force with fleets of carriers against which U.S. carrier forces and fighter planes will conceivably be operated. Furthermore, the enlargement of the carrier aircraft force involves a major addition to preparations for further Vietnam-type wars. This alone is the issue with respect to this aircraft (not whether the design is right, or whether the contractor is competent). The Budget for FY 1970 (p. 264) suggests the amount intended for this purpose. This should be eliminated.

\$ 834 mill.

The sum of these proposed savings in the military spending of the United States for FY 1970 is:

\$54,794 mill.

A Sufficiency Security Force for the United States

A second approach that can be used by the Congress for considering defense expenditures is a yardstick of adequacy for designing a United States security force. A security force should be designed for the United States to serve three requirements:

- (1) operate and maintain a strategic deterrence force;
- (2) give reasonable security for the shores of the United States;
- (3) have capability for participating in international peacekeeping operations.

Such a force is designed, with its nuclear capabilities, to give pause to any potential attacker of the United States. Its coastal patrol and allied defense forces give solid assurance against attack on the shores of this country. Finally, the mobile, combat units proposed in this security force give highly competent capability both for the defense of the United States and for participation in international peacekeeping.

I have estimated the direct, combat manpower requirements for an American security force along these lines as follows:

Strategic Deterrence Forces	(Men)
International Warning Net	25,000
Strategic Weapons System Operations and Maintenance	10,000
Coastal Defense	
Warships for patrol	7,500
Coastal Air Patrol-Tactical	2,400
Airborne Combat Units for International Peacekeeping	
100 Autonomous Airborne Combat Units	40,000
Tactical Air-Ground Support	16,000
Air Transport	10,000
	<hr/> 110,900

With direct combat personnel of 111,000 there is requirement for support staffs for the ordinary military headquarters and backup functions including: combined headquarters, intelligence, communication, engineering,

logistics, procurement, training and recruitment, research and medical. Such support forces can be estimated on the ratio of 5 to 1, or more elaborately estimated on the basis of 7 to 1. On the former basis the total security force with supporting personnel would amount to 666,000; with the larger allowance for support the total force would require 888,000 men. This security force for the U.S. would require high-caliber voluntary enlistees on a career basis. Conscription would be irrelevant and inappropriate. The annual operating cost of such a security force would be about \$20,000 million.

Altogether, such a security force for the United States would have formidable military capabilities for deterring any potential nuclear attack, for securing the United States against physical penetration from the outside, and for deploying highly competent airborne battalions for local defense and for international peacekeeping.

The Armed Services Committees of the Congress could consider the design of a security force along these lines, using it as a yardstick against which to gauge present and subsequent budget proposals. It is underscored that this security force is designed to operate before international disarmament agreements of any sort are completed.

...

The recommendations given above for savings in Fiscal Year 1970 military programs of the United States are justified on the following grounds:

1. Present forces are more than sufficient to serve as a competent security force for the United States.
2. The Congress should stop the armed forces from adding to overkill.
3. The Congress should stop preparation for more Vietnam wars.

4. No conceivable armed forces can do more than help to secure the U.S. in a military sense. Defense as a literal shield is no longer purchasable. The Joint Chiefs do not promise to defend the U.S. --they cannot do it. Neither can they promise a nuclear war "victory," for a "successful first-strike" without ones own destruction is not achievable.
5. The Congress, through these budget reductions, can make available a large fund that is needed for productive, life-serving purposes within the United States.
6. Only by these means can the American people cope constructively with the nation's massive problems of economic development and forestall the dread prospect of racial confrontation in this land. (See article by Melman, attached.)

The application of recommended savings to these purposes could probably be accomplished, swiftly, by translating these savings into major tax reductions. This would permit the cities and the states to use their existing taxing mechanisms for tapping this new source of tax power and applying these funds to the urgent needs of our own people.


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DEFENSE BUDGET CUTS OF \$10.8 BILLION SEEN FEASIBLE

Defense experts both in and outside the Government have told Congressional Quarterly that huge cuts can be made in the defense budget while retaining or even improving the current level of the nation's defense.

Highly placed sources in the Pentagon and industry told CQ that cuts totaling at least \$10.8 billion could be made in areas they classified as "fat." None of the cuts would affect U.S. combat capabilities, they said. Instead, only logistical elements they view as excessive and weapon systems they consider overlapping, unnecessary or of doubtful combat effectiveness would be cut back.

Although numerous officials in the Pentagon favor the massive cuts, the actual decisionmakers remain unconvinced. Defense Secretary Clark M. Clifford told a June 20 press conference that the Administration probably would impose defense spending cuts of \$2 to \$3 billion as part of the \$6-billion reduction ordered by Congress as the price of enactment of President Johnson's coveted tax increase. One Pentagon source who favors the higher cuts told CQ it was surprising that Clifford would accept any reductions at all, in view of "pressures from the military and defense industries to keep the budget intact."

In addition to the logistical support, the major areas cited by sources as "fat" include the new antiballistic missile system (ABM), "unnecessarily sophisticated" equipment in both Air Force and Navy aircraft, an expensive air defense system deployed against what sources see as "weak and outmoded" Soviet bomber forces, the Army's helicopter program and antisubmarine carrier task forces of high cost and, sources said, "dubious" combat effectiveness.

One Pentagon civilian said these areas tied down "fantastic amounts of manpower despite the generally low level of combat effectiveness they afford. Cutting them back in many cases actually would improve the nation's defense. Not only would additional manpower be freed for direct combat needs, but the mobility of U.S. forces would be enhanced by the lack of extraneous equipment and a sluggish logistical tail." By "de-escalating sophistication," he concluded, "we could escalate combat effectiveness."

In view of the Government's financial crisis, another official said, it would "border on the irresponsible if these programs are not cut back. These areas should be cut anyway, but in view of the nation's other pressing needs, the case is overwhelming."

Another Pentagon civilian said other funds might be saved by deferring desirable projects until later fiscal years. The source said there were "a lot of nice things the military would like to have and probably should have under normal circumstances. But with the dollar under attack, we can't just go on with business as usual. For the next year, at the very least, we've got to drive a Volkswagen instead of a Cadillac."

Sources emphasized that the cuts not only would mean dollar savings but also balance-of-payments gains. Cuts affecting overseas forces would be worth direct payments savings of almost \$1 billion. As the spending cuts cool the economy, they said, there would be further payments savings due to returns of capital which had flowed abroad to escape the U.S. inflation.

Clifford has not yet spelled out which areas will be cut to make up the planned reductions of \$2 to \$3 billion. Sources told CQ, however, that the most likely action will be deferral of weapon systems rather than stripping programs they consider "fat." Some of the items Clifford reportedly is considering include the Navy's \$1.7 billion shipbuilding program, the Air Force's military space project, formation of a new 6th Army division, and new air defense missiles.

What follows is a compilation of major areas in which substantial cuts are thought feasible without reduction in the country's military strength; it is the result of detailed interviews in each area with numerous defense industry experts, civilian and military officials. The Administration's justification for funding each program also is presented.

Breakdown of Proposed Cuts

Following is a compilation of cuts that a consensus of CQ's sources feel could be made in the fiscal 1969 defense budget without diminishing U.S. combat capabilities (for details and Administration justifications, see text). Figures in parentheses are sub-totals.

Item	Suggested Cut
Antiballistic Missile System (ABM)	\$ 1.1 billion
Bomber Defense System (SAGE)	1 billion
Surface-to-Air Missiles	850 million
Manpower	(4.2 billion)
Army	2.2 billion
Navy	900 million
Air Force	675 million
Marine Corps	400 million
Tactical Aircraft Programs	(1.8 billion)
Army	510 million
Navy	635 million
Air Force	700 million
Antisubmarine Carrier Forces	400 million
Attack Carrier Forces	360 million
Amphibious Forces and Fast	
Deployment Logistic Ships (FDLs)	500 million
Manned Orbiting Laboratory	600 million
TOTAL	\$ 10.8 billion

Strategic Forces

ABM System. Probably one of the most clear-cut items of "fat," in the view of most of CQ's sources, was the ABM system, designed to protect the nation against an intercontinental ballistic missile attack. Currently programmed for a "thin" deployment (termed "Sentinel") to defend against a small attack, the ABM employs nuclear-tipped missiles to seek out and destroy enemy missiles in the upper atmosphere. CQ's sources doubt the system will have any chance of working against a realistic attack; consequently, they would cut the fiscal 1969 request figure of \$1.2 billion for ABM deployment and development down to \$100 million for further development work. In addition, they would cut back some \$200 million more that was appropriated for ABM deployment in previous fiscal years but not yet spent. (About \$200 million more in previously appropriated deployment money already is obligated.) The funds were the first installment on a total installation cost of \$5 to \$7 billion for the "thin" ABM deployment; subsequent expansion of the system to a "heavy" shield would cost an estimated \$40 to \$50 billion.

The sources listed several reasons for opposing the system: (1) because of the nuclear test ban treaty, the ABM has not yet been tested in the atmosphere; thus, they said, there is no assurance that the system's radars or its tracking and guidance systems will survive the first blast the ABM sets off; (2) counter-measures on the part of an enemy would be relatively simple; there are many devices to confuse a radar system, particularly the use of a number of dummy targets; and (3) thus far, the United States has been unable to attain acceptable reliability with far simpler missile systems designed for anti-aircraft use. In simulated combat tests, these missiles have shown both a low level of readiness and a poor "kill" ratio. "With missile technology in its current state," one Pentagon civilian said, "an effective ABM would be worth almost any price we would have to pay for it. But for the present we can make greater strides in that direction by spending small sums of money to advance technology until we have a really useful capability, rather than spending a lot to produce hardware that we know won't work."

Administration Position.—After opposing ABM deployment for years, then Defense Secretary Robert S. McNamara late in 1967 gave in to pressures by Congress, the military and industry, and ordered the system deployed. In his speech announcing the deployment, McNamara said there were "marginal grounds for concluding that a light deployment of U.S. ABMs against (Red China) is prudent." McNamara warned, however, that "if we...opt for heavy ABM deployment—at whatever price—we can be certain that the Soviets will react to offset the advantage we would hope to gain." McNamara concluded that the nation must "resist that temptation firmly," because the "greatest deterrent against such a strike is not a massive, costly, but highly penetrable ABM shield, but rather a fully credible offensive assured destruction capability." (For McNamara statement, see 1967 Almanac p. 966.)

In recent weeks, McNamara's successor, Clark Clifford, has argued far more vigorously than McNamara for installing the ABM. Clifford June 19 sent a letter to Senate Armed Services Committee Chairman Richard

B. Russell (D Ga.) warning that it would be a "serious mistake" for the Senate to turn down the Sentinel deployment. Clifford's letter placed new emphasis on the potential of the system to protect U.S. offensive missile sites from Soviet attack or to limit damage from an accidental Soviet firing.

In a press conference, the following day, Clifford said the system now had "real significance" vis-a-vis the Soviet Union. Citing U.S. intelligence reports that the Soviets were installing such a system, Clifford said the United States would be "in a better position to reach agreement with them on an ultimate step toward disarming if we also go about the deployment of a system." Clifford did not spell out, however, whether that would involve escalation to the level of a "heavy" ABM.

Senate ABM Hassle.—The year's first skirmish over the ABM came in the Senate in April during consideration of the fiscal 1969 defense procurement bill (S 3293). By a 17-41 roll-call vote, the Senate April 18 rejected an amendment by Gaylord Nelson (D Wis.) to drop the bill's \$342.7 million in Sentinel procurement funds. Later in the day, by a 28-31 roll-call vote, the Senate rejected an amendment by John Sherman Cooper (R Ky.) to prohibit deployment of an ABM system until the Defense Secretary certified that it was "practicable" and that its cost was known "with reasonable accuracy." (See votes 81-82, Weekly Report p. 963; for story see p. 904.)

Opponents of the system were encouraged several weeks later by press reports that the Administration intended to drop the ABM system as part of the \$6-billion economy cut. The reports proved wrong, however, as Clifford launched his vigorous defense of the system. On June 24, the Senate by a 34-52 roll-call vote rejected an amendment by Cooper and Philip A. Hart (D Mich.) to add language to the defense construction authorization bill (HR 16703) prohibiting expenditure of any ABM funds authorized by the bill before July 1, 1968. The Senate then went on to reject, by a 12-72 roll-call vote, an amendment by Stephen M. Young (D Ohio) to delete the bill's authorization of \$227.3 million in ABM construction money. It was expected that the anti-ABM group would renew its attacks on the system when the program later was considered in the appropriations stage.

At one point in debate, Sen. Henry M. Jackson (D Wash.), the bill's floor manager, went beyond Clifford's statement in praising the anti-Soviet capability of the system. Jackson June 19 said some Senators apparently had "taken too literally the public rationale for the system previously given by officials of the Defense Department. As a result, these Senators have missed the most significant feature of the system: it will have definite capabilities for defense against the Soviet missile threat." Not only would the system defend U.S. missile sites against that threat, Jackson said, but it would also "provide a limited degree of protection of American cities and other strategic forces from Soviet attack, as well as improve our capacity to detect and assess any missile attack."

Bomber Defense System. Another big item CQ's sources view as unnecessary is the complex warning and intercept system designed for defense against long-range bomber attack. Called SAGE for Semiautomatic Ground Environment, the system employs elaborate radars both

to detect incoming bombers and to guide interceptors to shoot them down.

Sources said it was widely accepted in the Pentagon that the Soviet Union no longer could muster an appreciable bomber threat. "Despite intelligence reports that the Soviets have dropped their long-range bomber development effort," one military source told CQ, "we retain the SAGE system as a hedge that they might again shift course. It would make more sense to phase out the SAGE system now and then build up our air defense fighter forces later if the threat should reappear."

As in the case of the ABM system, CQ's technical sources in this area fear SAGE would be subject to a wide range of countermeasures which would render it ineffective against an enemy attack. A higher degree of effectiveness can be attained, these sources said, by phasing out the SAGE system and relying solely on Federal Aviation Administration (FAA) surveillance capabilities and normal U.S.-based fighter squadrons, combat training squadrons and the Air National Guard. One source said this would be a system "based on weapons and detection equipment that maximize kills, not automation." Savings from such a move would be an estimated \$1 billion a year.

Despite the \$18 billion cost of installing the SAGE system, one Pentagon civilian said, the Air Force had been aware of "crippling flaws" in the system ever since the outset of installation in the mid-1950s. "The Air Force apparently felt it should get the system first and then make it work," he said. "A number of costly modifications have failed, and so we're right back where we started." The source noted that the Air Force was about to embark on another costly modification program but predicted it would be no better than previous efforts. Designated AWACS for Airborne Warning and Control System, the project envisions an improved radar system that is claimed to track incoming aircraft at levels far below the present capability. CQ's sources said the AWACS radars would be just as unreliable and vulnerable to countermeasures as are those in the current SAGE system.

Administration Position—McNamara in his 1968 defense posture statement said the Defense Department had conducted extensive studies of the antibomber defense problem and that in all the alternative force structures examined, the "indispensable element" was AWACS. If perfected, McNamara said, AWACS would be important for several reasons: (1) its ability to track aircraft at low altitudes; (2) its ability to provide detection at greater distances from the United States; and (3) its low vulnerability to missile attack compared with the SAGE system.

McNamara conceded, however, that the feasibility of AWACS depended upon the successful deployment of a "downward-looking" airborne radar. Although McNamara said "the required technology was 'within our reach,'" he did not comment on the over-all need for a bomber defense system or on the present level of effectiveness.

Surface-to-Air Missiles. CQ's sources said \$850 million per year could be saved by phasing out "ineffective" air defense missiles and deferring heavy hardware development on new missiles. Sources said there was little reason to believe these missiles would work any better in combat than Soviet missiles used by the North

Vietnamese, stated in the May 6 issue of *Aviation Week* to have attained a kill ratio of less than 1 percent. According to one military source, "the North Vietnamese have apparently learned much more quickly than we have that their real defense against bombing rests on anti-aircraft guns." The source said the current and planned anti-aircraft gun units would be "more than enough" for good air defense.

The U.S. missiles, called Hawk, Nike-Hercules and Bomarc, are deployed heavily around U.S. forces in Vietnam, Korea, Europe, Alaska and the continental United States. Like the SAGE system, their performance tests have been so unsatisfactory that they have required constant programs of modification and improvement. Commenting on both the SAGE and the missile programs, one source said "large get-well programs are always a symptom of a basic blunder."

Administration Position—Administration analyses indicate that the "get well" programs should yield substantial reliability improvements. Furthermore, it is felt that the guidance technology of at least the newer U.S. missiles is considerably more sophisticated and advanced than that of the Soviet missiles, even though the U.S. missiles have not yet been demonstrated in combat.

General Purpose Forces

Manpower. Sources indicated that sums totaling a minimum of \$4.2 billion could be saved by paring "fat" from logistical elements of all the services. (The cost savings of the manpower cuts were figured on the basis of an average annual cost of \$10,000 per serviceman. The figure included the serviceman's salary and allowances, medical care, pension, food, billeting, training, supervision and other supporting expenses.) For each of the services, CQ's sources recommended cuts ranging from 10 to 20 percent, but among most sources, recommendations tended to cluster around the lower figure. For purposes of this study, CQ assumed the lower cut.

One Pentagon civilian told CQ that "anyone who's ever been in the service is aware of the tremendous wastage of manpower—the vast number of support troops who sit around with little or nothing to do. Beyond that, there are tremendous overlapping areas even in functions that keep people busy. By sensible reorganization, massive cuts could be made in the support area and we'd have a better, more streamlined force."

Army. Of the total Army strength of 1,550,000, about 360,000 are in combat units (divisions, brigades, artillery and missile units), 110,000 are transients (men en route between assignments) and 1,080,000 are in additional support roles beyond those already provided in the combat units. Sources agreed that the Army should not be allowed to carry the large transient category but, as a well-placed civilian put it, should have to "take it out of their hide just like a corporation would." Elimination of the transient figure plus a 10-percent cut in support would yield a reduction of 218,000 troops, worth estimated savings of almost \$2.2 billion.

Navy. The Navy lists a total strength of 775,000, including 330,000 assigned to combat units, vessels or air wings, 50,000 transients and 395,000 in support. A reduction of 90,000 including, as a minimum, the elimination of the transient category and a 10-percent cut in support, would mean cost savings of \$900 million.

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Air Force. Of total Air Force strength of 900,000, the breakdown includes 270,000 in combat air or missile units, 5,000 transients and 625,000 in the support function. The minimum cut recommended by CQ's sources would mean reductions of 67,500 and savings of \$675 million.

Marines. Current Marine strength is 300,000, with 120,000 in combat ground or air units, 25,000 transients and 155,000 in support. The minimum cut would amount to about 40,000 and savings of \$400 million.

NATO Forces. CQ's sources said it would be desirable to cut back the U.S. commitment to the North Atlantic Treaty Organization (NATO), but most of the sources agreed that as long as the commitment remained, U.S. forces located in Europe added far more strength to the West's posture than they would if brought home and kept in reserve for possible redeployment. One former high-ranking Pentagon civilian told CQ, however, that the United States should press West Germany to provide full logistical support for the U.S. combat forces deployed on German soil. The source said this should be more desirable to the Germans than the present arrangement of German offset purchases of U.S. weapons and probably would mean an even greater balance-of-payments savings for the United States. The source estimated that such an arrangement would enable the United States to pull out an additional 95,000 troops (above the standard 10-percent cut discussed above) and would amount to cost savings of almost \$1 billion a year and \$600 million in balance-of-payments gains. (CQ did not include this item in the value of over-all cuts, however, because it would necessitate an agreement with a foreign government while the other cuts could be undertaken by unilateral Pentagon or Congressional action.)

Administration Position.—The Administration has contended that manpower allotments are the results of intensive studies on the requirements of all the forces. Present strength levels, it contends, provide optimum combat support.

Tactical Aircraft. Aviation experts interviewed by CQ said cuts totaling \$1.8 billion could be made in the next fiscal year's aircraft procurement programs, primarily by dropping "elaborate and impractical" electronics systems and buying more austere versions of the craft.

Air Force. Cuts of at least \$700 million could be made in the Air Force program, sources said, by purchasing simpler versions of the \$2.5 million F-4E, the \$8 million F-111D, and dropping production of the \$2.6 million A-7D in favor of the A-37, which costs only \$350,000. Despite their high costs, sources said, the F-4 had failed to provide clear superiority over Soviet fighters and the F-111 was too vulnerable to enemy fighters and anti-aircraft defenses to be useful; consequently, these aircraft should be prime candidates for further cuts. One civilian expert said the A-7 was "neither accurate nor maneuverable enough to be effective in its assigned role of close air support." In the interim, he said, the highly maneuverable, combat-proven A-37 could serve effectively in the close-support role until a new generation of attack aircraft more appropriately tailored to the mission could be built.

Shifting from production of the A-7D to the A-37 would save about \$210 million if the same number of aircraft budgeted for fiscal 1969 were bought. Sources said

an additional \$30 million could be saved by dropping the F-4E's "long list of combat-inessential" equipment such as sophisticated navigation and fire control systems. Another \$350 million or more in research and procurement money could be saved, they said, by dropping the \$2-million Mark II electronics system in the F-111D (thus leaving the plane in effect an F-111A). One civilian official said the sophisticated electronics gear in each of the two latter craft would be "highly unreliable, contribute little or nothing to combat effectiveness, and decrease aircraft performance and daily utilization rates." Likewise, \$110 million could be saved by continuing A-7A production rather than introducing the substantially more expensive A-7E, an aircraft termed by one civilian source as "90-percent gold-plate."

Several sources also emphasized that great scrutiny should be placed on the F-111A program, which has encountered extensive problems in recent combat tests in Vietnam. Unless the plane begins showing "marked improvement," they said, the program should be cut back until a better aircraft can be developed.

Navy. By applying the above austerity program to the even more complex Navy F-4J electronics systems, sources said fiscal 1969 savings of \$50 million could be attained. They applauded the Senate Armed Services Committee's recent action in denying a \$585 million authorization request for the controversial F-111B program, but they said the Committee committed "the worst possible error" in providing \$287 million for accelerated development of a substitute craft, the VFX-1. A military source termed the VFX a "warmed-over version" of the F-111 which will cost substantially more and perform only slightly better than the plane it would replace. (For story on the VFX and F-111B, see *Weekly Report* p. 1007.)

Army. An area of increasing "fat," sources said, was the Army's helicopter program, and particularly the Hueys and Chinooks that are prevalent in Vietnam. "There are so many of those things in Vietnam," one military source said, "that even a sergeant complains if he has to ride in a truck." Sources recommended that the approximately \$600 million request for helicopters in fiscal 1969 (excluding the Cheyenne helicopter which they would drop) should be scaled back to attrition levels—an approximate buy of 650 helicopters. Savings would be an estimated \$380 million, including \$300 million on the helicopter buy and \$80 million in helicopter operating costs.

Several civilian and military sources said the helicopters had presented a "tremendous logistical burden in Vietnam in terms of fuel, ammunition, spares and manpower." One Pentagon source said the limitations of helicopters had "influenced us heavily toward short one- or several-day operations to the extent that the Army in Vietnam has largely abandoned the mission of holding and patrolling territory."

Sources also recommended dropping the new Cheyenne helicopter—an advanced craft based on a complex missile/gun fire control system, which they say is now slipping badly. One former Pentagon official said the Cheyenne, which costs \$3.1 million, was "the biggest boondoggle the Army ever got dragged into—a complete waste." In a close support attack, he said, it would take the helicopter a minimum of 16 seconds to home in and guide its missile to target. In the meantime, he

said, "you'll be blasted out of the sky by every weapon from small arms to tank or antiaircraft fire. This concept might work if you were up against a single tank in the desert. But if you're in the midst of a Soviet division, there's just too much around that they can throw back at you." Dropping the Cheyenne program would mean fiscal 1969 savings of about \$150 million in costs of procurement and continuing R and D.

Administration Position—Aircraft Electronics Gear. A military spokesman told CQ that in every case, the aircraft under discussion were equipped with gear "necessary for them to meet their assigned combat roles. Sure, you might gain a maneuverability advantage by removing gear from a plane. But you also pay a penalty. And in these cases, the penalty would far offset the gains."

Helicopters—The Administration has maintained that more helicopters are necessary to increase U.S. mobility in the war in Vietnam. In the months ahead, it is estimated that helicopter sorties in the war will double to the level of almost 1 million a month.

With regard to the new Cheyenne helicopter, studies have shown that the predicted accuracy of the craft's gun and missile guidance systems add so much to combat effectiveness that they more than compensate for the cost and logistics burdens. Despite the slips, the Administration argues that over-all program risk is so low that the recent production go-ahead is justified.

Antisubmarine Forces. Another area where a consensus of CQ's sources would make substantial cuts is in the Navy's antisubmarine warfare (ASW) force. Sources said they would eliminate the entire fleet of eight ASW aircraft carriers, whose planes have never been effective in locating or destroying modern submarines in simulated combat exercises. The sources would leave the job to existing attack submarines, destroyers and high-endurance land-based patrol aircraft. These forces, one military source said, "should be more than enough to carry the full load."

Mothballing the entire ASW carrier force, sources said, would mean savings of at least \$400 million, including \$160 million in carrier operating costs, \$110 million on the 32 other ships associated with the ASW carrier fleet, \$100 million in operating expenses of the ASW aircraft and a large classified allotment for development of a new ASW plane of unprecedented complexity and sophistication—the VSX. (Eventual costs of the VSX program have been estimated at \$2.5 billion.)

Administration Position—McNamara in his defense posture statement conceded that the present ASW carrier force was a "relatively high-cost system in relationship to its effectiveness." McNamara added, however, that intensive studies had determined that "the advantages and flexibility inherent in such a force would marginally warrant its continuation in the 1970s—provided that its effectiveness could be greatly improved." To make these improvements, McNamara said, would entail "a very expensive undertaking"—the development of "a new and much more capable aircraft," the VSX.

Attack Carrier Forces. Another large sum of money could be saved, CQ's sources said, by changing the concept of deployment of attack carrier forces. Sources said that by counting on carriers only for quick reaction and an initial power surge, then substituting land-based aircraft

for the long haul, it would be possible to mothball three of the 15 carriers currently in use and still meet all the nation's worldwide commitments. The sources added that cutting the force down to 12 carriers also would mean that construction could be deferred on three expensive nuclear-powered carriers programmed for construction over the next six years (estimated total cost: \$2 billion) and that two air wings of the oldest aircraft could be phased out. Savings would amount to \$360 million for the 1969 fiscal year, including \$120 million in carrier operating costs, \$130 million in costs of operating escort ships, \$27 million in air wing operating costs, and about \$85 million in fiscal 1969 advance funding toward the first of the three additional nuclear carriers (plus an unexpended \$50 million for this purpose from fiscal 1968).

CQ's sources said one illustration of "irrationality" in carrier deployment was the current stationing of three carriers in the waters off North Vietnam. One Pentagon source said that "no other aircraft deployment could be more expensive, because we have to keep two carriers in support for every one on line—a total of nine attack carriers tied up in the war. We could phase out six of those carriers by pulling only two out of Vietnam, leaving one there for the purpose of keeping Naval Air current in combat experience. Then, at far less cost, we could achieve the same aircraft strength by redeploying land-based aircraft from areas throughout the Pacific."

Since the role of the carrier is to support rapid force buildups rather than sustained operations, another source told CQ, proper utilization would mean "instant availability" of the entire carrier force. "If you keep your carriers ready for quick reaction rather than long deployments," he explained, "you can put almost all of them in action because there's no requirement for support." Noting that chances were "remote" that the United States might invade Russia or China, the source said it was "impossible to dream up enough other contingencies to justify retention of all 15 carriers."

Administration Position—The Administration has not evolved any specific justification for carrier employment concepts or Naval Air force levels. The last change in position was in 1962, when the 15 wings attached to the 15 carriers were reduced to 12, since three carriers were normally in overhaul at any one time.

Amphibious Forces. Because of the lack of real or potential island powers, officials interviewed by CQ think substantial cuts should be made in the number of amphibious assault vessels. One official said "the Soviets are no amphibious power to speak of and neither are the Chinese. Who else could you be fighting that would necessitate a World War II-type landing operation? Although it is clear that our concept of employing the Marines has changed radically, we still maintain a huge amphibious fleet."

Of a total amphibious force of 142 ships, CQ's sources recommended mothballing 50 of the most obsolete, without making any change in the composition of Marine combat forces. Savings would be worth about \$100 million. In addition, they were agreed on dropping \$216 million in the fiscal 1969 budget for a new type of assault ship—the LHA.

In a related matter, sources said they also would drop a new procurement request for fast deployment

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logistic ships (FDLs)—a mammoth military warehouse designed for deployment off potential trouble spots for possible fast deployment of heavy combat equipment. (Unlike the LHA, the FDL was not an assault vessel but a type of cargo ship. It was designed to support Army forces, whereas the LHA was for the Marines.) Fiscal 1969 savings from eliminating the FDLs would be \$184 million.

Sources said the cuts envisioned in amphibious force strength would leave the capability of simultaneously assaulting with one division team in the Pacific and one brigade in the Atlantic. The lower level of strength, one source said, would be sufficient to stage "a strong show of landing assault force in any island crisis or even a good-sized war."

Administration Position—As in the case of carrier force levels, there appears to be no specific set of situations which form a basis for assault transport requirements. There has only been a general increase in assault shipping to improve the mobility of the Marines.

MOL. A final area deemed ripe for cuts is the Manned Orbiting Laboratory project (MOL)—the Air Force's probe into the military uses of space. One Defense Department official said the Air Force at this stage "has no more idea what they'll do with men floating around in space than NASA (the National Aeronautics and Space Administration) does with its Apollo Applications program. This is one activity that can wait." Postponing MOL would mean fiscal 1969 savings of \$600 million.

Administration Position—The Administration maintains that possibilities still are strong that space may be

put to military advantage. McNamara in his defense posture statement said he had insisted that space projects undertaken by the Defense Department "must hold the distinct promise of enhancing our military power and effectiveness" and that they "mesh in all vital areas" with those undertaken by NASA.

Outlook

Sources emphasized that the areas probed by CQ were only the "most glaring examples" of Defense Department "fat." According to one Pentagon source, "A really detailed probe by the Congressional Appropriations Committees would reveal millions if not billions in other possible savings."

Because of political realities, however, most of CQ's Capitol Hill sources thought the defense budget cutters faced a stiff uphill fight. This theme was sounded by Republican Presidential candidate Richard M. Nixon June 23 when he warned it would be "irresponsible and potentially dangerous" for the Administration to consider any defense budget cuts.

Congress' hesitance to question major Pentagon programs was seen June 24 when the Senate voted to proceed with full funding of the ABM. In doing so it went against the advice of Majority Leader Mike Mansfield (D Mont.), among others. Mansfield told his colleagues before the vote, "I think it is up to this institution (Congress) to fulfill its responsibilities to check, to recheck, and not be taken in by what the Joint Chiefs of Staff or the Secretary of Defense...say they must have, because we never can satisfy them."

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How the Pentagon can Save \$9,000,000,000

by Robert S. Benson

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Washington, D.C. 20036

I have a modest proposal.

I should like to demonstrate, in as brief and as simple a way as the complexities permit, how \$9 billion can be cut from the Pentagon budget without reducing our national security or touching those funds earmarked for the war in Vietnam.

Let me emphasize at the outset that this is truly a modest proposal, offered from an earnest belief in its practicality and with the conviction that savings from its adoption could be applied to our fiscally undernourished concerns for human opportunity.

The process by which the Pentagon budget—as well as the rest of the federal budget—is shaped and reviewed is a strange and not always wonderful thing. Any new program is usually given thorough scrutiny in Congress: debate rages over the program's purposes and

over the level of funding required. Once it is accepted, however, only the funding level is certain to receive continuing Congressional attention. A nation's needs change, but rarely is a program's reason for existence ever challenged again, either in the executive branch or on Capitol Hill. On the contrary, its administering agency and its Congressional advocates, cheered on by its beneficiaries, strive to perpetuate or expand it, seldom pausing to ponder whether it is still worthwhile or whether something else is needed more.

The process can be insidious. Man, the social animal, takes comfort from acting in accord with the wishes of friends and associates. But over years of advocacy he loses some ability to discriminate, to relate the particular to the whole. In the case of Pentagon outlays, the built-in protection inherent in es-

established programs often achieves invulnerability.

Because a mystique of secrecy and complexity surrounds the Pentagon, most Americans feel uncomfortable, or even vaguely unpatriotic, if they question any part of the military budget. But the fact is that the federal budget's provisions for defense far exceed our national security requirements. Although not many Americans realize it, a great deal of information about the threats to our security (and the forces we procure to meet them) can be gleaned from unclassified papers: budget statements of the President every January, annual posture statements by the Secretary of Defense, transcripts of Congressional hearings, and articles in the newspapers. Any serious student will soon discover that items in the defense budget, as in any other, range from fundamental to marginal. The difference is that in the Pentagon budget (a) vastly larger sums are involved, and (b) far less Congressional scrutiny is applied to them.

I

Using the sources above, my two years of experience in the Comptroller's office of the Department of Defense, and my own judgment of the issues, I hope first to outline how the budget can be trimmed by \$9 billion and then proceed to a discussion of the weaknesses in the system which allowed this fat to survive even in the cost-conscious regime of Robert S. McNamara.

In our budget-cutting exercise these ground rules will apply:

- None of the cuts is related to the war in Vietnam.

- None of the cuts would impair our national security requirements.

- All of the cuts are in what the Pentagon calls ongoing core programs.

- All of the cuts could be effected within the next 24 months, which

would allow the savings to be applied rather quickly to unfilled domestic needs.

- The focus is on areas where forces or weapons systems are either duplicated or outmoded, where an enemy threat is no longer credible in today's political and technological environment, or where money is being lost through grossly inefficient performance.

Perhaps the best place to begin is with the Manned Orbiting Laboratory, which receives half a billion dollars a year and ought to rank dead last on any rational scale of national priorities. The MOL, a carbon copy of the National Aeronautics and Space Administration's spacecraft operation, is in the budget because the Air Force wants a piece of the extraterrestrial action, with its glamor and glory, and Congress has been only too happy to oblige.

Although there have been valiant attempts to make the MOL seem different, Pentagon space research is alarmingly similar to that of NASA. Listen as Dr. Alexander H. Flax, Assistant Secretary of the Air Force for Research and Development, tries to draw the distinction for members of the House Appropriations Committee:

"If you view the objectives of these programs as being simply to get data on humans exposed for some period of time, I think you have to conclude that there is a great deal of duplication, but I tried to make the point that our objective is primarily to test equipment, not humans. The humans interact with the equipment, of course."

True, there are potential military uses for space vehicles. But little thought appears to have been given to whether a separate program was required or whether the same results could have been achieved through slight adjustments in the parallel NASA activities. The MOL program is duplicative and wasteful. Of the \$600 million requested for it last year, Congress ap-

proved all but \$85 million. This year's budget calls for \$578 million. I would strike all of it.

SAVING.....\$576,000,000

As for grossly inefficient Pentagon performance, the most obvious example is manpower management and utilization. Manpower is the single largest commodity the Defense Department buys; this year, the Pentagon will directly purchase the services of nearly five million Americans. Assuming an average of \$7,000 each in pay, allowances, and supplementary benefits, the department payroll is about \$34 billion, of which about \$22 billion goes to military personnel and \$12 billion to civilians.

The Pentagon has little direct control over the costs of its civilian personnel, who are recruited mainly through a government-wide civil-service pool. But its control over military personnel is complete, covering not only the \$22 billion payroll but also about \$7 billion annually in training costs and nearly \$2 billion in moving expenses for men changing assignments.

Most men enter the armed forces either because they are drafted or because they enlist in preference to being drafted. All enlisted men entering the service receive basic training, which in the Army takes eight weeks and costs about \$1,000 per head. After advanced training in a specialty, these short-term new servicemen generally spend the rest of their hitches on assignments requiring that specialty.

