524

THE PRESIDENT'S NEW ECONOMIC PROGRAM

HEARINGS

BEFORE THE

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NINETY-SECOND CONGRESS

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THE PRESIDENT'S NEW ECONOMIC PROGRAM

THURSDAY, SEPTEMBER 9, 1971

Congress of the United States,
Joint Economic Committee,
Washington, D.C.

The committee met, pursuant to recess, at 10:05 a.m., in room G-308, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senator Proxmire.

Also present: John R. Stark, executive director: Loughlin F. McHugh, senior economist; John R. Karlik, Richard F. Kaufman, and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., minority counsel; and Leslie J. Bander, economist for the minority.

Opening Statement of Chairman Proxmire

Chairman Proxmire. The committee will come to order.

I will ask the three witnesses, Mr. Ferguson, Mr. Tobin, and Mr. Saltzman to come to the front.

Mr. Tobin, if you would sit right here, and Mr. Saltzman in the middle and Mr. Ferguson on the end, we will proceed.

Today the Joint Economic Committee is resuming its hearings on the President's new economic program. The hearings we have held already have, I believe, served a very valuable function by providing Congress and the public with the commentary of economic experts on the important new initiatives taken by the administration. I want to mention that the testimony during our first 7 days of hearings has now been summarized by the committee staff. That summary, together with the prepared text of all the testimony we have so far received, has been placed in the Congressional Record. It is thus available in printed form for those who wish to study it.

This morning we are fortunate to have three witnesses extremely well qualified to comment on the economic situation and on the administration's policies.

Our first witness is Mr. James Tobin, professor of economics at Yale University. Mr. Tobin was a member of the Council of Economic Advisers in 1961 and 1962, the years when guideposts were first formulated. He is the author of a wonderful book entitled "National Economic Policy," and of many other well-known pieces on subjects ranging from monetary policy to welfare reform.

Mr. Tobin, we are delighted that you could come this morning. Would you go right ahead and then we will proceed with the other witnesses.

STATEMENT OF JAMES TOBIN, STERLING PROFESSOR OF ECONOMICS, YALE UNIVERSITY

Mr. TOBIN. Thank you, Senator.

I have had a hard time catching up with what's been going on, having spent most of the summer in your beautiful State.

Chairman PROXMIRE. That certainly speaks well for your judgment. [Laughter.]

Mr. TOBIN. On some points, anyway.

I would like to divide my remarks into three parts, the first having to do with the dollar and the international monetary system; the second having to do with the domestic economy, fiscal and monetary policy; and the third having to do with the domestic economy, wages and prices.

So, first on the dollar and international monetary system.

The main point I would like to emphasize——

Chairman PROXMIRE. I might say, Mr. Tobin, if you skip over any part of your statement the entire statement will be printed in full in the record.

Mr. TOBIN. It is not very long. Fine.

The main point I would like to emphasize on the international front is that the Governments of the United States and the other major monetary powers should take their time in constructing new international monetary arrangements. There is no hurry. The present floating exchange rate system is perfectly viable.

In cutting the link between the dollar and gold, the President did a great service to the United States and to the world. In one stroke he ended the semiparalysis that has crippled negotiations for international monetary reform for a decade. His action spelled the end of the system painstakingly negotiated at Bretton Woods a quarter century ago, a system that served the world well in many respects but was unequal to the closely knit international economy the system itself facilitated. Establishing a new system is a task comparable to that of Bretton Woods. It is not something anyone should expect to accomplish in a few weeks or months.

The United States should resist pressures to restore convertibility between the dollar and gold or to raise the dollar price of gold. Gold metal need have no role in the world monetary system and should have none. Much of the evolution of money through the centuries has been its progressive liberation from its traditional dependence on precious metals, a wasteful and often pernicious constraint on the ability of men to manage their own affairs. In recent years one major step to dethrone gold was the international agreement in 1968 to separate official and private gold stocks. The President's action last month, unless it is reversed, is even more important. Any role that gold might play in future international settlements can be performed by paper gold at the International Monetary Fund. Existing national reserves of metallic gold should be converted into paper gold at the Fund.

A rise in the dollar price of gold would reward those countries that converted dollars into gold in the past, relative to those countries that refrained from doing so in the interest of cooperating with the United States and preserving international monetary stability. To the extent that any links remain to transmit the official price to the private market, private gold speculators who have contributed to the instability in the past would also be rewarded.

Raising the dollar price of gold would, it is true, increase the currency equivalent of existing monetary gold reserves. This can be done more rationally and equitably by augmenting the supply of IMF paper gold.

Exchange rates should float for a long time, perhaps indefinitely.

The payments imbalances that plagued the international monetary system for the past dozen years were bound up with the system of fixed rates. A country other than the United States had a balance-of-payments surplus or deficit to the extent that its central bank gained or lost international reserves in transactions in the foreign exchange market designed to maintain the fixed parity of its currency with the dollar. The United States had balance-of-payments deficits to the extent that other countries bought dollars in order to keep their currencies from appreciating in terms of the dollar. These deficits were of concern to the United States because the dollars were convertible into gold at a fixed parity and because foreign held dollars were steadily increasing, while our gold stock was decreasing.

Floating rates are a substitute for movements of international reserves. In a pure floating rate system, with no government buying and selling in foreign exchange and gold markets, there can be no balance-of-payments surpluses and deficits and there can be no balance-of-payments crises.

For the United States, the suspension of dollar-gold convertibility also suspends balance-of-payments difficulties, whether foreign countries let their currencies rise in dollar value or not. If they choose not to, they must buy dollars. But so long as their dollars are inconvertible, we need not worry if foreign central banks choose to accumulate them.

We should be in no hurry to restore fixed exchange rates. We do not want to invite a return to the crises and difficulties of the last 12 years. The United States should not reestablish a system under which the United States can run deficits but has no way to alter dollar exchange rates in order to correct them. We should not have a system we have to destroy, as President Nixon did last month, in order to gain the initiative that other countries normally have to set the exchange value of their own currencies. For their part other countries presumably will not want to reestablish a system in which dollars have what they deem a privileged status. With fixed exchange rates, their only alternative to accumulating dollars indefinitely was to ask for gold, thus in recent years threatening the whole system.

The exchange rates which the market produces in the next few months should not be regarded as equilibrium rates which can safely be frozen in a new fixed-rate system.

There are several reasons for this: (*a*) The interventions of governments in the markets and the special regulations in force by a number of governments, to keep their currencies from appreciating too much or too fast; (*b*) erratic actions of private traders and speculators while they gain familiarity with the new system; (*c*) the recession levels of U.S. import demands, which would be higher at full employment; and (*d*) prevalence of interferences with trade and capital movements that are or should be temporary.

Let me elaborate the last point. Under the President's program the 10-percent import surcharge and the exclusion of foreign equipment from the proposed tax credit are both explicitly temporary. Meanwhile, both brake the decline in the market exchange value of the dollar.

But that is by no means all. The main victim of this country's quixotic 10-year defense of the dollar was our historic commitment to freedom of transactions across international borders. That was what the fixed-rate international monetary system was supposed to promote, but it was also what gave whenever we had balance-of-payments deficits and crises. The legacies include "Buy American" discriminations in Government procurement, tying of foreign aid to purchases in the United States, the interest equalization tax, quotas for foreign investment by U.S. businesses, controls on bank lending overseas. These are on top of a series of preferences and quotas adopted more for protectionist than balance-of-payments reasons.

Of course other countries have their protectionist devices, too. The whole bundle ought to be reconsidered and a large part of it mutually negotiated away before any new international monetary system is established, certainly before fixed rates are restored at parities which still reflect these distortions. This dismantling can proceed in stages. The first things to go should include our import surcharge and other countries' two-currency systems. I will elaborate on that.

It is unfortunate that the rhetoric of the administration's new program has confounded international monetary reform and American protectionism. Realinement of exchange rates had become essential. One of its results can be expected to be what we call improvement in the U.S. balance of trade. But this should not be regarded as the purpose of the program, and we should not regard exchange rates as one among a number of weapons of trade war or give the impression that we do.

Perhaps the import surcharge can be a bargaining tool for negotiating a general worldwide reduction of barriers to trade and commerce, but there is also the danger that it will work the other way by inviting retaliation. That is why I suggest dropping it at an early date, perhaps in return for agreement by the French, Belgians, and others who are imposing the equivalent of a surcharge by making their currencies cheaper for trade than for other purposes.

Even in the long run some kind of floating rate system is probably optimal. The Common Market countries may well wish to have fixed rates among themselves; there may be countries that wish to peg their currencies to the dollar, and maybe still others that wish to peg to the yen. Maybe, so far as we know, there may still be countries who want to peg to sterling. But experience suggests that we are not close enough to Europe and Japan in economic structure and domestic economic policy to maintain fixed rates of exchange with them for extended periods without having severe imbalances of payments and large movements of reserves. Although exchange rates cannot ultimately be left entirely to the private market, any future system must contain provision for gradual floating of rates among major currencies or currency blocs.

I turn to the domestic economy, fiscal and monetary policy.

What was the main domestic economic problem before August 15? In my opinion it was the same as it is now—stagnation. The economy has not been recovering from the recession of 1970. Resources were and are idle, with unemployment about 6 percent and capacity utilization rates only 73 percent. The economy was and is losing $70 billion of output per year.

Now at long last we are getting some expansionary fiscal policy; some of its effects are already occurring in anticipation of congressional action, as in the case of auto sales. The economy is also receiving some demand stimulus as a result of the measures that have made U.S. goods more competitive at home and abroad. The more stimulus that occurs during the wage-price freeze the better, because in that period increased spending will be channeled almost wholly into greater output and employment.

It will be a shame, however, if current and prospective fiscal stimulus is offset by a tightening of monetary policy. The temptation for the Federal Reserve to do so is great, because the myth that the Fed was excessively and dangerously expansionary earlier this year has been repeated so often and so loudly that it has come to be accepted. In my opinion, Fed policies were appropriately expansionary until March, when interest rates were prematurely allowed to rise again. Now the Fed should engineer a reduction in interest rates to aid the expansion, the more so as the freeze and whatever succeeds it cause inflationary expectations to abate.

I feel strongly that no Federal tax revenue should be given away permanently. Long-term economic and budget projections, both in the economic reports of this administration and in independent studies by Charles Schultze of the Brookings Institution, have shown how little room there will be in the Federal budget in the 1970's for needed Federal programs supported by both political parties. The tax reforms of 1969 gave away Federal revenues that will be needed later. This should not be done again.

Fiscal stimulus is certainly needed now. But it need not result in permanent revenue loss. It can take the form of additional expenditure or of temporary tax reduction or both.

I suggest that the Congress suspend the auto excise tax only for 1 year instead of repealing it. This will actually increase its stimulus to automobile purchases during the year. People will anticipate it will be cheaper to buy cars this year than to wait until the tax goes back on.

I suggest on similar grounds that the investment tax credit be restored only for 1 year. The temporary nature of the restoration will increase the stimulus per dollar. The administration proposed a 5-percent temporary credit and a 5-percent permanent credit. I would suggest, for example, a 7-percent temporary credit.

Advancing the effective date of higher personal exemptions amounts to a temporary reduction. It cannot be expected to yield as much bang for a buck as the other two temporary reductions I just discussed, because it contains no incentive for spending now rather than later; the taxpayer's gain is the same either way.

The administration's depreciation liberalizations are weak in spending incentive in the current environment of unused capacity. In the main their effectiveness simply depends on the hope that business firms will invest more when they pay less taxes. But their current tax savings depend very little on how much they invest. The interest subsidy involved in accelerated depreciation is substantial these days. Although it provides some incentive to greater investment, in the main it is a windfall to businesses for doing what they would do anyway. Business should not get both the depreciation reform and the tax credit. As between them, in my opinion, it is the liberalized depreciation that should be abandoned.

Furthermore, a major amendment is needed in the tax credit. It is particularly important if any part of the credit is to be permanent, and it is even more important if a permanent credit is combined with faster depreciation. The amendment I suggest is to allow the credit only for net rather than gross investment, that is, only for eligible expenditures in excess of depreciation claimed for tax purposes on eligible assets already owned.

This provision would very much increase the incentive stimulus per dollar of tax revenue lost. It would also remedy a technical drawback of the investment tax credit as previously enacted and now again proposed.

The trouble is that a credit on gross expenditure gives an incentive to make as short-term investments as the law allows, and therefore pushes businesses toward equipment of shorter than optimum durability. The reason is that a taxpayer gets the credit again every time he replaces the equipment, while the higher annual depreciation associated with shorter-lived assets is no deterrent so long as it does not impair future tax credits. The advantage of a tax credit that is based on net investment in equipment rather than gross investment in equipment is that it is neutral as between long-lived equipment and short-lived equipment, in addition to having a greater stimulus for dollar of tax revenue lost.

As for the expenditure side of the budget, now is certainly no time to postpone needed Federal programs. Welfare reform still deserves just as high priority as President Nixon had been giving it since the beginning of 1970. Nothing happened on or about August 15 to make it less needed, and there is no economic reason to postpone it. There is plenty of slack in the economy, and the increased spending of the beneficiaries of welfare reform would be welcome. If the economy has room for the tax cuts the President has proposed, it has room for welfare reform, and the sooner the better.

The same is true of revenue sharing in some form. Whether general revenue sharing by formula is a good idea or not, and I have my doubts, it is clear that greater Federal help to State and local governments still deserves high priority.

The inflation we are fighting is not an inflation fueled by current excess demand. On the contrary, aggregate demand is inadequate to employ the productive resources of the country. In these circumstances it is silly to say that Federal programs must be abandoned or postponed in the interests of preventing inflation.

The distributive imbalance in the President's package of tax and expenditure proposals is obvious. I do not need to dwell on it, except to say that equity considerations strongly reinforce the recommendations I have made.

Third, on wages and prices. I was not one of those who prior to August 15 regarding inflation as a problem of first priority, one which must be solved as a precondition of restoring full employment and normal economic growth.

As I said above, recession, stagnation, underutilization were the major problems of the American economy before August 15, and they remain so today. I agreed with the able testimony presented to you on July 21, by Robert J. Gordon, and I had expressed similar sentiments in an article of my own with Leonard Ross, "Living With Inflation," published in the New York Review of Books on May 6, 1971.

I will not go into that debate again today. I continue to believe that most of the measures taken in the name of fighting the kind of inflation we have been experiencing are worse than the inflation itself, and that most of the alleged costs of inflation turn out on examination to be the costs of stopping it. I observe also that one of the major reasons for giving high priority to stopping inflation, the balance of payments, was eliminated on August 15 by the floating of the dollar. But I and those few who agree with me have not been persuasive. Dominant opinion in the country is that inflation is an evil that must be expunged even at heavy cost, and this is the course on which we evidently are now embarked.

The freeze cannot last long. The longer it goes on the more serious its inequities and inefficiencies will become. To handle the complaints and petitions for relief will require an ever-increasing apparatus of administration and enforcement, without any guarantee that the results even then will be equitable and efficient.

Our economy and every other modern industrial economy has an inflationary bias. By this I mean that indexes of prices rise consistently when the economy is operating at socially tolerable rates of unemployment. Chronic inflationary bias is deeply rooted in the institutional structure of the society. It is not a transient problem. It is not like wartime. When you have wartime inflation you know it will go away when the war is over and it may make sense to suppress the inflation by controls, which everyone can tolerate in the knowledge they are temporary. But if the chronic inflation endemic to modern economies is to be suppressed by wage and price controls, the controls will have to be permanent. One does not have to have a high opinion of the market economy to prefer it to permanent controls of wages and prices.

The temporary freeze will have served a useful purpose if it alters favorably the psychology that sustained inflation during the past 2 years. This psychology was in part future oriented, in that workers and employers, buyers and sellers were anticipating inflation, demanding and granting wage and price increases that could make sense only if inflation occurred. The psychology was in part past oriented, in that people sought by raising specific wages and prices to restore what they regarded as normal past relations among them that they regarded as equitable. It was in part protective, as each group with bargaining power has sought to solidify its economic position with extraordinarily little concern for others—taxpayers, consumers, unorganized workers, and the unemployed. We do not know whether, after a temporary freeze, inflationary psychology will be permanently diminished in all these dimensions or whether it will reappear, perhaps in even more virulent form.

This is why the freeze must be followed by guideposts, standards of wage and price setting that have the assent of a broad spectrum of organized labor and of industry. I agree with Arthur Okun, in his testimony before you, that in the present environment guideposts cannot be, as they were in the early 1960's, standards which if followed lead to zero inflation. Guideposts today will have to be standards which lead to a diminishing rate of inflation. Okun's suggestion that the central guidepost for wage increases be the normal economywide productivity gain plus half the previous year's rise in cost of living seems reasonable to me. This means that the central price guidepost would be half the previous year's inflation rate. In industries with less than normal productivity gains, prices can appropriately increase more than that. In industries with greater than normal productivity gain, prices should increase less than the central guidepost or actually fall. In practice, we must admit, offenders in this last category—that is the category of high productivity gain industries where prices ought to fall—have always been the most difficult to detect and to bring pressure upon.

I would emphasize, in addition, another dimension of the guideposts, one included in the Kennedy administration guideposts but generally overlooked. This is the relevance of the state of the labor market to the appropriate wage increase. In a sector with large unemployment there is no case for a wage increase, whatever the productivity quidepost says. If collective bargaining nevertheless produces a wage increase, it is because the interests of the unemployed in the sector are sacrificed to income gains for the employed. One of the reasons our economy has an inflationary bias is that excess supplies of labor, unemployment, do not successfully moderate wage increases in noncompetitive labor markets. Accordingly, I would suggest as a guidepost that wages not rise, or rise less than the central standard in collective bargaining agreements, where employment covered by the agreement has been declining. In such cases the price guidepost would also be appropriately modified; prices should fall, relative to wages, at least by the amount of productivity gain.

In our previous experience with guideposts, they suffered from the failure of organized labor and industry to understand and accept them. They were an invention of the executive branch of the Federal Government, and the only pressure occasionally mobilized on their behalf was that of the President.

Today the climate is very different, and it is possible to hope that the opinion of labor and industry will also this time support compliance. It would be worthwhile to set up a quadripartite board, with representatives of management, labor, the general public, and the Federal executive, and to provide it with a research staff and with the power to obtain relevant information.

The board would promulgate guideposts and issue reports on their application to wages and prices in important sectors of the economy. There would not be enforcement other than the power of public opinion. However, the guideposts might be made binding on every Federal agency that regulates prices or intervenes in the settlement of labor disputes.

Thank you.