A more flexible training policy would not employ such a lockstep approach. Some basic training is needed for everyone, and combat infantrymen certainly need the full eight weeks. But not all of the Army's 535,000 new soldiers this year will serve in combat, and four weeks would suffice for the others. The Navy and Air Force have already abbreviated their basic training; for the

Army to do so would yield, in direct training savings alone, \$50 million.

SAVING.....\$50,000,000

Although the pattern of training and assignments for officers is far different, even greater economies are possible—and with a clear gain in individual job performance. After initial training, which is more diverse than it is for enlisted men, almost every officer is shuttled around through an amazing variety of assignments and further training designed to give him enough breadth of experience to become Chief of Staff some day, often at the sacrifice of obtaining no deep experience in any one field. The expectation is that every seasoned officer can lead an infantry battalion through a swamp on one assignment, promulgate personnel promotion policies behind a Pentagon desk on the next, and discuss black separatism with Ethiopians as a military attache in Addis Ababa a year later.

In this age of specialization, such a philosophy is anachronistic and expensive. No efficient business would move its men around in so illogical a pattern. By perpetuating the illusion that every officer can aspire to the top organizational position, rather than screening the candidates earlier in their careers, the services suffer from having an excessive number of men struggling to learn totally unfamiliar jobs. Moreover, today's technological and analytical complexities demand the development of specialists whose entire experience is focused on performing one particular function well. By attempting to fill the growing number of specialist slots with generalists, job performance diminishes for all.

If we were to reduce by a modest one-fourth the present number of assignment changes (whereby servicemen move almost once a year), the annual saving in transportation and moving

costs alone would be slightly over \$500 million, to say nothing of the improvement in work effectiveness.

SAVING.....\$500,000,000

A further saving can be accomplished by changing the way the military calculates individual manpower requirements. Unlike business, which requires work units to absorb the impact of absences, the Pentagon includes a cushion to compensate for men absent on leave, in the hospital, in school, and en route to new assignments. And the military's 30 days of annual leave—which all servicemen get—is far more than the norm for civilian work forces of comparable age and experience, even acknowledging that the 30 days includes weekends. The military argues that this amount of leave time is compensation for being on duty 24 hours a day, seven days a week—but this is a myth long in need of explosion. Except for those at sea and in Vietnam, most military men work evenings or weekends no more and no less than civilians do. Cutting leave time to 20 days a year—with the exception of men on hardship duty overseas—would reduce the total armed forces manpower requirements enough to save \$450 million annually.

SAVING.....\$450,000,000

Thanks to Beetle Bailey, Catch 22, and the fact that so many Americans are veterans, the supernumerary theory of military staffing has had great visibility. But an area of far greater inefficiency—supplier performance on large weapons system contracts—draws almost no attention at all. This is especially serious because the same contractor who can be extremely efficient under the conditions imposed by the private competitive marketplace can waste millions when working under a government contract. Few Americans are aware that about 90 per cent of the

major weapons systems that the Defense Department procures end up costing at least twice as much as was originally estimated. Some of this cost growth comes from Pentagon-ordered changes in design or configuration, but much of it results from inefficient contractor practices or from his knowledge that the government will underwrite his excessive overhead.

It is up to the government, therefore, to impose on a non-competitive defense contractor the same cost discipline that the contractor would be forced to impose on himself in a competitive situation. Instead, the present procurement system is geared almost exclusively to securing timely delivery and good technical performance. Cost comes last.

The engine contract for the controversial F-111 fighter-bomber offers a classic illustration of what happens to costs after a decision is reached to proceed with procurement.

An aircraft of this kind has three major components: airframe (wings and fuselage), avionics (electronic navigation and weapons-guiding gear), and engines. For a technologically advanced fighter-bomber, the airframe will account for about 55 per cent of total cost, avionics 25 per cent, and engines 20 per cent. The initial F-111 contract for 2,053 engines was awarded to Pratt & Whitney on the basis of an estimated cost of \$270,000 per engine. Today the engines are expected to cost more than \$700,000 each.

In the F-111 case, and in general, four major factors account for such cost escalation:

1. **The Buy-In.** Our procurement system encourages contractors to play the game called "buy-in." The rules are simple. Contracts are awarded to the company which offers the lowest bid with a straight face. Later cost overruns may bring a mild reproach or a stern reprimand, but they will not pre-

vent the contractor from getting enough money to cover all his costs and pocket a profit. A contractor rarely takes these reprimands seriously; he knows that his competitors have similar experiences. Besides, the procurement officials have told him to worry about performance and prompt delivery, not about cost. So the buy-in game produces initial cost estimates that everyone knows are unrealistically low.

2. Design Changes. From the time bids are requested on a new weapons system until final delivery, a great many changes in design specification develop. These changes are often initiated by the Defense Department, although some reflect contractor production problems. In either case, the costs change—usually justifiably, but almost always upward.

3. Volume. Changes in volume are even farther beyond the contractor's control. In large contracts, economies of scale are often achievable; if a weapons system is found highly useful, as was the F-4 fighter, and more units are ordered than were initially planned, the later unit costs are lower. In the case of the Air Force F-111, however, cancellation of British orders and the Congressional decision to kill the Navy version reduced the number of aircraft to be purchased, thereby raising the unit cost.

4. Sheer Inefficiency. These costs arise because a contractor has slipshod purchasing procedures, poor scheduling of men and machines, ineffective work standards, or other managerial deficiencies. Such extra costs would be a threat to a company's survival in the competitive private marketplace; they should not be tolerated in defense procurement.

In calculating how much of the F-111 engine's cost growth was due to this intolerable fourth factor, we need to begin by figuring how much the first three factors cost.

We know that the original \$270,000 estimate was artificially low. Allowing for buy-in fibbing and for some early required changes in design, an initial figure of \$450,000 would have been more realistic. Later design changes may have raised the allowable price to \$500,000. But the contractor's final estimate of \$700,000-plus, made after the British action but before the Congressional cutback, probably should not be adjusted for volume changes, because the British buy was to have been proportionately very small and there are good indications that this actually enabled Pratt & Whitney to disengage itself from some expensive subcontracts. So unjustifiable contractor inefficiency amounted to around \$200,000 per engine.

It could have been worse. Past practice in such cases, where the government is dealing with a single supplier rather than with several competitors, has been to accept whatever price is commensurate with the costs the supplier has incurred, regardless of how efficient or inefficient he is. But, in an unprecedented action, the Defense Department ordered an investigation of Pratt & Whitney operations to determine how much such an engine ought to cost if produced under efficient manufacturing procedures. After that, the Navy—which had contract responsibility for all F-111 engines—took the further unprecedented step of unilaterally setting the price it intended to pay. Indications are that the Navy compromised its position somewhat after some hard bargaining, but the final contract did reduce by about 15 per cent the price proposed by the company, which customary procedure would have accepted outright. This saved the government roughly \$200 million.

Two other good examples of spiraling costs were described in recent hearings before the Congressional Joint

Economic Committee. A. E. Fitzgerald of the Defense Department reported that the C-5A transport may cost \$2 billion more than the original contract ceiling of \$3 billion; yet when Defense negotiated the contract with Lockheed, then-Secretary of Defense Robert S. McNamara described it as "a model method of doing Defense business...a damn good contract." In another case, retired Air Force Colonel Albert W. Buesking, a former financial officer for the Minuteman intercontinental ballistic missile, said the Minuteman contractors received a 43 per cent pre-tax profit based on net worth, or about twice the normal industrial return; he estimated that defense contract costs are 30-50 per cent "in excess of what they might have been under conditions of competitive-type commercial environment."

Conservatively assuming that aerospace and shipbuilding contractors harbor an inefficiency of 15 per cent, and figuring that the average annual amount provided for research and procurement of such systems over the past three years is about \$17.9 billion, then wiping out the inefficiency would annually save the government \$2.7 billion.

This is no pipedream. It requires no dramatic breakthrough in management techniques. Such savings could be achieved quickly if the Secretary of Defense and the Secretaries of the individual services resolved to focus the energies of their top financial and engineering men on procurement of these major weapons systems. What is needed is some truly independent cost-sleuthing into contractors' operations, with firm backing from top Defense management for appropriate follow-up efforts.

SAVING.....\$2,700,000,000

The most fruitful way of all for saving defense dollars is to eliminate forces which no longer pack a credible

punch or which were designed to meet a threat that is no longer credible.

The Navy's Polaris/Poseidon fleet ballistic missile program is vital to our national security. But the Navy's three primary and independent conventional warfare missions—tactical air, amphibious operations, and shipping protection—are overequipped, as are their associated support units. Current force levels cannot be justified by any potential threats. In my view, President Nixon was misguided when he decried America's loss of sea power during the campaign last fall. He made the mistake of applying the same argument the admirals use when they attempt to eternalize and expand their favorite programs: that the United States must have superiority in numbers, ship-type by ship-type, over the Soviet Navy. This is a legacy of late-1940's thinking, when it was assumed that we must always be ready to fight and win an extended war at sea. In the nuclear age, such thinking is highly unrealistic.

Fifteen aircraft carriers are presently assigned to the Navy's tactical air mission. Since the wallop they pack is purely the firepower of their aircraft, they should be compared with the alternative means of delivering that firepower—Air Force tactical aircraft. Carriers can deploy quickly to areas where we have no airfields, and they are safe from insurgent attacks (though they now appear to be vulnerable to Russian Styx missiles). But this flexibility comes at a high price. Independent studies place the cost of carrier-based tactical missions at three to four times that of similar missions flown from ground fields. Because of the many air bases we have built all over the world, we can rapidly deploy land-based aircraft to most areas. Carriers still play a necessary role in providing the potential to fight in a handful of otherwise inaccessible places and in meeting initial

"surge" requirements for a non-nuclear war. But there is no justifiable reason to use them on extended deployments in major wars as we do now in Vietnam. Although the Defense Department will never admit it, the only reason we continue to employ carrier-based air strikes there is that the jealous Navy doesn't want to be shut out of some role in the war.

Tactical aircraft carriers could be cut from 15 to 10 without risk to the country's security. The average annual peacetime operating and modernization/replacement cost per carrier appears to be about \$120 million. Assuming that the costs of expanding Air Force tactical missions to take up the slack were one-third as much, the net annual saving from the elimination of five carriers would be \$400 million.

SAVING.....\$400,000,000

Marine Corps amphibious assault tactics have been used in minor contingencies such as Lebanon and the Dominican Republic, but against a major power they would be highly vulnerable to a tactical nuclear weapon. Nor are Marine forces now structured logistically for sustained combat, the type of war that Vietnam would suggest is most probable. Without eliminating any Marine troops, we could—by restricting their amphibious training and equipment and phasing out a proportionate share of assault ships—save \$100 million annually.

SAVING.....\$100,000,000

A classic example of continued spending for protection against a no longer important threat is the third major area of Navy tactical forces—protection for shipping. The structuring of our anti-submarine and supporting anti-aircraft and fleet escort forces harks back to the post-World War II prospect of a sea war with Russia. If we ever do

begin destroying each other's ships, there seems little prospect of avoiding escalation to nuclear war, which would make shipping protection irrelevant. Further, as various jumbo aircraft near production, the cost gap between a ton-mile of plane transportation and a ton-mile of ship transportation is narrowing. Yet instead of scaling down our protective forces, we are keeping them up and even expanding them, through last year's implausible decision to begin procuring VSX anti-submarine aircraft. Killing this program and reducing overall shipping defenses to a sensible level—four anti-submarine carriers and three air groups rather than the present eight carriers—would save an annual \$600 million.

SAVING.....\$600,000,000

Another major area in which our involvement is unreasonably large is our troop commitment in Europe. We have about 310,000 soldiers there now, accompanied by more than 200,000 dependents. Such a staggering share of the NATO burden was appropriate while our World War II allies struggled to get back on their feet, but they can now afford a larger load. Part of the thesis behind U.S. deployments is to make certain that any substantial attack by Warsaw Pact forces would engage American forces, thereby creating potential consequences that the Soviet Union would find untenable. But this could be assured with far fewer than 310,000 U.S. troops. Says Senator Stuart Symington (D-Mo.), a former Air Force Secretary recently assigned as chairman of a Foreign Relations subcommittee that will investigate the involvement of U.S. forces abroad: "Surely 50,000 American troops would be sufficient to make sure that no Soviet probe could succeed in Berlin or elsewhere in Europe without a direct confrontation with the United States."

In the event of a truly major Soviet attack, not even 310,000 U.S. troops plus the NATO allies' forces would be sufficient to thwart it. But both sides recognize that an assault of such proportions is likely to evoke a nuclear response.

Psychological reasons prevented us from making a major cut in our European forces close on the heels of the Russian takeover in Czechoslovakia last year. But that should not deter us from effecting the cut this year. If anything, our non-response to the Czech invasion simply reinforces the reality learned in Hungary in 1956—that the United States is not about to send troops into Eastern Europe no matter what the Soviet provocation.

Realistically, we could cut back to a total of 125,000 troops in Europe plus 50,000 at home earmarked for NATO contingencies, and cut by one-fourth the air power assigned to the European theater (a McNamara comparison shows that NATO air forces can deliver a payload more than three times greater than that of their Warsaw Pact counterparts). Altogether, these reductions would annually save about \$1.5 billion.

SAVING....\$1,500,000,000

The final two programs of questionable value—the SAGE-Air Defense Command system and the Sentinel anti-ballistic missile system share some common characteristics. Both are defensive, in an age when the balance of terror rests on offensive missile strength. Both encompass a detection function and an intercept guidance function. And numerous technical experts express serious doubts about the potential operational effectiveness of either.

SAGE represents yesteryear's attempt to defend against the Soviet version of our Strategic Air Command. It is widely conceded that the Soviets

have grounded their bomber development efforts and no longer pose their primary strategic threat in this area. Nonetheless we persist in trying to further refine our bomber defenses, when in fact we have already achieved a satisfactory capability in the detection sphere. Moreover, SAGE's role as a guide to interceptor pilots is rather superfluous, given its imperfections and our primary reliance on a strong offensive deterrent. Some reductions have already been effected in the Air Defense Command, but conversion from a full defensive system to purely a warning system ought to save \$600 million annually.

SAVING.....\$600,000,000

If SAGE is intended to sustain a mostly futile yesteryear system, the Sentinel ABM represents a misguided attempt to provide protection tomorrow. Against the destructive power of the missile, our best defense is a good offense. Particularly tragic is the staggering cost of a full-blown "thin" Sentinel system. Because it is so expensive, and the work is therefore parceled out to many Congressional districts, many politicians have favored it. It therefore may be difficult to stop before we have spent \$40 billion. However, the Sentinel program faces increasingly fervent opposition in the Senate this year—partly because residents in four cities where ABM sites are being developed have objected so loudly.

Sentinel would make some sense if it truly promised blanket protection against strategic offensive missiles. But it doesn't. As Secretary McNamara said in a speech in San Francisco 18 months ago: "...any such system can rather obviously be defeated by an enemy simply sending more offensive warheads, or dummy warheads, than there are defensive missiles capable of disposing of them."

Secretary McNamara opposed the Sentinel, but President Johnson overruled him and decided to proceed with the program. Today we are on the road toward building a \$5 billion ABM system, ostensibly for protection against Chinese missiles—as yet undeveloped—should Peking miscalculate our potential response and attack us.

It seems unrealistic not to expect the Soviets to perceive the \$5 billion "thin" Sentinel as a first stage in a \$40 billion "thick" defense against themselves. Senator Richard B. Russell (D-Ga.) said as much last year when he was chairman of the Senate Armed Services Committee: "...there is no doubt that this is a first step in a defense system against an atomic attack from the Soviet Union." Yet all seven of the men who have served over the past decade in the jobs of Science Adviser to the President or Director of Research and Engineering in the Defense Department have recommended against deployment of a "thick" ABM system designed to protect our population against a Soviet attack.

By halting the Sentinel now, before it acquires irreversible momentum, we could save \$1.8 billion this year, not to mention vastly larger sums during the next decade.

SAVING.....\$1,800,000,000

The items above do not exhaust the list of things to cut—there are other savings to be made in such areas as mapping operations, the reserve forces, logistics—but the total here will serve as a start. It amounts to:

TOTAL SAVINGS.....\$9,276,000,000

II

If all these Pentagon budget cuts are so obvious, why didn't the cost-conscious McNamara regime push them

through? Did the Whiz Kids fail? Were they really trying? I think a fair assessment would have to conclude that they were trying hard but were only partly successful, for five basic reasons.

First, McNamara's Band was greatly outnumbered by experienced adversaries bound together by a shared goal—more and bigger military programs. All the elements in this military-industrial-Congressional complex are served by an enlarged defense budget, though their motivations are different. Industry wants greater sales and profits. The military wants expanded power, plus the assurance that they will be on the forefront of technology. Congressmen respond to pressure from contractors and military employees in their districts, and those on the military committees yearn for the prestige and power that comes from presiding over a bigger slice of the federal pie. The combination made life difficult even for a man as strong and courageous as Robert McNamara.

Second, in selecting systems to analyze for effectiveness, the Whiz Kids chose to concentrate on the relatively uncluttered strategic programs instead of digging into such fat and messy activities as we have catalogued here. Within their selected framework, they generally performed technically sound, objective initial analyses. Once they arrived at a position, however, they too often "overdefended" their conclusions; that is, they were unwilling to reassess them against subsequent cost experience, technological advances, or a changing international political environment. For example, the current structuring of our programmed airlift/sealift needs emanates from a carefully developed linear programming model. This model attaches a high value to rapid deployment, stemming from an early 1960's Europe-oriented study which showed high benefits in terms of political bar-

gaining power and casualty minimization. This analysis still makes good sense in Europe, but now appears grossly misapplied in Asia. Yet nothing has been done to revise the high value placed on rapid deployment. Such a change would point to a different desired mix of airlift and sealift.

Third, the Defense Department's budget review process concedes too much at the beginning. Last year's budgeted amounts are generally taken by everyone as this year's starting points. This practice ignores the possibility that fat crept into preceding budgets or that some of last year's activities are now outmoded. Consider, for example, the subject of training, in which the armed services have been pioneering for years by applying new technology to education. This area should be a prime candidate for frequent review from the ground up (what the managers call "zero-base" budgeting). Rather, the Defense Department budgeting process virtually concedes last year's amount and focuses on whatever incremental changes have been requested. The result, of course, is higher budgets, with past errors compounded year after year.

A fourth limitation also derives from the planning and budgeting system. Discussions about the desirable level of various forces are conducted in terms of numbers of things—missiles, carriers, fighter wings. This flows naturally out of intelligence estimates of enemy forces and subsequent analyses of how much counterforce the United States needs to nullify them. Approval is then given to the Air Force to buy 40 more fighters or the Navy to buy four more submarines, each with specified capabilities. But carrying out such purchases is not like walking into an automobile showroom and asking for a yellow Plymouth Belvedere sedan with power steering. As a submarine is built, many unanticipated choices present themselves; they involve different levels of

effectiveness or convenience for different levels of dollars. Inevitably the generals and admirals want to buy as much capability as possible; it is almost always more than is required to meet the threat. For want of adequate follow-up by top procurement officials, the generals often have their way.

Finally, the President and the Budget Bureau have shied from making public any meaningful comparisons between military and domestic programs. Systems analysis, the technique that aims to measure the relative national worth of results obtained from alternative programs, cannot precisely compare the benefits to be gained from highly diverse activities. Yet inexact as such comparisons may be, the Budget Bureau does make them and present them to the President from time to time. If the President, for his part, were to discuss national priorities more frequently and candidly with the public, then Congressmen might be less likely to base their judgments on the only other available view—that the present balance of activities is about right.

The present balance of activities is anything but right. Unmet national concerns for human opportunity and the quality of life require an investment even larger than the amount that would be freed if all of the Pentagon reforms outlined in this report were carried out.

Perhaps the clearest, most thorough delineation of these high-priority social needs is found in the report of the National Advisory Commission on Civil Disorders. To redress root causes of despair and frustration, the Commission recommended a long series of measures which, if enacted in full, would cost between \$13 billion and \$18 billion a year over their first several years.

The only way to begin addressing these unfilled needs is to take money away from Pentagon programs that must rank lower on any rational

national-priority scale. Examples provide compelling support for this argument. We have such choices as:

- Funding the Manned Orbiting Laboratory—or providing Upward Bound summer courses for the 600,000 additional ghetto students who have the potential to go to college;

- Spending this year's Sentinel funds—or training 510,000 more hard-core unemployed;

- Continuing to operate one of the marginal tactical aircraft carriers—or training and supporting 20,000 more Teacher Corps members;

- Maintaining our full troop complement in Europe—or diverting an additional \$10 million to each of 150 Model Cities;

- Permitting excessive contractor costs to flourish unchecked—or providing Head Start education for 2,250,000 more children, plus enough school lunches to feed 20 million children for a whole year.

These alternatives are real and immediate. They do not represent wishful dreaming. The choices are up to Mr. Nixon, to the Congress, and ultimately to ourselves. ■

Economic Development or Race War

By SEYMOUR MELMAN

Professor of Industrial Engineering

EVENTS at Columbia and elsewhere during the last weeks contain the seeds of a racial confrontation crisis. If universities continue to operate with restricted resources, a major increase in black and other minority enrollment can only be accomplished by cutting back white enrollment. American society, particularly its universities, is about to face the consequences of pressure from American black, white and Spanish American underclasses for equal economic opportunity. Under law, equality for these Americans is rightfully theirs. In economic and social fact, however, this opportunity is limited owing to the impact of sustained economic underdevelopment combined with continued racism.

One way of seeing the dimensions of this problem is to ask: what does economic equality really mean? In my opinion the most meaningful expression of this is the change from economic underdevelopment. Everywhere in the world it is understood that economic underdevelopment refers to a combination of conditions: high infant mortality rate, limited life span, limited education, limited work capability and therefore limited income, and extensive exposure to debilitating diseases. The process of economic development which changes this condition involves an investment in "human" and in economic-productive capital. This means improving the condition of human (physical and intellectual) capability as well as providing a work place.

Altogether, about 30 million Americans are candidates for economic development. About 60 percent of these are white and 40 percent are non-white. The occupational distribution of white and non-white Americans, and the cost of economic development, affords a strategic view of these issues and what they mean to American universities. In 1967, 66.3 million white Americans were employed. Of these 48.8 percent were white-collar workers of all sorts. Also in 1967, 8 million non-white Americans were employed. Among them, however, 22.9 percent were white-collar workers. This comparison tells us that if non-white Americans are to be distributed in approximately the same occupational pattern as the rest of the society, then 26 percent of employed non-white Americans must move into the various white-collar occupations. The 26 percent estimate is an understatement of the numbers involved. A significant part of the potential labor force among non-white Americans has formed an "unemployable" lumpenproletariat. Their numbers, difficult to measure—but amounting to millions, would have to be added to this figure. For this move non-white Americans will require access to higher education and the attendant living conditions that are appropriate for these occupations.

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UNDER present conditions in the United States this sort of important movement in occupations cannot be carried out. White-collar occupations are now occupied. Therefore, as the American underclasses attempt to rise in the occupational-economic scale, they will be met with resistance by those who now occupy these posts. This is the story of the confrontation in New York City with respect to control of public schools. The same basic pattern was repeated in Boston, in Detroit and elsewhere.

Racial confrontation has become a consequence of the widespread effort of the American underclasses to reach out for a larger share of the existing "economic pie."

General economic development in American society, enlarging the "pie," especially concentrated on the American underclasses, is the necessary step for changing the present and predictable condition of race confrontation. With economic development the gain for one need not be a loss for another. In fact, with economic development, vigorously pursued, the result would be gain for all.

The cost of economic development can be estimated. Allow \$50,000 per equivalent family unit as the cost of developing the "human capital" and new productive opportunities that are required. Then for about 7.5 million families that implies a cost for economic development of \$375 billion. Over a 10 year period this would mean an average outlay of \$37 billion per year.

This is a conceivable commitment for American society. This order of magnitude is similar to the annual cost of operating the Vietnam war. The decisive fact, however, is that the continuance of the Vietnam war and preparations for more of the same checkmate a major economic development process. Apart from the money factor, skilled manpower of the quantity and quality that is needed for economic development is now being utilized

(Continued on Page 5)

Sharing the 'Economic Pie'

(Continued from Page 4)

for military and related purposes. In a volume on "Our Depleted Society," I have depicted the process whereby military priority depletes the availability of resources for productive purposes.

The war and the military priority in American economy and society are the clue to understanding why the movement for economic equality among America's underclasses has been heading toward race confrontation and race war. It is this confrontation which fuels the George Wallace movement. If race confrontation and race war are to be avoided then the alternative economic development process requires a decisive reduction of the decision power of the Pentagon chiefs. So long as their rule prevails there is no real chance for making a decent life feasible for millions of Americans.

This national issue appears in our own universities, for entry into the universities is very much a part of a general process of economic development. American universities, with 6 million students now enrolled, do not have the capital resources and operating funds that would be required to enlarge the scale of their operations in significant degrees. The crisis in the City University of New York is classic. As a tuition-free university the College of the City of New York, for example, is a natural place for young men and women who cannot afford the tuition fees of private universities or cannot obtain scholarship help from them. But the City University itself has been severely limited by budgetary constraints owing to limited funds in the hands of the city government. The same pattern has emerged among state universities. Almost every-

OCCUPATIONS OF WHITES AND NON-WHITES, 1967			
Major Occupation Group	White	Non-White	
Total employed (1000)	66,361	8,011	
Percent	100.0	100.0	
White-collar workers	48.8	22.9	
Professional and technical workers	14.0	7.0	
Managers, officials, and proprietors	11.0	2.6	
Clerical workers	17.2	11.2	
Sales workers	6.6	1.7	
Blue-collar workers	36.0	42.4	
Craftsmen and foremen	13.0	7.7	
Operatives	18.1	23.5	
Nonfarm laborers	4.0	11.2	
Service workers	10.5	29.4	
Private household workers	1.4	10.4	
Other service workers	9.1	19.0	
Farm workers	4.7	5.3	
Farmers and farm managers	2.8	1.3	
Farm laborers	1.0	4.0	

Source: U.S. Department of Commerce, Statistical Abstract of the United States, 1968, U.S. Government Printing Office, Washington, D.C. 1968, p. 226.

where in the U.S. money for education, health, housing and related life-serving purposes is being restricted.

II, under such conditions, more black and Spanish American student enrollment means less white enrollment, then this could be the precondition of race confrontation in the universities. The time for facing this issue is right now. For these reasons I am convinced that stopping the war, cutting the Pentagon budget sharply, and reducing the decision power of the Pentagon managers have become decisive if the American people are not to find themselves hurtling down the road to race war. Only a decisive turn to civilian priorities and enlarged produc-

tive activity of every kind can save this country and its universities from racial confrontation and open up the option of constructive human development.

The bitter truth is that such analyses and the policy proposals emerging from them have been ignored by the majority of faculty members, and by the majority of administrators and trustees of this and other universities. Now that black and Spanish American students are pressing their case with unrelenting insistence they generate crises for trustees, administrators and faculty. The response to these crises, however, cannot be simply an appeal to reason and good order. There is no plausible way to make equality of opportunity into a real option for members of America's underclasses until the resources now committed to the war are turned around to productive use. The men and women of the peace movement in the United States have understood these relationships for a long time. But we have obviously been unable, thus far, to prevail against the entrenched Pentagon bureaucracy and its supporters in the Congress and in the nation.

I address this analysis in particular to the 800 faculty members who have identified themselves with an appeal to reason and order at Columbia and other universities. Until now, as a group, you have not made your weight felt on the side of peace, on the side of reducing the power of the military, on the side of changing American priorities. This is precisely what needs to be done if American society and American universities are to have a serious option in economic development as an alternative to race war. Gentlemen, it is your move.

Chairman PROXMIRE. Dr. Udis, both what you have told us and what Mr. Melman told us reminds me of the necessity for meeting the argument that I understand some of the workers in an aircraft plant out in California carry, on a button they wear. It reads: "Don't bite the war that feeds you." This is an element of the military-industrial complex that is a very tough political fact, and it is something that is hard to overcome.

Your findings on the economic consequences of reduced military spending are especially helpful and constructive because you point out that the economy could not only absorb a drastically reduced defense budget but would benefit from the resources which would be liberated from military use and made available to the civilian needs. How would you—how far would you go in terms of defense reductions? Would it apply for a \$45 billion budget, for a \$60 billion budget, or Mr. Melman's \$25 billion budget?

Mr. UDIS. This is an area in which I want to avoid the halo effect. My military duty was as a corporal.

Chairman PROXMIRE. I am not asking you your judgment whether the budget should be \$60 billion, \$45 billion, or \$25 billion. I am asking whether or not this economic analysis would apply to a drastically reduced budget as well as a moderate one.

Mr. UDIS. Yes. I see. I might say that one of Professor Kaufmann's alternative defense budgets which he presented before this committee was \$42.2 billion, which he called "minimum deterrence." We were requested by our sponsoring group to run that one through our models. We did not have time to do so on a regional basis, but Professor Klein did work that one for us, and the "minimum deterrence" budget with a normal group of expectable compensations in the form of reduced taxes led by Dr. Klein's model to generate an unemployment rate of 4.8 percent which is about where we are today. We were, I must say, quite surprised at how difficult it was to generate higher unemployment rates than about 5 percent even with a budget as low as \$42.2 billion. I think it is obvious, perhaps, that the larger the magnitude of the cut, and particularly the more rapidly it is made, the greater the challenge for the transition period.

We find, however, that in many instances the structure of the budget is at least as important as its overall magnitude and this bears on the particular level of adjustment as well. In other words, our findings show that the terribly expensive thing is not the missilery, although that is expensive enough, but simply maintenance of men, general purpose forces. This really is where the money is going in very large quantities, so that appreciable cuts in the general purpose forces we think would be at least as important as cuts in the strategic programs in terms of the magnitude of the savings and of the adjustment burden.

Chairman PROXMIRE. Of course, as you cut the general purpose forces and follow Mr. Melman's proposal, he said one and a half million. Maybe you would say two and a half. Whatever it is, these people need jobs. You are reducing the number, not only reducing the jobs, perhaps of those who are supplying these people in the Armed Forces, but those who are in the Armed Forces, and who now will be demobilized and coming home.

Why is it that in view of the great backlog of work that Dr. Melman spells out that you find even an increase of 4.8 percent in unemployment if you have the \$42 billion budget?

Mr. UDIS. Part of the problem is that these are very specific kinds of things. By that I mean that, well, let me quote a figure. Harold Wall, a distinguished student of military manpower, in a recent book, indicated an estimate that about 80 percent of the occupations filled by enlisted personnel in the services correspond to about 10 percent of the occupations currently filled by men in the civilian labor force.

Chairman PROXMIRE. It is a matter of training, isn't it?

Mr. UDIS. Yes; in part it is. I should say that 4.8 was high because it was assumed to occur by fiscal year 1972.

Chairman PROXMIRE. I see. This is a transitional problem, not a problem that is necessarily—

Mr. UDIS. Yes.

Chairman PROXMIRE (continuing). Certain if we follow wise manpower policies.

Mr. UDIS. Yes. Also the fact that we know, I am afraid, very much less than we ought about what the manpower consequences of some of these alternative civilian programs are. All can agree today that there are necessary alternatives for unmet, useful social needs. The difficulty arises, I am sure I needn't tell you, when the groups that are competing have different ideas as to where that peace dividend ought to go; but, even outside from that, the manpower consequences of a beefed-up program of refurbishing and rebuilding the central cities are quite different from one which would be designed, let us say, to put a massive drive in for industrial R. & D. On the manpower structure the profiles are quite different. So that the ease with which you might move a man from a military position to a civilian position obviously hinges on what kind of civilian position we are talking about, and these alternatives differ in terms of their manpower consequences.

This is an area where we know less than we ought. I might point out that Richard Oliver of the Bureau of Labor Statistics has been for the past 2 years conducting a survey of the possible offset programs that would be adopted to go along with reductions in military spending and trying to dig into the nitty-gritty, so to speak, to find out what the specific offset programs would be, so that we could move from there to some advanced warning, as it were, as to the type of manpower that might be necessary and the type of training.

Chairman PROXMIRE. Do I understand you correctly that much of this problem could be solved by a really effective informational program using computers always knowing where every job vacancy, knowing what it takes to fill that job both in terms of availability of labor and also availability of skill, and if we knew this, and our training programs were appropriately relevant and we had the mobility to shift people from, say, California, if that is where your unemployment developed, with the cut in military spending, to some other area, this would solve much of it?

Mr. UDIS. I think so. I think the total labor market would benefit immeasurably from improving the nature of job information and job mobility.

Chairman PROXMIRE. Is there another element I am missing here by just stressing those two factors?

Mr. UDIS. Well, one I might add in the nature of informational needs—

Chairman PROXMIRE. Information mobility and training.

Mr. UDIS. One would be for the subcontracting data which we still don't have on military contracts. In other words, a cancellation or reduction of a particular weapons system cannot at the present time be traced to levels below the prime contractor.

Chairman PROXMIRE. This subcommittee has recommended that we get that subcontracting data. They don't even collect it now, as I understand it.

Mr. UDIS. It is an area veiled with great mystery unless there are military security elements in it that I am unaware of. I know these recommendations have been made before. I think they were made by the Ackley committee back in 1965. But while some greater information availability exists on the totality of subcontracting, we are still not able to trace a change in a particular system down the line and this would be, I think, important.

Chairman PROXMIRE. Do you want to comment?

Mr. MELMAN. May I comment further on the remarks of our colleague? The employment consequences of changes in the military budgets involve very critically the amount and quality of planning for conversion to civilian work. Thus, to turn a major industrial enterprise around from military to civilian work takes about 2 years of planning time. Therefore, it is of the greatest importance that military-industrial firms be firmly encouraged by the Federal Government to undertake such advanced planning.

Secondly, in the presence of well-defined alternative markets for present military-industry firms, a changeover in location and type of employment is greatly facilitated.

Third, the unemployment rate is dramatically affected by measures like programs for occupational conversion. Persons who are not immediately employable because of occupational deficiencies would go into retraining that could extend for as much as a year and thereby substantially cushion the process of developing new job capability and moving to a new place.

Chairman PROXMIRE. That is the rollcall. I have to run, but just one more question I would like to ask Mr. Udis.

To what extent has your study and your findings been communicated to the administration? We had Herb Stein before us yesterday. As you know, he has been involved in this reconversion and he is a very cooperative and helpful person, but he said that they didn't expect to publish or communicate to the Congress any of their war reconversion program or their findings. It seems that it is an in-house operation.

Mr. UDIS. That I gather is the interdepartmental study which Dr. Stein is coordinating. This study was conducted under the sponsorship of the U.S. Arms Control and Disarmament Agency. We will present our formal report to them I hope by June 30 and there are now efforts underway to plan for its publication. So all —

Chairman PROXMIRE. So, as far as you know, it will be in the public domain?

Mr. UDIS. I will be very surprised and shocked and disappointed if it isn't.

Chairman PROXMIRE. Thank you, gentlemen, very, very much. You have been most helpful. I deeply appreciate it.

I particularly apologize for having detained this distinguished panel so long.

Thank you. The subcommittee will stand in recess until tomorrow morning, when we will hear from three distinguished economists at 10 o'clock in this room.

(Thereupon, at 12:45 p.m., the subcommittee recessed, to reconvene, at 10 a.m., Friday, June 18, 1970.)

CHANGING NATIONAL PRIORITIES

THURSDAY, JUNE 18, 1970

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to recess, at 10 a.m., in room G-308, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Symington; and Representatives Griffiths and Conable.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Richard F. Kaufman, economist; and Douglas C. Frechtling, economist for the minority.

Representative CONABLE (presiding). The subcommittee will come to order.

The witnesses this morning are Prof. Robert Eisner, professor of economics, Northwestern University; Eliot Janeway, president, Janeway Publishing and Research Corp.; and Henry Niles, chairman of the executive committee, Business Executives Move for Vietnam Peace.

We will take the witnesses in that order, unless Mr. Janeway is not present after Mr. Eisner's testimony is completed. Because of the probability of Senator Proxmire getting here a little later, we will save all questions for the panel until all testimony has been received.