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

Our next witness is Mr. Arnold Saltzman, president of the Seagrave Corp. In addition to being a successful businessman, Mr. Saltzman also has a background of Government experience very relevant to our concerns today. He served both with the OPA during World War II and with the OPS in 1951. Some talk of the large bureaucracy required to administer price controls; I feel we should also keep in mind the very high quality of the staff which served in these price control offices. I have come to regard those offices as a sort of training ground for distinguished citizens, a very considerable fringe benefit of price control.

Mr. Saltzman, we are very pleased that you could be with us here this morning. Please go right ahead. You have quite a concise statement. Please proceed.

STATEMENT OF ARNOLD A. SALTZMAN, PRESIDENT, SEAGRAVE CORP., NEW YORK, N.Y.

Mr. SALTZMAN. Senator Proxmire, I understand the President is going to talk today and it is my fragile hope that whatever wisdom there may be in my statement might perhaps be redundant, but on the possibility that this does not occur I think I had better go forward.

Chairman PROXMIRE. Well, you never know. You know I was on "Meet the Press" on Sunday, August 14, and I proposed a freeze on wages and prices. I proposed a freeze for 3 months—6 months, I guess—and I proposed that we cut the dollar loose from gold, and I proposed we follow stimulative policies, not the same the President had proposed, but it took him only 8 hours to follow my advice; so you have 2 hours and I hope you have the same results.

Go ahead.

Mr. SALTZMAN. The freeze at home, and the steps taken to achieve devaluation of the dollar abroad have brought a certain sense of euphoria to the administration and a feeling of hope to many Americans. Whether this hope is to be justified will depend not on what has been done but rather what long overdue remedies may now come into being. The overall price freeze and the steps taken with regard to our trading competitors, who are also our principal allies, is similar to grabbing the coattails of someone about to jump off a building—neither you nor he can maintain your positions permanently and moreover you had better fix what was in his head that made him want or need to jump in the first place.

We now have an opportunity—which may not soon come again—to face up to our social and political, not merely economic issues—to attack not only the virus of inflation and the gradual erosion of our preeminence among industrially developed nations, but also to address ourselves to the burden of unemployment bearing down on millions of our people, most cruelly on the unorganized, unskilled poor, the young, and the black. While doing these things, we must simultaneously remake our cities because unless we do so now we can expect intensified social conflict, crime, drug abuse, and economic blight at a terrible cost in money and human values across our entire Nation.

We do not have only money problems; we have people problems. The man out of work does not read the quotations of dollar devaluation versus the Deutsch mark. The careful economic calculations that might be made must again and again be altered by the needs of people. The most often-used and least-practiced phrase of late is "we must reassess our priorities." Unless they are reassessed in the light of the reasonable aspirations of all our citizens, no economic game plan can work in this democratic society. This is more true today than at any time in recent history. Rich, poor, old, young, black, white, business, labor—all have been torn by the multiple problems of war, recession, race, and our physically oppressive environment.

The plans that we must make now, while aimed at the economic abberation of price-inflation and economic stagnation living side by side in the United States today, can and should simultaneously relate to a better life for our people.

Even the unsophisticated among us realize that the economic machine is not managed well if we use unemployment as an acceptable device to curb inflation with a resultant $30 billion budgetary deficit, and then it doesn't work.

We would be far better off with a $30 billion budgetary deficit resulting from things we might have done—like $30 billion worth of new housing—than the deficit of omission; and, incidentally, had we done some of these things in timely, forceful fashion it is my conviction that we would not have had that kind of budgetary deficit.

Also, before getting too overjoyed about possibly seeing the dollar devalued by 15 percent versus our foreign competitors, let us remember that it means that each of us here must work 15 percent more hours for everything we wish to buy from them. While this may be a necessary course today, our economic well-being in the world community will again be outstanding when the reverse is true.

And so we recognize that this is the time of our trial; this is the time to produce something better than what we have had—business, labor, consumers—all are ready for change. The present wage-price freeze is only an exclamation point to accentuate the need. In and of itself it cannot succeed.

Price control efforts during our previous two wars, and in both efforts I participated in policymaking activities, highlighted the inadequacy of general maximum price regulations as well as the unsatisfactory results which flowed from having separate agencies dealing with prices, labor, wages, and production controls. England did far better in World War II by having all economic planning and controls in one body.

The freeze regulations now in effect perpetuate inequities, leave unregulated items which contribute largely to price inflation such as interest rates and certain farm commodities, permit wide areas of legal avoidance, encourage inefficiency by putting a premium on job-hopping as well as product proliferation, and are accompanied by incredible enforcement problems.

To eliminate controls after 90 days would produce greater problems than existed on August 15, as well as losing an opportunity to get healthy, and is unthinkable.

There is a course I would recommend, but before suggesting it let me add one last parenthetical observation to these previously expressed in clarification of my proposal.

The United States before granting AID to any underdeveloped nation, has insisted on seeing long- and short-range plans for the economic and social programs of the potential recipients plus the ability of such nation to be able to continue such planning functions. Virtually every nation in the world has formalized long-range planning activities except the United States. Our present inadequacies relate in large measure to such lack of advance planning on an overall national economic basis.

Therefore, I propose the formation of an Economic Development Board which shall take regulatory action during periods of economic imbalance and also perform economic planning functions on an ongoing basis, which plans it will periodically recommend to Congress, the President, and to the Nation at large. Such Board shall be a permanent fixture and shall be required to act in accordance with objectives that Congress shall legislate in broad terms aimed at an expanding economy, relatively free from price inflation, with high priority objectives in housing, transportation, health, education, as may be indicated. The use of subsidies should be considered if required to achieve special objectives and price stabilization.

It would be a mistake to try to lay down specific controls or actions that the EDB should take since flexibility in dealing with our economic problems is essential. Prices, wages, interest rates, rents, even material allocations on a fluctuating basis, are all tools with which to do a job.

And on the international scene the issues are even more complicated and the planning for international economic recovery should be consolidated with domestic planning which relates the dollars available to business to invest abroad versus what is invested at home.

The EDB shall be composed of members drawn from various segments of society but appointed by the President. They shall also be served by an advisory council to the EDB, whose recommendations are not binding, which shall be nominated by labor, business, agriculture, and consumer groups.

I believe that we cannot look backward to the philosophies of Adam Smith or the Maginot line security of cold war international economic and political positions. For some years the American people have been out ahead of their Government in their feeling that changing times required bold new attitudes and approaches to our domestic and foreign problems.

In March of 1969, you, Senator Proxmire, read into the Congressional Record what I felt was apropos then and even more so today, and I am quoting:

> The business corporate entity that survives and prospers through the 1970's and beyond will be the one that leans with, and not against, the winds of change which continue to blow across the world. Our world has changed more dramatically in the 68 years of the 20th century than in all the preceding 19 centuries since the birth of Christ. No business organization that fails to welcome change can have a future.

There was implicit in what Alfred North Whitehead said:

> A race preserves its vigor so long as it harbors a real contrast between what has been and what may be, and so long as it is nerved by vigor to adventures beyond the safeties of the past. Without the ability and the courage to depart from the snug harbor of status quo, nations and companies tend to decay.

If today Congress will legislate with courage in this crisis looking to capitalize on our opportunities and not only to correct our mistakes, I believe that big business and big labor will follow you. It is essential that the purchasing power of our people be upgraded not downgraded, that their standard of living improve. Such expanding wealth for our citizens is the only security for American business.

The President has stated that he is "looking over the scene and keeping his options open." I hope you will recommend measures for permanent improvement not temporary expediency and thus provide an option of such long-range potential benefit that both he and the American people will be pleased to implement it.

Words like "tomorrow" and "the future" necessarily must guide the planning of today. The problems of today represent the turbulence from yesterday's unmanaged future. Only the future can be managed; not much can be done about the present.

Thank you.

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

Our third witness is Mr. Allen Ferguson. Mr. Ferguson is an economic consultant with extensive past experience with the Federal Government. He was coordinator for international aviation at the Department of State during the Kennedy and Johnson administrations. He also acquired experience very relevant to this morning's discussion when he served as an economist with the Office of Price Stabilization during the Korean war.

Mr. Ferguson, go right ahead. I see you have a very substantial prepared statement. We would appreciate it if you would abbreviate it. The full prepared statement will be printed in the record.

STATEMENT OF ALLEN R. FERGUSON, ECONOMIC CONSULTANT

Mr. FERGUSON. Fine. Thank you very much, Mr. Chairman.

Since I have even less time than Mr. Saltzman to influence the President's speech, I will cut this down and hurry through it.

Chairman PROXMIRE. All right.

Mr. FERGUSON. In evaluating the NEP and determining what should replace or follow it, Congress again, as in the case of the floating of the dollar, should not let itself be hustled but should pause and should raise some questions which have lain dormant now for several decades.

Do we still want to use Government programs both to stimulate the economy and to control prices? Do we want to rely on the stimulation of private investment as a major means of maintaining a high level of employment?

Do we want to use the traditional man-years of employment and billions of dollars of GNP as the basic touchstones of the health of the American economy?

Do we want, rather, to seek ways of maintaining opportunity for ample material standards of life with less dependence on work as an end in itself and with less rapid depletion of the natural and human endowment of this country?

Do we want to put a higher value on our ability to maintain an export surplus than on our position as a reliable political leader among nations?

What I want to do is to try to raise some questions as to what Congress can do in taking advantage of the President's dramatic opening, to find practical and immediate steps and to develop longer range actions which will lead the country forward rather than back into a rigid and repressive search for an imaginary past.

I shall concentrate mainly on the domestic aspects of the NEP, and compress the discussion into three main questions:

What does need to be done? Is the NEP an appropriate way to begin? And what can Congress do to cope with it?

America is a tremendously rich society and yet many basic social needs remain unmet.

For five decades national policies and private action have failed to achieve full employment without a politically unacceptable rate of inflation. The NEP, I predict, will fail in turn because it ignores or even aggravates the forces tending toward the stagnation that has plagued the country intermittently since the 1920's.

At this point in history we do require a high level of employment and of GNP for two very different reasons: First, meeting the economic and social needs of the Nation does require an enormous volume of goods and services but——

Chairman PROXMIRE. Excuse me, enormous what?

Mr. FERGUSON. An enormous volume of goods and services.

Chairman PROXMIRE. I see.

Mr. FERGUSON. But, secondly, the goods and services are presently produced in America with an enormous degree of inefficiency. By inefficiency I do not mean simply a particularly low productivity per man-hour. But I mean that in a gross way resources are inefficiently allocated. They are not used to match effectively the real needs.

There are a number of examples that could be cited to indicate the mismatch but one of the most stark is the recent emergence of a so-called teacher surplus in the face of the widespread inadequacies in education.

Why it has proven impossible to use resources more effectively is not entirely clear. However, some of the difficulties derive from contradictions and rigidities which permeate the economy. Many Government policies themselves are explicitly contradictory, simultaneously increasing output and decreasing it, stimulating employment while raising prices and thus reducing employment. In agriculture, for example, food production and employment are curtailed through crop controls and price supports, in the face of malnutrition; while at the same time output is boosted by the subsidized application of chemical fertilizers and pesticides which themselves reduce employment and both degrade the product and contaminate our environment.

There are a number of other examples that could be given on how policies work at cross-purposes within individual sectors in the economy. There are other institutional rigidities that derive from cartelization and monopolistic practices and, in particular, from direct Government support and direct Government economic regulations. There are examples in petroleum, in banking, in all aspects of transportation, and so on.

There are a number of labor policies and practices that have also introduced rigidities, restrictive work rules being one of the most obvious. There are also labor problems which are not a consequence of any purposeful institutional intervention but are simply a consequence of the difficulties in moving between jobs in a dynamic economy.

Most of the institutional inefficiencies are directly supported by Government action and, in addition, subsidies themselves frequently reduce the flexibility of the economy.

There are other kinds of wastes throughout the private sector condoned or incidentally supported by the Government, ranging from planned obsolescence all the way through to the production of dangerous toys.

It is difficult to estimate the magnitude of the resources that are lost through such institutional barriers to efficiency. One simple example is the cabotage laws, the simple rule that preserves coastal and intercoastal shipping to American flag ships. This probably costs the economy close to $250 million annually.

I have made only a very superficial effort to get a crude feel for the magnitude of the losses involved, and it looks as if they are something in the order of $150 billion a year which is more than the total purchases of goods and services by all State and local governments.

It is hard to overestimate the significance of this kind of resource loss. If a large fraction of it could be tapped it would be possible even with the present level of employment, to meet many of our unmet needs.

Further, the particular actions that might be used to open up these resources would help to break the linkage between full employment and inflation, and in doing so would get at some of the forces tending toward stagnation.

But to achieve this kind of goal requires some very drastic and difficult actions: Reducing monopolistic power in both product markets and in labor markets; expanding and focusing manpower programs to benefit specific target groups that are particularly vulnerable to unemployment; eliminating most economic regulation, which protects producers from competition, prevents prompt adjustment of prices to market conditions and restricts supply; eliminating many subsidies; eliminating other governmental policies that are mutually contradictory or that support economic rigidities; substantially revising the tax structure; and reforming and expanding welfare and antipoverty programs.

If this is a fair approximation of what the problems are, a sound and conscientious economic strategy would provide immediately for achieving a high level of employment at this time preferably without excessive inflation, but would also be consistent with and would contribute to the solution of these longstanding problems.

How well does the President's new economic policy match such a prescription? It does not fit.

I do not want to say a great deal about the international aspects of the NEP. If I had a little more time I would like to point out that its orientation seems to be essentially wrong. Does America need, in fact, to prove its worth to itself by demonstrating that it can make transistor radios or steel cheaper than Japan?

I shall skip to the domestic aspects of the NEP, which in simplest terms is an effort to stimulate the economy by fiscal means and to hold down inflation by fiat. It is also intended eventually to increase productivity.

There are some good aspects to the domestic program. The wage-price freeze appears to be necessary and long overdue as an effort to check the purely psychologically based inflationary forces, and on balance the fiscal policy appears to be moderately simulating.

However, the whole program has been characterized as a further application of the trickle-down approach. Perhaps equally questionable is retaining the 40-year-old practice of placing the main emphasis on investment incentives as an economic stimulant. It is far from certain that investment will surge ahead enough to generate many new jobs. It is not even clear that private capital formation is as desirable socially as it was believed to be in the 1930's and the 1950's and the 1960's.

In the immediate future, it is important, as I have already suggested, to raise aggregate demand enough to sustain a high level of employment while basic changes in the economic structure are explored. However, a percolate-up approach has much to recommend it on grounds of both equity and economic efficiency. Mr. Tobin has already indicated some of the reasons why such an improvement would be beneficial. Let me simply say in this context that for the administration to reduce its pressure to bring about welfare reform is incomprehensible.

To try to be brief, let me just mention some of the sins of commission and omission in the NEP.

Competition is reduced by the import surcharge and by excluding equipment purchased abroad from the investment tax credit.

Both the surcharge and the Domestic International Sales Corp. would reduce the domestic supply of goods thus tending to raise their price, and by reducing foreign competition the surcharge will tend to reduce the overall efficiency of American enterprise.

The consumers are at best an afterthought. Low income groups in the economy stand to get little out of the program.

But what the NEP ignores is at least as important as what it does badly.

There is zero in the critical area of manpower.

The institutional forces that raise prices and reduce supply and that curtail employment are completely ignored.

There is no attempt made to reduce the destructive practices of economic regulatory agencies.

Monopoly power in both product and labor markets is ignored.

There is no strengthening of antitrust.

There are no programs to eliminate or even to analyze mutually contradictory Federal policies.

There is nothing for the poor, minorities, cities, or depressed rural areas.

It is unreasonable to expect that all of that could be in an emergency program, but it seems reasonable that the stimulus provided by the President's dramatic move should be construed not as a signal to race ahead and implement his program, but to do in the short run only the emergency things that need to be done while at the same time taking the time to look into what are the ways of eliminating some of the problems that have been with us so long.

I would like to conclude, if I could, by making some suggestions as to how Congress might take the initiative, and in the light of the infirmities of the NEP and prior administration policy, I believe that congressional initiative is essential.

These suggestions are structured in a way that assumes there will be two stages after the freeze: a phase 2 lasting perhaps 6 to 12 months, followed by an indefinite period of adjustment and restructuring. Without making any attempt to be complete, I will try to hit some of the highlights. The suggestions are designed to meet some of the problems that I have outlined above.

In prices and wages, the freeze should be removed immediately from the lowest wage groups.

On guidelines, a possibility that would be worth consideration is specific wage standards such as those suggested by Mr. Okun or Mr. Tobin with some enforcement powers, I would suggest, but applied only to large corporations or to large unions who have the power to impose administered prices on the market.

The import surcharge should be eliminated forthwith and the proposed Domestic International Sales Corporation should be rejected.

As a first step in reducing the inefficiencies of economic regulation, the authority of regulatory commissions to disapprove reductions in prices and rates should be suspended as soon as possible. I should think this should be done during the present period during the price freeze.

Then during phase 2 the entire structure of regulation should be reexamined with an eye to eventually dismantling much of it.

There should be a massive injection of antitrust power and during phase 2, in my judgment, an extensive examination of how to reinforce the antitrust laws.

On fiscal stimulation, most of it should come from either reducing taxes in such a way as to encourage consumption by individuals at the low end of the economic scale or through expanding high priority programs. The present NEP obviously does neither.

I have already mentioned that the welfare reform should be pushed.

Again, it may be worthwhile to explore the use of the investment tax credit as a means of introducing additional competitive pressures into the market by applying the tax credit only to small or competitive firms. The definition of small or the degree of competition could be arbitrary initially.

During phase 2, it would seem appropriate for Congress to undertake a complete reexamination of the whole of the tax reform possibility, looking at such things as the possibility of substituting a tax on undistributed profits for all or most of the corporate income tax.

In addition to maintaining an adequate level of aggregate demand, which is indispensable, unemployment should be reduced by some direct measures. During a period of transition, if we do undertake a serious reexamination of the structural problems, there should be a major expansion in unemployment compensation to carry workers through the period of instability. During phase 2 Congress should explore ways of preserving and extending the advances that have been made by workers in the last 40 years while at the same time looking for ways to remove those aspects of the present practices that prevent the full utilization of human and material resources.

Overall, perhaps the longrun potentialities of the impetus given by the President's dramatic action are the most important. In my judgment, during phase 2, Congress should undertake to examine essentially the whole economy, taking area after area, agriculture, education, health, and so on, through the entire spectrum of economic activities. Rigidities within each area and the contradictory Government policies impinging on each should be identified. The extent to which they reduce both the output of needed goods and the employment opportunities for people outside any select group and how they constrain the lives of present employees and customers should all be examined and improvements should be prescribed.