This is, of course, the Subcommittee on Economy in Government which has been holding these hearings on our national priorities.

From your titles, gentlemen, I assume that you have strong feelings about our national priorities. We are grateful for your attendance here today.

We will now recognize Robert Eisner, professor of economics, Northwestern University.

You may proceed, sir.

STATEMENT OF ROBERT EISNER, PROFESSOR OF ECONOMICS, NORTHWESTERN UNIVERSITY

Mr. EISNER. Thank you, Mr. Chairman. I am very happy to be here. And I am particularly delighted that the committee is addressing itself to the problems under consideration.

As we consider changing national priorities; it is well to assess just how resources are currently committed. What has the war in Indochina really cost us? Can it be true that the war has actually contributed to our prosperity, making use of resources which would otherwise have been idle? Or, to the contrary, does the war have

costs, now and in the future, which make the usual budgetary estimates understatement of the true cost of the war to the economy and to the Nation? It is to the exploration of these matters that the following analysis is directed.

1. THE MYTH

A stubborn myth haunts the Nation, that the American economy in some sense "needs" the war in Indochina. There is widespread among both opponents and proponents of our Southeast Asian venture the notion that prosperity depends upon war, and peace will mean depression. Critics see economic interest in prolonging the war as a major obstacle to their efforts to end it. Supporters, particularly some trade union leaders, stress that millions of jobs are dependent upon our defense program.

The simple fact is that the war, with all its ramifications, is rapidly turning into a relative disaster for the American economy.

The basis for the myth that the war sustains prosperity and peace will bring depression is not hard to find. It goes back to many decades of experience with frequent if not chronic unemployment, culminating in the collapse of the 1930's. We were indeed finally pulled from the great depression by the outbreak of World War II.

It is true that if a burst of military or war spending is superimposed upon an underemployment, peacetime economy the immediate effect is to give jobs to the unemployed. What is more, those previously unemployed spend their newly received incomes, as do their employers.

These additional expenditures mean new income and jobs for the sellers and producers of the goods and services purchased; the "multiplier" makes its rounds. By way of numerical illustration, imagine an economy with idle capacity in men and machines that could produce \$90 billion per year in addition to current production.

If the Government suddenly begins to demand and order \$30 billion of goods and services for war, these can be produced by drawing on one-third of the idle capacity. Then, as the \$30 billion of additional income are spent and respent, the other \$60 billion of idle capacity are put to use for production of the nonwar goods which can be purchased out of increased incomes.

2. THE REALITY

So much for the rationale of the myth! For that numerical illustration does not describe this war. Major escalation of our military role in Southeast Asia, beginning in 1965, took place against the backdrop of an economy near full employment.

Resources for war had to come mainly not from idle capacity but at the expense of nonwar production. That expense had to come out of somebody's real, aftertax income. In fact, the cost came out of the real income of almost everybody: workers and businessmen, young and old, students and servicemen. Let none be fooled! Since the economy as a whole is worse off by at least the more than \$100 billion estimated to have been spent thus far in connection with our operations in Indochina, the fact that some few have enjoyed "war profits," whether as investors, defense contractors, workers producing war material, or black-market operators in Saigon, cannot obscure the total picture.

If the economy as a whole has lost \$100 billion, the fact that some may have gained even \$50 billion from the war merely means, as a matter of arithmetic, that the rest of us must have lost \$150 billion.

This loss has been felt in a variety of ways, some the direct consequences of the war, some the less immediate results of governmental measures designed to cope with these consequences. The list of war costs reads like a catalog of evils and suffering in the American economy.

The war has caused inflation. The war has caused high taxes. The war has contributed to housing shortages. The war has drained resources in the areas of education, transportation, housing, and all the services of government, from police protection to postal delivery.

And the war, and consequent inflation, and Government efforts to combat that inflation have now brought on the greatest stock market crash since the thirties, the highest interest rates since the Civil War, and falling production and rising unemployment!

Increases in prices and in taxes are easy to document. The Consumer Price Index rose from 109.9 in 1965, when major military escalation began, to 134.0 in April 1970, an increase of 22 percent. Individual income tax payments have risen by almost \$45 billion, from \$48.8 billion in the fiscal year 1965 to an estimated \$92.2 billion in fiscal 1970, an increase of 89 percent. The consequences of these two sets of facts for real incomes are not hard to grasp.

Looking at average weekly earnings for production workers in manufacturing, for example, we see in table 1 of my prepared statement that these rose substantially in current prices, from \$107.53 in 1965 to \$132.40 in March 1970. But earnings in real terms, after taxes, showed no improvement over this 5-year period. Indeed, converting to March 1970 prices, the figures for average spendable earnings of a worker with three dependents go from \$117.30 in 1965 to \$114.85 in 1970, a drop of some 2 percent over this 5-year period. The same measure for workers in all private nonagricultural industries shows a drop of 1.2 percent over this period.

If a drop in real, aftertax earnings of 1 or 2 percent does not seem large, one had better reflect on how sharply it contrasts with the long-term trend of rising income in this most prosperous of nations. In the 5-year period, 1960-65, prior to major war escalation, the average weekly spendable earnings of a worker with three dependents had increased 13.3 percent in manufacturing and just under 11 percent in all private nonagricultural industries. One might well have expected workers' real earnings to rise by another 10 or 11 percent in the 5-year period 1965-70.

The fact that there was actually a drop of 1 or 2 percent suggests a deficit of 11 or 12 percent against the rising expectations to which workers had become accustomed.

Many American workers are tense and angry at the frustrations of a society which seems to be drifting more and more into chaos. They have hardly been brought over in large numbers to the antiwar camp, let alone the ranks of protesters. But though relatively few may see the basic cause, this palpable loss in real, aftertax income must be a major factor in working-class malaise and tension.

Let none nourish the illusion that, while wage earners have suffered, corporate profits have soared. Rather, as noted by Louis B. Lundborg,

chairman of the board of the Bank of America, the largest bank in the world, "During the 4 years prior to the escalation of the conflict in Vietnam, corporate profits after taxes rose 71 percent. From 1966 through 1969 corporate profits after taxes rose only 9.2 percent."

Our own calculations are more than confirming. From 1965 to the first quarter of 1970, we may now add, corporate profits have declined by 11 percent. Accounting for inflation, as we did with weekly wage earnings, we find that, after a rise of 61.2 percent from 1961 to 1965, real income in the form of profits has declined by 16.8 percent since escalation of the war beginning in 1965.

Individuals realized their corporate profits mainly in the form of capital gains on the stock that they owned. Over many months, now, at every apparently significant rumor of moves toward peace—and many not so significant—security prices soared. And at every dashing of peace hopes or expansion of the war, the market sagged again.

The stock market did indeed enjoy a substantial rise for a while, if one could forget the general inflation which canceled out most of the stock price increases over the 1966–68 period. But almost anyone from middle America can testify as well as an economist as to what has happened as the war in Southeast Asia has dragged on. As this is written, the financial markets are reeling from the shock of the Cambodian invasion, and stock prices are at their lowest level in more than 7 years. After a real rise of 48.5 percent from the end of 1960 to the end of 1965, the real value of stocks has, as of May 26, 1970, declined almost \$280 billion since the escalation year of 1965, a drop of 36.5 percent in constant dollars. And many additional billions have been lost in the value of bonds and other securities.

Resources have been drained to war and almost nowhere has the impact been more sharply felt than in housing. For the combination of inflation, tight money, and existing financial institutions has priced much of possible new construction out of today's market. Increases in costs of land, labor, and materials have been notorious, running to 10 percent by one estimate, from 1968 to 1969 alone. But the high interest rates, a product of both inflation and the efforts to check inflation with tight money, have themselves paradoxically raised the cost and reduced the availability of housing.

The huge rise in interest rates has brought corresponding increases in monthly payments on mortgage loans. For example, the rise in mortgage rates from approximately 5.5 percent in 1965 to some 8.4 percent currently means that monthly payments on a new 20-year loan have risen by 25.4 percent. Over the full life of a 20-year, \$20,000 mortgage, the increased rates mean increased payments of \$8,491. And even this is only part of the story. In fact, mortgage loans are difficult to get and many would-be borrowers who might have obtained money under prewar conditions cannot obtain loans now.

In real terms, housing progress or lack of it may be measured in the number of starts—that is, the number of housing units on which construction has commenced. In February of 1968, President Johnson called for construction over the next 10 years of 26 million new housing units, which have been translated into 2.6 million units per year. Average nonfarm housing starts from 1960 to 1966 have been only 1.4 million units per year. In 1967, the figure was down to 1.3 million units.

By December 1969, starts were down to an annual rate of 1,245,000 and by April 1970 to 1,180,000. It has been predicted that starts on single-family homes will probably decline 14 percent in 1970 and rental apartment construction by 19 percent. In the face of great need, a need recognized as at the core of serious social problems, we have fallen further and further behind in this war economy.

Failure to construct needed housing now is a cost not only now but in the future as well. Indeed, financing a war by deferring investment of any kind is a way of passing the real cost of the war on to a future generation, who will lack the capital goods, in this case houses, that should have been constructed now. The housing shortages to which we have been contributing during these war years and to which we are continuing to contribute, will plague us for years and decades to come.

Housing is one of the prime sectors to have suffered from the draining of resources to war. It is certainly not the only one. A whole generation, particularly in ghettos, is growing up literally without education. Public schools, faced with overcrowding, inadequate facilities, insufficient and relatively inexperienced staff and overwhelming neighborhood problems, have in many instances virtually given up educational efforts.

Problems of urban and suburban transport have become critical. We are choked in our own cars and exhaust fumes. Solution of our difficulties would take money and resources. These resources have been devoted in profligate fashion to war but not to the pressing problems of peace.

Let us turn, now, to estimates of the total dollar costs of the war:

3. TOTAL DOLLAR COSTS OF THE WAR

Budget costs of the Vietnam war, derived from the estimates of the Defense Comptroller, are given in table 4 of my prepared statement. They total 104.9 billion current dollars and 113.4 billion fiscal year 1970 dollars, reaching a peak annual rate in the neighborhood of \$30 billion in fiscal year 1969.

But large as they are, these costs are only budget expenditures. A first major correction must account for the significant portion of resources for which we do not pay full price but which we rather draft. One very conservative measure of this added cost comes from "The Report of the President's Commission on an All-Volunteer Armed Force." The Commission estimates that shifting to an all-volunteer force by July 1, 1971, apparently presuming a substantial deescalation of the Vietnam conflict and reduction of total armed forces by that date, would imply a net cost to the Treasury of \$2.7 billion. The larger forces involved in the major military activity in which we have, thus far, been engaged must clearly cost considerably more.

The true cost of a soldier or a sailor or a marine is not what we pay him when he is drafted or is a reluctant volunteer to avoid the draft. It is rather what we would have to pay a serviceman if he were not forced to serve. This, indeed, measures not merely a cost of the war, in terms of psychological aversion on the part of its participants, but an economic cost, in terms of goods and services that draftees and reluctant volunteers might be producing, or the incomes they would be earning, if they were civilians.

There are yet further usually unmeasured costs of the war and the means, including the draft, by which it has been prosecuted. How many hundreds of thousands of young men have been wasting years in colleges that they do not wish to attend and wasting educational resources which they do not want and do not use because they find this the most effective means of avoiding service in a war of which they want little part? How many young men have been forced into idleness or temporary jobs because employers would not hire them in view of the possible imminence of military service? How many indeed have left the economy, in literally hiding from the draft, fleeing the country or going to prison? At least some of these costs of conscription are indicated in table 5 in my prepared statement. It will be noted that they have run at a rate of more than \$15 billion yearly, for much of the war.

On a macabre note, one must also measure the lost earnings of our war casualties. Fifty thousand Americans who have died in Southeast Asia might have produced \$20 billion of goods and services over their lifetimes. It might be argued that some of this would have been used for their own support, but a significant portion certainly would have gone to support wives and children and society as a whole. Several hundred thousand wounded will have their economic productivity impaired for weeks or months or years or all of their lives. Many of them will require costly medical and hospital care long after the war is over. Here are uncounted billions of war costs rarely measured in conventional accounting.

The dismal summary of the costs of 5 years of war is presented in table 6 of my prepared statement. In dollars of fiscal year 1970 purchasing power, budgetary expenses come to \$113.4 billion. The added cost of conscription is another \$82.5 billion. Costs of the dead and wounded are \$23.1 billion. Total costs come finally to \$213 billion.

How can one comprehend such a staggering total as we consider the question of national priorities? To what is it equivalent in dwelling units for our people, in classrooms for our children, in police protection, in medical research, in foreign aid for peaceful development?

Whatever the vagaries of reflection of costs of war upon the economy in the Nation, we face one underlying fact. There is a real loss in the diversion of resources of men and capital, of the capital not constructed because of the production for war, of the lives ruined and destroyed because of the war. The best laid plans of economists in the way of tax policy or monetary policy—and I might add in jawboning or wishboning—can merely reduce the magnification of these losses and costs. In their original magnitude, they are real and inescapable. And they are ours.

We say nothing in this discussion about the economic loss and ravished earth and destroyed capital and men, women, and children in the land on which we fight.

That completes my statement, Mr. Chairman.

Representative CONABLE. Thank you, Professor Eisner.

We will place your prepared statement, including all the tables you have mentioned, in the record at this point.

(The prepared statement of Mr. Eisner follows. It is a draft of a chapter entitled "The War and the Economy" prepared for the book "Why Are We Still in Vietnam?" edited by Sam Brown and Len Ackland, to be published by Random House in October 1970.)

PREPARED STATEMENT OF ROBERT EISNER*

THE WAR AND THE ECONOMY

1. THE MYTH

A stubborn myth haunts the nation: that the American economy in some sense "needs" the war in Indochina. Widespread among its opponents, and a prop to proponents of our Southeast Asian venture, is the notion that prosperity depends upon war, and that peace will mean depression. Critics see economic interest in prolonging the war as a major obstacle to their efforts to end it. Supporters, particularly some trade union leaders, have even stressed publicly that millions of jobs are dependent upon our defense program.

The simple fact is that the war with all its ramifications is rapidly turning into a relative disaster for the American economy.

The basis for the myth that the war sustains prosperity and that peace will bring depression is not hard to find. It goes back to many decades of experience with frequent if not chronic unemployment, culminating in the collapse of the 1930's. We were indeed finally pulled from the Great Depression by the outbreak of World War II.

It is true that if a burst of military or war spending is superimposed upon an economy with underemployment, the immediate effect is to give jobs to the unemployed. What is more, those previously unemployed spend their newly received income, as do their employers. These additional expenditures mean new income and jobs for the sellers and producers of the goods and services purchased; the "multiplier" makes its rounds.

By way of numerical illustration, imagine an economy with idle capacity in men and machines that could produce \$90 billion per year in addition to current production. If the government suddenly begins to demand and order \$30 billion of goods and services for war, these can be produced by drawing on one-third of the idle capacity. Then, as the \$30 billion of additional income are spent and respent, something in the order of the other \$60 billion of idle capacity might eventually be put to use for production of the non-war goods which can be purchased out of increasing incomes.

2. THE REALITY

So much for the rationale of the myth. For that numerical illustration does not describe this war. Major escalation of our military role in Southeast Asia, beginning in 1965, took place against the backdrop of an economy near full employment.¹ Resources for war mainly had to come not from idle capacity, but at the expense of nonwar production. That expense had to come out of somebody's real, after-tax income. In fact, the cost came out of the real income of almost everybody: workers and businessmen, young and old, students and servicemen. Let none be fooled. The American economy as a whole is worse off by at least the more than \$100 billion estimated to have been spent thus far in connection with our operations in Indo-China. That some individuals have enjoyed "war profits," whether as investors, defense contractors, workers producing war material, or black market operators in Saigon, cannot obscure the total picture. If the economy as a whole has lost \$100 billion, the arithmetic requirement that the whole equal the sum of its parts means that if some have gained, say, \$50 billion, others must have lost \$150 billion: $-100 = +50 - 150$.

This loss has been felt in a variety of ways, some the direct consequences of the war, some the less immediate results of governmental measures designed to cope with these consequences. The list of war costs reads like a catalog of evils and suffering in the American economy.

The war has caused inflation. The war has caused high taxes. The war has contributed to housing shortages. The war has drained resources in the areas of education, transportation, housing and all the services of government, from police protection to postal delivery. And the war and consequent inflation and government efforts to combat that inflation have now brought on the greatest stock mar-

*I am particularly indebted to Gillian Hutchinson for assistance in preparing this paper, and have also benefited from the aid or suggestions of William W. Kaufmann, Peter T. Knight, Ann Miller, Walter Ol. Mark Pauly and Larry Sjaastad.

¹The unemployment rate averaged 4.5 percent in 1965 and in January, 1966 stood at 4.0 percent, the figure widely taken as corresponding to "full employment." The rate later dipped further, to 3.3 per cent in December, 1968, but has risen to 5 per cent by May 1970, with widespread predictions that unemployment will rise still more before the year is out.

ket crash since the thirties, the highest rates since the Civil War, falling production and rising unemployment!

Increases in prices and in taxes are easy to document. The consumer price index rose from 109.9 in 1965, when major military escalation began, to 134.4 in May 1970, an increase of 22.3 per cent. Individual income tax payments have risen by almost \$45 billion, from \$48.8 billion in the fiscal year 1965 to an estimated \$92.2 billion in fiscal 1970, an increase of 89 per cent, far more than the 50 per cent increase in personal income over this period. The consequences of these sets of facts for real, after-tax incomes are not hard to grasp.

Looking at average weekly earnings for production workers in manufacturing, for example, we see in Table 1 that these rose substantially in current prices, from \$107.53 in 1965 to \$132.40 in March 1970. But earnings in *real terms, after taxes*, showed no improvement over this five year period. Indeed, converting to March 1970 prices, and taking account of the effects of inflation and taxes, the figures for average real "*spendable earnings*"² of a worker with three dependents go from \$117.30 in 1965 to \$114.85 in 1970, a drop of some 2 per cent. The same measure for workers in all private non-agricultural industries shows a drop of 1.2 per cent.

TABLE 1.—AVERAGE GROSS AND SPENDABLE WEEKLY EARNINGS

Year and month	Manufacturing industries			All private nonagricultural industries		
	Current prices		Constant, March 1970 prices ¹ spendable	Current prices		Constant, March 1970 prices ¹ spendable
	Gross	Spendable		Gross	Spendable	
1965.....	\$107.53	\$96.78	\$117.30	\$96.06	\$86.30	\$104.60
1969.....	\$129.51	\$111.44	\$116.24	\$114.61	\$99.99	\$104.30
March 1970.....	\$132.40	\$114.85	\$114.85	\$117.92	\$103.39	\$103.39
Percent change, 1965 to March 1970.....	+23.1	+18.7	-2.1	+24.0	+19.8	-1.2

¹ Earnings in current prices multiplied by ratio of the March 1970 to current consumer price indexes.

Sources: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings and Economic Report of the President.

If a drop in real, after-tax earnings of one or two per cent does not seem large, one had better reflect on how sharply it contrasts with the long term trend of rising income in this most prosperous of nations. In the five-year period, 1960-65, prior to major war escalation, the average weekly spendable earnings of a worker with three dependents had increased 13.3 per cent in manufacturing and just under 11 per cent in all private non-agricultural industries. One might well have expected workers' real earnings to rise by another 10 or 11 per cent in the five year period 1965-70. The fact that there was actually a drop of 1 or 2 per cent suggests a deficit of 11 or 12 per cent against the rising expectations to which workers had become accustomed.

Many American workers are tense and angry at the frustrations of a society which seems to be drifting more and more into chaos. They have hardly been brought over in large numbers to the anti-war camp, let alone to the ranks of protesters. But though relatively few may see the basic cause, this palpable loss in real, after-tax income must be a major factor in working-class malaise and tension.

Let none nourish the illusion that while wage-earners have suffered, corporate profits have soared. Rather, as noted by Louis B. Lundborg, Chairman of the Board of the Bank of America, the largest bank in the world, "During the four years prior to the escalation of the conflict in Vietnam, corporate profits after taxes rose 71.0 per cent. From 1966 through 1969 corporate profits after taxes rose only 9.2 per cent."³ The calculations in Table 2 are more than confirming. From 1965 to the first quarter of 1970, corporate profits have declined by 11 per cent. Accounting for inflation by putting these figures in first quarter, 1970 dollars, we see that after a rise of 61.2 per cent from 1961 to 1965, real income in the form of profits has declined by 16.8 per cent since escalation of the war beginning in 1965. (With population of course increasing, real *per capita* profits have actually declined significantly more.)

² Average gross weekly earnings, less social security and income taxes, worker with three dependents.

³ Testimony before Senate Committee on Foreign Relations, April 15, 1970, p. 7.

TABLE 2.—CORPORATE PROFITS

Period	Corporate profits after taxes	
	Billions of current dollars	Billions of constant, 1970-71, dollars ¹
1961.....	24.2	34.4
1965.....	46.5	55.4
1969.....	50.5	52.1
1970-71.....	46.1	46.1
Percent changes:		
1961-65.....	+71.0	+61.2
1965-69.....	+8.6	-6.0
1965-70-71.....	-1.1	-16.8

¹ Using GNP implicit price deflator.

Sources: Economic Report of the President and Survey of Current Business.

Individuals realize their corporate profits mainly in the form of capital gains on the stock that they own. Over many months, at every apparently significant rumor of moves toward peace (and many not so significant) security prices soared. And at every dashing of peace hopes or expansion of the war, the market sagged again. The stock market did indeed enjoy a substantial rise for a while, if one could forget the general inflation which cancelled out most of the stock price increases over the 1966-68 period, as indicated in Table 3.

TABLE 3.—CAPITAL GAINS AND LOSSES

[Dollar amounts in billions]

Period	Initial value of holdings of corporate stock ¹	Gross capital gain	Net capital gain (adjusted for change in real value of capital stock) ²	Net capital gain in constant 1970-71 dollars	Net gain as percent of initial value, all in constant 1970-71 dollars
End of 1960 to end of 1965.....	\$398.1	\$238.4	\$207.6	\$244.6	+48.5
End of 1965 to end of 1968.....	643.7	116.5	42.0	44.4	+5.9
End of 1968 to May 26, 1970.....	764.8	-277.6	-321.2	-321.2	-39.7
End of 1968 to May 26, 1970.....	645.7	-161.1	-276.6	-276.6	-36.5

¹ Sum of holdings by households, institutions, mutual savings banks, and private pension funds. Changes in the value of holdings, from 1 period to the next, are the sum of net acquisitions, not reported in this table, and gross capital gains, shown in the next column. Since net acquisitions (essentially purchases minus sales) are not generally zero, gross capital gains are not generally equal to the changes in value of holdings.

² GNP quarterly implicit price deflators used for adjustment. Stock indexes used in end-of-year calculations are December and January means of daily closing averages.

Source: Michael McElroy, "Capital Gains and the Theory and Measurement of Income," Northwestern University doctoral dissertation, 1970, and special compilations by Mr. McElroy. Original data used in calculations taken from Jean Crockett and Irwin Friend, "Characteristics of Stock Ownership," in "Proceedings of the Business and Economics Section," American Statistical Association, 1963, pp. 146-168; Federal Reserve Board, "Flow of Funds Accounts," 1945-67, pp. 103-104; Federal Reserve Bulletin, May 1969, February 1970; "National Income and Product Accounts of the United States, 1929-65"; Survey of Current Business, April 1970; Standard & Poor's 500 Stock Index. and the New York Stock Exchange Index.

But almost anyone from "middle America" can testify as well as an economist to what has happened as the war in Southeast Asia has dragged on. As this article is written, the financial markets are reeling from the shock of the Cambodian invasion, and stock prices are at their lowest level in more than seven years. After a *real* rise of 48.5 per cent from the end of 1960 to the end of 1965, the real value of stocks has, as of May 26, 1970, declined almost \$280 billion dollars since the escalation year of 1965, a drop of 36.5 per cent in constant dollars. And many additional billions have been lost in the value of bonds and other securities.

It may well be argued that the market suffers not from the war alone but from measures taken to combat inflation brought on by the war. There is certainly a measure of truth to this. As pointed out, costs of the war have in fact been met by both inflation and higher taxes. The higher taxes, in the form of corporate profits, tax surcharges, and abandonment of the investment tax credit have directly

reduced business earnings and the expectation of future business earnings. But further, the extremely high rates of interest, brought on by inflation and resulting tight money policies, mean a greater rate of discount for expected future earnings, whether from bonds or stock, and lower prices for both.

Resources have been drained to finance the war, and almost nowhere has the impact been more sharply felt than in housing. The combination of inflation, tight money and existing financial institutions has priced much of possible new construction out of today's market. Increases in costs of land, labor and materials have been notorious, running to 10 per cent, by one estimate, from 1968 to 1969 alone. But the high interest rates, a product of both inflation and the efforts to check inflation with tight money, have themselves paradoxically raised the cost and reduced the availability of housing.

The huge rise in interest rates has brought corresponding increases in monthly payments on mortgage loans. For example, the rise in mortgage rates from approximately 5.5 per cent in 1965 to some 8.4 per cent in 1970 means that monthly payments on a new 20 year loan have risen 25.4 per cent. Over the full life of a 20 year, \$20,000 mortgage, the increased rates mean increased payments of \$8,491. And even this is only part of the story. In fact, mortgage loans are difficult to get and many would-be borrowers who might have obtained money under pre-war conditions cannot obtain loans now.

In real terms, housing progress or lack of it may be measured in the number of "starts," that is, the number of housing units on which construction has commenced. In February of 1968, President Johnson called for construction over the next ten years of 26 million new housing units, which have been translated into 2.6 million units per year. Average non-farm housing starts from 1960 to 1966 had been only 1.4 million units per year. In 1967, the figure was down to 1.3 million units. By December 1969 starts were down to an annual rate of 1.245 million units and by April 1970 to 1.18 million. It has been predicted that starts on single family homes will probably decline 14 per cent in 1970 and rental apartment construction by 19 per cent. In the face of great need, a need recognized as at the core of serious social problems, we have fallen further and further behind in this war economy.

Failure to construct needed housing now is not only a current cost but a cost for the future as well. Indeed, financing a war by deferring investment of any kind is a way of passing the real cost of the war on to a "future generation," which will lack the capital goods—in this case houses—that should have been constructed now. The housing shortages to which we have been contributing during these war years, and to which we are continuing to contribute, will plague us for years and decades to come.

Housing is one of the prime sectors to have suffered from the draining of resources to war. It is certainly not the only one. A whole generation, particularly in ghettos, is growing up without education. Public schools, faced with overcrowding, inadequate facilities, insufficient and relatively inexperienced staffs, and overwhelming neighborhood problems, have in many instances virtually given up educational efforts.

Problems of urban and suburban transport have become critical. We are choked in our own cars and exhaust fumes. Solution of our difficulties would take money and resources. These resources have been devoted, in a profligate fashion, to war but not to the pressing problems of peace.

3. TOTAL DOLLAR COSTS OF THE WAR

Budget costs of the Vietnam War, derived from estimates of the Defense Comptroller, are given in Table 4. They total 104.9 billion current dollars and 113.4 billion fiscal year 1970 dollars, reaching a peak annual rate in the neighborhood of \$30 billion⁴ in fiscal year 1969.

⁴ This may be contrasted with the estimate of \$23 billion for peak *incremental* outlay for the war, presented by Charles L. Schultze, former Budget Director under President Johnson. With total military expenditures for goods and services in the neighborhood of 70 and 80 billion dollars per year, it may indeed be difficult to know how much was properly accounted or should properly be accounted to Vietnam. A portion of the war budget might conceivably have been spent in maintaining troops in garrison or in peaceful maneuvers of ships and planes if there had been no war. Some suggest that other defense expenditures have been cut in order to free resources or dollars for Vietnam. But others may well argue that the war has contributed to a climate both at home and abroad that has made total non-war defense expenditures more than they might otherwise have been.

TABLE 4.—BUDGET COSTS OF THE VIETNAM WAR, IN CURRENT AND FISCAL YEAR 1970 DOLLARS, FISCAL YEARS 1966-70¹

Fiscal year	Billions of current dollars	Billions of fiscal year 1970 dollars
1966.....	5.8	6.8
1967.....	20.1	23.1
1968.....	26.5	29.6
1969.....	28.8	30.7
1970.....	23.2	23.2
5-year total.....	104.9	113.4

¹ Taken from a background paper prepared by Peter T. Knight of the Brookings Institution. Some of the information in this table is also presented in Charles L. Schultze, "Setting National Priorities, the 1971 Budget" (Brookings, 1970), table 2-12, p. 48.

Sources: Statement of Hon. Robert C. Moot, Assistant Secretary of Defense (comptroller) before the Subcommittee on Department of Defense Appropriations of the Senate Committee on Appropriations in connection with the fiscal year 1971 budget estimates of the Department of Defense, released Apr. 13, 1970, table 4. Deflator (or rather inflator) used to obtain fiscal year 1970 prices was the implicit deflator for Federal Government expenditures taken from various issues of the annual report of the Council of Economic advisers on a quarterly basis and computed for fiscal years 1966-69. The link to 1970 prices was made by using the deflator implicit in the statement of total defense expenditures in Robert C. Moot's testimony cited above, table 3.

Large as they are, these costs are only the expenditures paid out by the U.S. Treasury. Actual costs to the economy may be and in fact are much more. A first major addition relates to the true cost of those of our armed forces for which we do not pay a market price, but which we rather draft at remuneration far below even the minimum wages set in civilian work. One very conservative measure of this added cost comes from *The Report of the President's Commission on an All-Volunteer Armed Force*. The Commission estimates that shifting to an all-volunteer force by July 1, 1971, apparently presuming a substantial de-escalation of the Vietnam conflict and reduction of total armed forces by that date, would imply a net cost to the Treasury of \$2.7 billion. The larger forces involved in the major military activity in which we have thus far been engaged must clearly cost considerably more.

The true cost of a soldier or a sailor or a marine is not what we pay him when he is drafted or is a "reluctant volunteer" to avoid the draft. It is rather what we would have to pay him if he were not forced to serve. This indeed measures not merely a cost of the war in terms of psychological aversion on the part of its participants but an economic cost in terms of incomes they would be earning—the goods and services they would be producing—if they were civilians.

There are other usually unmeasured costs of the war and the means, including the draft, by which it has been prosecuted. How many hundreds of thousands of young men have been wasting years in colleges that they do not wish to attend and wasting educational resources which they do not want and do not use, because they find this the most effective means of avoiding service in a war of which they want little part? How many young men have been forced into idleness or temporary jobs because employers would not hire them in view of the possible imminence of military service? How many indeed have left the economy, in literally hiding from the draft, fleeing the country or going to prison? At least some of these costs of conscription are indicated in Table 5. It will be noted that, after the major troop escalation of fiscal 1966, they have run at rates of 14 to 22 billion dollars yearly.

TABLE 5.—ESTIMATES OF ADDED ECONOMIC COSTS OF CONSCRIPTION

Fiscal year (ending June 30)	Average Armed Forces (millions of men)	Added costs of conscription ¹
1966.....	2,870	\$2.9
1967.....	3,344	13.9
1968.....	3,483	19.5
1969.....	3,534	21.8
1970.....	2,456	18.3

¹ Billions of fiscal year 1970 dollars.

² Estimate.

On a macabre note, one must also measure the lost earnings of our war casualties. There were 50,067 American deaths in the Vietnam theatre as of May 16, 1970. In addition, there were 140,286 injuries requiring hospitalization and 137,720 injuries not requiring hospitalization.⁵ Vietnam-era recipients of service-connected disability compensation totaled 145,008.⁶ The mean disability rate of these recipients is 35.5%.⁷

Fifty thousand Americans who have died in Southeast Asia might have produced \$20 billion of goods and services over their lifetimes. It might be argued that some of this would have been used for their own support, but a significant portion certainly would have gone to support wives and children and society as a whole. Several hundred thousand wounded will have their economic productivity impaired for weeks or months or years or all of their lives. Many of them will require costly medical care long after the war is over. Here are uncounted billions of war costs rarely measured in conventional accounting.

The dismal summary of the costs of five years of war is presented in Table 6. In dollars of fiscal year 1970 purchasing power, budgetary expenses come to \$113.4 billion. The added cost of conscription is another \$76.4 billion. Costs of the dead and wounded, calculated by discounting to the present some detailed estimates of the lost incomes they might have earned, are put at \$23.1 billion.⁸ Total costs come finally to \$213 billion.

TABLE 6.—*Estimates of total costs of war, based on involvement from July 1965 to June 1970 only*

Item:	[In billions of dollars, fiscal year 1970]	Amount
Budgeted current expenses.....		113.4
Added economic cost of conscription.....		76.4
Cost of the dead.....		11.6
Cost of the wounded.....		11.5
Total costs.....		212.9

How can one comprehend such a staggering total? To what is it equivalent in dwelling units for our people, in classrooms for our children, in police protection, in medical research, in foreign aid for peaceful development?

And yet the war and measures to cope with it have had still other indirect costs. At the moment, in the midst of one of the worse inflations in our history we are also suffering a rise in unemployment and decrease in production. The Nation's unemployment rose from 4.4 to 4.8 per cent of the civilian labor force in April, the sharpest rise in ten years, and rose further, to 5.0 per cent in May. The real rate of Gross National Product has now declined for two successive quarters and personal income in May showed the largest monthly drop ever recorded (from \$801.3 billion to \$793.5 billion, with special factors contributing, however, to the high April figure). All this is clearly accountable to measures taken to counteract war-induced inflation.

Whatever the vagaries of reflection of costs of war upon the economy in the nation, we face one underlying fact. There is a real loss in the diversion of resources of men and capital, of the capital not constructed because of the production for war, of the lives ruined and destroyed because of the war. The best laid plans of economists in the way of tax policy or monetary policy can merely reduce the magnification of these losses and costs.

In their original magnitude, the costs are real and inescapable. But these costs are just our own. We have said nothing in this discussion about the economic loss and ravished earth and destroyed capital and men, women and children in the land on which we fight.

⁵ From Department of Defense Weekly Southeast Asia Casualty Summary.

⁶ From Information Service of Veterans Administration, "Statistical Summary of VA Activities," March 1970.

⁷ Calculated from *Statistical Supplement to 1969 Annual Report*, Administrator of Veterans Affairs, Table 15, p. 11.

⁸ The economic cost of the dead is in one sense overstated by failing to net out the added consumption costs if they had lived. On the other hand, data to estimate future costs of medical and nursing care for the wounded are not available and these costs have been omitted. At the very rough level of approximation of these estimates, the two omissions may be taken as mutually offsetting.

Note on Derivation of Tables 5 and 6

Added economic costs of conscription were estimated from the cubic equation:

$$ACC = - 52.93 + 71.12 AF - 31.24 (AF)^2 + 4.64 (AF)^3,$$

where AF denotes millions of men in the armed forces.

Added costs of conscription were then taken as *twice* the value of ACC, in billions of dollars, to allow for what Dr. Larry Sjaastad, in charge of research on "The Conscription Tax," for *The Report of the President's Commission on an All-Volunteer Armed Force*,⁹ calls "collection costs." These are the costs to the economy of actions to avoid the draft, such as prolongation of student status and uneconomic occupational choice, as well as other extra non-military costs related to the draft. Finally, to arrive at the figures in Table 5, we then subtract \$4.24 billion per year, an amount equal to the added costs we would have had from conscription even if we had not been in Vietnam.

Non-Vietnam, added costs of conscription are taken as the costs of maintaining an armed force of 2,500,000. This number corresponds roughly to the 2,482,000 on active duty on June 30, 1961 or the 2,685,000 on June 30, 1964, after the latter figure is adjusted for the 21,000 then actually in Vietnam¹⁰ and a reasonable allowance for the added forces at home which must then have been associated, in one capacity or another, with those already in the Southeast Asia Theatre of Operations or soon to be deployed there. It should be noted that this subtraction of allegedly non-Vietnam costs may well cause a decided underestimate of conscription costs attributable to the war. (An earlier version of this paper, presented to the Joint Economic Committee's Subcommittee on Government Economy, and using a quadratic instead of a cubic equation, made no such subtraction.) For a strong argument may be offered that, absent our growing involvement in Indo-China throughout the 1960's, conscription would have been abandoned or, at least, actual draft calls would have shrunk to zero, as there would have been an adequate number of true volunteers for a small, peace-time army.

The cubic was calculated from the Commission estimates of added budgetary expenses, in 1970 dollars, of 1.47 billion, 1.74 billion, 2.12 billion and 4.55 billion required to maintain fully voluntary 2 million, 2.25 million, 2.5 million and 3.0 million man forces, respectively.¹¹ Estimates of added budgetary costs of a volunteer armed force are measures of the "conscription tax," the serviceman's evaluation of that part of the value of his military service for which he is not paid when he is drafted.

Estimates of the cost of an all-volunteer force made by the Department of Defense in 1966, discussed in *The Report of the President's Commission* (Appendix C), are much higher, ranging from \$5.51 billion to \$16.66 billion for armed forces of only 2.7 million with an unemployment rate of 4.0 per cent, which would be consistent with our analysis. Both the DOD and Commission estimates assume a situation of peace. In abstracting from the cost of inducing volunteers to participate in this particular war and to accept the risk of combat in it, both sets of estimates would clearly understate the hypothetical cost of current, war-time recruitment of volunteers. They may not be so low, however, as a measure of the economic "opportunity cost" of military service, the extra earnings which conscripts might have received as civilians. We have worked from the lower, Commission estimates in order to have a conservative set of projections.

The Sjaastad estimates of "collection costs" of the "conscription tax," in the neighborhood of 1.5 times the tax, were derived indirectly from a probability model of the incidence of service and the costs to the economy of all those whose economic activity is affected by the possibility of being drafted. We have applied a ratio of only 1.0 in order to reflect the greater incidence of service in the larger wartime armed forces and in order, again, to have conservative projections.

Key to calculations of economic costs of war casualties shown in Table 6 were the estimates of current average annual contribution to national income of males 20 years of age or older, a projected growth rate, and a rate of discount for future earnings. For current income, an estimate of 1969 labor income is taken as \$630.5 billion, the sum of compensation of employees, business and professional income, and income of farm proprietors. Current civilian employment of 77,902,000 is

⁹ U.S. Government Printing Office, Washington, 1970.

¹⁰ From *Budget of the United States Government for the Fiscal Year Ending June 30, 1966*, U.S. Government Printing Office, Washington, 1965, p. 70, and *Budget of the United States Government, Fiscal Year 1969*, U.S. Government Printing Office, 1968, p. 13.

¹¹ *The Report of the President's Commission on an All-Volunteer Armed Force*, p. 194.

broken into age and sex categories and use is made of earnings differentials for 1960 estimated by Edward F. Denison in *Why Growth Rates Differ* (Brookings, 1967), p. 72 and p. 371, to obtain an estimate of mean labor income of \$10,185 per civilian male 20 or over in 1969.

A growth rate of 2 per cent per annum is projected for real national income per person employed. This compares with a growth rate of 2.1 per cent for the United States reported by Denison for 1950 to 1962. A *real* rate of discount of 5 per cent is assumed. The present value of expected future earnings is then given by

$$PV = \text{Initial Earnings} \left[\sum_{t=1}^{40} (1.02/1.05)^t \right],$$

or approximately, $PV = (\text{I.E.}) \sum_{t=1}^{40} (1.03)^{-t}$.

The forty years of expected earnings are based on the assumption that the average age of casualties is 21 years and that there would have been some premature deaths and retirements among veterans if they had not been killed or wounded in service.

Then with some further rounding and approximation, we have:

1. Estimated current average annual contribution to national income of male 20 years of age or older, \$10,000.

2. Present value of 40 years of future income lost because of death or total disability, \$231,148.

3. Present value of lost future income of 50,067 war dead, \$11.6 billion.

4. Present value of lost future income of 140,286 hospitalized casualties, assuming mean disability rate of 35.5%, \$11.5 billion.

Representative CONABLE. We will now proceed immediately to the testimony of Mr. Henry Niles, the national chairman of Business Executives Move for Vietnam Peace and New National Priorities.

STATEMENT OF HENRY E. NILES, CHAIRMAN, EXECUTIVE COMMITTEE, BUSINESS EXECUTIVES MOVE FOR VIETNAM PEACE

Mr. NILES. Mr. Chairman, I am very pleased to be here. I represent BEM, as we call this organization with a long name. It is a nationwide organization of business owners and executives who seek by open and lawful means to end American participation in the Vietnam war.

I come before you with no new statistics but with a deep concern for the future of our relatively free economic system—but even more than that—for the social stability and spiritual health of our Nation.

I have been very interested in hearing Dr. Eisner and his statement that we might be facing relative disaster. I would agree with him in everything except that word “relative.” I think we are facing disaster, and disaster not just for our relatively free economic system, but even more than that, for the social stability and the spiritual health of our Nation.

After I received your invitation to testify, I wrote to some of our members, selected more or less at random, asking them to tell me of the economic consequences of the war and Vietnam spending on their companies and their industry and what, if the war were to be ended by December 31, 1970, would be the probable effect upon their companies’ profit, employment, long-term growth, research and development programs, and competitive position.

I also asked if they had any recommendations to make to you. I did not ask about other than economic factors and yet these were mentioned by a majority of my respondents, and I know that they loom

large in the minds of some of the others who did not mention them in their replies.

I am, therefore, testifying as chairman of BEM to what I strongly believe personally, namely, that continuation of the war in Indochina threatens the United States with economic and social chaos and with the possibility that a few months from now the President may decide to use nuclear weapons. Such a decision might lead to nuclear war with China and/or the Soviet Union. Here at home it could touch off violent rebellion by many who would lose faith in a democratic system which elected a President who promised to end the war but who has widened and escalated it.

Business prospers best in a climate of stability and order and when the future can be predicted with reasonable assurance. The administration has cut back on the funding of programs which would reduce the causes of unrest and violence while it asks for billions to carry on the war.

We no longer have a climate conducive to prosperity and growth. The violence, unrest, and uncertainty at home are reflected in such things as the difficulty for many small businessmen—and for many others, to get desired insurance coverage even at rising rates.

I am quite aware that this committee's responsibilities do not include military or foreign policy when narrowly interpreted. But your responsibility is to consider the impact of these policies upon our economy and as individual Members of the Senate or House to vote upon appropriations and upon such proposals as the amendment to end the war.

Here are some quotations indicating the broad concern of the respondents to my letter—this is from the president of the Yellow Cab Co. of Denver, Colo.:

It is difficult for me to limit my remarks to that narrow area (the business aspects) when my true concern is in regard to the terrible overall consequences to this Nation.

And then from the president of the Midas International Corp., Chicago, Ill., the makers of Midas mufflers:

There is a possibility that through the economy word will finally reach our leaders that the war in Vietnam is wicked, wasteful and worthless. Then * * * they will end it because, if they don't, it will finally bring our economy to its knees. It will break the back of American free-enterprise capitalism and serve up the Communist foe with the fulfillment of his most blissful longings.

A manufacturer of office supplies, ribbons and carbons in Denver:

The Vietnam War * * * is buying short-term prosperity at the expense of long-term disaster and it could only affect our business unfavorably in the long run. The one recommendation is to do everything possible to get us out of this war before it ruins our entire economy. It has not only divided our people, alienated our youth, but it is the prime mover in destroying the dollar.

The owner of a Motor Inn in Vermont wrote:

To the extent that the war contributed to our economic conditions, it helped our business.

But then he added that they have been unable to expand because he would have had to pay 10½ percent on borrowed money—

* * * business will get worse and worse if we don't close down the war. The combination of inflation, recession, riots and counterriots will indeed be something to see, providing we live through them.

A Chicago executive writes :

I feel that the lack of morality we have displayed through our sinful conduct in Vietnam and now Cambodia far outweighs any deleterious economic consequences of this awful conflict * * * End the war in Vietnam; redirect our energies to curing ills at home, and it must follow that our economy will rally * * * Stay in Vietnam and I assure you that we will face a withered economy with fascism in its wake—all of it brought about by our paranoid notion that International Communism lurks in the jungles of southeast Asia waiting to pounce upon the shores of San Francisco * * * what horrible nonsense.

And a manufacturer who has some defense contracts writes :

Although we do have some defense contracts, we are not concerned about their loss. Given a healthy economy, we can do the rest to making this a good business.

The depression in the housing industry is well known to all of us. But some of the letters that came in from our respondents indicated the consequences of the war spending on the other industries. For instance, the president of an Alaskan firm in the king crab fishing industry wrote :

Economic conditions generated by the war have more than doubled our costs in the last few years. At the same time, consumer resistance to high-priced food products has increased so that our sales have dropped catastrophically. We have had to terminate nearly half of our key executive staff (I think you can imagine what problems are presented by replacing highly trained professional executives in isolated places like the Aleutian Islands); we have had to close two plants and cut back substantially on our R&D programs.—Lowell Wakefield, president of Wakefield Fisheries, Fort Wakefield, Alaska.

The chairman of a corporation in the field of wedding invitations and announcements writes :

We do not see the increase we should have seen in this area in part due directly to the draft and the placing of these young boys 10,000 miles away.

And he points out that—

The catering business, flower stores, furniture, orchestras, gifts—all are tied to the wedding business.

The president of Yellow Cab, Inc., of Denver, quoted earlier once before, said :

The Vietnam war has affected our business adversely in every respect. Our operating results over the past three years have been worse than at any time since we took over this company twenty years ago. It has been very difficult to give service to the public because of the shortage of drivers. We have advertised continually in order to attempt to correct the situation, and this has been an additional costly item. The cost of our cars, parts, radios, and everything else required by us in this operation has skyrocketed.

And so forth.

I am summarizing some of what I quote here in my testimony in order that there will be time for questions that you may want to ask later.

The president of the Midas Mufflers mentioned that :

The market for our recreational vehicle products (travel trailers) has dropped dead. We continue to revise our sales forecasts downward for the rest of the year but the reality is dropping faster than we can project it and even our automotive replacement products (mufflers) which should be a firm predictable market, is very soft and alarming. And, this is the least of it. Inflated costs of doing business, the total restlessness of the economy and the society are striking more broadly into the whole business operation.

This same applies to the two industries in which we make our markets. We are not alone. indeed, we seem to be making out better than most of our competitors. What is bad for us appears to be even worse for others.

The senior vice president of the Lincoln National Life Insurance Co., Fort Wayne, Ind., mentions that the rate of 6 percent a year inflation is an intolerable rate of inflation insofar as those life insurance contracts which contain a large element of saving are concerned. He points out that it is these policies which produce the investable assets of the business which so often help in financing expansion in our economy.

America's largest circular saw manufacturer and the manufacturer of tools and dies and various do-it-yourself tools, writes:

The machine tool industry in Japan and Europe has been assisted by the inability of the United States companies to satisfy our demand for improved machinery and still supply the military requirements in this country. Now the Japanese and European machines are both better and cheaper * * * This doesn't bode too well for the U.S. machine tool industry in the long run.—Lee F. Thomas, Jr., Vermont-American Corp., Louisville, Ky.

Practically every respondent said that if the war were to end by December 31, 1970, their profits and their employment in 1971 would be up; their long-term growth would be greater and faster; their research and development expenses would be increased. Companies doing domestic business did not seem to feel that their competitive positions would be appreciably affected one way or the other. For exporters, peace would improve their position.

The head of a Texas contracting and engineering firm appeals to you in these words to fulfill your constitutional responsibilities:

To establish a publicity campaign to help the people in the United States to realize that the whole genius of our democratic system is established on the foundation that broad-based decisions are far superior to one-man rule, no matter how smart the one man happens to be, Congress must assert itself and take the role set up for it in the Constitution.

The recommendations of our group may be summed up in the words of a manufacturer of belting and power transmission and conveying. Richard Rhoads, chairman of the board of J. E. Rhoads & Sons, Inc., Wilmington, Del., writes:

* * * make every possible effort to have the military budgets trimmed to the bone and to use these resources for the constructive purposes which are so desperately needed both within the United States and abroad.

Another wrote as a suggestion to this committee:

I believe that inflation can only be brought under control when our workers are producing products and services which satisfy the demand for such by those same workers. When they produce for destruction or stockpile, money is acquired but no goods are produced on which to spend it. Let us move our orientation to consumer goods quickly.

In closing I quote from the concluding paragraphs of the report of the steering committee of the congressional committee for a vote on the war, which I received last week:

There is little room for debate about the economic impact of inflation and recession. But beyond these costs are those which are less easy to calculate, though they may be far higher. These are stresses placed on the roots of American society by the continuation of the war * * *

Violence as a form of political expression either in favor of or against the war is increasing. Tolerance of unorthodox forms of dress and speech, of the right to hold a different opinion, of the right to speak out for or against Govern-

ment policies, is fading fast. Invective and name calling have become the order of the day.

The major question before the American people is whether the pursuit of the Indochina war, a war which will not be won on the battlefield in any case, is worth the real chance of permanent damage to the American political system.

I testify that not only is our political system in danger but that our economic system is also in danger. Although some companies profit from war, the general truth is that peace is good for business. Our members want it. We urge you to give peace priority over war, and not merely for the sake of our businesses, but for the preservation of lives and of our way of life.

(The prepared statement of Mr. Niles follows:)

PREPARED STATEMENT OF HENRY E. NILES*

I am Henry E. Niles, Chairman of Business Executives Move for Vietnam Peace and New National Priorities, a nation-wide organization of business owners and executives who seek by open and lawful means to end American participation in the Vietnam War.

I come before you with no new statistics but with a deep concern for the future of our relatively free economic system—but even more than that—for the social stability and spiritual health of our nation.

After I received your invitation to testify, I wrote to some of our members, selected more or less at random, asking them to tell me of the economic consequences of the war and Vietnam spending on their companies and their industry and what, if the war were to be ended by December 31, 1970, would be the probable effect upon their companies' profit, employment, long-term growth, research and development programs and competitive position. I also asked if they had any recommendations to make to you. I did not ask you about other than economic factors and yet these were mentioned by a majority of my respondents, and I know that they loom large in the minds of some of the others who did not mention them in their replies. I am, therefore, testifying as chairman of BEM to what I strongly believe personally, namely, that continuation of the war in Indo-China threatens the United States with economic and social chaos and with the possibility that a few months from now the President may decide to use nuclear weapons. Such a decision might lead to nuclear war with China and/or the Soviet Union. Here at home it could touch off violent rebellion by many who would lose faith in a democratic system which elected a President who promised to end the war but who has widened and escalated it.

Business prospers best in a climate of stability and order and when the future can be predicted with reasonable assurance. The administration has cut back on the funding of programs which would reduce the causes of unrest and violence while it asks for billions to carry on the war. We no longer have a climate conducive to prosperity and growth. The violence, unrest and uncertainty at home are reflected in such things as the difficulty for many small businessmen—and for many others—to get desired insurance coverage even at rising rates.

I am quite aware that this Committee's responsibilities do not include military or foreign policy when narrowly interpreted. But your responsibility is to consider the impact of these policies upon our economy and as individual members of the Senate or House to vote upon appropriations and upon such proposals as the Amendment to End the War.

Here are some quotations indicating the broad concern of the respondents to my letter:

"It is difficult for me to limit my remarks to that narrow area (the business aspects) when my true concern is in regard to the terrible overall consequences to this nation."—M. R. Enrich, president of the Yellow Cab, Inc., Denver, Colorado.

There is a possibility that through the economy "word will finally reach our leaders that the war in Vietnam is wicked, wasteful and worthless. Then . . . they will end it because, if they don't, it will finally bring our economy to its knees. It will break the back of American free-enterprise capitalism and serve up the communist foe with the fulfillment of his most blissful longings."—Gordon Sherman, president of Midas International Corporation, Chicago, Illinois.

"The Vietnam War . . . is buying short-term prosperity at the expense of long-term disaster and it could only affect our business unfavorably in the long run. The one recommendation is to do everything possible to get us out of this war before it ruins our entire economy. It has not only divided our people, alienated our youth, but it is the prime mover in destroying the dollar. As soon as we make up our minds to get out of Vietnam, the better off our economic situation will be."—E. J. Weisberg, manufacturer of office supplies, ribbons, carbons, etc.

The owner of a Motor Inn in Vermont was the only one of my 15 respondents who believed that the war has had *any* appreciable good effects on his business. He wrote: "To the extent that the war contributed to our economic conditions, it helped our business." However he added, "The tight money situation this year has hurt us," since to expand, he would have had to pay 10½% on borrowed money . . . "business will get worse and worse if we don't close down the war. The combination of inflation, recession, riots and counter-riots will indeed be something to see, providing we live through them."—Robert B. Condon, president, New Englander Motor Inn, Bennington, Vermont.

A Chicago executive writes: "I feel that the lack of morality we have displayed through our sinful conduct in Vietnam and now Cambodia far outweighs any deleterious economic consequences of this awful conflict * * *. End the war in Vietnam; redirect our energies to curing ills at home, and it must follow that our economy will rally * * *. Stay in Vietnam and I assure you that we will face a withered economy with fascism in its wake—all of it brought about by your paranoid notion that International Communism lurks in the jungles of south-east Asia waiting to pounce upon the shores of San Francisco * * * what horrible nonsense!"—I. A. Grodzins president of Commodity Warehousing Corporation, Chicago, Illinois.

BEM does not have in its membership any large prime defense contractors but we do have a number of members with some defense work. Many of these say that they would gladly lose the contracts if the war would end. For instance, a machine tool manufacturing company president writes: "Although we do have some defense contracts, we are not concerned about their loss. Given a healthy economy, we can do the rest to making this a good business."—William F. Fischer, Jr., Fischer Machine Co., Philadelphia, Pa.

The depression in the housing industry has naturally had bad effects on our members who are dependent upon that industry for a large portion of their sales. The extent to which the war is affecting hose in other industries is indicated by these quotations:

From the president of an Alaskan firm in the king crab fishing industry: "Economic conditions generated by the war have more than doubled our costs in the last few years. At the same time, consumer resistance to high-priced food products has increased so that our sales have dropped catastrophically. We have had to terminate nearly half of our key executive staff (I think you can imagine what problems are presented by replacing highly trained professional executives in isolated places like the Aleutian Islands); we have had to close two plants and cut back substantially on our R & D programs."—Lowell Wakefield, president of Wakefield Fisheries, Fort Wakefield, Alaska.

The chairman of a corporation in the field of wedding invitations and announcements writes: "We do not see the increase we should have seen in this area in part due directly to the draft and the placing of these young boys 10,000 miles away." And he points out that "the catering business, flower stores, furniture, orchestras, gifts—are all tied to the wedding business."—Saul Olzman, Chairman of the Board, Williamhouse-Regency, Inc., Brooklyn, N.Y.

The president of Yellow Cab, Inc., of Denver, writes: "The Vietnam War has affected our business adversely in every respect. Our operating results over the past three years have been worse than at any time since we took over this company 20 years ago. It has been very difficult to give service to the public because of the shortage of drivers. We have advertised continually in order to attempt to correct the situation, and this has been an additional costly item. The cost of our cars, parts, radios, and everything else required by us in this operation has skyrocketed. It is my opinion that the same problems have existed, in so far as all the companies are concerned in all the major cities.—M. R. Emrich, president, Yellow Cab, Inc., Denver, Colorado.

The maker of the widely advertised Midas Muffler, Gordon Sherman, quoted above, writes: "When I first agitated for peace in Vietnam I thought my motivation was altruistic. I find I couldn't now have acted more in my self-interest. There have been no favorable results in our business. The unfavorable results

are legion and are increasing steadily. The market for our recreational vehicle products (travel trailers) has dropped dead. We continue to revise our sales forecasts downward for the rest of the year but the reality is dropping faster than we can project it and even our automotive replacement products (mufflers) which should be a firm predictable market, is very soft and alarming. And, this is the least of it. Inflated costs of doing business, the total restlessness of the economy and the society are striking more broadly into the whole business operation. This same applies to the two industries in which we make our markets. We are not alone, indeed, we seem to be making out better than most of our competitors. What is bad for us appears to be even worse for others."—Gordon Sheerman, president, Midas International, Chicago, Illinois.

A life insurance executive writes: "Inflation is the deadly enemy of the life insurance business as this business is now constituted. . . . In the five-year period up to 1965, when the Vietnam War was escalated, inflation, according to the Consumer Price Index, was working at an average rate of only about 1¼% a year; and according to the Wholesale Price Index, even more slowly. While no inflation is desirable, this was a tolerable situation as far as the life insurance business was concerned. In those years, long-term interest rates were relatively stable. Since then, largely due to the economic impact of the expanding war in Vietnam, inflation has enormously accelerated, recently reaching a rate of about 6% a year. This, I feel, is an intolerable rate of inflation in so far as those life insurance contracts which contain a large element of savings are concerned. It is these policies that have produced the investable assets of the business.—F. J. McDiarmid, senior vice-president, The Lincoln National Life Insurance Co., Fort Wayne, Indiana.

America's largest circular saw manufacturer and the manufacturer of tools and dies and various do-it-yourself tools, mentions that costs are rising faster than selling prices and that export business is very bad. "The machine tool industry in Japan and Europe has been assisted by the inability of the U.S. companies to satisfy our demand for improved machinery and still supply the military requirements in this country. Now the Japanese and European machines are both better and cheaper. . . . This doesn't bode too well for the U.S. machine tool industry in the long run.—Lee F. Thomas, Jr., Vermont-American Corporation, Louisville, Ky.

A leader in the scientific apparatus industry says in regard to his company: "I would guess that we have been affected unfavorably due to the diversion of funds from various areas of activity, particularly the water and air pollution problems. A great deal of talk has been generated about this segment of our domestic needs to the point that at times I feel that the talk and the propaganda are aimed at reducing the discussion of the war on the front pages and getting our minds on less controversial subjects. . . . I would guess that some of them (others in the industry) have been favorably affected by the war effort and in some cases others may have been significantly hurt by the cessation of many NASA's programs, the funds from which may well be going into the expanded war effort in the Far East.—George E. Beggs, Jr., president, Leeds & Northrup Co., North Wales, Pa.

Practically every respondent said that if the war were to end by December 31, 1970, their profits and their employment in 1971 would be up; their long-term growth would be greater and faster; their research and development expenses would be increased. Companies doing domestic business did not seem to feel that their competitive positions would be appreciably affected one way or the other. For exporters, peace would improve their position.

The head of a Texas contracting and engineering firm appeals to you in these words to fulfill your constitutional responsibilities: "To establish a publicity campaign to help the people in the United States to realize that the whole genius of our democratic system is established on the foundation that broad-based decisions are far superior to one-man rule, no matter how smart the one man happens to be. Congress must assert itself and take the role set up for it in the Constitution, to be the instigator of policies both foreign and domestic with the Executive being responsible only for the execution of these policies. All too long the Executive has been usurping these powers and Congress has become more and more the rubber stamp. The reorganization of the houses of Congress with new guidelines for operation must be undertaken, if this leadership role is to reassert itself."—David Hannah, Jr., Ayrshire Corp., Constructors and Engineers, Houston, Texas.

The recommendations of our group may be summed up in the words of a manufacturer of belting and power transmission and conveying: ". . . make every possible effort to have the military budgets trimmed to the bone and to use these resources for the constructive purposes which are so desperately needed both within the United States and abroad."—Richard H. Rhoads, Chairman of the Board, J. E. Rhoads & Sons, Inc., Wilmington, Del.

Another wrote as a suggestion to this Committee: "I believe that inflation can only be brought under control when our workers are producing products and services which satisfy the demand for such by those same workers. When they produce for destruction or stockpile, money is acquired but no goods are produced on which to spend it. Let's move our orientation to consumer goods quickly."—Lee B. Thomas, Jr., Vermont American Corps., Louisville, Ky.

In closing I quote from the concluding paragraphs of the report of the Steering Committee of the Congressional Committee for A Vote on the War, which I received last week:

"SPIRITUAL DECLINE

"The costs of inflation resulting from the Indochina War and of the measures employed to combat it can be calculated objectively. There is little room for debate about the economic impact of inflation and recession. But beyond these costs are those which are less easy to calculate, though they may be far higher. These are stresses placed on the roots of American society by the continuation of the war. . . .

"Violence as a form of political expression either in favor of or against the war is increasing. Tolerance of unorthodox forms of dress and speech, of the right to hold a different opinion, of the right to speak out for or against government policies, is fading fast. Invective and name calling have become the order of the day.

"The political system seems to many to have become unresponsive to their viewpoint. Successive administrations have made a point of demonstrating that they will not be affected by opposing opinions and that they would prefer it if these opinions were not even expressed. This attitude has led to a growing sense of frustration. Frustration has in turn led to a growing dissatisfaction with the political system itself * * *.

"The major question before the American people is whether the pursuit of the Indochina War, a war which will not be won on the battlefield in any case, is worth the real chance of permanent damage to the American political system."

I testify that not only is our political system in danger but that our economic system is also in danger. Although some companies profit from war, the general truth is that peace is good for business. Our members want it. We urge you to give peace priority over war.

Representative CONABLE. Thank you, Mr. Niles.

We will proceed with questions awaiting the arrival of Mr. Janeway.

First of all, gentlemen, there is a sort of tacit assumption in your testimony that there are a lot of people who are saying that war is good for business, and that you are attempting in what you are saying to refute this view. Can you tell me anybody in the country who is espousing a continuance of the war on economic grounds?

Mr. NILES. I know of nobody who is espousing its continuance on economic grounds. I know of a considerable number of people in the colleges who have been surprised when they hear the name, "Business Executives Move for Vietnam and New National Priorities." They say: "Don't you make money out of the war? What is this? Are businessmen really against the war?" The younger generation often does not understand the economic facts.

I know of no economist, of no people who have really studied the situation who say that this war is good for business. But I think there is a great popular feeling that it may be good for business and good for employment. I believe that there are many people in the labor movement—decreasingly so, but many—who still think that if the war stops their jobs would be terminated.

Representative CONABLE. Professor Eisner, you are in the academic community. Do you find there a prevailing view that the war is an economic institution that requires some sort of a statistical refutation?

Mr. EISNER. My response is along the same lines. I think it is rather curious, I have gotten the same question from one or two people who have seen the paper in advance of its presentation here. And it is strange, as far as responsible people go, that there is hardly anybody that will advocate support of the war clearly on the ground that it helps the economy.

Yet there is a remarkably widespread view among people that the war is helping the economy, and a failure to understand the contrary. I daresay if Gallup were to have a poll and ask people, has the war helped the economy, given us prosperity, you would get an astonishing number of people who would answer "yes." I have gotten this opinion from just speaking to people, and from paying attention to student protests. A great number of students who are very much against the war blame business. They say, we cannot get rid of war unless we get rid of the system, because the system profits from war.

There was a trade union leader—I forget his name, and I don't want to list it anyway—who made quite a publicized speech and told workers, don't get caught up in all this agitation, your jobs depend upon keeping America strong, and so forth. That is widespread. And I am sure the Members of the Congress feel it. Any time anybody talks about cutting back, there is a widespread feeling among people that somehow, as distasteful as the war may be, that its ending will hurt them. And I think we make a mistake in failing to recognize it and come to grips with it and very widely publicizing the contrary, that both businessmen and workers are suffering, everybody in the economy is suffering from this.

Representative CONABLE. To come to you personally, you don't believe this is why, mistakenly or correctly, we intervened in 1965, do you?

Mr. EISNER. No. That is precisely my point.

Representative CONABLE. And you do not believe that economic reasons are keeping us there now, do you?

Mr. EISNER. No, I do not. Yet I think it is important, really, whichever side of the fence you are on the war, to make this clear. I find it very dismaying, particularly among students and antiwar people, they really have the belief that we are in this war in Southeast Asia to protect American investments, to save billions of dollars, and to save the economy.

On the other hand, it is clear, I think, that millions of workers are furious at what is happening to them, but they do not recognize that it is the war that is causing their difficulties. They rather have this very uneasy worry, "If you stop this war what is going to happen to my job?"

Representative CONABLE. Let us take it one step further, then. You say nobody seriously believes we intervened for that reason, and nobody seriously believes that that is the reason we are still there. But do people seriously believe that the end of the war might produce a recession?

Mr. EISNER. Yes, that is quite widespread.

Representative CONABLE. And you think that is more widespread than the other views of the war as an essentially economic institution, that is, the motivations back of the war are economic?

Mr. EISNER. I may have misspoken. I do not mean to say that many informed people think that we intervened for economic reasons. I think it is absurd, and anybody that knows the lack of American economic interests in Southeast Asia realizes that is absurd.

But again if you have a Gallup poll, from my own rough sampling I would predict you will find many people that somehow believe that we must have gotten in this to protect some interest.

Mr. NILES. I occasionally hear that we went in on account of rubber and tin, and so on. I cannot believe it. But I would cite the experience of the Bank of America, one of whose buildings was burned by students because they felt that the Bank of America was profiting so much by the war and maintaining it, whereas the chairman of the board of the Bank of America made one of the strongest statements that I have heard against continuation of the war. He made it here before the Foreign Relations Committee.

Representative CONABLE. Yes. I understand Mr. Janeway is now in the room. I would like to invite him forward to the table.

We will recognize Mrs. Griffiths for questioning after Mr. Janeway has given his statement, if you do not mind.

We are very pleased to have you with us this morning, sir. And we are happy to recognize you for presenting testimony on our national priorities.

Mr. Eliot Janeway is the president of the Janeway Publishing & Research Corp.

Mr. Janeway, you are recognized.

STATEMENT OF ELIOT JANEWAY, PRESIDENT, JANEWAY PUBLISHING & RESEARCH CORP.

Mr. JANEWAY. Mr. Chairman, it is indeed a privilege to be here. And this hearing certainly could not be more timely than today, coming as it does just 1 day after the President's speech on the economy, the point of which—more important than any point he made in it—implied recognition of the reality that this Government is not after all sitting in the grandstand watching a contest in the economy, but on the contrary is a participant, and the leading participant, in whatever tug of war it is that is going on in the economy. And I offer this statement—which with your permission I will now read—as a commentary on the President's speech, and as an effort to suggest ways and means of implementing the voluntary approach to the inflation in the labor market which his speech highlighted.

When I appeared before the Senate Foreign Relations Committee on April 16, Senator Javits asked me:

If the situation continues as it is, just as we are doing with no changes * * * what are we heading for?

My reply warned of a stock market crash, breaking this barometer of liquidity and confidence to the disaster level of 500 on the Dow Jones Industrial Average.

My reply also identified such a calamitous financial deflation—I use the word advisedly, and will return to it—as the other side of the

coin from a climactic inflationary crisis, reproducing that suffered by Germany in the pre-Hitler period, with consequences so unforgettable as to require no detailing. I identified bankruptcy—both for disadvantaged businesses and for our cities and States—as the tell-tale symptom of financial crisis.

I argued then, and propose to elaborate the argument here today, that our difficulty is not economic, but financial.

Senator Javits then asked me the 1970 dollar question:

“How much time do you give us to avoid this awful situation?” Given continuation of the war, I replied, but nothing done to batten down the hatches to finance the requirements of war and to control the pressures whipped up by war, I expressed the judgment that the crisis would hit this year—and sooner rather than later.

The stock market has since put the incontrovertible stamp of authority upon what until then had been merely private warnings that something is rotten in the state of our finances. So has the collision course which the Penn Central Railroad was traveling toward bankruptcy. So has the arrival of 10-percent interest rates for utility borrowings, of rates over 7 percent for top-rated tax-exempt borrowers and of rates over 8 percent for U.S. Government agency borrowers.

So has the disgraceful spectacle of my own city of New York being publicly stripped of the last remaining shred of financial plausibility represented by its air travel credit cards. The airlines, admittedly short of money themselves and at once unable to afford the cost of new borrowings and unable to do without them, have told the mayor that he will have to pay cash next time he proposes to fly to Washington to ask for help or to complain for lack of it. On the same day, a Brooklyn ghetto erupted into violence, aimed this time not at subverting the institutions of law and order, but rather at asserting the obligation of constituted authority to fulfill its responsibility to render the most rudimentary of public services by removing the garbage.

Indeed, for New York City in its present state of fiscal desperation to give a priority to the resumption of garbage removal would be a measure of economy. Routine expenditure on garbage removal costs less than epidemics especially in a city that has been forced to shut down hospitals.

We who are from New York, and especially those of us having professional connection with the financial apparatus centered there, have been brought up to be respectfully aware of the historical differences between Wall Street and Main Street. In citing New York as the horrible example, it is of the rate at which today's inflationary crisis is reproducing the crisis of bankruptcy that paralyzed the public services rendered by virtually all our State and local governments at the worst of the deflationary crisis of the 1930's, I am suggesting that New York City is to be taken as what we economists like to call a leading indicator of galloping default—first on public services rendered, and then inescapably on money due to creditors.

Examples abound. The ability of the Chicago Transit Authority to service its debt has just been called into question by its trustees. Clearly, cities unable to pay current bills due on their air travel credit cards are the shortest of steps away from defaulting on their interest; and, in fact, the intolerable rates of interest all governments in America, and not merely New York City, are now being obliged to pay on their

borrowings suggest that we are moving as close to Brazilian conditions as the Penn Central was to bankruptcy.

Nevertheless, the alarmingly high rates of interest being paid on the borrowings of top rated corporations, and of the Federal Government and its agencies, are still uncompetitively low relative to the yields of tax exempt bonds. Thus, an investor paying taxes in the 50-percent bracket who buys a State or municipal bond yielding a tax-free rate of return of $7\frac{1}{2}$ percent, is enjoying a pretax rate of 15 percent; while an investor in the top bracket can enjoy a pretax equivalent of close to 20 percent.

This is proof positive that we really are more than halfway down the road to the Brazils and Indias of this world, where 30-percent plus rates are the money measure of the social chaos wrought by acute inflation turned chronic.

A 7-percent, tax-free rate of return is clearly a higher rate of return than a taxable rate of 8 percent-plus on a Federal Government instrument or 10 percent-plus on a corporate obligation. Just as clearly, investors able to enjoy pretax yield equivalents substantially in excess of those paid by securities giving income which is taxable will put their money where the incentives are. No financial expertise is needed, therefore, to recognize that $7\frac{1}{2}$ -percent yields for tax-exempt securities spell still more extortionate borrowing costs for business borrowers and for the Federal borrower alike.

Nor is any particular sophistication needed to recognize that the inflation of interest rates is draining ever more scarce liquidity out of our battered and demoralized stock market, threatening to deflate it as fast as dividend yields lose out in their hopeless race to keep pace with the present inflationary trend of interest rates.

This contrast—I should say this causal sequence—between the inflation riding rampant throughout our economy, and the deflation shrinking the securities markets upon which our economy relies for the financial fuel needed to pump its engines, is a startling development and a disturbing one, which has caught us unprepared, not only operationally, but intellectually as well.

By way of filling in the background against which I propose to suggest recommendations responsible to this committee's call for a new look at our national priorities, let me add a practical word aimed at debunking the easy assumption we have been invited to accept these many months that the inflationary consequences of the interest rate spiral can be trusted to be behind us in the near future.

Interest rates are the connecting link between present and future costs. They are literally freezing costs which are intolerable today into burdens which will be inescapable for years to come. More than the cost of money rises when the cost of money rises. Not only does the business and mortgage borrower find himself forced to accept usurious money costs. The conditions on which money is still available, at rates approaching par in the banana republics to the south and in the bazaars of the East, deprive the borrower of the right to prepay his borrowings for as long as 10 years even if we were to reset our national priorities and to normalize today's crisis conditions. It is no exaggeration to say that each day of toleration for today's intolerable interest rates sentences us to another 10 years of their inflationary consequences.

By the same token, the utility company paying 10 percent for money, but still finding itself underfinanced and undercapacitated, yet increasingly on legal notice to find capital funds to be spent against pollution, producing no rate of return, has no choice but to seek inflationary catchup increases in rates, and the regulatory commissions have no choice but to grant them.