Elimination of structural imbalances requires a multifaceted attack, addressing many aspects of single problems simultaneously so that groups hurt by one measure will be benefited by others and so that the very large aggregate payoff can be identified and dramatized.

Perhaps what is called for is an effort on the size and scope of the temporary national economic committee.

Thank you.

(The prepared statement of Mr. Ferguson follows:)

Prepared Statement of Allen R. Ferguson

SUMMARY OF PREPARED STATEMENT

I shall concentrate mainly on the domestic aspects of the NEP and in doing so shall compress the discussion into addressing three summary questions:

What does need to be done?

Is the NEP an appropriate way to begin?

How might Congress cope with real needs through new economic policies after the freeze?

What needs to be done?

In addition to providing immediately for a high level of employment and income without excessive inflation the economic strategy should contribute to the solution of persistent problems that for fifty years have threatened economic stagnation and have made it difficult to achieve high levels of employment without extraordinary defense or other governmental expenditures.

Achieving these goals requires:

- Reducing monopolistic power in both product markets and in labor markets;
- expanding and focusing manpower programs to benefit specific target groups that are particularly vulnerable to unemployment;
- eliminating most economic regulation, which protects producers from competition, prevents prompt adjustment of prices to market conditions, and restricts supply;
- eliminating many subsidies;
- eliminating other governmental policies that are mutually contradictory or that support economic rigidities;
- substantially revising the tax structure;
- reforming and expanding welfare and anti-poverty programs.

Is the new economic policy appropriate?

The NEP is largely inappropriate. Although the wage-price freeze and the floating of the dollar are sound, otherwise NEP fails to deal with the fundamental problems.

A "percolate-up" approach would provide a more efficient and more equitable way of stimulating employment and might be more reliable.

MEP ignores the monopoly power of big corporations and big unions and the restrictive effects of governmental regulation and other institutional sources of economic inefficiency. Such inefficiencies may constitute a waste of resources larger than the entire defense budget.

The import surcharge and the proposed Domestic International Sales Corporation not only threaten to undo a decade's efforts at liberalizing international trade but also to reduce competition in U.S. markets. Thus they actually tend to raise prices.

There is nothing in NEP on the essential task of increasing manpower flexibility.

The main thrust of the NEP threatens to exacerbate social tensions, to contribute to polarization, to take care of the "haves" with nothing for the "have-nots" and to ignore any aspect of reform.

How might Congress cope?

Congress should take advantage of the dramatic opening of economic issues, but it should pause long enough to ask basic questions such as:

- What should we really be trying to do?
- Do we want to rely on stimulation of private investment as a major means of maintaining a high level of employment?
- Do we want to use man-years of employment and billions of dollars of GNP as the basic touchstones of health of the American economy?

Do we want, rather, to seek ways of maintaining opportunity for ample material standards of life with less rapid depletion of the magnificent natural and human endowment of this country?

Do we want to be more concerned about our ability to compete in the export markets of the world than we are about the presence of poverty and squalor and polarization at home?

Whatever the answers, Congressional initiative will be needed not only to check inflation and move us out of the current recession, but also to solve more basic problems. Some suggestions for serious Congressional consideration include:

Congress should apply price and wage control and tax relief in a differentiated way to reduce the power of unions and industrial powers to administer prices.

It should switch from the Administration's trickle down approach and press for welfare reform and tax relief for low income families.

Congress should develop manpower policies to protect displaced workers and to make it possible for those most vulnerable to unemployment to get jobs that are not menial.

The United States should move toward liberalizing international trade and reject the Administration's turn toward protectionism.

Finally, Congress should take advantage of the post-freeze period to institute a broad and penetrating analysis of the economy. The analysis should identify the structural barriers that have made the achievement of full employment without inflation so difficult in this centruy. Perhaps an effort of the scope of the Temporary National Economic Committee is needed.

TEXT OF PREPARED STATEMENT

Mr. Chairman and Members of the Committee, I appreciate this opportunity to give you my views on the President's New Economic Policy and on what might appropriately follow it.

Let me begin by making explicit that in appraising economic policy there are important limitations on even the most powerful techniques of analysis that constitute the basis of whatever special expertise an economist, as economist, may possess. His policy recommendations also inevitably depend on his value system and his perception of the problems to be solved and their relative importance.

In evaluating the NEP and determining what should replace or follow it Congress must both raise some questions which have lain dormant for decades and address some new ones:

What should we really be trying to do?

Do we still want to use direct government programs *both* to stimulate the economy *and* to control prices?

Do we want to rely on stimulation of private investment as a major means of maintaining a high level of employment?

In addition to that or as a substitute for that, do we want to encourage more expenditure by the bulk of consumers in our affluent society?

Do we want to use man-years of employment and billions of dollars of GNP as the basic touchstones of health of the American economy?

Do we want, rather, to seek ways of maintaining opportunity for ample material standards of life with less dependence on work as an end in itself and with less rapid depletion of the magnificent natural and human endowment of this country?

Do we want to be more concerned about our ability to compete in the export markets of the world than we are about the presence of poverty and squalor and polarization at home?

Do we want to put a higher value on our ability to maintain an export surplus in our balance of trade than on reliable political leadership among nations?

Whatever our individual and collective answers to these questions, does the New Economic Policy take us in the right direction, does it take us in the wrong direction, is it even relevant?

What can Congress do, taking advantage of the President's dramatic opening, to take practical immediate steps and to develop longer-range actions which will lead the country forward into a fruitful, compassionate, and fulfilling society rather than back into a rigid and repressive search for an imaginary American past?

I shall concentrate mainly on the domestic aspects of the NEP, and in doing so shall compress the discussion into addressing three summary questions:

What does need to be done?
Is the NEP an appropriate way to begin?
How might Congress cope with real needs through new economic policies after the freeze?

What does need to be done?

America is a tremendously rich society, yet many basic social needs remain unmet. There is dangerous polarization and deep frustration of individuals unable to cope effectively with stifling business and governmental bureaucracies. New values are emerging, giving different and perhaps deeper meaning to the rights of liberty and the pursuit of happiness.

For five decades national policies and private action have failed to achieve low unemployment without a politically unacceptable rate of inflation, or, what is virtually the same thing, to maintain high levels of real income without the artificial stimulus of war or massive governmental expenditure. The NEP will also fail, because it ignores or aggravates the forces tending toward stagnation and social malaise.

At this point in history we require a high level of employment and of GNP for two very different reasons: first, meeting the economic and social needs of the nation requires very large volumes of goods and services; second, goods and services are presently produced with enormous inefficiency.

When I say that production is inefficient I do not mean that productivity per man-hour is particularly low. I mean that in a gross way resources are inefficiently allocated: they are not effectively matched with real needs. Some simple examples of glaring mismatches may serve to illustrate the point: medical corpsmen returning from Vietnam are allowed to drift into non-health jobs while health services are inadequate and medical costs soar; there is a recent emergence of a "teacher surplus" in the face of widespread inadequacies in educational and training opportunities; housing is subsidized while building codes and work rules prevent use of the most efficient construction methods. Despite the sophisticated explanations for such inefficiencies, fundamentally they simply make no sense.

Why it has proven impossible to use resources more effectively is not entirely clear. However, some causative factors can be identified. Ultimately they appear to derive from the proclivity of governments for protecting the interests of producers rather than advancing those of consumers. Growing out of this are some more tangible forces. The difficulties derive in large part from contradictions and rigidities throughout the economy.

In many sectors of the economy governmental policy is explicitly contradictory, simultaneously increasing output and decreasing it, stimulating employment while raising prices and thus reducing employment. In agriculture, for example, food production and employment are curtailed through crop controls and price supports, in the face of malnutrition, while at the same time output is boosted by the subsidized application of chemical fertilizers and pesticides, which reduce farm employment and both degrade the product and contaminate our environment. Similarly, we subsidize one mode of transportation to offset previous subsidization of others, and confront this policy, whose purpose is to expand transportation resources, with cartel and regulatory practices designed to restrict output and reduce jobs.

Innumerable institutional rigidities raise prices, impede adjustment to changes in needs, and reduce employment and productivity. These rigidities derive not only from private cartels and monopolies but also from direct governmental support and economic regulation. Examples occur in petroleum, banking, in all aspects of transportation, in health services, housing. . . and on and on.

Labor policies and practices have also introduced rigidities. Restrictive work rules constrain output; limitations on entry stifle the opportunities of outsiders; there is sometimes direct discrimination against women or nonwhites; and the nontransferability of pension and seniority rights makes it costly to change jobs.

Most, if not all, of these institutional inefficiencies are directly supported by governmental action. In addition, subsidies are frequently rigidly allocated so as to prevent their being used to meet new or genuine needs; often they benefit the wealthy at the expense of the poor and the near poor.

There are corresponding wastes in the private sector only condoned or incidentally supported by the government. Examples are: planned obsolescence, misleading advertising and public relations, production of such products as dangerous toys and foods devoid of nutritional value.