Our State and local governments saddling themselves with the same long-term burdens have no choice but to raise tax rates on their old levies and to extend the reach of their levies, invoking force majeure to intercept taxable earnings which the Federal Treasury had been expecting to receive as revenue but which instead count as Federal tax deductions as fast as State and local governments succeed in intercepting them.

The direct consequence of the steady, seemingly endless upward creep in State and local government interest costs is the runaway in State and local government tax rates which are rising even faster than health costs.

The inflation of wage rates is often cited as the leading irritant in the current inflation and, indeed, wage rate inflation is, by universal admission, spiraling faster than employers can afford and faster than can benefit its presumed beneficiaries. To the dismay of the Treasury, the earnings squeeze is deflating its revenues and inflating its borrowings at a crisis rate. Nevertheless, notwithstanding the contribution of the labor cost-push to the earnings squeeze, the wage rate inflation is itself an effect and not a cause.

It is the inflation of money costs which has all along been, and which remains, the primary cause of our inflationary distress. And, as I shall show in a moment, the inflation of our money costs has been, and continues to be, due to the fundamental failure of our governmental priority-setting process.

Meanwhile, the bare bones arithmetic of the inflationary spiral is proof positive that the rise in money costs has the pacemaking role. The cost of money can be taken as having doubled since the onset of the inflationary crisis; while the wage pattern, inflationary though it has become, is still compounding merely at a rate which until recently was varying between 8 percent and 15 percent (although now the best entrenched unions have begun to step up their rates of increment to something closer to 25 percent).

When labor itself feels the cost pinch, the increases it demands are understandably thought of as offsets to living costs increases—most conspicuously in health costs, rent costs, and tax bills, all of which can be traced back to the still uncontrollable, increasingly out-of-hand inflationary cost of money. Of all the disturbing aspects of the present inflation, none is more so than the fact that the pacemaking force inside the inflationary spiral is still rising faster than any of the forces it is driving up in its wake, even labor costs.

I make this point not merely by way of asserting my belief that the money market, and not the labor market, is the primary carrier of the present inflationary infection—if only because it is the market most directly geared into governmental operations and, therefore, most sensitively registering the breakdown in the political priority process.

I make it also to warn against trust in the increasingly prevalent call for mandatory wage and price controls as a panacea. Under pres-

ent circumstances, to attempt to freeze wages, while permitting interest rates and credit terms to tighten the screw on underfinanced borrowers, would institutionalize inequity, and invite chaos.

The alternative which I shall now recommend would, I believe, correct the present imbalance at its source, and begin to ameliorate the crisis aggravated by the failure of the political process to have formulated the priorities plainly needed by our overloaded system of political finance to enable it to support the momentum of the continuous American economic miracle—and I feel prompted to add that only an economy endowed with truly miraculous powers of resistance would perform as well as the American economy still is today in the face of the financial obstacles which unworkable financial policies have put in its way.

The first of the three recommendations I shall put forward today is not offered as a panacea but, on the contrary, as an emergency expedient needed, in my judgment, to ward off a recurrence of the kind of money panic which America resolved never to suffer again a full generation before her system went on trial to prove that it could outperform communism.

I regard the expedient as necessary to substitute an external discipline for our unarguably flawed political process. I believe that its adoption will force the resetting of national priorities. This emergency measure is credit controls.

I fear that the publicity preempted by the debate over wage and price controls has distracted attention from the overdue need for credit controls. I regard wage and price controls as unworkable under today's novel conditions. A few points of contrast with the successive emergencies of 1941-45 and 1950-53 will explain why.

For one thing, the last two war emergencies preceded the institution of the 3-year wage contract, which is now standard operating practice. I am at a loss to understand how even an act of Congress, in the absence of a formal proclamation of wartime siege, could suspend the workings of labor contracts in force, upon which managements are relying to limit the absenteeisms, the job jumping, the strikes and the slow-downs which are characteristic of inflation.

Moreover, these last two experiences of wage-price control coincide with production and consumer rationing, the effect of which was to shut down the civilian economy. The unavailability of goods to spend money on backed up much of the incentive to win more take-home pay. Again, both previous exercises of wage-price controls were supplemented from the outset with high rates not only of emergency taxation, but of forced savings—both politically acceptable at the time.

These frank measures of war-time finance siphoned out of the spending stream any surplus money which might have bid up the price of scarce goods and services. Also, thanks to production controls, the States and their local government subdivisions were obliged to suspend their construction programs and therefore their borrowings and even their hirings.

For the duration of each war emergency, therefore, the cost of local government was effectively stabilized—by contrast with the inflationary irritant it is in today's crisis.

Nevertheless, notwithstanding this formidable concentration of emergency expedients in support of wage and price controls; namely,

production controls, high taxation, high savings plus an atmosphere conducive to Presidential intervention against strikes and consumer rationing, the wartime wage control formula allowed for 15-percent limit within which wages were permitted to be adjusted upward from their frozen levels.

As wage rates continue to rise to a point deemed to warrant an exercise in locking the stable door after the horses have got away, I fully expect labor leaders old enough to remember the last two go-rounds at wage controls, as I do, to celebrate their latest contract gains by calling for responsibility against further price increases and offering to go along with reactivation of this 15-percent wage freeze formula adopted under admitted war conditions in the past.

Given the high and widening inequities between present rates of pay, even in the construction trades, ranging from \$7.13 an hour for iron workers in Detroit to \$3.55 an hour for laborers in the District of Columbia, this would mean loading an immediate 15-percent increment onto rates of increase varying from 8 percent a year to as much as 25 percent.

Exhortation against the wage-price inflation will not reach to its roots in the inflation of money costs, but a frontal counterattack against the inflation of money costs—which Congress was realistic in authorizing last winter, when it gave the President full authority to activate credit controls—would reach past the relatively shallow roots of wage-price inflation to the underlying source of the trouble.

As I look at the troubles besetting every other country in the world: the advanced industrial ones, the underdeveloped ones which are not developing, the democracies as well as the dictatorships, I am inspired to sound a note of optimism in the observation that ours is the one economic society offering its government remedies readily within reach of its fundamental causes of financial dislocation and therefore of social frustration.

To assess what could be expected from credit controls and to design them to meet the emergency it is necessary first to define the financial function at the root of all inflationary evil. It is a disorder easier to diagnose than to cure; namely, overborrowing relative to earnings and, therefore, speculating that earnings anticipated will materialize at a rate sufficient to support and repay borrowings committed.

This definition applies without prejudice to individual businesses and governments. It is not the borrowing itself which is inflationary, but rather overborrowing relative to what proves to be underearnings—in the case of the Treasury, shortfalls in tax receipts.

Borrowings can be repaid in three ways, none of them mutually exclusive. Earnings can rise; debt can be repudiated; or capital assessments can be levied against the debtor.

To state the first possibility is to rule out any realistic hope of relief from it. Business borrowers are falling further behind in their ratio of underearnings to overborrowings, thanks to the earnings squeeze. Consequently, governments dependent on income tax collections from business are too.

The second alternative—repudiation—was, of course, institutionalized into our past eras of boom and bust. But the rise of big government and big business reserve this expedient only for disadvantaged competitors and the most conspicuously sick of our ghettoized cities;

although, of course, the erosive progress of inflation is a subtle and gradualist form of repudiation.

The third alternative is the capital levy. Sovereigns harassed by inflation have resorted to it through the ages. To the extent that cities are suffering a narrowing of the tax base as landlords drop properties deemed uneconomic for tax purposes, the city hall takes over as the slum lord and rent profiteer in possession.

This ancient remedy is being invoked in our polarizing society today. In view of the tendency to inflate wage-price controls into a panacea, it is relevant to note that the first move made by our city halls in their capacity as landlord by default is to raise rents. New York City, which has rent controls, is where rents are rising faster and the tax base shrinking faster than anywhere else in the country.

The main thrust of credit controls would substitute permanent capital for borrowings. It would invite business borrowers to correct their underfinanced condition by levying calls for new capital on their stockholders or, what comes to the same thing, through using public offerings in the stockmarket to do so.

Memories of 1929, revived by the present spectacle of distress, have popularized the notion that margin calls mean nothing but calls from banks and brokers to customers who have collateralized securities to pay down their loans. Margin calls do, indeed, have this meaning, but this is only one of the two meanings that they have. The term also refers to calls on underfinanced companies to raise more permanent capital not having to be repaid.

The best managed corporations in the United States have been recognizing their credit exposure, and going to the equity market for fresh drafts of equity capital for over a year; so that credit controls imposed now to redirect business borrowers from the credit markets to the stockmarket would not straitjacket business or oblige it to resort to uneconomic practices; but, instead, would merely send the laggards and the optimists following where the leaders and the realists have been going in self-protection.

It is appropriate to express gratitude for the existence of the big popular medium of capital exchange and financing known as the stock market. If the economic advisers who have been presiding over our climaxing debacle had been guided by a realistic idea of how markets work and of how effective anti-inflationary remedies required them to work, they would never have directed their fire against the stock market—as if bad news for stock prices could be taken as guaranteeing good news against inflation.

Instead, they would have recognized that the high stock market which greeted the onset of the inflationary crisis invited businesses then already overborrowing to redirect their financing efforts to the stock market.

Admittedly, a stock market which has been broken en route to crashing is not an inviting place in which to raise the tens of billions of dollars of new money urgently needed to pay down the overborrowings no longer covered by under-earnings, and in time to avoid more Penn Centrals or putting the U.S. Treasury into the business of bail-outs.

A massive redirection of corporate borrowings into hard new equity capital is needed to bring interest rates down. And it would bring

interest rates down. For it is the present competition between business borrowers and government borrowers which is driving interest rates up. The better situated business borrowers, who happen to be the biggest, are not restrained by higher interest rates because, by virtue of operating in the black, they are taxpayers and, therefore, the Treasury is their partner in their uneconomic money costs.

Governments, of course, cannot and will not be restrained in borrowing back their deficits (except to the extent that statutory limits bar them from the bond market, in which case, of course, they merely overload the banks with drafts marginally legal as they are marginally liquid in bank loan portfolios).

The upward spiral of interest rates can be expected to continue so long as this competition between taxpaying borrowers unrestrained by higher money costs and government borrowers unrestrainable by higher money costs is allowed to continue. The effect of credit controls would be to suspend this competition by redirecting bigger corporate borrowers to the equity market.

The benefit of calling off this competition between business and government borrowers would be to engineer overnight the dramatic downward movement in long-term interest rates which the outworn, orthodox remedies adopted have admittedly failed to do—on the contrary, the orthodox remedies are directly responsible for the continued brutal inflation of interest rates.

Once the market were to notice that the endless new supply of corporate bond issues had been interrupted, the interest rate on the outstanding float of corporate bonds would fall. Meanwhile, the collapse in the stock market has put the most trustworthy class of dividends—utility dividends—up to 7 percent and even higher.

Telephone stock, symbol that it is of the equity ownership in America, has been driven down to the point of yielding the same 6 percent that it yielded before the affluent society inspired the cult of growth and the fashion of money chasing after stocks. There is no doubt that money, given a choice between stocks yielding as much as stocks already yield, and what bonds would yield given credit controls, would buy stocks. It is my judgment, for what my judgment may be worth, that credit controls adopted now would make the difference between what threatens to be a rout in the stock market and an orderly retreat; and that they would facilitate the absorption of the new equity money needed by the very corporations which happen to be the biggest borrowers and whose stocks happen to be selling on the highest yield basis.

Credit controls would do more in the present emergency than facilitate the urgently needed switch from debt to equity financing, which is a precondition for recontaining inflation within supportable limits. They would also impose the market discipline which the political process has failed to impose and, with all due respect to the leadership of this committee, still shows no sign of imposing upon the quest for national priorities.

If the entire long-term credit market were to be yielded to governmental borrowers at acceptably lowered rates of interest and if even then, as I believe would be the case, the demand pressures of government borrowers were to find the long-term market short of savings supply, the conclusion would be inescapable that the inflationary crisis

has incapacitated price as the rationer it is presumed to be of the demand for funds.

At that point our under-financed governments would come under unmistakable public pressure to cut back the programs which prove to be no longer financeable, or to go to their electorates for mandates to raise taxes to finance all the programs deemed to commend priority.

If we continue to drift on our present course, it is my judgment that we will invite the blitz of panic to invoke the financial equivalent of a Pearl Harbor. But if we move now, as we still have time to do, to recognize that our underfinanced governmental obligations are so big that their claims would preempt all of our long-term credit capability, we will bring ourselves face to face with the recognition that our competing government programs are overdue for cutback measured by a supportable and acceptable system of priorities.

Even before the Penn Central debacle dramatized the surging rate of Government borrowings or, what comes to the same thing Government-guaranteed bank advances needed to finance a gigantic operation bail-out for America's growing corps of corporate bankrupts, the Secretary of the Treasury made it official that large-scale Government guarantees for State and municipal borrowings against pollution now need to be relied upon to make up for the falling rate of corporate capacity to answer this clearly stated national priority.

Just as new taxes are the last recourse of Government borrowers with more priorities than they can find creditors, so permanent new capital raised by equity offerings is the last recourse of businesses which have been over-borrowing and under-earning and are still above water; and while still above water themselves have been hoping for the stock market to recover before going to it for permanent new capital.

Secondly, I recommend as a companion measure to credit controls an abrupt about-face on the part of tax policy so far as the treatment of dividends is concerned. Specifically, I recommend the urgent enactment of a dividend tax credit. Before explaining why I feel obliged to state that such an approach would necessarily entail what the late Secretary of State, John Foster Dulles, referred to in another connection as "an agonizing reappraisal" of the decision which this administration and this Congress made—mistakenly, as I think—to rescind the investment tax credit.

I am aware also that in the present state of confusion over the inflation-versus-recession debate, and in the present crisis condition of disappointment in our ghettos, it would be inappropriate to enact a dividend tax credit without at the same time enacting a job training tax credit for employers undertaking to provide practical vocational skills which our public schools system is not about to provide to those unemployable because underprivileged.

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But if we move now, as we still have time to do, to recognize that our underfinanced Government obligations are so big that their claims would preempt all of our long term credit capabilities, we will bring ourselves face to face with the recognition that our competing Govern-

ment programs are overdue for cutbacks measured by a supportable and acceptable system of priorities.

In point of fact, however, this administration is now committing funds as insurance against the squeeze threatened by its mistaken and impractical anti-inflation policies on a scale considerably in excess of any revenue that might have been sacrificed by continuation of the investment tax credit. I am certainly not alone in regarding the investment tax credit as a more efficient and economic stabilizer than the present desperate recourse to emergency spending and lending.

And, Mr. Chairman, I count something on the order of magnitude of \$20 billion of emergency commitment to the spending stream before we come to Government-guaranteed borrowings under discussion now in a new effort to switch from anti-inflationary priorities to anti-recursion priorities.

The argument for a dividend tax credit is easily stated. The case against it is just as easily refuted. The argument for it is that it would ease the burden of servicing dividends on corporations increasing their outstanding supply of equity capital as they decrease their borrowings.

Stock prices capitalize the yields rated by their dividends. Any hope of stabilizing our demoralized stock market, and remobilizing it to absorb the enormous burden of equity capital needed to be raised to pay off the unsecured and insupportable burden of debt that has been floated rests upon the ability of corporations needing money to pay investors going rates of dividends.

A dividend tax credit would pay its way for the Treasury overnight to begin with by reducing the Treasury's borrowing charges as fast as the reduction in corporate borrowings cut interest rates.

The case against a dividend tax credit is twofold. On neither ground is it pragmatic. The first argument is that any tax credit might be regarded as costing the Treasury revenue at a time it is suffocating for lack of money. The second is that dividend tax credits can be deemed politically unacceptable because alleged to favor the rich.

The money argument reckons without the reality that the rising cost of money and the rising load of unfinanced and insupportable corporate borrowings is threatening to send the dividend the way of the dinosaur and is threatening the Treasury with losses of revenue vastly in excess of the gross collections a dividend tax credit would save for taxpayers.

The moral argument reckons without the reality that the market for new money in America today is centered in the Main Streets of the country where the savings are; where money is still cheaper and easier than in the financial centers; and where, in fact, the largest corporations of the country, notably the telephone company with its successful billion and a half dollar issue committed in \$100 bills, have gone to get it. The only reason the present record volume of corporate bond issues is finding buyers is that the country's new army of new investors from suburbia to Main Street are doing the buying. They will not buy stocks again until dividends attract them as to rate and as to satisfy.

Interest yields are now so high that the principal group to which a dividend tax credit would appeal would be the new investor class whose members are now running their savings out of bank books and into high yielding bonds.

But I think that the case for dividend tax credit goes deeper than the politics of who might be helped to the politics of what would work. I believe that we are close enough to the peril point for the workable to become the acceptable. I submit that a dividend tax credit packaged with credit controls would buy us the option on the time we have lost to decide which priorities are worth paying for.

The President's call yesterday for a voluntary approach to wage-price controls prompts my third recommendation. I think it will give him a handle with which to put a spoke in the burning wheels of the runaway inflation.

In order to slow down the inflation in the labor market, it is my judgment that we need to find a way to reach behind it. My suggestion is prompted by the observation that the cost of local government to working people is now running away as rapidly as health costs; and that this sharpening pinch is having an even more scary effect in activating inflationary psychology than the jumps in health costs. Health costs are suffered intermittently with illness, while the rise in the cost of Government is a source of consistent pressure.

The labor psychology expressed in the assertion of wage claims, whose excessiveness is admittedly inflationary, is defensive—the more aggressive the claims, the more defensive the psychology. At first these inflationary demands were advanced as an offset against unemployment feared around the corner; then to compensate for the loss of overtime actually suffered; and how, increasingly, to get back the rising cost of local government taxes.

My judgment is that State and local government borrowings are rising even faster than their tax rates. The fact that they are explains the seeming paradox of today's just short of 10 percent annual rate of increase in the supply of money leaving the banks tighter for money than ever. The explicit commitment of Federal Reserve Board Chairman Burns to serve as the lender of last resort to the Government borrower, reflected in the prodigious increase in the supply of money, can be taken as assuring State and local governments that the banks will not run out of money for them.

My hope supported by this judgment is that Government will take the lead offered it by Chairman Burns and set an example. An assertion of presidential leadership in the form of a White House call to the Governors, mayors and county commissioners to freeze their tax rates for a year would set the stage for a parallel Presidential request to labor for a voluntary wage freeze.

The way for the President to make voluntary wage controls workable instead of laughable is to tell labor that he has eliminated its need for wage increases to offset tax increases, and to tell labor this before Washington sanctions the impending June 30 5 percent cut in the surtax and gets nothing in return from wage earners.

That completes my statement, Mr. Chairman.

I thank you.

(The following information was subsequently supplied for the record in the context of Mr. Janeway's testimony by the subcommittee staff:)

[From the Congressional Record, June 24, 1970]

IMPLICATIONS OF THE PENN CENTRAL BANKRUPTCY

Mr. SYMINGTON. Mr. President, one can only be alarmed over the repercussions that are now surfacing, and the ramifications that are developing as a result of the Penn Central bankruptcy.

The hearing held last Thursday, June 18, before the Subcommittee on Economy in Government of the Joint Economic Committee put this problem in realistic perspective. Not only did it produce an impressive unanimity of congressional and other opinion against the propriety of the administration's proposed invocation of the Defense powers to guarantee unsecured Penn Central loans going into default, but replies to questioning from Eliot Janeway, the New York economist, on this point elicited from him the judgment that the proposed guarantee of \$200 million of loans would express, as he put it, "a tip to the waiter."

It would appear that this hearing was instrumental in deterring the administration from having gone through with this ill-conceived exercise. But the hearings served a no less constructive long-range purpose in focusing attention upon the problems posed by the Penn Central bankruptcy for the financial position of the United States, along with its social system.

Mr. Janeway's summary of the Penn Central involvement in short-term, insupportable, unrepayable bank debt to the Euro banks belonging to the so-called Basle club, as well as to our own domestic banking system and the inflatable and supposedly gilt-edged commercial paper market in this country, raises two questions which are fundamental in scope and call for urgent and frank confrontation.

The first warning has to do with the reckless dissipation of our resources to the four winds around the world, action which has resulted in the loss of a great deal of our financial independence to the European creditors of the dollar.

The second adds another warning, namely, that the extent to which we have lost our financial independence may already be threatening the integrity of our system of private enterprise. That system grants risk takers the rewards of success, but holds them responsible for loss from failure.

The Penn Central bankruptcy puts the administration, the Congress, and the system on notice to examine whether we have so abused and undermined this our system of free enterprise as to threaten our society with dire financial consequences if the Government does not mount a massive program of bail-outs for bankruptcy.

Are we to commit our national resources to still further waste, or should we now realize that the zero hour has arrived to audit our commitment of national resources, so we can thereupon take those steps necessary to salvage our solvency?

Chairman PROXMIRE (presiding). Thank you, Mr. Janeway, Mr. Eisner, and Mr. Niles. This is a most fascinating panel.

And I apologize for being late. Senator Symington and I both were at a party caucus, and there was no way we could be here.

And I apologize because the House Members had to leave because the House went in an early and most important session.

This is a most useful panel because it is so balanced. Mr. Eisner and Mr. Niles gave us a very good analysis of the Vietnam war. Mr. Eisner, I think, gave one of the finest analysis I have ever heard of the overall impact of the war, buttressed with numerous statistics and going into detail on exactly why this particular war, in contrast to some wars in the past, has had almost no beneficial effect on the economy.

Mr. Niles gave a very fine statement, specifying the effect on individual businesses, and giving us the kind of insight that you can only get by seeing how it affects small business and big business, and so forth. And I thought that was very helpful.

I would like to come to you gentlemen in a minute.

First, I would like to ask Mr. Janeway, who has developed a reputation over the years as a most astute and brilliant economic analyst,

whose forecasts have an uncanny knack of coming true—called Cassandra, I guess, by some people—

Mr. JANEWAY. Optimist, I hope, to the economy, Mr. Chairman.

Chairman PROXMIRE. I guess that is correct.

Your detailed analysis, Mr. Janeway, is, I think, very interesting. You indicate that you think the heart of our problem right now is the money cost. And I think it is most helpful to focus on that, because many people certainly in Congress share that view.

And you first suggest credit controls. We passed a bill—it became law December 23—the Proxmire bill originated in the Senate and the House really added some very potent medicine prescribing about as extensive and comprehensive an arsenal of credit controls as I can imagine.

It permits, for example, the President to prescribe the maximum amount of credit which may be extended on or in connection with any loan, purchase, or other extension of credit. It prescribes the maximum rate of interest, the maximum maturity, the maximum amount of payment, the maximal period between payments, and so forth, And I do not think a lot of Members of Congress realize what they voted on after the House acted on this and it came back as a conference report; it is so far reaching.

So Congress has done about all it can in this area, I presume. The President has the ammunition, and he can act if he wishes to do so to meet what you ask.

Is that your view?

Mr. JANEWAY. Absolutely. And at the time I noted and deplored the reaction from the White House, which I thought said too much too soon, and specifically rejected this grant of authority which in fact, however, the President did sign, but stating that the administration had no intention of activating these controls.

Of course, the Federal Reserve Board is an agency of this Congress. And I would like to point out that the specific measure of control which I regard as of the essence of any defense against what I can only think of as a financial Pearl Harbor, could be activated by the Federal Reserve Board under the authority certainly that you have given it, but in fact even without that authority.

Chairman PROXMIRE. So that this is something that is in the hands of the President and the Federal Reserve Board?

Mr. JANEWAY. Yes, sir.

Chairman PROXMIRE. To act as far as the credit control aspect is concerned.

Mr. JANEWAY. May I supplement my statement in response to your questioning by making this specific point.

The standard labor contract now is freezing us into inflation at the rate of 3 years at a time. And of course if there were to be some mandatory action, these contracts, I presume, would be thrown into the courts. But the money cost inflation is freezing our entire tax structure, and the obligations of corporations, and of regulated corporations, 10 years into the future.

We are out into the 1980's right now as we talk today, because the creditor, you might say, rubbing this price into the debtor, is also insuring himself, he is taking advantage of his strength in the market-

place to insure himself against a return to what I hope will still be thought of as normalcy.

Chairman PROXMIRE. What you would do in your overall impact by using credit controls is in effect to greatly reduce the corporate borrowing. And since the corporations presumably would need capital they would have to go to the stock market.

Mr. JANEWAY. This is exactly what our leaders in the community are doing.

Chairman PROXMIRE. Senator Symington has the same reaction I have when I first read this, I see you have a countervailing opinion here. My reaction is that this would tend to drive stock prices down.

Mr. JANEWAY. Yes.

Chairman PROXMIRE. Stocks, as we all know, have gone down very sharply. Lately they have come up some. But certainly if the big corporations went into stock market to float more stock, then the demand for funds would increase and the price would go down.

Mr. JANEWAY. But what I am saying is that the alternative open to us now is to anticipate the lesser evil of an orderly retreat, or the catastrophe of a rout.

Chairman PROXMIRE. You counteract this, as I understand it, by the fact that the corporations on the other hand would not be in the bond market.

Mr. JANEWAY. That is right.

Chairman PROXMIRE. So people who now are putting money into bonds because they get a very good yield, and as interest rates drop they also get a nice capital gain, would be in the position of finding the stock market very attractive?

Mr. JANEWAY. That is right.

Chairman PROXMIRE. So you would get a countervailing movement of funds in the stock market?

Mr. JANEWAY. That is right. We would find bottom for the stock markets, which now is not visible.

Mr. Chairman, issue after issue of these mammoth bond issues is being put away only, thanks to the small investor. The institutional investor, the pension fund, the insurance company, they are not buying bonds. The small man, the thousand dollar buyer, the retail customer in rural Wisconsin and rural Missouri, they are the buyers. And they are buying for yield.

Now, if we could see parity again between stock yields and bond yield, the stock market could be stabilized. I am not suggesting this as an exercise in saving the stock market, I am suggesting this as an exercise that will bring us face to face with our national priorities. It is my judgment, and it was my judgment even before Secretary Kennedy said that he would go along with the reported \$6 billion increase in Government guarantees for State and local government bonds against pollution, which the market cannot take. For example, California, which was frozen out of a 7-percent market with its 5-percent ceiling is now making fools of its people. Its people voted in a referendum to go from 5 to 7 percent, and now it is an 8-percent market.

Chairman PROXMIRE. You say, there are some factors that would affect the propensity of the investor to put his money into the stock market other than the availability of an attractive bond market.

One is what happens to corporate earnings. They have been falling, and there is some indication that they will continue to fall. We have wage cost going up sharply, and we have demand tapering off.

Under these circumstances it seems to me that there are several alternatives for the investor. He can keep his funds in cash, he can put the funds into housing, he can put his funds into a number of other areas, other than the stock market.

One of the things you do to try to overcome that is to propose a dividend credit.

Mr. JANEWAY. Absolutely.

Chairman PROXMIRE. I think this is an ingenious proposal, but I think it has absolutely no chance of being considered by the Congress this year or maybe next year, for a number of reasons, as you know.

I talked to Mrs. Griffiths before she left, and Mr. Conable. They are both on the Ways and Means Committee. And they feel that there is no chance that this kind of action will be considered. Wilbur Mills and many other Members of the Congress are very leary now of tax credits.

There has been a very strong push to have educational credits, for example, which has a lot of appeal, political appeal. And those have been rejected.

So for the Congress now to adopt a dividend credit—which, as you probably point out, would seem to be a relief for the wealthy—would be something politically that is probably unrealistic.

Mr. JANEWAY. I have no doubt that it is not politically feasible at this time. At the same time it seems to me that it is the responsibility of those whom committees like this call upon to make the issue—if the Federal Reserve Board or the previous administration, at the outset of the campaign against inflation had made the issue, which I also think would have been politically impractical, that a way to reduce these pressures would have been to limit, not necessarily to outlaw, the tax deductibility of interest, you would have advertised or made an educational beginning of explaining what it is that causes the trouble.

It is this competitive overborrowing and this hoarding of money. This is a question of which is less feasible, outlawing the interest deductibility, or giving the tax credit.

Senator SYMINGTON. Will the Senator yield for just a minute?

Chairman PROXMIRE. My time is up.

Senator SYMINGTON. What you are really suggesting, as I understand it, is a formula where the competition between private borrowing and Government borrowing can be eliminated without destroying the economy.

Mr. JANEWAY. That is right, exactly so. And, Senator, simply saying that a byproduct of this suspension of competition for the time being, for the duration of the emergency, would show that if the Government were to commandeer the entire fund of savings, and the private competitor would be eliminated, the Government would still be short of what it needed to borrow for all the competing programs it is now involved in.

So that this—and I think it will be only this—brings us face to face with the need for some sort of priorities as to war versus social problems—and as I said before you came in, Senator, they were going to put garbage removal in Brooklyn ahead of paying for a travel

card for the mayor so he could come down here to Washington to ask for money.

Chairman PROXMIRE. My time is up. I am sure from a completely realistic standpoint you would get an overwhelming vote in New York in favor of the garbage removal as over credit card for the mayor to fly to Washington or anywhere else.

Mr. JANEWAY. Mr. Chairman, may I reply to your realistic expression of political skepticism as to the dividend tax credit by saying that what may seem politically unacceptable or unthinkable with the telephone company's stock—and I take that as one dividend which is safe—yielding 6 percent, Congress may be very grateful to have an opportunity to vote with telephone company stock yielding 10 percent, which I would equate with the Dow Jones average at 250, with corporation after corporation saying, how can we afford to pay dividends with that creditor's money.

Mr. Chairman, it is high time, someone said—and I guess I will lead off and say—that we have got great banks in this country which are making overnight borrowings in order to raise the cash to pay their dividends. The entire dividend structure supporting the stock market and supporting our retirees, our institutions, our pension funds, hospitals, is being supported by diverting cash to which creditors really have a prior claim. The dividend structure of this country today is jeopardized by this mass of unsecured borrowings not being earned back. And there will come a point at which responsibly managed corporations will say, we have no right at this cost of money and at our present inability to repay our borrowings to continue paying dividends.

Chairman PROXMIRE. My time is up, Senator Symington.

I would like with your permission to ask Mr. Eisner, who is a very eminent economist, to give us his reaction to Mr. Janeway's statements.

Mr. EISNER. I must confess, with all due respect to Mr. Janeway's excellent ability to call things in the financial market, that I find myself quite in disagreement with all his proposals. I do not think they have much ostensibly to do with the question of priorities which we are discussing. But to the extent that they do, they are likely to go the wrong way.

On credit controls I think an apt analogy is one made by the very able Milton Friedman, with whom I do not always agree. He has pointed out that with regard to any controls of this kind—I think he suggested this with regard to wages and price controls: It is like taking an inflated balloon and squeezing it in one place. It is going to bulge some other place. We have a problem in priorities in the fact that there is too much demand for limited resources. And you try to meet it in this way, what you are going to do is cause a bulge elsewhere. The fact is very clear, and Mr. Janeway has alluded to it, that if you tell corporations that they cannot borrow on fixed interest securities, they are going in effect to borrow some other way.

He is a much closer student of financial markets than I. But I would hazard a guess that corporations forced to go into the equity markets suddenly to borrow to get huge amounts of capital would cause an even more catastrophic collapse in equity prices than we have seen for some time.

His way of remedying this presumably is a dividend credit which, if I might say so, I find rather outrageous. A dividend credit would

be an opportunity for a substantial number of people with high incomes to evade a tremendous amount of taxes. It would be far worse than the exemptions that they have on tax-exempt securities of State and local governments.

Mr. JANEWAY. Professor Eisner, if I may interrupt, I think you misunderstood the thrust of the proposed tax credit. It was a credit to corporations and not to stockholders.

Mr. EISNER. I did misunderstand that.

Mr. JANEWAY. I thought you had.

Mr. EISNER. But I still fail to see the merit of that. And I might immediately point out that if it would be a credit to corporations it would then be a counteracting measure which would tie in with the capital gains loophole to the extent it is successful and therefore offer further opportunity for tax evasion.

But the third measure that Mr. Janeway suggested, freezing tax rates of State and local governments, means that in one particular area, because of the need of States and local governments, they would be all the more bound and very much bothered by the inability to persuade taxpayers to raise tax rates. And there are understandable reasons for that.

And now they would be told simply not to get more resources. If you need it for schools, or any kind of development, or clearing slums or the like, you cannot raise more money.

So I find myself at a loss on each of these measures.

I might add, though, in line with my own statement, that the prime problem that I think the Congress has, and the Nation has, is where to set priorities. We have to address ourselves to that. If we continue to spend anywhere near the huge amounts that we are spending on military, if the war continues to drag on, the resources for this are going to have to come from somewhere.

In the face of the competing needs that people have in the private sector of the economy, there will be inflationary pressures. I think there is no way of papering it over. The quick, tremendously effective way of ending inflation, of ending the crippling race of interest rates—and there I quite agree with Mr. Janeway. I consider this a disaster in many ways—the way to do that is to come down to the fact that we cannot have business investment, we cannot have the housing we want, we cannot have people live with the standard of living to which they have every right to be accustomed, and at the same time direct these resources to the war.

I think it is a disaster to tell the public in any way that there is a way of getting around this. You cannot spend \$2 when you have \$1. There are certain limited resources, and we have to decide where they are going.

Chairman PROXMIRE. Senator Symington?

Senator SYMINGTON. Thank you, Mr. Chairman.

First, it is a pleasure to see you gentlemen.

Two of you are good friends of mine over the years, and I have had the privilege of knowing Dr. Eisner and discussing matters with him.

I glanced through the statements of the other two witnesses and listened to that of Mr. Janeway. Whatever is said this morning in this field is, you might say, effectively said against the statement made

by the President yesterday, and therefore is particularly pertinent to our current problems.

I would commend Mr. Niles for the fine work he has done in attempting to reduce our expenditures in a particular field. And I note that Mr. Eisner's statements coincide very closely with that of testimony given before the Foreign Relations Committee by the head of the Bank of America, and by the head of International Business Machines Corp.

Because of my great respect for his successful prognostications in the past, I would ask Mr. Janeway a couple of questions this morning. The problem itself is so complex that it is very difficult to analyze it. I am reminded of what Lord Rothschild said in the 19th century—that only two people in the world understood the monetary situation, the head of the largest bank of France, and a very obscure clerk in the Bank of England, and unfortunately they didn't agree.

With that premise, it seems to me there is one problem in having the three witches of potential disaster at the same time—namely, unprecedentedly high interest rates at the same time we have inflation and rising unemployment.

In a balance sheet on the left side you have your assets, cash receivables, the value of your building, machinery, equipment, and perhaps goodwill. And on the right side you have what you owe, the value of your stocks, debentures, and so forth.

But in Government you do not. You just have debt. You constantly explain that debt, which today in this country is \$70 billion more than the debt of all the other countries in the world combined, on the grounds that you owe it to yourself.

However, when you create wealth, whether it is right or wrong in this country—a road, an interstate highway, a dam, better housing, and so forth—you are creating wealth in the country, you are creating jobs. In this Pax Americana development, as I see it, the great danger is that we are putting over \$100 million a day out of this country. None of that will create any wealth in this country. It goes out to Camranh Bay in Vietnam, or any of the other airbases in Asia, and it is gone forever. There is no Pax Britannica for profit; it is a total loss.

If this continues, doesn't it mean that regardless of what we do in the way of taxes or any other conceivable form of adjustment, that the economy is going to fall apart and the dollar is going to disintegrate?

Mr. JANEWAY. No; I do not think that, Senator. I never supported this war—I see where the thrust of your question is going—I have never supported this war. I have specifically attacked and opposed and exposed the technique of escalation by stealth. And I think I was the first to use that phrase.

Senator SYMINGTON. Let me put it to you this way. Do you think that the war helped the economy?

Mr. JANEWAY. It hurts it, it absolutely hurts it. It is a burden. And I think that the expenditures to which you refer are a burden.

I do not think, however, that it is realistic—if I can be excused again for using this word—but I have suggested that it be called unrealistic—I do not believe that it is realistic to assume that we will, shall I say, go Quaker, or pacifist tomorrow. I do think that we will

continue to live in a divided world, that there will be an arms race. I take a very dim view of any hopes for SALT and that sort of thing. It is my judgment—

Chairman PROXMIRE. Let me interject for a minute. You said you do not think we will go Quaker. Well, we elected a President who is a Quaker.

Mr. JANEWAY. I understand that; yes. I meant as to the defense budget. Deemphasis in Vietnam has clearly been going, and even more clearly, is going with new defense obligations admittedly costly and aimed globally.

Senator SYMINGTON. In my church we have a litany which says at one point that we have done those things which we ought to have done, and have left undone those things which we ought to have done. I think no one has done more to bring this out than the chairman of this subcommittee.

I am concerned that we can have a much stronger country by spending much less money on defense; and I am certain if we did we would use at least part of that money to handle the problems at home. To me national security has three components; the first is the capacity to defend ourselves if attacked.

The second is economic stability.

And the third component, which was emphasized very strongly by both Mr. Lundborg and Mr. Watson in their testimony, is the faith and confidence of the people in the performance and policies and programs of their Government.

Dr. Eisner if we continue to put out a hundred million dollars a day for the United States to babysit the world, regardless of what we do, aren't we on a one-way street, in your opinion, to financial collapse?

Mr. EISNER. I very much agree with your point, Senator Symington. I would be cautious about suggesting at what point we are going to reach collapse.

Senator SYMINGTON. I just said there is no return. If you continue to go forward in this measure, ultimately you fall down. It might be 125 years from now. I do not want to get into any doom prediction.

Mr. EISNER. We actually are a tremendously rich country, and we can absorb a great deal of damage and punishment. I think there is a very real cost. And as I emphasize in my statement, the rather unique situation we are in, coming from a full employment economy, is that we cannot get anything for nothing.

So the money that we spend to be sent abroad to build armaments that we cannot use, must come out of the economy—it has to come out of somewhere. It comes out of people's consumption, it comes out of public investment, and it comes out of private investment. I think and I am sure Mr. Janeway will have greater insight into this—that a good part of the stock market crash reflects a very great loss to the economy; there is less capital available, less real capital. We have constructed less, we have done less than we would have been able to do if we continued peacetime growth. The market may well have overreacted to that in some points. And maybe I can predict that it will come back.

Senator SYMINGTON. I would ask one more question of you gentlemen. What do you think from the standpoint of the problems as you see them is the impact and the wisdom, or lack of it, in the President's message?

Mr. EISNER. I do not believe the President's message again comes to grips with the problem. The problem of inflation is in part now a lagging result of what has gone on. There is an inflationary psychology, inflationary expectations that will be difficult to break. I think they will break more effectively with more rapid deescalation of the war. And actually the efforts that I know both of you gentlemen have been conspicuous at have to do with reducing waste in military appropriations generally. And that will contribute considerably to ending inflation.

I personally do not have too much hope in other actions. I know people may well differ. But that would be my view.

Senator SYMINGTON. Mr. Janeway, what is your reaction to the President's message?

Mr. JANEWAY. My statement in my last proposal was offered in the hope that it would turn the President's approach from laughable to workable, because you have got to stop this process somewhere, if you are going to stop it anywhere.

The Federal Reserve Board is now manufacturing liquidity at the rate of \$20 billion a year, which is not reaching the banks. The Government is intercepting every penny of it. This money is being borrowed anywhere.

Now, it seems to me that if the President, who alone sees the cables, who alone knows what to expect from the war, were to recognize that there is an emergency in the economy, he would call an emergency session of the Governors, the mayors, the council commissioners. If he were to say, you are going to be able to overborrow anyway, you are overborrowing anyway, your borrowing will meet whatever you in your wisdom decide are your obligations to public service, but freeze these taxes, he could then turn right around and say to Labor, I have begun somewhere, Government has taken the initiative, you do not need these increases as offsets to those increases in the cost of living, give me a voluntary freeze.

Now, I think if he began that way he could put teeth into what now is just a hollow shell.

Senator SYMINGTON. There is one more aspect of that. Would you work on credit and wages but not on prices and profits?

Mr. JANEWAY. In the first place, you do not need profit controls because the inflation has taken care of that.

Senator SYMINGTON. You would need them if wages were maintained, and prices.

Mr. JANEWAY. No doubt. But if you could tell labor that just one, any one, of the irritating cost increases which it is asking for offsets were going to be stabilized for a year, I think you might then have some chance of restraining what is now not going to be restrained.

I think the President's speech is going to be taken in the marketplace as a warning that, when his voluntary approach has failed, when it is seen to have failed, when by next autumn the inflation is immeasurably further advanced, there will then be an exposure to mandatory crackdown. Consequently, participants in the competition will say, get yours while the getting is good. I think that corporations with borrowing requirements will hoard borrowings, with no thought whatever (Professor Eisner speaks of loopholes: there is no greater loophole than the corporation borrowings at inflationary costs which

are uneconomic and making the Government its partner in those costs without hindrance. And these borrowings are being hoarded now).

And there was a case in Los Angeles the other day—I was there—of an electrical union that threw its chief out for getting—I do not know—some preposterous increase, a record increase—because the increase was not great enough. The President's speech will speed up, in my judgment, the inflationary anticipation—

Senator SYMINGTON. What do you mean by making the Government a partner in this?

Mr. JANEWAY. The Government is a partner in all taxpayers' money costs.

Senator SYMINGTON. You say that the inflation next fall will be very bad in your opinion?

Mr. JANEWAY. Accelerated.

Senator SYMINGTON. And that therefore we will have to in fact go to some more mandatory thinking; correct?

Mr. JANEWAY. Yes, sir.

Senator SYMINGTON. You also said that the corporations will be able to borrow and hoard, and will take advantage of having the Government as their partner. I did not quite understand what you meant by the Government being their partner in their hoarding through borrowing.

Mr. JANEWAY. When a corporation which still has earnings pays 10 percent for money, its interest is a deduction. Consequently it can treat the Government, the Treasury, as its partner in that money cost, because it writes off the cost of the interest as a deduction.

Senator SYMINGTON. So that when corporations pay, let us say, 10 percent for money after taxes and related charges, the actual cost of that money is only 4 percent.

I think Penn Central offered 10 percent, and was rejected.

Mr. JANEWAY. I think it was 11½. But Penn Central had lost its earnings, and for a company that loses its earnings the rate of interest becomes a capital levy, and the rate of interest is the full rate of interest.

As an example of how this was spiraling, as we are going now, the president of a great utility company in the West told me the other day that his company, looking at Penn Central—and mind you, this is a utility company, a prime risk, not a busted railroad—is contemplating a preferred stock issue.

I said, "Well, I guess you are prepared to pay 9 percent"—this is without any proposed dividend tax credit, of course, and with the money therefore costing 18 percent net, because it has to be earned and tax has to be paid on it first.

And he said, "Certainly. But we have got to pay 18 percent in order to protect our credit rating, because if we do not put more equity in, we are going to be downgraded by the rating services, and we won't be able to sell any bonds."

Senator, Salomon Bros. & Hutzler, which is the leading firm in the bond market—

Senator SYMINGTON. Excuse me just a minute. The illustration you gave showed that that particular utility is going ahead without the Government as a partner, correct?

Mr. JANEWAY. It is going ahead without the Government as a partner, absorbing a net after-tax cost of 18 percent for money in order, as I was about to show, to be able to get the Government back as a partner by selling more bonds, because the Salomon Bros. & Hutzler tabulation shows, I think, that only 13 percent of the record volume of bond flotations now are being accounted for by corporations with only single A ratings. The B and double B borrower is frozen out of the market, he cannot get money anyway. So that the utility corporation which says, we may be downgraded to AA, is finding itself facing the situation that I am anticipating in by proposal.

And this is where we are going.

Chairman PROXMIRE. You have a very good point. When you say 18 percent the corporation is really paying 9 percent, but if you used the borrowing method and had debentures instead of preferred stock, on the assumption that the corporation has an income, you would have an effective charge of $4\frac{1}{2}$ percent.

Mr. JANEWAY. Right. And the difference is between $4\frac{1}{2}$ and 18.

Now, the corporation which puts out a preferred stock in desperation in order to broaden its equity base and entitle it to more borrowing—which will perpetuate its vicious spiral—figures that that money is netting at a cost of 18 percent, and it will go to the rate commission in his State, and it will say, we need rate increases ground into the consumer which will compensate for an 18-percent cost of money. And this is happening.

And the ratemaking bodies are having no alternative but to go along with this.

Chairman PROXMIRE. The three alternatives, as I understand it, then, and the one you suggest—which I frankly think is unrealistic, and you do too—

Mr. JANEWAY. You mean the divided tax. I am simply trying to make the issue.

Chairman PROXMIRE. There would have to be a very sharp reduction in corporate income tax rates, which I presume we cannot get.

Mr. JANEWAY. Mr. Chairman, you are getting every day a tremendous reduction in corporate income taxes without benefit of legislation. The Treasury has just admitted that it is $\$3\frac{1}{2}$ billion—and this is for openers—high, or short in its estimate of corporate tax collections.

Let me give you another for instance. One of the great multinational corporations in this world is Phillips of Holland. It has just come to the Euromarket—and this is catastrophic for our American banks and corporations—they are cleaning the Euromarket out with an offering of \$250 million, with a new instrument, which is what is called the variable interest rate.

Now, you tell me how this Treasury will be able to make any kind of budget and calculate any kind of tax revenue expectation from businesses or even from individuals if this new device is imported, as I believe it will be, of the variable interest rate.

Chairman PROXMIRE. Another fascinating aspect of it is of course that as long as corporations are in the bond market heavily, the Federal Government is having trouble selling its bonds. And this is—

Mr. JANEWAY. The Federal Government is behind the market.

Chairman PROXMIRE. And what is happening is that the Federal Reserve Board has to come in to rescue the Treasury. They did that in the last 3 months, with the result that we have a 9-percent increase in the money supply, which is highly inflationary, and we are likely to have to continue this kind of a situation.

That happened in 1966, and is happening again.

Mr. JANEWAY. But the economy isn't getting any of the money. And Secretary Kennedy came up to the Hill and he asked for an \$18 billion increase in the debt limit. This equates almost dollar for dollar with what the 10 percent is. The 10 percent comes or, more precisely, the 9 percent comes, to \$18 billion—10 percent is what I think it really is—comes to \$20 billion.

Senator SYMINGTON. Aren't you proving my point, that the economy is not getting anything, the Government is taking the money in order to pay for its military expenditures?

Mr. JANEWAY. That is right.

Chairman PROXMIRE. Let me ask Mr. Niles this question.

We have not brought you into this, but I think we can at this point.

The single and more decisive and effective action to fight inflation that can be taken, not only economically but especially psychologically, would be to end the war in Vietnam, isn't that your view?

Mr. NILES. Yes. Set a definite date to end it.

Chairman PROXMIRE. We have been talking about things we would like to do, and some of them are very ingenious. And I think they are not as realistic as they might be. But ending the war by a definite near-term date is something that we are getting an increasing majority behind. And I think the effect on the financial market, the effect on inflation, the effect in so many ways would clearly be desirable, and becoming more realistic, is it not?

Mr. NILES. I believe so. I think the effect on a great many businesses would be that they would feel greater confidence for the coming year, they would increase their employment, they would expand, they would carry on research and development work, and it would be all to the good.

I was at a luncheon yesterday of the BEM in St. Louis where Governor Harriman spoke, and we had a chance to talk with some of the businessmen there who had heard some of the President's speech. I think we were all quite disappointed. I personally felt when he said that the administration's spending restraint has set the example in this past year it was almost unbelievable. It did not seem to me there was really spending restraint when we are spending billions for an unnecessary war, even though we are cutting down hundreds of millions on needed social causes here.

Might I just say as a Quaker, Mr. Chairman—

Chairman PROXMIRE. Oh, you are a Quaker too?

Mr. NILES. Yes, I am. But I haven't observed that the positions and actions of the President are in accord with those of most of my Quaker friends.

Chairman PROXMIRE. Do you feel that there was anything in the President's speech yesterday that would help in terms of future price and wage levels?

Mr. NILES. I do not pose as an economist, but I would like to mention another conversation yesterday. A very respected Boston firm was said

to have remarked that they were never going to abide by the request of a President. For several years they had abided by a request for restraint in foreign investment. Then suddenly the Government issued mandatory regulations that no one might invest overseas more than a third of what they have done in the previous year. This set their base at a very low figure, because they had done what they were asked to do.

Mr. JANEWAY. You are dead right, absolutely.

Mr. NILES. People are afraid there are going to be mandatory controls. If now they follow the request of the President they may get caught in mandatory controls. They may say, "We have been fooled before on this matter of jawboning and we must look to a probable future with something mandatory?"

Chairman PROXMIRE. Let me ask Mr. Eisner, you have done extensive research into the direct and indirect costs of the war in Indochina, and I gather that much of your work predates the invasion of Cambodia.

Mr. EISNER. Yes.

Chairman PROXMIRE. Do you have any estimates of the additional costs that might have resulted from the invasion of Cambodia?

Mr. EISNER. I really have not. I think they would depend on our own political estimates of what the costs of the invasion would be, that is, if it does lead to a wider range commitment the costs will be much greater. If the Congress is successful in getting the President to live up to his pledge to pull out quickly, and if we do not get involved in another endless wider war there, I suppose the costs can be limited.

I am sure, the Congress has a better notion of just what has gone into this thus far than I have.

Chairman PROXMIRE. Of course, it is hard to ask an economist to estimate this. On the other hand, if you recognize that we have put in thousands of troops, and we are supporting the Vietnam operation and the Thailand operation there, and we have now a country of 7 or 8 million people, and a large territory which we are committed apparently to defend one way or another for some time to come.

I would like to ask Mr. Janeway, in this connection, at the time of the Vietnam buildup in 1965, you predicted with a great deal of accuracy the difficulty the economy would experience if certain fiscal policies were not followed to balance the expenditure of the war. Have we entered into a similar situation in your view in the widening of the war in Cambodia?

Mr. JANEWAY. Absolutely. And participants in the economy. I think, have taken the Cambodian affair as a signal to try to get ahead of this inflationary spiral.

What I was trying to bring out in response to Senator Symington's previous question to me is that I think there is a fourth leg on which this stool stands—you mentioned the three—and that is our plausibility to the outside world. The outside world now, we have given—I want to develop this, and I think if I may take a minute of time on this it will be worth it—at a time when money was really a giveaway we put long-term money out into Europe. We are now reborrowing or competing to reborrow these funds at short-term at extortionate rates.

These are our own dollars that we are borrowing back. This market is now being preempted from us. The Russians have shown no capacity

to run an economy of their own, but a very shrewd capacity to understand and exploit our own weaknesses. And the point I was trying to make, and that I want to make, is that with this inflationary crises battering our markets, demoralizing participants in our markets, and clearly showing that our Government is busted, and that our State and local governments are paralyzed, suffering creeping paralysis, the Communists—it takes two to tango—are not going to let us take our feet away from the fire until we make some emergency move calculated to restore, not merely confidence—this has gone beyond psychology but to restore some semblance of workability to these markets of ours.

The bond market is not a popular public market like the stock market. But I promise you that the bond market has been in 1929 for 2 years.

Now, the Europeans and the Japanese are participants in the world economy with our money. I fail to see how we can justify our money going to subsidize Germany. Senator Mansfield and you have been talking about this. It seems to me West Germany ought to be subsidizing us and the British. I cannot understand how we can be doing this at a time when it is apparent in this Phillips offering—

Senator SYMINGTON. Actually we are putting 9.4 percent of the gross national product into national defense, and the Germans are putting a great deal less than either the British and the French. The British and the French put 6.6, and the Germans 4.4.

Mr. JANEWAY. I was going to suggest in reply to your previous question, Senator Symington, that perhaps we ought to develop a new standard for our international military commitments. We ought to ask our partners in Euro-market who use our money what they want to go joint on. Because I don't know of any allies we have in any of these undertakings.

Senator SYMINGTON. To go what?

Mr. JANEWAY. To go joint on.

Senator SYMINGTON. What do you mean by that?

Mr. JANEWAY. To go on joint account with us, what international commitments we have allies or partners in.

You spoke of the Pax Americana. I would like to see some sort of international standard for international peacekeeping operations, which the United Nations clearly does not provide. It would seem to me that that might be some reasonable standard of what we will spend in a security way.

But it is a fraud to assume that we can afford to continue emergency expenditures on a continuing basis on a business-as-usual basis. And that is what we are trying to do.

Chairman PROXMIRE. I just have a couple of quick questions, one for Mr. Eisner and one for Mr. Janeway. Presumably, Mr. Eisner, it is not only necessary for us to reduce our operations in Southeast Asia, but if this is going to mean anything in terms of resources it seems to me that we have to take a very hard look at our overall military budget. There have been proposals that we will have to continue with the \$70 to \$75 billion budget for the next 4 or 5 years, to 1975. And the administration has been stubborn in refusing to give us any projections on this, we have tried to get them but they won't give them to us.

In your judgment how low should the defense spending be in order to become a peacetime budget, a budget that will give us the security we have to have?

Mr. EISNER. I of course make no pretence of being a military expert. I was much impressed by an article of which I am sure you are aware, by Carl Kaysen in the Brookings volume, "Agenda for the Nation," a year or two ago. It pointed out that aside from the problem of eliminating waste, which I know the chairman has been very successful in focusing on, and has worked very hard on getting the Defense Department and the administration to go along, is the problem of deciding what we want to spend for. Kaysen addressed himself to goals that this country might have, the question of whether it is two and a half wars we are going to prepare for at the same time or one and a half wars, just what our objectives are.

I have always believed that defense spending has to be approached, as anything else, in economic terms. There is nothing absolute. Too often we approach defense spending in the manner of an insurance salesman who goes to somebody and says, you might die unexpectedly and hence, you need some huge amount of insurance for your estate. Everything has costs. And you always have to balance the danger of failure in achieving certain objectives with the cost of trying to insure or the cost of increasing the probability from 0.9 to 0.91 or 0.01 to 0.02.

So it would seem to me that there is room for substantial reduction via rational consideration of just what objectives we have as a nation in terms of defense, in terms of foreign interests, how much each objective would cost, and whether it is worth it.

And as I say, it seemed to me that the Kaysen approach was one of the most interesting ones I have seen.

Chairman PROXMIRE. I heard one that was more extreme, a \$25 billion estimate was the lowest one before this committee. We have a range from \$45 billion as a minimum. William Kaufman, who was in the Department of Defense who was an adviser—that was not his recommendation necessarily, but he thought that was about the minimum we would possibly have in present dollars, up to about \$65 or \$70 billion. I take it that you do not feel that you would like to get any specific recommendations.

Mr. EISNER. I would temperamentally be politically inclined to go quite low, but I do not want to make—

Chairman PROXMIRE. We in the Senate have to make these decisions.

Mr. EISNER. I do not want to claim any expertise that I do not have. I think one of the things that people do not consider is that this is what the economists call a multiperson game. And when we decide what expenditures to make for our own security purposes we have to recognize that our possible adversaries react, and it may be that we go much lower, recognizing that as we go lower it will permit both explicit and implicit agreements on the other side to go lower as well.

But even without counting on that it would seem that very substantial reductions are in order. I would generally be inclined to a lower figure, with the notion that security is a victor of many elements, if you put it in mathematical economics. And the security of this Nation, as we all recognize, depends very much on the peace and prosperity at home. The costs of many of our military activities are proving so disastrous at home that it would seem clear to many of us now that

our national security is imperiled as it has not been probably since the Civil War, and not by the fact that our defenses are really inadequate vis-a-vis the Russians or Chinese or anybody else, but because we have so misdirected our priorities that we really are in a frightening situation.

Chairman PROXMIRE. My question to Mr. Janeway, in your statement you referred to Penn Central, that has given us, a lot of us in Congress, considerable difficulty in accepting this notion that we should bail out a company which is in financial difficulties because it has a fairly remote effect on national defense, and which if it went into receivership would still be operating and still delivering defense weapons.

You also talk about the liquidity crisis.

It seems to me those two subjects are relatable. As you know there has been great concern in Congress over the financial condition of Lockheed Aircraft Corp. and its demand for about \$640 million to continue work on its major weapons contracts. In the opinion of some, it also appears that Lockheed is in deep trouble on its commercial programs and that it, too, faces receivership.

Do you see a relationship between the Penn Central and the Lockheed situations?

Mr. JANEWAY. Absolutely.

Chairman PROXMIRE. And are any other major corporations in or approaching a similar condition?

Mr. JANEWAY. Yes; many.

I deplored the action of the administration in basing its proposal to save the Penn Central on the defense powers. I think, though, that the consequences of its not having moved to extend or renew the power of the Interstate Commerce Commission, if you can find it, to guarantee railroad loans, which is something that the Roosevelt administration started in 1938 to save the B. & O. I think the consequences of having failed to signal a move to save Penn Central would have brought on precisely the panic that I fear is waiting for us, because you would have had a run on the dollar if the Penn Central had gone in, and last week the Penn Central was 48 hours from going in—it still is. You would have had the most frightening exposé of what I have described today as the insupportable over-borrowings of the entire corporate system if the Penn Central had gone under.

Mr. Chairman, the Penn Central really made the mistake of following the same economic advice that the President is getting. Because if the Penn Central, which had relied on \$200 million of short-term borrowings unsecured, had instead gone to the bond market during the first quarter of this year when the bond market was in some sort of rally supported by the assumption that the war was about to end and that the Government's demand for money were about to be modified, if it had been able to borrow \$100 million at long term and pay down its unsecured borrowings by half, the banks would have renewed its loans, and no one would have known how close it was to the brink.

By going on the assumption—which is what the President's economic advisers were telling the President, and telling the country—that the rally would continue, they missed what in football is called

the hole in the line, they missed their market, they missed their opportunities.

Chairman PROXMIRE. Where do you draw the line on this? It seems to me if we are going to bail out Penn Central and Lockheed—Lockheed is a different situation in a way, because they are the biggest defense contractor in the country—we want to get our weapons on time and we want to get weapons that work—but where do you draw the line on something like Penn Central? It seems to me if we follow this philosophy we are going to have a country floating with Kaiser automobiles and Edsels, and so on, if a firm is doing a bad job and the Government bails it out if it is big enough. The welfare state is really getting overextended.

Mr. JANEWAY. What do you think of the \$9,700 million being renewed at short term at 8½ percent? That is a bailout. It is a bailout we are giving the S. & L.'s. The Home Loan Bank Board has just advised the S. & L.'s not to repay their short-term advances to it. Here you have the specter—

Chairman PROXMIRE. Let me tell you why I think that is entirely different. No. 1, you have a clear public purpose in housing, which is in a serious depression, with heavy unemployment, a tremendous need for housing financed by the S. & L.'s. And you have a Government program which has gone on for some years, you have a Government institution well established. And it would seem to me that it is proper under some circumstances to provide that they can take longer in repaying, or repay under somewhat different terms. That is different than the Government coming in with a program of guaranteeing \$200 million to being with and ending up with maybe \$750 million to one private corporation.

Mr. JANEWAY. It will be closer to \$750 million.

I do not think I made my point, Mr. Chairman. I am as anxious as you are to get housing financed. The purpose, however, of the present advances to the S. & L.'s is not to help housing. It is not helping housing, because interest rates are so high the owner of the retail passbook takes his \$1,000 out of the S. & L.—there is a run on the bank—and buys a bond yielding 9 percent. The S. & L. needing cash in order to meet the demands of its depositors, comes to the Government bank and gets cash, not to finance housing, but to pay out its depositors. The Government gets that cash by going to the long-term market and paying 8½ percent, and its 8½ percent is bought by the same passbook holder who is taking his money out of the bank.

Chairman PROXMIRE. You have got a point.

But let me get back to this other issue I started with. Let me ask you this way. Senator Symington suggested that I ask it this way, and I think he is right. This is the crux of what I am interested in getting at, and I think he is, too. How would you feel about the Government permitting Lockheed to go into the receivership instead of providing the \$600 million Lockheed needs?

Mr. JANEWAY. It would be a mercy.

Senator SYMINGTON. Or Penn Central?

Chairman PROXMIRE. Or Penn Central?

Senator SYMINGTON. The same thing.

Mr. JANEWAY. I think in the case of Lockheed it would be a mercy, if only because of all the reasons to suspect that it will come later

and more expensive, if not sooner and more cheaply. Before the Government, however, were to make any such judgment about a major corporate name, it would behoove the Government's economic and financial—what shall I say, advisers or arms—to check two points; to check first the commercial paper market, and secondly, the Euro-market, to see whether that particular resultant might cause, one—

Senator SYMINGTON. Excuse me. Receivership is not bankruptcy. It is a change of management operating on a different basis.

Mr. JANEWAY. Right. In the case of the Penn Central, however, you would have had a backup of its short-term obligations. I think that the commercial paper market would have been caught with between \$40 and \$100 million of unpayable money which is presumed to be gilt edged, and the Euromarket with something like as much.

Senator SYMINGTON. If the Chair will yield, what you are saying is that we have now gotten to the point where the Government cannot afford the normal processes of the capital system to operate?

Mr. JANEWAY. That is right.

Senator SYMINGTON. They cannot afford to let a corporation go under; they have got to take the taxpayers' money and bail it out in order to maintain what we want to maintain, is that it?

Mr. JANEWAY. I am not saying that.

Senator SYMINGTON. It is pretty plain.

Mr. JANEWAY. What I am saying is that, because of the mistakes of judgment that you have been describing, we have got ourselves over a barrel to some extent with foreign creditors whom we finance with our money so they are in position—

Senator SYMINGTON. Penn Central is one thing. Some people think Lockheed would be worse than Penn Central; others think the opposite. How many of these do you think we could do before we admit we would go into a socialistic system? How many can we afford? And is it time now to face up to this, or should we just lead on into State support of big corporations?

Mr. JANEWAY. I am saying that it is time to face up to the fact that we have built up a bubble of \$25 billion of unsupportable short-term borrowings abroad, mainly by our banks, but also by our corporations, and that there is this comparable bubble in the commercial paper market—

Chairman PROXMIRE. Let me interrupt and say, what you seem to be implying is that we cannot afford to have somebody who invests in a private corporation because he either gets a higher bond yield or a higher commercial paper short-term yield, or better stock gain prospect—if he does that, and he is a foreigner, we have to be very careful that the corporation does not fail and his expectation not be fulfilled. In other words, you are getting a guarantee under every big corporation in the country because this is the one way that we can assure that we are going to have foreign capital come into the country, is that it?

Mr. JANEWAY. I am saying a run on the dollar.

Chairman PROXMIRE. How will they run the dollar?

Mr. JANEWAY. Well, if they stop renewing the loans which our banks are making there, if the banks cannot continue to get more money in Europe, the banks are not going to be able to meet their obligations to their customers.

Chairman PROXMIRE. That is what I always thought the private enterprise system was based on, an investor has to exercise judgment in making an investment in a private corporation, and he has the benefit of getting additional return or a great gain on his stock, if that is what he has invested in. But if his judgment is not right, he is apt to lose, and lose everything he has put into it.

Mr. JANEWAY. Don't put me into the position, Mr. Chairman, of reacting as if I approved the prevailing judgment of the marketplace. But the prevailing judgment of the marketplace in the last year and a half has assumed an ending or unwinding of the war.

On that judgment, banks have given lines of credit which they have been unable to service, and their customers have taken those lines of credit to the short-term paper market. And this money has been borrowed by corporations with credit ratings substantially better than Penn Central and Lockheed. It has been lent by pensions funds, university, by other corporations, by the pension funds of States and cities. And the same process has occurred—

Senator SYMINGTON. What you are saying, as I understand it, is that we cannot afford to have a formal process of receivership—which we did and took as a matter of capitalism in the 1929 crash—in the case of Penn Central or Lockheed because it would do something with respect to our foreign development, which in turn would harm our domestic economic position, is that correct?

Mr. JANEWAY. Yes, sir.

Senator SYMINGTON. If you follow that to logical conclusion, in effect that means the United States has lost control of its financial position to the Basle boys, the Banks for International Settlements, and therefore we could be controlled economically by foreign countries.

Under such circumstances why not follow Canada's lead and protect the dollar by just letting it float?

Mr. JANEWAY. Mr. Chairman, I am glad you brought that up, because it is my information, my judgment that the foreign bankers to whom Senator Symington referred, and who in effect have us in pawn, put our Canadian good neighbors up to giving us the needle in just this way preparatory, as a dress rehearsal to what is coming. I am saying that the commercial banking system of the United States will be unable to meet its obligations this autumn if this crisis of bankruptcy is permitted to come to a head, and if corporations and banks are not given a way out, out of their short-term overindebtedness short of Government intervention. And your questioning me is bringing the proposition right back to these seemingly far-out proposals of mine. Because we are at zero hour now, and these corporations do not know how to continue servicing their dividends, which means the stock market is going to drop.

Chairman PROXMIRE. The hour is late. Let me just ask Dr. Eisner if he would like to comment on this. It has been a very fascinating area we have gotten into with Penn Central and Lockheed.

Mr. EISNER. I may comment again on the line I have repeated, you cannot get something for nothing. I think the tight money, which has been, I believe, a rather misguided device to try to allocate resources to meet the cost of the war, is itself causing great costs, and probably undue cost in certain areas. If you try, however, to bail out

the companies that are being afflicted now with these costs, you are still not eliminating the costs, you are transferring them, you are shifting them somewhere else. And I think a sound general approach would be to ease up on the very tight money, and then to recognize that this too is not fundamental. As long as you have a demand for resources greater than the resources being made available, as long as you have an inflationary set of expectations, you have to do something to break it. And the break we have in mind is the shifting of priorities, the cutting down of the allocation of resources to the war, and very abruptly, an orderly timetable for ending it. I think Mr. Janeway has remarked very aptly that the bond market has taken quite a beating as the expectations that the war would be coming to an end were disappointed.

Senator SYMINGTON. May I interrupt you there just a minute. You say easing up a little on the tight money. But Mr. Janeway says that even if you ease up a lot on the tight money the Government is going to take all the easing up.

Mr. EISNER. If I understood him correctly, I disagree with him there. I think there is some misunderstanding. Because if the Federal Reserve, for example, buys \$5 billion of Treasury obligations to support the Federal borrowings—

Mr. JANEWAY. It does so that the banks will have less money than if they do nothing.

Mr. EISNER. The banks will not have less money, because reserves are increased by that amount and with fractional reserve requirements the banks will have much more to lend.

Of course this depends on the total Federal policy. But the Fed can increase the money, depending on the ability of the banks to lend.

Mr. JANEWAY. I am glad you are making this point, Professor Eisner, because I think it brings the entire discussion into focus. It is my judgment that, if the Board were to go up another double, from 10 percent to 20 percent, and put \$40 billion into the money supply, the banks would be at least as tight for money and unable to meet their obligations to customers as they are today.

And Senator Symington, answering the question you have been coming at in such a fundamental way, from so many angles today and through the years, what I think is bursting, crippling the private economy which it relies on to earn and borrow and pay taxes. The Government is knocking the economy out from under the Treasury.

Now, these bailouts of Penn Central—what the Government tried to do in connection with Penn Central—and you mark my words it is going to do it with more corporations, that is not a political prediction—what this is doing is aggravating the complaint, because the market is looking at Government-guaranteed bank advance as still another source of borrowing pressure on the market, just as the market took Secretary Kennedy's assurance to the States and municipalities of \$6 billion for antipollution bonds.

Chairman PROXMIRE. Let me just interrupt to ask if you two gentlemen could tell me, what would you do about Penn Central and Lockheed? Would you or would you not provide the bailout?

I take it, Mr. Janeway, you feel we should have.

Mr. JANEWAY. Absolutely not under the defense powers.

Chairman PROXMIRE. But not under defense powers.

Mr. JANEWAY. Not under the defense powers. But I would have come to the Congress immediately for permission to renew the Interstate Commerce Commission authority.

Chairman PROXMIRE. Does that apply to Lockheed too?

Mr. JANEWAY. No; because Lockheed is not a regulated corporation. There never has been that authority on the books. In the case of Lockheed, as I said before, it would seem to me that receivership would be mercy. And the Government of course has a great deal of direct procurement at stake—long-term procurement—so that it has an obvious stake in the management.

But I think we have a question of practicality or of urgency far exceeding what you will excuse me for calling the legalities, or even the Government's position as a customer. Because whether we have names or aggregates of names that have been incurred by the banks, operating in good faith in terms of their participation in Government briefings, where we have the banks themselves incurring these obligations domestically and internationally which have blown up a bubble which, if pricked, will cause a panic, we have a question of judgment and of national policy of an altogether different order of magnitude in terms of what we are reading about in the newspapers.

If an outfit like IOS goes bad, the European banks will say to their customers, to the shopkeepers, and so forth, who bought IOS securities, well, you should have known better than to get involved with anything so speculative. But if Penn Central goes bad, when the European banking establishment owns \$200 millions of its short-term paper, the European financial establishment, which has us in pawn, while it continues to insist on receiving our NATO subsidies for tourists in uniform, as I call them, the European banking establishment will say, if we cannot hold Penn Central notes we cannot hold dollar bills or U.S. Treasury bills. And if the international financial establishment, including the central banks of Vietnam, Thailand, Burma, Indochina, Indonesia, and so forth, were to start dumping their holding of Treasury bills, you would have the Treasury bill rate at 10 percent instead of at 7 percent.

You could not count the number of Treasury bills and short-term instruments held by foreigners.

Chairman PROXMIRE. Mr. Eisner, what would you do about the Penn Central?

Mr. EISNER. That is a tough question, to ask me what to do now. I will try to be very quick.

I quite sympathize with the thought I have heard expressed that in our free enterprise economy investors must take risks, and they have to recognize that they sometimes lose money.

I think for the moment we face the difficulty of the Federal Government's policies, including the tight money and the war, including the liquidity crisis, which is very severe. Presumably if as large a company as Penn Central is delinquent on its obligations, the effect on the financial market will be tremendous. I had not thought about foreign effects, but the domestic effect will be tremendous. Whether any particular proposal which has been made is the best way to handle the situation I do not know. I have not studied this.

Senator SYMINGTON. How about Lockheed?

Mr. EISNER. I will come to that. I do not know that specifically. But I am not opposed to the thought my good friend John Kenneth Gal-

braith put forth. I am not unsympathetic to the notion of simply nationalizing the defense industry. Without going all the way at this point—

Senator SYMINGTON. You say what?

Mr. EISNER. I am not unsympathetic to the idea of nationalizing the defense industry. But if a company such as Lockheed, which is a major contractor of the Government cannot make a go of it on its own privately, I am rather unhappy about the idea of subsidizing them so that they and their investors can make a profit. If the Government needs its services, its products, and they cannot produce efficiently, profitably without Government subsidy, then maybe the Government can do it itself, or maybe we should frankly recognize that whatever they are furnishing, it is just so expensive it is not worth it.

Again it seems to me that whenever any individual buys anything he reckons the price, and when the Government buys anything for military purposes it should recognize the price.

If dealing with a company like Lockheed and getting the things it provides becomes exorbitant, maybe we should not do business with them.

Senator SYMINGTON. Suppose you made a decision that you did not need it, what would you do with Lockheed then?

Mr. EISNER. I do not know.

Chairman PROXMIER. Let me point out, as far as the C-5A is concerned the Government owns the planes, the \$150 million worth of equipment, they have made 90 percent progress payments, and there is very little Lockheed money involved, all they have been doing is giving us that excellent management.

Senator SYMINGTON. My problem is that Mr. Janeway says that we have to maintain the equity of the stockholders of Penn Central in their corporation because we cannot afford to have the European bankers become distrustful of our capacity to manage our economy. You say that we have to maintain a defense company, whether it is Lockheed or some others, which are in just about the same shape, because for national defense we cannot afford to have a different kind of a ripple in the economy.