It is difficult to estimate the magnitude of the resources lost through institutional barriers to efficiency. It probably far exceeds the entire Defense budget. As one example, the cabotage laws—the simple rule that coastal and intercoastal shipping shall be the preserve of American-flag ships—probably cost the economy close to $250 million annually. I have so far made only the most superficial effort to get some feel for the size of the total losses involved. The costs associated with direct governmental involvement through subsidization, regulation, and protection, of all sorts, are probably of the same order of magnitude as the Defense budget. The costs involved in the rigidities and inefficiencies in the more purely private sector are apparently comparably large. Estimates of the cost of monopoly alone reportedly range from about $20 billion to more than ten times that amount. If these costs are taken as being equal to those involved in the public sector, all these rigidities and contradictions together involve costs on the order of $150 billion per year, more than the total purchases of goods and services by state and local governments.

The importance of these lost or hidden assets is hard to overestimate. If a large fraction of them could be tapped, it would be possible, even with the present level of employment, to meet many of our needs. Further, the particular actions that would open up these resources would help break the linkage between full employment and substantial inflation and in doing so would get at some of the forces of stagnation. Finally, success in eliminating rigidities and contradictions would probably reduce the worst distortions in the distribution of income and wealth, and would also reduce public and private bureaucracy.

Achieving these goals requires:

Reducing monopolistic power in both product markets and in labor markets;

Expanding and focusing manpower programs to benefit specific target groups that are particularly vulnerable to unemployment;

Eliminating most economic regulation, which protects producers from competition, prevents prompt adjustment of prices to market conditions, and restricts supply;

Eliminating many subsidies;

Eliminating other governmental policies that are mutually contradictory or that support economic rigidities;

Substantially revising the tax structure;

Reforming and expanding welfare and antipoverty programs.

A sound and conscientious economic strategy would provide immediately for achieving a high level of employment and income without excessive inflation, but would also be consistent with and would contribute to the solution of these long-standing problems.

How well does the President's New Economic Policy match such a prescription?

Is the NEP an appropriate way to begin?

The New Economic Policy does not fit the prescription. It looks like a package developed by yesterday's men to meet today's problems with tools forged a generation ago. The only unambiguously desirable action in it is severing the tie between the dollar and gold.

I do not want to say much about the international aspects of the NEP, but to point out that its orientation is essentially wrong. Does America need to prove its worth to itself by demonstrating its ability to make transistor radios or steel cheaper than Japan? On economic grounds, we should welcome an import balance of trade as a means of permitting other countries to repay us for our military support and earlier assistance, and for our loans and investments. Artificially preserving an export balance means raising our costs of living at home and giving away our substance and the product of our toil. We should not provide tax incentives to make it more profitable for businessmen to export.

To break the rules of GATT and the Bretton Woods agreements without even prior consultation with our friends abroad seems to signal a return to isolationism. It at least threatens to undo a decade of progress in liberalizing international economic relations.

The import surcharge is defended on the grounds that, like the ABM and the MIRV, its disadvantages are offset by its potential as a bargaining counter. Whether it will work as one is, of course, a matter of conjecture. However, there are already indications that it will not be easily or promptly removed. White House calculations of revenues from the NEP assume that it will be in effect a full year. Further, there may be serious political difficulties in re-exposing American corporations to more efficient competition from abroad.

Turning to the domestic aspects of the NEP, in simplest terms it is an effort to stimulate the economy by fiscal means and to hold down inflation by fiat; also it is intended to eventually increase productive efficiency.

There are some good aspects of the domestic program. The wage-price freeze appears necessary and overdue as an effort to check the purely psychologically based inflationary forces. On balance the fiscal package appears to be moderately stimulating.

In thinking about the NEP the significance of its timing justifies some consideration. In earlier wars, controls were imposed when unemployment was low and declining, and industrial capacity was practically fully utilized. Now the peak of the war is past, unemployment is at its highest level in more than a decade, and over 25 percent of the nation's manufacturing capacity stands idle. The fact that the Administration has been unable to check inflation under such circumstances without this drastic diktat should give everyone pause. It shows more than the prior failure of this Administration; to me, at least, it confirms indications that this nation is still faced with the prospect of long-run economic stagnation.

The whole program has been well characterized as a further application of the trickle-down approach, with a disproportionate share of the tax reductions going to business. Perhaps equally questionable is retaining the forty-year-old practice of placing the main emphasis on investment incentives as an economic stimulant. It is far from certain that investment will surge ahead enough to generate many new jobs. It is not even clear that private capital formation is as desirable socially as it was believed to be in the 1950's and 1960's. Is investment in equipment socially more important or more likely to generate jobs than investment in new housing? The permanent 5 percent investment tax credit involves a permanent loss of revenue—again, to the advantage of business.

It is important in the immediate future, as I have already mentioned, to raise aggregate demand enough to sustain a high level of employment while basic changes in the economic structure are explored. However, a percolate-up approach has much to recommend it on grounds of both equity and economic efficiency.

Consumer expenditures have been a weak spot in the economy in most months since early 1969. Inducing increased consumption at the lowest end of the income spectrum would both stimulate employment and make available to many Americans the basic necessities of life. Thus both immediate and long-term problems would be simultaneously addressed. Consequently, to urge the postponement of welfare reform is incomprehensible, if the Administration is interested in addressing the nation's real ills. Although attaining effective welfare reform would obviously be difficult, the Administration could have replaced some of its ardent rhetoric with frank presentation of contemporary realities and could have sought public support for this highest priority program.

To be brief, let me just list some of the sins of commission and of omission in the NEP.

Monopoly and Concentration of Economic Power.—Competition is reduced by the import surcharge.

The investment tax credit, as well as the accelerated depreciation allowance, are to apply to large firms with major market control as well as to small competitive ones.

Excluding equipment purchased abroad from the investment tax credit will reduce competition in the production of capital goods.

Efficiency and the Supply of Goods and Services.—Tax stimulation of research and development should eventually increase efficiency, but in a way that is somewhat superficial, and again may well provide benefits at least as much to monopoloid firms as to competitors.

The surcharge and the Domestic International Sales Corporation will reduce the supply of goods and raise their prices; by reducing foreign competition the surcharge will tend to reduce the overall efficiency of American enterprise.

Low-Income Workers and the Poor.—No additional funds are provided for those who need them most.

The lowest as well as the highest wages are frozen.

Advancing the $50 increase in personal income tax exemptions saves a family in the highest bracket some $140, a family in the lowest bracket $28.

All Presidential support for welfare reform is postponed until the fall of 1972.

The Middle and High Income Groups.—New car prices are cut.

Profits are to increase.

Consumers.—They are at best an afterthought. On August 15 the President said the Cost of Living Council will ". . . work with the leaders of labor and business . . . ."

What the NEP ignores is at least as important as what it does badly:

There is zero in the critical area of manpower.

The institutional forces that raise prices, reduce supply, and curtail employment are completely ignored.

No attempt is made to reduce the destructive role of economic regulatory agencies.

Monopoly power in both product markets and labor markets is entirely ignored.

There is no strengthening of antitrust forces.

There are no programs to eliminate or even analyze mutually contradictory Federal policies.

There is nothing for the poor, minorities, the cities, or depressed rural areas.

The main thrust of the NEP is for those who have to buy more, to use up more natural resources faster, to pollute more, and for America to get a spiritual lift out of being more aggressive in international economic affairs. The NEP threatens to exacerbate social tensions, to contribute to polarization, to take care of the haves, to ignore reform, and to appeal to the puritanical and aggressive components in the American character.

Congressional action

I would like to conclude by making some suggestions as to how Congress could take the initiative—and in light of the infirmities in the NEP and prior Administration policy I believe Congressional initiative is essential—to begin to do what needs to be done.

These suggestions are based on the assumption that there will be two stages after the freeze: a Phase Two, lasting perhaps six to twelve months, followed by an indefinite period of adjustment and restructuring. I shall make no attempt to present a complete set of possible actions. In many instances I am suggesting only that in Phase Two consideration be given to ideas for possible subsequent implementation.

The suggestions are designed to meet the prescription outlined above for a sound strategy at this time.

Prices and Wages.—The freeze should be removed immediately from the lowest wages. (An initial cut-off might be made at about the poverty line, or at some modest amount above the minimum wage.)

For after the freeze, quantitative guidelines have been mentioned in earlier hearings. A possibility worth consideration is specific wage-price standards, with some enforcement powers, applied only to large corporations or unions, until their power to administer prices is abated. (The definition of "bigness" in Phase Two might be the largest 200 firms, or industries with substantively industry-wide bargaining. More study, during Phase Two, should permit development of more functional definitions.)

The import surcharge should be eliminated immediately, and the proposed Domestic International Sales Corporation should be rejected. For the longer run, the United States should offer to move on a cooperative basis toward lower tariffs and the elimination of quotas and other non-tariff barriers to trade.

As a first step in reducing the inefficiencies of economic regulation the authority of the regulatory commissions to disapprove reductions in prices or rates should be suspended as soon as possible. During Phase Two the entire structure of regulation should be examined with an eye toward eventually dismantling much of it.

A massive injection of antitrust power should be provided by strengthening and energizing the Antitrust Division and the Federal Trade Commission. In Phase Two an extensive examination of how to reinforce the antiturst laws, perhaps including some legislative standard limiting corporate size or market concentration, should be undertaken.

Fiscal Stimulation.—Most stimulation should come from either reducing taxes to encourage consumption by individuals at the lower end of the income scale or through expanding high priority programs.

The welfare reform legislation should be improved and expedited and the increase in social security taxes should be delayed. Consideration should be given to introducing, in Phase Two, an emergency negative income tax, until more permanent measures could be adopted.

The investment tax credit should not be instituted generally. However, consideration should be given to applying it to small firms only, or to small firms in markets where there is a high degree of concentration.

During Phase Two there should be a complete Congressional reexamination of tax reforms that would support a more flexible economy, including, for example, a general substitution of a tax on undistributed profits for the corporate income tax.

Unemployment and Manpower.—In addition to maintaining an adequate level of aggregate demand, which is indispensable, unemployment should be reduced by direct measures.

During the extended period of transition there should be a major expansion in unemployment compensation.

Consideration should be given to emergency funding to permit the ready transfer of pension rights between corporations and unions, as workers need to move.

During Phase Two Congress should explore ways of preserving and extending the advances made by workers in the last forty years, while removing the aspects of present practice that prevent the full utilization of human and material resources.

Equity.—The equity of the overall program should be increased and made more apparent. Some of my suggestions would contribute to that end. It might be worthwhile to consider a very limited excess profits tax, one applied only to large firms or firms in highly concentrated markets and only to their undistributed profits.

This would force businesses presumed to be in a position to partially frustrate the efficient operation of the market either to bear an extra share of the costs of controlling inflation or to distribute all their increased earnings. Inducing firms to distribute earnings and then have to go back into the capital market to justify new investment would tend to improve the operation of the capital market, and to reduce concentration. It would also, in the present context, shift some of the burden of the NEP to wealthier recipients of unearned income.

Other Long-Run Potentialities.—Phase Two should, in my judgement, be used by Congress to reexamine essentially the whole economy, taking area after area—agriculture, education, health, natural resources management, and on through the spectrum of major economic activities. The rigidities within each area and the contradictory governmental policies impinging on it should be identified. The extent to which they reduce both output of needed goods and services and employment opportunities for outsiders, and how much they constrain the lives or present employees and of customers by impairing their freedom of choice should be ascertained. Improvements should be prescribed.

The elimination of structural imbalance requires a multifacted attack, addressing many aspects of the problems simultaneously, so that some groups hurt by one measure will be benefited by others; so that the very large aggregate pay-off can be identified and dramatized; so that it can be shown that the vast majority of Americans will be better off, not only economically but also socially, and in terms of their political freedoms and rights.

Perhaps an effort on the scale of the Temporary National Economic Committee TNEC) would be appropriate.

Chairman PROXMIRE. Well, gentlemen, I want to thank you very, very much. These are most interesting and I have a number of questions. I must unfortunately go to a rollcall now; the buzzer just rang. I will be back in 10 minutes or less and I would appreciate your indulgence. Sorry.

We will recess for about 10 minutes.

(Whereupon the committee was recessed.)

Chairman PROXMIRE. The committee will come to order.

Mr. Tobin, you are one of the first witnesses to comment in detail on the monetary implications of this new economic program by the President, and also you are one of the few, although there have been some others, who commented on the international situation.

You stress taking time in constructing monetary arrangements. The President has indicated that we should move rather rapidly, and a number of witnesses have said they thought we should move with some speed, particularly, because of the unfortunate aspects of the protectionist element in the President's proposal, the surtax on imports, the buy American part of the investment credit which, I understand, are tied together, so that the buy American part of the investment credit will fall away as soon as the surtax is dropped.

Would you say that you can have a part of this international segment of the program eliminated before negotiations are completed on the international monetary arrangments?

Mr. TOBIN. Definitely, yes. I think you can get rid of the protectionist devices that we have piled in along with the floating of the dollar. We can get rid of them very soon.

Chairman PROXMIRE. You see, one of the problems—Otto Eckstein particularly mentioned it, because my instinctive reaction was negative on the surtax, but he argued this was part of the negotiations; this gives us our bargaining position. Other economists have said we could force-feed dollars and put other countries in the position where they would not be able to artificailly maintain a high value for the dollar.

But Mr. Eckstein felt the income surtax is a very important part of our negotiating equipment and that we should keep it until we can work something out with other countries.

Mr. TOBIN. Well, I don't think we should keep it until we can work something out on the international monetary system.

As to whether the surcharge, now that it is on, is of any use in negotiation in regard to getting rid of protectionist devices used by other countries, well, that is a strategic bargaining question which is hard to comment on. Now that it is there, if it is going to be used as a negotiating ploy, I would use it as a negotiating ploy with respect to protectionist devices, quotas, and preferences that other countries employ. I would not connect it with the negotiation of a new international monetary system.

Chairman PROXMIRE. When you do that, it seems to me, it is very difficult to make exceptions or to apply it to some countries and not others. For example, Canada has appealed for an exemption and perhaps they would have a considerable case for an exemption from it. Once you exempt Canada, however, other friendly and helpful, cooperative countries perhaps ought to be exempted, too.

Would you suggest that what we might do is provide for exemptions for those countries and continue the surtax perhaps for those countries that have been most difficult in securing trade cooperation?

Mr. TOBIN. No; I don't think so. I think I would get rid of it fairly quickly.

Chairman PROXMIRE. For all countries?

Mr. TOBIN. For all countries. The only thing I tentatively suggested in my text there was that we try to get the French, the Belgians, and others to get rid of their dual exchange rate system at the same time. Now they are involved in trying to keep the trade transactions in their currencies at the previous parity, while allowing the rate of exchange for tourist transactions and financial transactions to float up; and that is in a way the equivalent of our import surcharge because it puts a different price on their currency for trade than for other transactions. There is some logic in regarding them as somewhat equivalent and trading one against the other. That could be done early; it could be done without finalizing in any way the future shape of the international monetary system. You see, as far as the balance-of-payments problem is concerned, we do not need to worry whether other currencies are allowed to float up or whether the countries just accumulate inconvertible dollars in order to keep their currencies from going up.

Chairman PROXMIRE. What you are saying, as I understand it, we can move promptly and swiftly to negotiations on the protectionist elements involved, not only on our side but other sides, Japan as well as other countries you mentioned?

Mr. TOBIN. Yes.

Chairman PROXMIRE. And then take a little more time and care in working out an overall comprehensive international monetary arrangement as to what would be the basic unit, whether it ought to be SDR's or what not, that kind of thing?

Mr. TOBIN. Yes, and how much flexibility of exchange rates there is going to be in the new system. I don't think we should restore a fixed-rate system with rates as rigid as they were under the previous system.

Chairman PROXMIRE. And how long would you expect that to take?

Mr. TOBIN. To negotiate a new international monetary relationship?

Chairman PROXMIRE. Yes.

Mr. TOBIN. I should think it would take at least a year. The Bretton Woods Conference took longer than that.

Chairman PROXMIRE. You think in a matter of weeks perhaps we could be able to work out an end or a fading away of some of the protectionist elements and then take a year or so to develop the updated Bretton Woods agreement?

Mr. TOBIN. Yes. The reason is that there is nothing wrong with the present arrangements. They are perfectly viable as far as the exchange rate system is concerned. There is no reason why we should rush to supplant it; and certainly there is no reason to hurry to restore the system that led us to the difficulties we had before.

Chairman PROXMIRE. One other question before I get to the other witnesses and then I want to get back to you, but this relates to the same kind of thing.

One of our witnesses and one of the men who has one of the finest reputations in the country and in the world and in this area, Mr. Bernstein, testified before this committee last week and he made the point that a parity adjustment of the dollar would be more effectively achieved if we devalue in addition to floating the dollar, that we should actually take congressional action to devalue he suggested by about 8 percent. He made a constitutional point in this connection, that the Congress has the money power, not the President; the Constitution provides Congress can coin money and regulate the value thereof, the Congress only can; the President does not have that authority. And he felt for that reason as well as in order to have a smoother and more effective adjustment that it would be wise to proceed on that basis.

I gather you disagree. Would you expand on your reason for disagreement?

Mr. TOBIN. Well, devaluation in that sense is just another word for raising the price of gold; and as far as the international monetary system is concerned, the important things are the exchange rates with other currencies, not the price of gold.

Chairman PROXMIRE. He pointed out the price of gold is now about 20 percent above the $35 per ounce. Devaluation of 8 percent would not help South Africa or Russia or other speculators, that it wouldn't have a significant effect on the international gold price; that price might even drop.

Mr. TOBIN. Well, the private market price of gold reflects speculation all over the world in regard to what the future monetary role of gold will be; and the private market price of gold still includes a good bit of hope and expectation that the United States will accept the views of Mr. Bernstein and others who want the price of gold raised.

If it were made clear once and for all this is not going to happen, I don't think you would have private market prices of gold as high as they are now. These prices do not reflect the value of gold in the filling of teeth and in the ornamentation of jewelry. They reflect speculation on whether the pressures internationally and otherwise for bailing out the gold speculators will succeed.

Chairman PROXMIRE. I got the feeling from Mr. Bernstein that we ought to continue to have some, at least, indirect monetary role for gold. You, I take it, would cut out excess gold entire and rely on international arrangements that would be cut entirely from any unit like gold.?

Mr. TOBIN. That is right. In a sense the action taken in 1968 rendered the monetary gold held by the governments of the world merely tokens, only incidentally made of gold metal, because at that time the private and official gold markets were separated and the central banks essentially agreed not to buy and sell gold in the private market. That meant effectively they were willing to get along with the gold which they already had.