What worries me is the constant guarantee of the Government, whether it is Penn Central or Lockheed, or a phony bauxite investment in a foreign country, with a 90-percent Government guarantee, that we are constantly, as I see it, socializing the United States because we cannot afford to say that we can take the losses which the concepts of capitalism require. Does that make sense to you?

Mr. EISNER. Yes, it does. I will say that I did not mean in any way to imply that I felt we should bail out Lockheed or support the stockholders there.

I would also make some distinction between concern for the stockholders, which I think should be minimal, and concern for the failure to meet credit obligations.

Mr. JANEWAY. Could I make this point by way of illustrating my judgment that the Government has got itself right up against the dilemma at the zero hour with time having run out against it.

The administration clearly switched its priorities between the first and the second quarters. And that switch seems to have occurred, to have coincided with the Cambodian decision. Until the first quarter

there was an anti-inflation priority which the markets were taking as giving a priority to the judgment that the war was going to unwind. After Cambodia the administration switched its priorities to anti-recession.

In the fight against recession which they have mounted I have no problem counting emergency spending of something on the order of magnitude—

Chairman PROXMIRE. You are not implying that Cambodia was the way they fought the recession?

Mr. JANEWAY. No, I am not. But I think they were dismayed by the market's reaction to Cambodia, and also the response of interest rates to Cambodia, because everyone immediately hoarded money, wage rates accelerated, industry which is running at 75 percent of capacity with poor business, jumped their prices 5, 10, and 20 percent. The steel industry is a notable example of that, the idea being that if price controls are coming we will put our prices up to avoid a "Korean Monday," and we will cut our prices from a higher level.

The administration is trying to speed up the economy by committing \$20 billion to the spending stream, every nickel of which will have to be borrowed.

Simultaneously, the Federal Reserve Board has been making these borrowings available at an annual rate that could run to \$20 billion, as I said earlier. The \$20 billion increase in spending, the \$20 billion increase in Government authority to borrow and the \$20 billion of Federal Reserve increase in the money supply all equate with one another.

What they did with this stepup in borrowed spending was run the Penn Central into bankruptcy. What they did with this was run other unfinanced corporations—and this includes the bank sellers of commercial paper and the bank borrowers of Eurofunds—right up against the brink of panic.

And I am saying that whichever way they go, this is the meaning of the dilemma, whichever way they go they were moving us up against this.

Chairman PROXMIRE. I thank you very much, gentlemen. This has been one of the most fascinating panels we have had in a long while. You have all been very helpful to us. And you certainly lived up to your fine reputations.

The subcommittee will stand adjourned. The record will remain open for 2 weeks.

(Whereupon, at 12:55 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.)

APPENDIX

(The following statement was subsequently supplied for the record by Mr. Stockfish:)

THE ROLE OF ANALYSIS AND PPBS WITH REGARD TO CHANGING NATIONAL PRIORITIES

(Statement submitted by J. A. Stockfish in response to request from the Joint Economic Committee's Subcommittee on Economy in Government.)*

I. INTRODUCTION

During recent years, there has been increasing criticism, defense, and soul searching on military cost effectiveness analysis and its associated Planning-Programming-Budgeting System (PPBS) as it was employed in the Defense Department. With fanfare and by the mechanism of a Presidential Directive in 1965, an attempt was made to extend the concepts to the civilian sector of the Federal Government. One way to view the Defense Department management innovations of the 1960s is that it attempted to achieve a marriage between military professionals, technologists, and analysts, so that the respective offerings of these groups might be put in a form that would facilitate more rational decision-making, or more efficient management. However, it appears that the attempted marriage did not turn out well (indeed, it might even be characterized to have been a rape).

For one thing, no means was found to control the process that produces our weapons development and procurement programs, with their well-established trinity of cost overruns, delays in time availability, and failure to perform. But it should be emphasized that this trend was well underway during the 1950s. Hence, what we witness was not the creation of the new management system. That system, however, did fail to cope with these problems, and perhaps for very powerful reasons. Their source is deeply embedded in several aspects of American culture and tradition that impacts upon all decision-making in the Federal Government.

In this statement, I should like to indicate in a general way the setting and the major participants (or "actors") in the weapons evaluation and selection process, especially as it existed during the 1960s. Next, I will try to define and identify the problem as one of managing "the" bureaucracy, which in this context is the uniformed officer corps. Next, I shall try to indicate the shortcomings of the management system; or, more accurately, why it failed to cope with a very difficult problem. Finally, some thoughts will be offered regarding the applicability of the "lessons learned" in defense management to the attempt to extend PPBS to the civilian sector of the Government.

II. THE ACTORS

The actors may be classified in four major groups: (1) the Sovereigns/Policy Makers, (2) the Bureaucrats/Operators, (3) the Technologists, and (4) the Amateur Analysts. There are also important subgroups, as well as cross-breeds, within and between these groups. But for our purposes, we may concentrate on the key qualities of each of these major categories.

*The author has been a Senior Research Associate of the Institute for Defense Analyses since 1967. Prior to that time he occupied various positions in the Federal Government, including the Office of the Secretary of Defense, the Office of the Secretary of the Treasury, and the Office of the Chief of Staff, Army, as an analyst or practitioner of the Planning, Programming, and Budgeting System. The views expressed in this statement are in large part derived from that experience. As such, the Institute for Defense Analyses bears no responsibility for the content of this statement.

A. The Sovereigns/Policy Makers.—In the U.S. setting, this group consists of two important parts:

First, there are the leaders of the Executive Branch of the Government, epitomized by the President. The working end of the executive function, however, is achieved by cabinet officers—specifically, for our purposes, the Secretary of Defense. The function of the Executive is policy-making, or the determination of the ends or objectives that the agencies, or bureaus, are to carry out. The Executive, and his immediate office, should be carefully distinguished from the departments and bureaus over which the Executive exerts control.

Second in the policy-making area is the Congress. Of specific interest in the Congress are its senior members who occupy and chair the key Committees that have cognizance over the bureaus or departments, which in our present case comes down to the Defense Department.

In the Washington setting there exists a complex net of relationships bearing upon Congressional/Executive Branch “control” over decisionmaking by operating agencies. Agency decisions can importantly affect constituents of Congressmen; and Congressional appropriations affect the resources available to agencies. Agency heads are thus well-advised to be responsive to Congressional desires, and are often adroit at finding ways to harness the potential power of those portions of the private sector which are constituents of both the agency and key Congressional elements. The President and his immediate policy-making officers must live and cope with these relationships. Any development such as PPBS that enables the Executive branch to gain power in this three-cornered relationship—the Executive branch, the agencies it nominally controls, and the Congress—is an understandable object of Congressional interest.

B. The Bureaucrats/Operators.—These are the second major set of actors. “Operators,” are “doers.” In this capacity the military operator develops a high degree of operating expertise, particularly with regard to activities like training and commanding divisions, planning and commanding fleet and air operations. To perform these tasks well, it takes not only expertise in knowledge of operations but also qualities of toughness and ability to retain one’s nerve under great stress and uncertainty (the latter qualities also serve the officer corps well in the Washington setting, to a degree few civilians fully appreciate).

A characteristic of modern bureaucracy is the extent to which operating expertise is developed to a high degree of professionalism. The bureaucrat also becomes highly dedicated to his profession and his organization. Finally, bureaucrats—perhaps because of their expertise—tend to be and are able to be secretive about their operations, and the nature of their production processes. They resent “outsiders” raising questions about their production processes, and how they conduct operations. To the extent that they are successful in preserving their secrets, they possess the monopoly of knowledge and the power that goes with secretiveness.

We use the term “bureaucrat” here in a way that has no pejorative intent. Indeed, we prefer to emphasize the positive qualities of expertise and professionalism. These qualities—expertise, dedication, professionalism, and secretiveness—are found in a wide variety of bureaucracies. The corporate possession of expertise and dedication are valuable social resources. The faculties of universities, central bankers, and the medical profession are similar. Here we are focusing on the officer corps of the military services.

C. The Technologists.—The members of this group possess technical, as contrasted with operational, expertise. In the contemporary setting, they are closely associated with, or are a part of, the research and development community. Their business is that of designing and developing, and generally (not unnaturally) advocating, new equipment or hardware systems.

The military technical community has diverse antecedents, and currently has roots in several sectors of our society. Its earliest antecedents were in the military bureaucracy itself. Its origin roughly coincides with the rise of artillery employing metal and gunpowder; and through this nexus there occurred the purposeful application of physics and chemistry to military needs. In armies there thus arose the so-called military “technical services” (as contrasted with the combat arms)—e.g., ordnance, signal, transportation specialists. The advent of the steamship, cheap steel, and smokeless powder saw the emergence of the technician-operator in the naval service. The naval officer became as much a technologist as he was an expert in a special type of military operations. The same pattern occurred even more sharply with the inception of aviation, and in the process air services became air corps and eventually air forces.

From the middle of the 19th Century onward there also began to emerge a civilian counterpart to the military technical services: this group consisted initially of inventors or designers, or business firms that employed ingenious technicians: such names as Krupp, Vickers, Maxim, Hotchkiss and Browning became military household words. World War I, and to a much greater extent World War II, saw a great expansion of this fraternity, to include such illustrious names as Haber, Fermi, Compton, Von Braun, Heisenberg, and Oppenheimer. Thus, figuratively, portions of the scientific academic and industrial sectors of society became servants of the military bureaucracy. With an expanding civil service many civilian scientists also literally became servants.

D. The Amateur Analysts.—The members of this group today perform cost-effectiveness analysis. As such, they are not technologists: however, engineers, physicists, and other practitioners of the "hard sciences" often do cost effectiveness analysis. Nor are they operators in the sense we use the term. Economists number importantly among their ranks. The reason economics figures importantly in cost effectiveness analysis is because resource allocation, or how resources are to be *used*, is what the subject is about. Moreover, economic theory provides the calculus, or "models," that make cost effectiveness analysis "operational."

The use of resources is also what operating, or operations, is about. It is for this reason that contemporary cost effectiveness analysis has its spiritual antecedent in the operational research as it evolved just prior to, and during, World War II. Without attempting to go into the evolution of operational analysis a length, two important qualities of the World War II endeavor should be noted.

First, the original operational research was clearly the endeavor of "amateurs," some of whom were also highly able technologists. With the invention of radar in Britain by Watson-Watt and his colleagues on the eve of World War II, the next question was how to use it most effectively for air defense. To this end, the Royal Air Force conducted field-type experiments in which civilian scientists and the military operators jointly participated. The purpose of the endeavor was *operational* evaluation. Operational effectiveness, not the fine-grained explanation or understanding of technical performance, was what the model building and the experimentation addressed. As such, it was a question-raising process about military operations. The cloak of secrecy that military bureaucrats normally and instinctively maintain was thus penetrated by members of another culture who themselves were amateurs in military operations. The success encountered in coping with the air defense problem served to extend the employment by military agencies of civilian analysts to address other operational problems. Simultaneously, Winston Churchill used a scientific advisor (F. A. Lindermann, later Lord Cherwell) whose staff—amateurs all—did cost effectiveness analysis in a style similar to that employed in the Pentagon under Robert McNamara. That the sovereign used amateur analysts undoubtedly served to "institutionalizing" operational research throughout the World War II British military establishment.

The second important characteristic of the early operational analysis was that it was empirical and experimental. Initially (with the air defense problem) simulated operations, and later, with the advent of the war, actual operations provided the laboratory. The fact that military forces constituted the major resources for the experimentation processes necessitated that military operators be partners in the "team" that designed and evaluated the experiments, or gathered data in the field and analyzed those data. Such a relationship—particularly if it is to be a partnership between members of diverse cultures—is, like marriage, fragile and occasionally unstable. However, the threat of a foreign enemy plus, perhaps, the fact that there were many mature civilians in uniform and in key positions in the wartime military hierarchy who could function as a bridge between the professional officer corps and the civilian scientists operated to maintain a viable relationship.

The advent of nuclear weapons hastened and completed the penetration of one portion of the military bureaucracy by amateurs. Since there was no experience with nuclear war, there was meager basis upon which the professional officer corps could lay claim to a monopoly of operating expertise. Hence a Ph.D. in physics was sometimes considered as good a ticket to address the subject of strategic weapon system selection and force planning as was experience commanding bombers or long range artillery. The cost of nuclear weapon systems, plus their targeting in terms of economic variables, provided subjects that economists could not ignore. The union between economists and physical scientists was perhaps inevitable. Contemporary military cost-effectiveness analysis was the result.

This development, with its primary focus on nuclear systems, was mainly a product of the RAND Corporation during the 1950's. The intellectual approach promulgated at RAND, and specifically the methodology of conducting inquiry, was extended in the Office of the Secretary of Defense from addressing strategic force structure issues to general purpose forces (including land and tactical air forces), which account for about 75 percent of the defense budget. In this area, the results have been less than spectacular.

This is not to imply that operational research and cost effectiveness analysis cannot make a major contribution to non-nuclear weapon systems or force structure issues. Rather, the RAND tradition was heavily rational, or non-empirical, if only because much of nuclear weapon system analysis can be treated in such a fashion. The treatment of conventional forces, however, requires determining empirically, for example, how infantrymen, forward artillery observers, tank crews, and fighter bomber pilots perform their missions; or how submarine or anti-submarine systems function in a natural environment, and when employed with tactical skill. RAND, as an incubator of weapon system analysts, had limited incentive and opportunity to get in the field to do such empirical research.

With little empirical evidence and the application of a scientific methodology, the findings deduced from paper cost-effectiveness studies conducted in the Office of the Secretary of Defense could thus be countered by an alternative court of empiricism: the common sense based on experience of military operators. Thus intellectually there may have been something of a standoff with regard to non-nuclear weapon system and force planning issues, and as between the military services and the cost effectiveness analysts in the Office of the Secretary of Defense. However, by virtue of their position in a higher headquarters, the amateur analysts generally prevailed. In areas where system analysts did not hold the upper hand, technologists in another staff section of the Office of the Secretary of Defense might exert the dominating influence on the decision making process. Although it was not intended, the situation could not have been better designed to maximize stress for, and ill-will on the part of, military professionals.

III. THE PROBLEM AND THE SCENARIO

A. The Problem: The Struggle Between the Maximizing Bureaucrat and the Sovereign/Policy Maker.—The problem is that of controlling the bureaucracy—in this case, the military bureaucracy. It has three dimensions. They are: (1) The secrecy that is a by-product of bureaucratic or operational expertise can lead to an abuse of authority; (2) the abuse of authority poses special problems for the "sovereign" who must control subordinate officials; and (3) those individuals and groups who are affected by the decision-making of officials (bureaucrats) operating to influence administrative procedure and decision-making.

We can sharpen this general statement, with special reference to the military bureaucracy, and in the process add additional dimensions to the problem. Essentially, the military bureaucrat possesses a high degree of professional expertise. Like all experts, he takes pride in this expertise and he is secretive about it. Because he comprises and strongly identifies with a subculture within a larger society, he strives to maximize the role his subculture plays in the social system. He can only do this, however, by getting resources from the society of which he is a part. He generally tries to maximize the resources that might be made available to him through the political, legislative, budgetary process. His operations—and in some cases technical expertise—enables him to perform this maximizing function by virtue of the monopoly of knowledge his expertise endows him with.

In the private sector of the economy, a monopolist offers consumers the product at a price calculated to maximize the monopolist's profits. He enjoys excessive profits—i.e., a larger return from his activity, that exceeds the opportunity cost of producing the product. Society gets less output of the particular product, and in the process pays more per unit than would be the case if it were produced competitively.

A bureaucrat/monopolist who is an instrument of the state cannot exploit a monopoly position to reap personal profits. However, the bureaucrat/monopolist can derive personal fulfillment by maximizing the size of his agency or bureau. By presenting to his superior a joint budget-output package, he can manage to obtain from the society the value equivalent that a business monopolist could mulct from consumers. What would be "excess profits" to a private

monopolist are used by the bureaucratic monopolist to enlarge the size of his agency or service. By means of the calculus (or model) with which it can be demonstrated that a private business monopolist would produce only half the output as would an industry composed of competitors, it can be demonstrated that a bureaucrat monopolist would produce up to twice the output as would be called for.

Now no bureaucrat literally offers the sovereign a strict budget-output package on a take-it-or-leave-it basis. Such behavior would be impudent if not downright insubordinate. Rather, a variety of techniques are employed, which in most instances are utilized in good faith and sincerity, but which are also self-serving. First is the assertion of the "requirement." The argument runs that failure to program adequate resources to cope with the need bodes ill for the country's safety. There is a tendency to exaggerate the threat or the problem that must be coped with. This exaggeration can be advanced in perfectly good faith on the part of military professionals since they are indoctrinated to be winners rather than losers in war, and numbers or size of force are a major determinate of the outcome. Moreover, in the judgment of historians and politicians, it is the generals who lose the battles if not the wars, not the political decision makers who determine the budgets.

There are techniques employed with regard to the relation between force levels and defense "outputs" that serve the objective of maximizing the budget. The insider tends to be conservative about the capabilities of existing systems, if only because he knows something about their operational shortcomings. When budgetary cuts are suggested, they are countered with the query as to which combat units should be deactivated or taken off alert, rather than with an effort to cut back overhead or to seek energetically more efficient ways of doing things. The insider also tends to be conservative about doctrine and organization, especially if they were successful in winning a past war. To be sure, one would like new, higher performance equipment that can be substituted for the old, but nevertheless continue old doctrine. Thus innovations (as contrasted with inventions) are not apt to be forthcoming in a manner commensurate with our self-image of being progressive. There is also a tendency, when advocating new equipment systems, to underestimate their costs. This, too, is understandable, both for natural human and bureaucratic reasons. We are all bargain-hunters at heart, and hope is eternal that cost (which is unpleasant to contemplate) will not plague us. Moreover, the assertion that cost will be low serves to sell the program; and once the program is underway there is hope (and not a little pressure) that additional money will be found to complete the development.

The sovereign/decision-maker, however, cannot provide all the resources the operators would like. He must find a way not only to constrain the operator, but also to be satisfied that policy objectives can be met. To address all the questions that can arise in coping with this problem he needs a staff. This staff can be composed of amateurs, who probe into the objectives (or "mission") of the bureaucrat, and examine his operations. The staff tries to penetrate the secrecy that the bureaucrat/operator strives to preserve. The probing and counter-attacks are stressful. The bureaucrat/operator resents the situation. He considers the question-raising an implicit slur on his professional competence. For reasons based on experience he fears that it will lead to constraining his freedom to perform his mission, but with no corresponding responsibility on the part of the civilian authority to conduct effective operations.

The bureaucrat/operator seeks to counter the penetration in many ways. Currently, the most popular technique is to produce your own cost effectiveness study to prove the point you are advocating. Models and computer simulations of combat or aspects of operations, with no independent tests to verify or refute them, are well-suited tools for maintaining secrecy because they can be used to obfuscate. Poor information and accounting systems (particularly with regard to assets, spare parts, ordnance expenditures and even critical equipment items) serve the same objective. One of the results of these poor information systems is that the senior officials of the bureaucracies themselves often do not have adequate information to run their own organizations effectively.

Senior bureau officials are not happy about the situation. Bureau heads do want their organizations to be effective. To achieve this end, the workings of an organization must be visible to its leaders. But any workable auditing and inspection procedure that serves the bureau head can also serve the energetic staff of a superior headquarters, which in this case is the civilian secretariat and (in some instances) even members of the White House staff. To stave off

penetration and possible detailed control by such outsiders, bureau heads must therefore pay a price. That price is the creation of information systems that generate information for advocacy and political purposes. We thus witness a great surge in cost-effectiveness studies and the development of computerized headquarters information systems, which, not incidentally, have greatly benefited the research and data processing communities. The social value of much of this activity, however, is not clear. Its worth is particularly suspect as long as military departments seek to avoid and prevent penetration by superior headquarters, because the basic data fed into the analytical models and information systems can be generated, doctored, and "fudged" to serve political and advocacy objectives.

Bureaus are thus compelled to try to maintain two sets of information and communications systems: One system to deal with the external world as it is with regard to operations; the other system to serve its functioning in the budgeting/political process, which includes providing information that policy makers like to hear. However, it is a rare organization that can pull off such a feat for an extended period of time. Usually, the outputs of dual information systems become mixed. Much relevant and real information is ignored; much propaganda and folklore come to be accepted as reality. Such duality provides the ingredients for occasional massive "intelligence failures."

B. The Operator/Technical Community Relationship.—Among the military operators there is ambivalence toward civilian scientists. On the one hand, civilians are "outsiders," with different norms and values. Moreover, they are members of an "open" technical community who individually seek to gain mutual recognition and esteem for their technical and analytical accomplishments. Secrecy about bureau affairs is harder to maintain to the extent the bureau embraces outsiders to gain technical expertise. On the other hand, military bureaucrats understand that improvements in technology can provide better weapons. For this reason they employ scientists. But the relationship usually has an "arms-length" quality in order to minimize the possibility of penetration of the agency by the outsiders. The principal technique to preserve this arms-length relationship is to specify very high technical performance (i.e., "requirements") characteristics for new weapon systems, and in the process be guarded or circumspect about the operational context in which the systems might be used. To be "safe," the performance and other physical specifications for new systems are extremely demanding. The systems are consequently very costly to develop, seldom developed on time, and seldom meet all the originally specified performance requirements. Through the entire decision cycle there is little understanding of how the increased technical performance will be translated into enhanced operational effectiveness. Thus, even if the systems did meet their design performance objectives, experienced no cost overruns, and were available on time, they often would not provide an improvement in force effectiveness commensurate with their cost. In some cases, their contribution to effectiveness may even be negative. This is because there is little understanding of how enhanced technological performance can contribute to combat utility. The reason there is such meager understanding of these critical relationships is because little operational research and evaluation is done which has a firm empirical foundation.

The assertion that there is little operational testing and evaluation may strike some as astonishing in view of the fact that the military services in their laboratories, and private contractors, do a large amount of testing. (One may also ask, "What happened to the World War II operational analysis?"). However, what is done is overwhelmingly *engineering* testing, as contrasted with operational testing and evaluation. Engineering testing addresses whether a system meets specified physical performance characteristics, such as speed, range, rate of fire, payload, as well as possible tradeoffs between such technical characteristics. Operational testing, on the other hand, tries to measure the worth of such performance characteristics in terms of criteria judged or determined to be relevant to performing a mission. For example, it may seem that a higher speed bomber can penetrate an air defense system at "low altitude." But higher speed may necessitate flying at a higher altitude in order to avoid terrain obstacles, and the higher altitude renders one more susceptible to being acquired by air-defense radars. The technical answer to the terrain avoidance problem is to install a terrain avoidance radar in the airplane. However, the airplane's radar emissions may themselves be detected. The operational problems are complicated by many other factors which cannot be adequately treated by application of engineering or physical equations.

Long-range accuracy of a rifle (in terms of tightness of a shot group) may seem a desirable attribute; however, if the average soldier is susceptible to a high aiming error under conditions of stress and fatigue, long-range accuracy can be profitably traded for other performance attributes such as light weight and a rapid rate of fire. It is these more subtle and complex problems that operational testing tries to answer.

In brief, engineering testing addresses the question of whether and how higher technical performance is attained; operational evaluation addresses the question of whether the enhanced technical performance is worthwhile in the first place. But if no operational testing is done, more "sophisticated" and costly systems can be advocated. Whether they contribute to effectiveness in proportion to their cost remains a matter of faith. In such a setting, the "paper study" offerings of amateur systems analysts may be neither more nor less credible than the offerings of the advocates of technically sophisticated weapons. But with no empirical foundation for the assertions of either technologists or systems analysts, the decision making process can thus remain "wide open." Herein lies a major reason for the lack of any restraint or rational control of the weapons development and acquisition. Nor may there be a good understanding of how an improving technology might be best applied to provide weapons that would afford maximum combat utility for the money spent. Paradoxically, it is the military services themselves (along with the country) that can suffer the most from the situation because their combat effectiveness in the event of war would be less than it otherwise could be.

IV. A START TOWARD A SOLUTION

It would seem that the immediate solution to the problems described thus far is to insist upon more operational testing, and to adopt a policy of not undertaking major procurement until a new system is thoroughly tested under conditions that resemble or simulate actual operational conditions as closely as possible. Such a policy has much to commend it; however, as a solution to the basic problem it falls short of the mark. A testing process, like a study and planning process, is an information system. And information systems in bureaucratic organizations are creatures of the incentive systems under which bureaus operate. The relationships between the incentive and information systems is critical for the management of large, complex organizations. It is a subject to which senior policy makers (or even students of organization) have not given adequate attention. It is also critical for the possible future role of PPBS in government.

The kind of information that bureaucratic organizations generate will invariably be self-serving, however truthful it may be in terms of their particular conception of the world. The key to good management is to find a way to design both an incentive system and an information system that harnesses the self-interest of a subordinate group to the interest of the larger organization. Military services have consistently behaved in ways to try to maximize the total defense budget, as well as the respective share of a particular service of the total budget. All their information systems become adapted to that end.

A necessary condition for the military services to do rigorous weapon system study, testing, and evaluation work (including operational testing) is that specific testing and evaluation efforts be functionally divorced from broad budgetary or manpower constraints. Unless this condition holds, an objective, relevant, or rigorous test (or study) will be undertaken only if there is a strong prior view that the service's total budget will be increased or at least not reduced. Any effort that has a meaningful probability (e.g., .2 or greater) of having an opposite effect either will not be undertaken, or will be biased, or rendered ambiguous. The process will be turned on and off to serve political budgetary purposes. But to try to turn a study or testing process on and off is difficult if not impossible. Not all analysts and scientists are perceptive to the subtle nuances of the budgetary process. Moreover, there are some who adhere to an old-fashioned idea that analytical and scientific endeavor should be approached in a hard-nosed way, whatever the subject may be. These people usually do not last long in the system, or their superiors manage to keep them away from the sensitive issues. Hence the study, evaluation, and testing process becomes political. In such a case, it ceases to be an evaluation and testing process that can lay claim to objectivity. Military development and procurement budgets must be derived in some other way.

An alternative approach might be illustrated with reference to land forces. Assume that it is decided to program an Army of 1,500,000 men, including reserve forces. Assume that the average equipment investment, per man, is \$20,000. Total equipment is therefore \$30 billion. If the average life of equipment is 10 years, \$3 billion annual procurement is warranted to maintain total assets. A development budget should be added to the procurement allowance. Within these development and procurement funding constraints, factored on a manpower basis, the Army would have no incentive to procure more costly systems which it was not convinced would increase system effectiveness. It would have no incentive not to do rigorous operational evaluation. It should have no reason not to employ an open testing and evaluation process since the budgetary ground rules are such that the revelation that a particular system is of little or no merit will not cause it to lose either dollars or manpower.

It should be emphasized that this is not a fixed budget ceiling. If Congress and the President decide that the Army land forces should be larger, or smaller, because of a changed foreign policy, or a revised estimate of the threat, then the force and the appropriate financial allowance can be revised. In such a case, incidentally, constituted civilian policy makers explicitly take the responsibility for more or less military force. Meanwhile, if the military service can get more fighting capability from the specified budget, then efficiency is being achieved, and the country will be better served whenever military operations become necessary.

It might be argued that such an approach contains no incentive to embrace or pursue new developments. Such an observation contains an element of truth, but overlooks other forces. It overlooks the possibility that a military service, if its officer corps is professional and if it has good leadership, has an instinctive desire to get the most effective capability from its resources, *provided it has no incentive to do anything else*. Possibility of future war is the basis for this instinct. Since overall budgeting policy is presently inserted at such a low organizational level, however, the incentive system operates to acquire the costly system, and to retain redundant ones. Eliminating such perverse incentives is necessary if the instincts and aspirations toward professionalism are to have an opportunity to dominate the internal workings of military bureaucracy. Presently, the incentive system operates to place a premium on advocacy, obfuscating, and political skills. Yet there is little reason to expect that detailed weapon selection and decision making by civilian superiors, either in the Executive or Legislative Branches, can compensate for a lack of detached professionalism within the military bureaucracy itself and, certainly, civilians will not be the ones to handle the battalions, ships, or aircraft under fire.

To the extent that a military service may be unduly conservative, or may resolve too many critical questions by means of internal political considerations, a proper occasion exists for intervention on the part of higher civilian authority. But the power to intervene must be governed by restraint, in the form of self-imposed rules either formally promulgated or developed through precedence. In the past, this kind of restraint on the part of the higher authority in the fine grain detail of military management has been lacking, and this behavior pattern goes back to the very early days of the Republic. Thus much interventionism from the highest authority has characterized management of the Defense Department. The military services do not like it. However, they encourage it by requesting, in the aggregate, more resources than can be provided for political-budgetary reasons. The situation resembles that of a young, immature housewife who cannot manage the family budget within the husband's salary. In such a case, the husband often ends up doling out money for each item purchased. The wife, for her part, proceeds to hold out money from her funds, or making false statements of the household expenses in order to retain some degree of financial independence. Some people enjoy the game. But it is not one that generates either accurate information, or mutual trust.

Restraint on the part of a higher authority is absolutely necessary if a subordinate agency is to develop an information system that serves operational (as contrasted with budgetary-political) objectives. If that restraint is lacking, either on the part of Congress or the Executive Branch, the bureau will proceed to develop its mechanism to defeat, or cope with, the extensive intervention. Moreover, the higher authority, upon intervening, must make its decision or proposal on the basis of information. But it cannot do this intelligently if it does not have access to a detached and open study and evaluation system. Yet if it intervenes too much, or in the wrong ways, it destroys the information

source needed to make wise decisions on those matters which must be made by higher or central authority. The nominal power of the higher authority to intervene can only be effectively used if it is used sparingly. There is an element of paradox in this point. But it is not unfamiliar to most thoughtful people. The relationships between parent and a maturing child provide ample basis for reflection on the use of authority, the fostering of candor, and development of a sense of responsibility on the part of the subordinate.

V. RELEVANCE OF DEFENSE DEPARTMENT EXPERIENCE TO PROGRAMS IN THE CIVIL SECTOR

It is implicit in the previous criticism of past experience with military management that PPBS and its associated analytical techniques can play no direct role in setting or determining priorities. As suggested by the above recommendation that civilian authorities must *explicitly* decide (which they do implicitly, anyway) what the total budget should be, and its allocation as between major components of the force structure, the priorities must be set by them. Specialists, who constitute bureaucratic organizations, can program efficiently only if goals and major objectives are clearly specified. Analysis relating resources to effectiveness, or benefits, provided it can draw on good information, can aid policy makers to determine if goals are feasible; and also can provide some insight on how a limited amount of resources extracted from taxpayers might be allocated. But with regard to the higher level objectives, the policy makers cannot rely solely on operators for either information or, especially, analysis of costs and benefits. They must insist on independent tests of performance (and in many cases independent estimates of costs).

The force of this point is that government budgeting and programming (including program conception and design) is very difficult to do wisely. It is one of the reasons why many programs, especially those hastily conceived and launched to cope with social ills, have either generated shattered expectations or made the problems they were to treat more serious, or created new problems which generate the advocacy of additional programs. Specialists and bureaus being sustained by those programs, however, are the last ones to acknowledge these points, let alone conduct analysis to demonstrate them. Moreover, they are likely to avoid collecting or gathering information that could be used by outsiders in such a way as to show that programs might be failing to achieve stated objectives, or causing unpleasant by-products. Thus policy makers must not only have independent analysis, they must often have independent data sources. If nothing else, this sad fact of life suggests that the number of programs be minimized if there is to be half a chance to have a few that will go well.

In the military area, however, there is one redeeming feature. Military professionals have a long and strong cultural tradition in practicing their trade. They know how to fight, and how to handle units in combat. They also face a prospect of a possible future war, and that is an awesome one. They therefore should have a very strong incentive to get the most combat effectiveness from a given amount of resources, which is one definition of efficiency. We have not yet developed the ability to harness that incentive adequately. The right incentives for most civilian bureaus are themselves difficult to discover. And until the incentive and its associated information problem is coped with, the prospects that PPBS can provide even its limited potential assistance in coping with the problem of changing national priorities are dim.

(The following letter was subsequently supplied for the record by Chairman Proxmire:)

JUNE 30, 1970.

Prof. GARY GAPPERT,
Department of Urban Affairs, Bolton Hall,
The University of Wisconsin, Milwaukee, Wis.

DEAR PROFESSOR GAPPERT: Thank you for your recent letter indicating your interest in testifying before the Subcommittee on Economy in Government on the hearings entitled "Changing National Priorities."

Unfortunately your letter arrived too late for your inclusion as a witness at this series of hearings, since the hearings were concluded on June 18th. However, we would be pleased to accept a written statement from you and to make it a part of the record of these hearings.

Enclosed is a copy of the press release which announced the hearings and a copy of the Joint Economic Committee's current Annual Report containing a section on national priorities.

We look forward to receipt of your statement.

Sincerely,

WILLIAM PROXMIRE,
Chairman, Subcommittee on Economy in Government.

(The following statement was subsequently supplied for the record by the National Association of Housing and Redevelopment Officials:)

STATEMENT OF THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS ON "CHANGING NATIONAL PRIORITIES," JULY 7, 1970

NAHRO—1970

The National Association of Housing and Redevelopment Officials is the only national professional organization that serves the local, state, federal, and national agencies and officials involved directly in the national effort to provide decent living environments for all Americans. The NAHRO membership thus comprises the official and unofficial leadership for programs of public and private low-to-moderate income housing, urban renewal, housing code enforcement, neighborhood rehabilitation and conservation, and city redevelopment.

The Association was founded in 1933 to advance the quality of public administration practices in the housing and community development field and to serve as a clearing house for its membership.

NAHRO functions through its elected national governing body, three special divisions (Housing, Renewal, and Codes), seven regional councils, numerous local and state chapters, many regional and national committees. The organization is served by a professional staff, which is headquartered in Washington, D.C.

In 1970, its membership includes over 1,800 local public agencies representing over 2,500 local communities, and over 8,000 individual members.

In the two-year program policy resolution for 1969-71 by its membership in October 1969, NAHRO made the following statement about housing and urban development needs and national priorities:

"The crises that confronts the nation is one of will and conscience. The question is whether, as a nation, we are prepared to make the sacrifices necessary to accomplish priority needs, even if this means unpopular actions, such as wage and price controls, limitation on production (including consumer goods), or increasing taxes. These options are not necessarily the only ones open to us but they illustrate the gravity of the situation we face. The need is for national leadership in the Administration and in the Congress to establish the goals, to devise the strategies, and to propose the necessary sacrifices."

In its 1969 hearings, the Subcommittee on Economy in Government of the Joint Economic Committee documented that there *should be* a change in national priorities. The 1970 hearings of the subcommittee are directed to *how* to change them, i.e. in the words of the NAHRO Program Policy Resolution—"how to devise the strategies."

The following comments will therefore be directed to the 1970 focus of the Subcommittee on "... how resource allocations can be shifted into areas of greatest need? What are the proper roles of the executive and legislative branches in the decision-making process? Would it be feasible and fruitful for the Government to begin post-war planning now?"

Our comments will cover five general areas:

(1) Development of the *President's Report on Housing Goals* as an Instrument to Be Utilized by the Congress to Relate National Economic and Budgetary Policy to Housing.

(2) The Need for Supportive Actions in Economic, Budgetary and Taxing Policies To Advance Urban Improvement.

(3) The need for Detailed Information on the Contribution of all Housing and Community Development Activity to the National Economy, in order to more Accurately Measure Its Impact and To Pinpoint Potential Revenues that Might Be Earmarked for These Purposes.

(4) The Need to Provide an Orderly Process and a Shelf of Projects Ready to Go For the Post-Vietnam Period.

(5) The Need for an Independent Capability in The Congress, Separate from the Executive Branch, to assess the Impact and Progress of Legislative and Appropriations Actions.

1. *The President's Report on Housing Goals As An Instrument to Be Utilized by the Congress to Relate National Economic and Budgetary Policy to Housing.*—The annual report on "housing goals" established by the Housing and Urban Development Act of 1968 has several major purposes spelled out in the Act: (Section 1603 of 1968 HUD Act)

"On January 15, 1970, and on each succeeding year through 1979, the President shall submit to the Congress a report which shall—

(1) compare the results achieved during the preceding year for the completion of new or rehabilitated housing units and the reduction in occupied sub-standard housing with the objectives established for such year under the plan;

(2) if the comparison provided under clause (1) shows a failure to achieve the objectives set for such year, indicate (A) the reasons for such failure; (B) the steps being taken to achieve the objectives of the plan during each of the remaining fiscal years of the ten-year period; and (C) any necessary revision in the objectives established under the plan for each such year;

(3) project residential mortgage market needs and prospects for the coming calendar year including an estimate of the requirements with respect to the availability, need, and flow of mortgage funds (particularly in declining urban and rural areas) during such period, in order to achieve the objectives of the plan;

(4) provide an analysis of the monetary and fiscal policies of the Government for the coming calendar year required to achieve the objectives of the plan and the impact upon the domestic economy of achieving the plan's objectives for such period;

(5) make recommendations with respect to any additional legislative or administrative action which is necessary or desirable to achieve the objectives of the plan; and (6) provide such other pertinent data, estimates, and recommendations as the President deems advisable.

To date, two such reports have been submitted to the Congress—1969 and 1970. While these reports have been useful in that they documented in one place the progress and difficulty in the achievement of the 10-year housing goals, there appears to be no method for systematic review of these reports by the Congress—and perhaps more importantly, the reports do not appear to cover in any substantial way the fourth item called for in the Act (underlined above). The only references to housing goals and national priorities in the 1970 report are general (pages 23-30). There is no specific coverage tying in the housing goals effort to either the President's Economic Report or to the federal budget.

Yet there appears to be an effective device represented in the President's Report On Housing Goals for the Congress to review economic and budgetary decisions related to housing in an orderly and systematic way. NAHRO recommends that the Subcommittee consider the possibility of utilizing the Report in this way.

2. *The Need for Supportive Actions in Economic, Budgetary and Taxing Policies to Advance Urban Improvement.*—While the President's Report on Housing Goals provides a potential mechanism to relate economic and budgetary policy to housing, there is currently no effective instrument to relate such decisions to other aspects of community development and improvement. Further, one major area of federal fiscal influence—that of taxation—is not covered in relation even to housing goals. In the 1969-71 Program Resolution, the NAHRO membership gave considerable attention to the need for "a public-private effort to gain recognition in national economic, budgetary and taxing policies . . . so that these policies can serve as catalysts in the entire housing and urban improvement process."

The Association made some specific suggestions in these areas—and the full text of Subject Area 2 of the NAHRO Resolution attached to this testimony contains these suggestions. (Subject Area 2—A New Focus for Public-Private Cooperation: Economic, Budgetary and Taxing Policies to Advance Urban Improvement).

3. *The Need for Detailed Information on the Contribution of all Housing and Community Development Activity to the National Economy in Order to More Accurately Measure Its Impact and to Pinpoint Potential Revenues That*

Might Be Earmarked For These Purposes.—While there are detailed statistics assembled on the contribution of housing production to the national economy, there is generally inadequate data on the economic contributions of housing maintenance and improvement, and on other community development activity. In May, 1970, NAHRO conducted a national survey of the urban renewal program, covering all current and potential activity. This survey revealed that there is currently urban renewal activity in all 50 states, covering 1,055 local communities; the federal investment alone is over \$12 billion. The survey provided some valuable insights into the role of urban renewal in serving as a catalyst to other investment. Detailed facts on the economic impact of urban renewal activity is largely an unexplored area. If more detailed facts were available on all facets of the economic impact of housing and urban development activity, they might well reveal potential revenue sources related to this economic contribution that could be considered for possible earmarking to assure continued progress in these areas.

Exhibit II, attached to this statement, contains some of the results from the May, 1970 NAHRO survey of urban renewal.

4. *The Need to Provide An Orderly Process and A Shelf of Projects "Ready to Go" for the Post-Vietnam Period.*—In 1967, NAHRO first proposed that in order to avoid a long and costly delay in housing from a defense to a domestic economy, steps be taken not only to keep existing housing and urban development programs moving at a firm pace—but to build a shelf of projects "ready to go." In 1970, there are evidences that a transition is underway to a domestic economy, but no adequate programming has yet been undertaken to provide an orderly process to expand activity. In the housing assistance programs, a programing device is needed which will permit local communities to begin planning, assembling of housing sites, and preparation of construction plans to enable them to move quickly into production when additional funds are available. In the urban renewal program, there is need to encourage early land acquisition and other activity within areas designated for urban renewal, both by providing specific additional authorizations, and by early processing. Relocation assistance to urban renewal area residents should be authorized in the early planning stage. Grants and loans should be made available for property rehabilitation in areas designated for urban renewal and in the process of planning. All of these things and others not mentioned, could permit housing and urban development programs to move quickly and effectively into a new era of domestic accomplishment.

5. *The Need for an Independent Capability in the Congress, Separate from the Executive Branch, To Assess the Impact and Progress of Legislative and Appropriations Actions.*—If the Congress is to assume a leadership role in the determination of national priorities, then it appears necessary for it to develop its own capability to assess the impact of legislative policies and actions, independent of the Executive. In cases where congressional committees have had expert staff to do independent fact-gathering and analysis, it has often resulted in new knowledge and insight. This capacity could well be extended to the entire Congress under a coordinated staff service which could undertake such fact-gathering and evaluation in a uniform manner. Such a recommendation is under consideration as part of the proposed Congressional reorganization legislation. It has a particular applicability in enabling the Congress to take a more decisive role in setting national priorities.

EXHIBIT I

NAHRO PROGRAM POLICY—RESOLUTION 1969-1971

SUBJECT AREA 2—A NEW FOCUS FOR PUBLIC-PRIVATE COOPERATION: ECONOMIC, BUDGETARY, AND TAXING POLICIES TO ADVANCE URBAN IMPROVEMENT

The complexity and urgency of America's urban problems require an acceleration of traditional American partnership of public and private efforts designed to deliver the product efficiently and effectively. In the case of housing and urban development, incentives must be provided to permit the public sector to participate meaningfully on a competitive, economic basis. Public agencies should determine policy directions and guidelines to encourage such private participation.

NAHRO endorses recent efforts to involve private enterprise more fully in housing and urban development—creation of the National Corporation for Housing Partnerships in the Housing and Urban Development Act of 1968 and recent efforts of the Department of Housing and Urban Development to accelerate the private participation in housing technology and marketing. Both of these efforts are aimed at bringing the investment resources, management techniques, and research capacity of private enterprise to the urban field.

Beyond these efforts, and over the next two years, NAHRO sees the need for public and private interests to seek together those conditions in economic, budgetary, and taxing policy that will make feasible the achievement of the nation's housing goals, as well as the rapid acceleration of urban improvement.

NAHRO calls for a joint public-private effort to gain recognition in these national policies so that private investment and participation can be accelerated and so that these policies can serve as catalysts in the entire housing and urban improvement process.

In addition, NAHRO calls for joint studies of the real estate tax system to make it a positive agent in the same process. NAHRO cites the following areas for immediate attention:

In the field of national economic and budgetary policy:

- funding all of the low- and moderate-income assistance programs of HUD at levels necessary to meet housing goals, with a four-year advance authorization. Private enterprise cannot be expected to start developments requiring lead times of a minimum of one and a half years unless they are assured of the availability of Federal Housing Administration allocations for mortgage credit;
- allocation of funds authorized by the Congress to the Government National Mortgage Association to provide mortgage back-up for the Title II housing assistance programs of the Federal Housing Administration;
- use of authority of the Home Loan Bank Board to allocate funds to the savings and loan associations to make housing loans;
- use of newly-enacted authority of the Federal Reserve Board to support housing;
- assurance of a long-term flow of mortgage funds to meet national housing goals by (a) support of the recommendations of the National Commission on Mortgage Credit and (b) intensive study of new methods, such as "federal urban bonds," which would raise a large pool of funds from small investors, who, in exchange for the purchase of bonds, would receive the same advantages now afforded owners of real property; such study could also include similar action on "state urban bonds."

In the field of taxation:

- retention of the present practice of exempting from federal income tax the income earned on state and local bonds, including local housing and renewal bonds;
- retention of those direct and indirect benefits in the federal income tax that encourage urban investment and housing rehabilitation. Specifically, NAHRO cautions against any modification of income tax treatment of real estate, especially as applicable to housing, without providing substitutes for existing provisions and testing them to assure that they would be as effective as existing tax incentives;
- adoption of those recommendations of the President's Committee on Urban Housing (the Kaiser Committee) and the President's Commission on Urban Problems (the Douglas Commission) that would provide additional incentives in the federal income tax to encourage the development of low- and moderate-income housing and conversion of housing to tenant-ownership through cooperatives, condominiums, and tenant-controlled nonprofit organizations;
- consideration of a program of federal reimbursement to cover local real estate tax abatement on housing and community facilities in those areas that cannot finance these developments within their resources;
- finally, NAHRO calls for the development of a real estate system that encourages urban investment and property improvement. It recommends a complete review and examination of real estate tax policies, which, as demonstrated in the report of the National Commission on Urban Problems, have tended to inflate the value of land by permitting land speculation and have tended to inhibit development and property improvement in many high-cost urban areas.

EXHIBIT II

A FEW SALIENT FACTS ABOUT THE URBAN RENEWAL PROGRAM, JUNE 1970

The following facts have been developed from a combination of HUD source materials and those of the NAHRO Survey of May, 1970.

—Housing Production in Renewal Areas.

—Non-Residential Production in Renewal Areas.

—Other Salient Facts of Economic Impact Concerning the Renewal Program.

Table 1—Tabulation of Current and Proposed Renewal Programs by States.

HOUSING PRODUCTION IN RENEWAL AREAS

I. The average annual number of dwelling units completed of public housing in renewal areas since 1965 is more than 8 times as great as that in the first 15 years of the renewal program.

II. The average annual number of dwelling units completed of Section 221 (d) (3) housing in renewal areas since 1965 is more than 2½ times as great as that in the first 4 years of this program authorized in 1961.

III. The average annual number of all dwelling units completed in renewal areas since 1965 is more than 3½ times as great as that in the first 15 years of the program.

IV. Since 1965 42% of all dwelling units completed have been for low and moderate income families. We note that the percentage of low and moderate income units is increasing. For example, in 1965 only 34% of the units completed were for low and moderate income families whereas in 1969 the amount had increased to 52%. Further, when all redevelopment in programs approved through June 30, 1969, is completed, it will have generated nearly 1.3 million housing units (66% low and moderate income).

V. The average annual number of dwelling units completed by rehabilitation in the four years of 1964-68 is more than three times as great as those completed in the first 10 years of the program (1954-1964).

VI. To illustrate the magnitude of this increased housing production, since 1965 the renewal program has produced a total of 122,312 new and rehabilitated dwelling units as compared to a total of 105,253 during all of the first 15 years up to 1965.

VII. The production noted above (227,565 du's) represents only a portion of the redevelopment potential of all urban renewal projects now in execution, i.e. only 43% of the du's to be rehabilitated have been actually completed and only 27% of the land to be redeveloped has been actually completed. When all urban renewal projects now in planning and execution are completed, some 1.3 million dwelling units will have been built or rehabilitated. It is estimated that two-thirds of these units will be for low and moderate income families. This production of 1.3 million dwelling units represents a net increase of 573,000 units over 725,000 old housing units to be demolished in slum and blighted areas.

NON-RESIDENTIAL PRODUCTION IN RENEWAL AREAS

On the commercial redevelopment side of renewal there has been a spectacular increase in production comparable to increases in housing production. For example, the average annual amount of commercial floor area completed since 1965 is seven times greater than the rate of completion during the first 15 years of the program. The floor space completed during the last 4 years has averaged more than 25 million square feet. This represents in the construction of office space, the equivalent of 7 buildings the size of the Pentagon *each and every year!*

OTHER SALIENT FACTS OF ECONOMIC IMPACT CONCERNING THE RENEWAL PROGRAM

I. Of the total amount of land to be acquired for redevelopment in renewal areas currently in execution, 47% has been committed to specific redevelopers. Actual and estimated redevelopment on this *committed land alone* is:

—As of June 1969, \$8.976 billion of redevelopment had been completed. Using a standard formula for translating total construction cost into labor, we estimate that this redevelopment has generated more than 527,000 man years of construction jobs alone.

- The estimated value upon completion of redevelopment of this committed land will be \$12.483 billion. Although less than half (47%) of the land to be acquired, this \$12.483 billion of redevelopment is almost twice the pre-renewal value of *all* land to be acquired (committed and uncommitted).
- The estimated annual tax return upon completion of redevelopment of this committed land will be \$230 million. Although less than half (47%) of the land to be acquired, this \$230 million of annual tax return is almost twice as much as the pre-renewal taxes from *all* land to be acquired (committed and uncommitted).

II. During the period that produced the redevelopment totals noted above, the actual disbursement of federal renewal grants was \$2.720 billion, thus, the \$8.976 billion already generated by redevelopment completed is more than 3 times this actual grant outlay and the project's \$12.483 billion upon completion of redevelopment of this 47% of land will be more than four and one-half times this \$2.720 billion grant outlay.

We note that this total grant outlay over a 20 year period, approximates one month's outlay for the Viet Nam war and is well under 5% of the appropriations for this *one* year alone of the Defense Department.

III. Each \$1 of federal grant funds generates \$5.30 of local private and public investment.

TABLE 1.—*Tabulation of current and proposed renewal programs by States*

State and cities ¹	Number of localities			Number of pending applications	Amount		
	Current	New	Total		Committed	Pending and proposed	Total
Alabama <i>Ashland, Albertville, Alexander City, Auburn, Bay Minette, Bessemer, Birmingham, Boaz, Childersburg, Cullman, Decatur, Demopolis, Dothan, Elba, Enterprise, Eufaula, Fairfield, Florence, Foley, Gadsden, Guin, Gunterville, Haleyville, Hamilton, Hartselle, Huntsville, Jasper, Linden, Livingston, Luverne, Mobile, Montgomery, Opelika, Ozark, Opp, Phenix City, Piedmont, Prichard, Selma, Sheffield, Sylacauga, Troy, Tuscaloosa, Tuscumbia, Daleville, Hobson City, Northport, Scottsboro, Talladega.</i>	41	8	49	47	\$178,129,939	\$53,581,707	\$231,714,646
Alaska <i>Anchorage, Cordova, Fairbanks, Homer, Juneau, Ketchikan, Kodiak, Seldovia, Seward, Sitka, Valdez, Nome, North Pole, Wrangell.</i>	9	4	13	4	44,366,140	48,460,382	92,835,531
Arizona <i>Floy, Scottsdale, Tucson, Lompoc.</i>	2	2	4	7	9,096,825	24,799,196	33,896,031
Arkansas <i>Batesville, Blytheville, Camden, Clarksville, Crossett, El Dorado, Fayetteville, Forrest City, Harrison, Heber Springs, Hope, Hot Springs, Junction City, Little Rock, Magnolia, Marianna, McHeehee, Monette, Morrilton, Newport, North Little Rock, Osceola, Pine Bluff, Russellville, Searcy, Springdale, Texarkana, Truman, West Memphis, Helena, Paragould, Van Buren.</i>	21	5	26	38	95,361,633	66,655,021	162,016,654
California <i>Bakersfield, Berkeley, Calexico, Campbell, Coachella, Colton, Compton, Corona, Crescent City, Dunsmuir, East Palo Alto, El Cerrito, Fontana, Fresno, Hawaiian Gardens, Hayward, Imperial Beach, Indio, Inglewood, Kentfield Corners, LaVerne, Lompoc, Long Beach, Los Angeles, Los Angeles County, Marin County, Merced, Pasadena, Pittsburg, Port Hueneeme, Redding, Redondo Beach, Richmond, Rio Vista, Riverbank, Sacramento, Salinas, San Bernardino, San Buenaventura, San Diego, San Francisco, San Jose, San Mateo, San Pablo, Santa Barbara, Santa Clara, Santa Cruz, Santa Fe Springs, Santa Maria, Santa Monica, Santa Rosa, Seaside, South Pasadena, Stockton, Sunnyvale, Torrance, Tracy, Tulare, Vallejo, Visalia, Willows, Yuba, Marin City.</i>	51	9	60	64	547,083,847	342,427,124	889,503,971
Colorado <i>Aurora, Colorado Springs, Denver, Fort Lupton, Greeley, La Junta, Littleton, Longmont, Pueblo, Trinidad, Wellington, Walsenburg.</i>	5	3	8	14	62,019,623	25,911,336	87,930,959
Connecticut <i>Ansonia, Berlin, Bloomfield, Bridgeport, Bristol, Danielson, Danbury, Derby, East Granby, East Haddam, East Hartford, East Haven, Farmington, Glastonbury, Hartford, Killingly, Manchester, Meriden, Middletown, Milford, New Britain, New Haven, New London, Norwalk, Norwich, Portland, Putnam, Seymour, Stamford, Storrs, Stratford, Suffield, Torrington, Vernon, Washington, Waterbury, West Hartford, West Haven, Willimantic, Windsor Locks, Enfield.</i>	38	2	40	40	436,566,252	232,612,143	669,178,395

Delaware	1	0	1	8	23,679,863	11,969,873	35,649,736
<i>Wilmington.</i>							
District of Columbia ²	1	0	1	1	152,995,930	9,055,916	162,061,846
Florida	12	4	16	12	191,386,113	23,386,981	124,773,094
<i>Bradenton, Dade County, Daytona Beach, Fort Lauderdale, Fort Pierce, Fort Walton Beach, Jacksonville, Key West, Miami, Orlando, Palatka, Plant City; St. Petersburg, Sarasota, Tampa, Titusville, Sanford, Tallahassee.</i>							
Georgia	44	8	52	79	150,450,258	81,014,060	231,464,318
<i>Alma, Americus, Athens, Atlanta, Augusta Bainbridge, Baxley, Brunswick, Camilla, Carrollton, Cartersville, Chatham County, College Park, Columbus, Conyers, Cordele, Dalton, Decatur, Dekalb County, Douglas, Dublin, East Point, Elberton, Fitzgerald, Gainesville, Laconia, Lawrenceville, Lithonia, Aacon, Marietta, Metter, Monroe, Montezuma, Moultrie, Nashville, Newnan, Rome, Savannah, Tallapoosa, Thomaston, Thomasville, Toccoa, Valdosta, Warner-Robins, Waycross, Waynesboro, West Point, Winder, Cedartown, Eastman, Hinesville, Washington.</i>							
Hawaii	3	0	3	8	51,321,450	21,794,933	73,116,443
<i>Hilo, Honolulu, Honolulu County.</i>							
Idaho	3	0	3	4	18,742,709	5,555,000	24,297,709
<i>Twin Falls, Boise, Idaho Falls.</i>							
Illinois	27	2	29	24	274,439,104	81,054,301	355,493,405
<i>Aurora, Bloomington, Cairo, Carbondale, Champaign, Chester, Chicago, Chicago Heights, Danville, Decatur, DeKalb, East Chicago Heights, East St. Louis, Elgin, Galena, Galesburg, Jacksonville, Joliet, Kewanee, Maywood, North Chicago, Peoria, Robbins, Rock Falls, Rockford, Rock Island, Springfield, Urbana, Waukegan, West Frankfort, Harri, Mount Vernon.</i>							
Indiana	21	1	22	23	122,615,170	32,541,971	155,157,141
<i>Anderson, Batesville, Bloomington, Brazil, Charlestown, Columbus, Connersville, East Chicago, Elkhart, Evansville, Fort Wayne, Gary, Hammond, Indianapolis, Jeffersonville, Kingsford Heights, La Porte, Michigan City, Mishawaka, Richmond, South Bend, Terre Haute.</i>							
Iowa	14	0	14	19	83,184,454	45,327,846	128,512,300
<i>Carroll, Cedar Rapids, Charles City, Council Bluffs, Des Moines, Dubuque, Evansdale, Fort Dodge, Iowa City, Keokuk, Muscatine, Ottumwa, Sioux City, Waterloo.</i>							
Kansas	13	1	14	30	111,105,236	50,333,033	161,443,274
<i>Atchison, Bonner Springs, Coffeyville, Colby, Dodge City, Fort Scott, Galena, Garden City, Kansas City, Lawrence, Leavenworth, Lyons, Manhattan, Merriam, Olathe, Parsons, St. Paul, Salina, Wichita, Neodesha, Topeka.</i>							
Kentucky	25	4	29	31	119,317,048	58,009,721	177,326,769
<i>Ashland, Bardstown, Bowling Green, Corbin, Covington, Danville, Frankfort, Fulton, Glasgow, Hazard, Hopkinsville, Jefferson County, Lebanon, Lexington, Louisville, Martin, Maysville, Middlesboro, Newport, Paducah, Paintsville, Paris, Pikeville, Pineville, Prestonburg, Whitesburg, Williamsburg, Campbellsville, Harrodsburg, Hodgenville, Richmond.</i>							

See footnotes at end of table, p. 741.

TABLE 1.—*Tabulation of current and proposed renewal programs by States—Continued*

State and cities ¹	Number of localities			Number of pending applications	Amount		
	Current	New	Total		Committed	Pending and proposed	Total
Louisiana <i>Baton Rouge, Lake Charles, Monroe, New Orleans, Shreveport.</i>	5	0	5	12	\$12,826,222	\$47,633,237	\$60,459,459
Maine <i>Auburn, Bangor, Cape Elizabeth, Caribou, Fort Fairfield, Lewiston, Orono, Portland, Presque Isle, Sanford, Waterville, Westbrook.</i>	12	1	13	20	47,538,939	15,635,826	63,174,765
Maryland <i>Annapolis, Baltimore, Cambridge, College Park, Crisfield, Cumberland, Elkton, Essex, Glenarden, Montgomery County, Prince Georges County, Rockville, Salisbury, Colman Manner.</i>	12	1	13	21	182,235,010	81,013,973	263,248,983
Massachusetts <i>Adams, Beverly, Boston, Brockton, Brookline, Cambridge, Chelsea, Chicopee, Dedham, Fall River, Fitchburg, Framingham, Gloucester, Hanover Hill, Holyoke, Hull, Lawrence, Lowell, Lynn, Malden, Marlborough, Medford, New Bedford, Newburyport, Newton, North Adams, Peabody, Pittsfield, Plymouth, Quincy, Revere, Salem, Somerville, Springfield, Stoneham, Taunton, Waltham, Watertown, Woburn, Worcester.</i>	37	1	38	41	492,750,339	182,347,134	675,097,473
Michigan <i>Albion, Algonac, Alma, Ann Arbor, Battle Creek, Bay City, Belding, Belleville, Benton Harbor, Big Rapids, Buchanan, Center Line, Clawson, Clinton Township, Coldwater, Dearborn, Dearborn Heights, Detroit, Fenton, Ferndale, Flint, Garden City, Grand Rapids, Hamtramck, Hazel Park, Highland Park, Inkster, Jackson, Kalamazoo, Lansing, Lapeer, Lincoln Park, Madison Heights, Manistique, Marin City, Marquette, Mount Clemens, Muskegon, Muskegon Heights, Niles, Plymouth, Pontiac, Port Huron, River Rouge, Riverview, Rochester, Rockwood, Rogers City, Romulus Township, Royal Oak Township, Saginaw, St. Clair, St. Clair Shores, St. Joseph, Sault Ste. Marie, Warren, Wayne, Wixom, Wyandotte, Wyoming, Ypsilanti, Lunapier, Holland.</i>	58	4	62	60	349,967,054	187,067,941	537,034,995
Minnesota <i>Albert Lea, Chisholm, Crookston, Duluth, East Grand Forks, Hibbing, Hopkins, LaSueur, Mankato, Minneapolis, Montevideo, Moorhead, Pipestone, St. Cloud, St. Paul, South St. Paul, Willmar, Winona.</i>	18	0	18	18	182,828,219	89,944,991	272,773,210
Mississippi <i>Aberdeen, Amory, Bay St. Louis, Biloxi, Cleveland, Corinth, Greenville, Gulfport, Holly Springs, Jackson, Kosciusko, Laurel, Long Beach, Louisville, McComb, Meridian, Osford, Pascagoula, Pass Christian, Picayune, Pontotoc, Senatobia, Starkville, Tupelo, Vicksburg, Waveland, West Point, Yazoo City.</i>	20	7	27	30	56,516,889	32,675,274	89,192,163
Missouri <i>Columbia, Diamond, Independence, Jefferson City, Joplin, Kansas City, Kimloch, Lees Summit, Mexico, Moberly, Noel, Oliveette, Richland, Rolla, St. Charles, St. Joseph, St. Louis, Smithville, Springfield, University City, Webster Groves, St. Louis County.</i>	17	4	21	19	173,085,084	58,600,845	231,685,929

Montana	2	1	3	2	7,500,499	1,785,427	9,285,926
<i>Anaconda, Butte, Havre, Helena.</i>							
Nebraska	1	0	1	1	1,865,569	204,666	2,070,235
<i>Omaha.</i>							
Nevada	3	0	3	4	8,625,127	7,007,409	15,632,626
<i>Las Vegas, North Las Vegas, Reno.</i>							
New Hampshire	11	0	11	15	37,989,845	12,333,600	50,323,445
<i>Berlin, Claremont, Concord, Dover, Laconia, Lebanon, Manchester, Nashua, Portsmouth, Rochester, Somersworth, Lacousa.</i>							
New Jersey	62	4	66	77	471,726,357	191,011,703	662,738,120
<i>Asbury Park, Atlantic City, Barnegat Light, Bayonne, Belmar, Belvidere, Bloomfield, Boonton, Bordentown, Bridgeton, Burlington, Camden, Cape May, Carteret, Clementon, Clifton, Clinton, Dover, Dover Township, Dumont, East Brunswick Township, East Orange, Edison Township, Elizabeth, Englewood, Flemington, Glassboro, Gloucester City, Hackensack, Highlands, Hightstown, Hoboken, Irvington, Jersey City, Keansburg, Lakewood Township, Lodi, Long Branch, Maple Shade, Millville, Montclair, Morristown, Mt. Holly Township, Neptune Township, Newark, New Brunswick, Newton, Oceanport Borough, Orange, Passaic, Paterson, Perth Amboy, Phillipsburg, Plainfield, Pleasantville, Rahway, Salem, Scotch Plains Township, Sea Isle City, Somerville, South Plainfield, South River, Trenton, Union City, Vineland, Wayne Township, West New York, West Orange, Wildwood, Woodbridge Township.</i>							
New Mexico	5	5	10	11	48,391,346	30,426,573	78,817,919
<i>Alamogordo, Albuquerque, Artesia, Carlsbad, Clovis, Gallup, Las Cruces, Roswell, Santa Fe, Tucumcari.</i>							
New York	82	0	82	75	1,080,187,772	356,497,958	1,436,685,730
<i>Albany, Amsterdam, Auburn, Batavia, Beacon, Binghamton, Buffalo, Catskill, Corning, Dunkirk, East Rochester, Ellenville, Elmira, Elmira Heights, Fairport, Freeport, Fulton, Geneva, Glen Cove, Glens Falls, Gouverneur, Greenburgh, Hempstead, Hempstead Village, Hornell, Hudson, Huntington, Iliou, Islip Township, Ithaca, Jamestown, Kingston, Lackawanna, Lancaster, Lewisboro, Little Falls, Lockport, Long Beach, Mamaroneck, Mechanicville, Middletown, Monticello, Mount Kisco, Mount Vernon, Newark, Newburgh, New Rochelle, New York City, Niagara Falls, North Hempstead, North Tarrytown, Norwich, Nyack, Ogdensburg, Olean, Oneonta, Oswego, Palmyra, Peekskill, Penn Yan, Plattsburgh, Port Chester, Port Jarvis, Potsdam, Poughkeepsie, Rensselaer, Rochester, Rockville Centre, Rome, Salamanca, Saratoga Springs, Schenectady, Syracuse, Tarrytown, Tonawanda, Troy, Tuckahoe, Utica, Watertown, Watervliet, White Plains, Woodridge, Yonkers, Yorktown, Ossining, Woonsocket.</i>							
North Carolina	31	10	41	63	208,249,953	112,333,424	320,583,377
<i>Asheville, Beaufort, Burlington, Chapel Hill, Charlotte, Clinton, Durham, Elizabeth City, Farmville, Fayetteville, Gastonia, Goldsboro, Greensboro, Greenville, Hendersonville, Hickory, High Point, Kings Mountain, Laurinburg, Lenoir, Lumberton, Monroe, Morganton, Mount Airy, New Bern, North Wilkesboro, Plymouth, Raleigh, Rockingham, Roxboro, Salisbury, Sanford, Selma, Shelby, Smithfield, Statesville, Tarboro, Washington, Williamston, Wilmington, Wilson, Winston-Salem.</i>							

See footnotes at end of table, p. 741.

TABLE 1.—*Tabulation of current and proposed renewal programs by States—Continued*

State and cities ¹	Number of localities			Number of pending applications	Amount		
	Current	New	Total		Committed	Pending and proposed	Total
North Dakota <i>Bismarck, Fargo, Grand Forks, Hillsboro, Minot, Ray, West Fargo.</i>	5	1	6	4	\$9,573,290	\$11,248,051	\$20,821,341
Ohio <i>Akron, Amherst, Ashtula, Athens, Barberton, Campbell, Canton, Chillicothe, Cincinnati, Cleveland, Columbus, Crestline, Cuyahoga Falls, Dayton, Dover, East Cleveland, Elyria, Hamilton, Hamilton County, Huron, Ironton, Lincoln Heights, Lockland, Lorain, Lucas County, Mahoning County, Mansfield, Martins Ferry, Middletown, New Boston, Niles, Norwood, Painesville, Portsmouth, St. Bernard, Springfield, Steubenville, Toledo, Van Wert, Warren, Wooster, Youngstown, Zanesville, Berea, Sandusky.</i>	42	3	45	56	443,346,378	263,907,443	707,253,821
Oklahoma <i>Edmond, Elk City, Grandfield, Hugo, Lawton, McAlester, Miami, Muskogee, Norman, Oklahoma City, Sand Springs, Stillwater, Tahlequah, Tulsa, Wilburton, Yale.</i>	10	7	17	19	118,007,503	72,305,341	190,312,844
Oregon <i>Cascade Locks, Coos Bay, Corvallis, Eugene, Portland, Reedsport, Salem, Springfield.</i>	8	0	8	2	50,638,344	8,371,251	59,009,595
Pennsylvania <i>Alliquippa, Allentown, Altoona, Ambridge, Apollo, Archbald, Beaver Falls, Bethelchem, Blairsville, Blossburg, Boyertown, Brackenridge, Braddock, Bradford, Bridgewater, Bristol Borough, Bristol Township, Brownsville, Butler, Butler Township, California, Canonsburg, Carbondale, Carnegie, Chambersburg, Charleoi, Cheltenham Township, Chester, Clairton, Clairon, Coaldale, Chester Township, Coatesville, Collier Township, Conshohocken, Corry, Danville, Darby Township, Dickson City, Donora, Downingtown, Dunmore, Duquesne, Easton, East Pittsburgh, East Stroudsburg, Eddystone, Erie, Farrell, Franklin, Grove City, Hanover Township, Harrisburg, Hazelton, Homestead, Hughesville, Indiana, Jersey, Johnstown, Kingston, Kittanning, Lancaster, Lansdale, Latrobe, Laurel Run, Lebanon, Lewistown, Lock Haven, Luzerne Borough, Mansfield, Masontown, McKeesport, McKees Rocks, Meadville, Media, Middletown Township, Milton, Monessen, Monongahela, Moosic, Nanticoke, New Brighton, New Castle, New Kensington, Norristown, North Union Township, Oil City, Olyphant, Perkasié, Philadelphia, Pittsburgh, Pittston, Plymouth, Pottstown, Pottsville, Punxsutawney, Quakertown, Rankin, Reading, Rochester, Royersford, Schuylkill Haven, Scottsdale, Scranton, Shamokin, Sharon, Sharpville, Steelton, Sunbury, Swatara Township, Tarentum, Taylor, Titusville, Towanda, Turtle Creek, Uniontown, Vandergrift, Warren, Washington, West Middlesex, Wilkes Barre, Wilkinsburg, Williamsport, Witmerding, Windber, York, Morganton.</i>	15	11	26	130	908,394,156	376,469,007	1,284,863,163

Rhode Island	7	1	8	5	88,268,319	31,962,898	120,231,217
<i>Bristol, East Providence, Narragansett, Newport, Pawtucket, Providence, Warwick, Woonsocket.</i>							
South Carolina	5	1	6	13	24,217,597	4,270,296	28,487,893
<i>Charleston, Columbia, Fort Mill, Rock Hill, Spartanburg, Sumter.</i>							
South Dakota	1	0	1	1	7,634,000	1,400,110	9,034,110
<i>Fort Pierre, Mitchell, Sioux Falls.</i>							
Tennessee	41	11	52	47	251,829,590	97,526,260	349,355,850
<i>Athens, Bristol, Chattanooga, Clarksville, Cleveland, Clinton, Cookeville, Dayton, Dickson, Dyersburg, Elizabethton, Fayetteville, Franklin, Galatin, Greenville, Harriman, Huntsville, Jackson, Jefferson City, Johnson City, Kingsport, Knoxville, La Follette, Lawrenceburg, Lebanon, Lewisburg, Livingston, Manchester, Maryville, McMinnville, Memphis, Morristown, Murfreesboro, Nashville, Newbern, Newport, Paris, Portland, Pulaski, Ridgely, Rogersville, Shelbyville, Smithville, South Pittsburg, Sparta, Springfield, Sweetwater, Tazewell, Tullahoma, Union City, Waverly, Winchester.</i>							
Texas	31	0	31	46	181,069,974	62,670,591	243,740,565
<i>Alice, Arkansas Pass, Austin, Brenham, Cameron, Corpus Christi, Crockett, Crystal City, Dallas, Edinburg, El Paso, Fort Worth, Georgetown, Grand Prairie, Hearne, Los Fresnos, Lubbock, Marshall, Mercedes, Mission, Port Arthur, Port Isabel, San Antonio, San Marcos, Savoy, Schertz, Sinton, Stanton, Sundown, Tezakana, Waco, Whitesboro, White Settlement, Wink, Galveston, Holtom City, Mineral Wells.</i>							
Utah	2	0	2	0	625,117	0	625,117
<i>Ogden, Salt Lake City.</i>							
Vermont	2	1	3	2	3,638,061	2,248,282	5,886,343
<i>Burlington, Hartford, Montpelier, Winooski.</i>							
Virginia	17	1	18	23	175,699,870	60,882,111	236,581,981
<i>Alexandria, Bristol, Charlottesville, Chesapeake, Danville, Franklin, Hanpton, Harrisonburg, Hopewell, Lynchburg, Newport News, Norfolk, Petersburg, Portsmouth, Richmond, Roanoke, Staunton, Waynesboro.</i>							
Washington	8	0	8	14	36,706,203	25,692,492	62,398,695
<i>Anacortes, Ellensburg, Hoquiam, Longview, Pasco, Seattle, Spokane, Tacoma, Vancouver, King County.</i>							
West Virginia	11	0	11	11	38,745,743	7,341,023	46,086,766
<i>Benwood, Bluefield, Charleston, Dunbar, Grafton, Huntington, Parkersburg, Spencer, Weirton, Wheeling, Williamson.</i>							
Wisconsin	6	4	10	19	73,432,911	64,259,793	137,692,704
<i>Brillon, Green Bay, La Crosse, Madison, Manitowoc, Milwaukee, Monroe, Sheboygan, Stevens Point, Wausau, Wisconsin Rapids, Beloit, Fond Du Lac.</i>							
Wyoming	2	0	2	2	2,067,303	1,200,000	3,267,303
<i>Casper, Cheyenne.</i>							
Grand total					8,358,040,196	3,680,822,791	12,038,862,987

¹ Cities in italic have applications pending for urban renewal funds.

² District of Columbia also has application pending.

Sources: NAHPO Survey of May 1970 and Department of Housing and Urban Developments.