Well, you could call it gold; you could call it tokens; you could, as I suggested, recognize it is essentially paper gold already and turn it all over to the International Monetary Fund, and operate from then on essentially with paper gold, which partly reflects the metallic gold that countries had previously accumulated in their monetary reserves and partly reflects whatever quantities of international medium of exchange the countries through the International Monetary Fund may create for themselves.

But I don't see any reason for retaining a link between international monetary arrangements and metallic gold in the future.

Chairman PROXMIRE. Mr. Saltzman, your statement was very interesting inasmuch as you are the only witness I know who has recommended this notion of taking advantage of the present situation, the freeze, and the dramatic economic change to propose a comprehensive economic planning program.

Mr. SALTZMAN. Yes, sir.

Chairman PROXMIRE. For many years that was the dream and conviction of many of the finest and most thoughtful economists in the country, that we should not be the only country that has no long-range economic plans.

At the same time, I just wonder if these circumstances would be realistically propitious. There are a couple of problems involved in this. No. 1, you refer to the creation of boards in World War II and the Korean war, and at that time we had shortages. We had an emergency military situation; we had a problem we had to plan; we had to have a program because everything was keyed especially in World War II to the military effort.

Now the Vietnam war we hope is disappearing; it certainly has become a much smaller economic element than the Korean war was, let alone World War II. We don't have shortages; we do have a kind of a chronic inflation situation, but I wonder what economic necessity or what political circumstance would, do you think, justify this sufficiently to get congressional support for it, let alone Presidential support, for a comprehensive economic plan for our country now?

Mr. SALTZMAN. Well, Senator, in the Korean war we didn't have any planning. In the Second World War it was discordant and broken into many pieces and was not any kind of overall planning.

In England they did it. Here, in fact, we didn't have it. We had warfare between the War Production Board and OPA frequently, and there was no overall body which could make such plans. Controls were sufficiently stringent as to make it less apparent.

But in answering your question, yes, it appears as though the Vietnamese war, which could have used a lot of planning during the height of it, has largely diminished, but I am convinced, sir, there is another kind of war going on in this country which is certainly as savage, certainly more injurious to the well-being and long-range future of our country. We have a war going on in this country where almost half the country, poor people, black people, and young people, are disaffected with the institutions of our country, and it stems from the fact that we have had a revolution in our country where almost unbeknownst to ourselves we switched from an agricultural nation to an industrial nation. Virtually all of the people in the country moved to cities, and this was not planned for; it was not paid any attention to, which is typical of the lack of planning. And so most of the major cities in this country don't work.

They are a burden for rich people; they are a torment for poor people. Also, when you look at the inflation in this country we don't suffer from shortages and that is the unhappy anomaly of the situation; that is why it is so much harder to fix because it is not a typical kind of inflation. It is an inflation brought about by recession; it is an inflation brought about by the fact that people are out of work. And so you have rigidities caused by big unions and big businesses who have a lot of clout; people want to get paid as much for doing maybe eight and a half months' work as they did for 11 and a half months' work, and if they have the muscle they can get it. That is the kind of inflation we are in.

But when you look about and you see that we have 27 percent of our industrial machine idle, you have steel capacity, a great amount unused, aluminum capacity unused, glass capacity coming out of our ears, millions of people out of work, idle wealth, and yet over here on the other hand, you have cities which are decaying, which are falling apart, which are costing us huge amounts of money that we don't relate to the cost of crime, the drug abuse, the welfare payments that we have to pay, and the human costs in terms of life and health and so forth. And I say that if we were to put it together, to rebuild our cities, what we get back in income taxes on corporate profits, what we get back in taxes from people who work, what we would save on payments to people who are out of work, the municipalities which badly need additional taxing base on their tax rolls—that is what I referred to before when I said a deficit of omission. You wouldn't have this omission if you had a planning board because even if you had to spend $3 or $4 or $5 billion, maybe have free interest to get these things built, you could prove that it was cheap, that it was a bargain, and you would get it back.

Chairman PROXMIRE. This is very, very appealing, and I think especially now that we have, as you say, idle capacity, idle manpower, many, many needs that are not being met but the question is how could the planning board achieve this?

Now, Mr. Tobin, who worked as a member of the Council of Economic Advisers and is familiar with the problems we had in a different way, of course, in the early 1960's, but we then had idle manpower; we then had idle capacity; we were able—even before the Vietnam war became a big element in it—we were able to provide for more jobs and so forth. I think one of the difficulties here is that there is a strong feeling on the part of many of us in the Congress and many people in the country that this country with all its weaknesses, and I think you are absolutely right the way you detailed it, is more productive than other countries, and one of the reasons is we have a great deal of freedom and one element of freedom is you have no planning; you can't have planning without interfering with people's freedom.

If you have a plan then you have to spell out for businesses and others where their resources are going to go. You have to do it either by that or by some kind of very extraordinary taxation; and however you do it, it does interfere with the initiative of individuals and interferes, of course—maybe it should, but it does interfere—with the freedom of the marketplace to allocate resources based on consumer judgments which we have been using primarily.

Now, I just don't know how far you would go. You are a successful businessman and you certainly appreciate the values of our free enterprise system. You are not calling for Government ownership or control, that kind of thing. How would a planning board in a system like ours, as compared with a somewhat more socialized system like the English have, how would a planning board be able to work in a situation where you don't have a war? How could this be done without interfering with freedom too much, in cutting initiative too much?

Mr. SALTZMAN. OK, let me give you a brief analogy.

In the city in which I live, New York City, there was recently built a large additional building on top of Grand Central, PanAm Building.

Now, that interfered more with the freedom and the well-being and the individual choices of the people who live in that area than if it were by ukase, fiat, prevented from being built because every day now they can't live in peace.

Chairman PROXMIRE. Isn't that a matter of city zoning; isn't it a matter of having a city council that has sufficient authority to act on it?

Mr. SALTZMAN. Precisely. But the point is first there has to be some kind of body. If you have this Economic Development Board, if you had this planning function, first of all unlike the council of economists it would be composed of various segments of society—consumers, agricultural people, labor and business—and it would deliberately, in some deliberation, produce specific programs for action.

Now, it would do so, and once that were evolved they would have already crossed the threshold of acceptance at least by these various types of groups so that by the time a proposal was made it would be substantially more acceptable for all elements in our society, and it couldn't be proposed until——

Chairman PROXMIRE. What you are saying then, so far as construction in big cities is concerned, before a big building is built in addition to working with bankers and unions and so forth to get the building constructed, you would also have a board which was public-interest oriented which would determine whether you could build it or not?

Mr. SALTZMAN. In the city of New Orleans you couldn't do that.

Chairman PROXMIRE. You have that to some extent in some cities; you have it in this city. You can't build a building higher than 12 stories, as I understand it, because you couldn't see the Washington Monument, and the Capitol.

Mr. SALTZMAN. Sure. What I am saying——

Chairman PROXMIRE. You would just extend that principle, as I understand it, and then widen it to try to take into account the views of other citizens?

Mr. SALTZMAN. And produce a more realistic version of the word "costs" because when you talk in terms of costs you have to talk in terms of social as well as money costs; and when you put it together it would be possible to do so.

Chairman PROXMIRE. One other question in this area: You confined it unfortunately just to building a building and it is more than that.

Mr. SALTZMAN. Sure.

Chairman PROXMIRE. We do have a very unfortunate allocation of our resources in the view of many of us, not only putting too much in the military area, wasting too much in the military area, but also in the view of many people by having a private system of allocation which, as you pointed out, is often unfortunate, unfair, and unethical.

Mr. SALTZMAN. It is my belief——

Chairman PROXMIRE. How would you improve the market mechanism here without again interfering with the driving force that has made our economic system productive?

Mr. SALTZMAN. The same driving force will exist because the driving force is the force of profit and that really is what controls what business will or won't do.

I am suggesting that that profit motive will certainly still continue and be the driving force.

What will happen is, and it may even improve the profitability because instead of building something someplace where maybe it ought not to be, you might even make more money if some plants were built or a new industry formed or even the whole concept of the way the Government does its bookkeeping which is all on a cash basis instead of looking into what if you spent $2 billion now you might not get $20 billion over a 9-year period. It is all part of the same thing.

Chairman PROXMIRE. Mr. Ferguson, you had quite a different approach, as I understand it, and quite an interesting series of proposals; and again I would ask you about the question of how you would answer the charge that this is a pretty strong and some would say unrealistic series of recommendations that you make. Almost everywhere I go, I speak to a business group and they say what you have got to do, Proxmire, is to use what influence you have got to break up this labor power. The labor unions are ruining the country; they are too big; they are too powerful; they are able to make a mockery of our antitrust laws and so forth. And you say here that we ought to reduce the monopolistic power of labor and labor markets. You say the same thing however about product markets. Then you go on to argue that we ought to eliminate the economic regulation of some of our regulatory agencies that limit competition.

Your approach would seem to be to provide, in fact, less central control or central power of any kind, private or public, and try to concentrate it much more on a free and competitive economic system, the kind that Brandeis envisioned about 50 years ago.

Do you think that is something that this Congress, with all the enormous power labor and business have, could possibly move toward in the foreseeable future?

Mr. FERGUSON. Well, I think I would have to plead guilty to the first charge that it is a large order. This is one reason why I am suggesting that some major endeavor be undertaken to try to set our ducks in a row, and this is why I alluded to something like the TNEC to get some feel of what the magnitude of these problems is.

This is a very incomplete piece of thinking. If the President had given me more time to think it out I might have had a better statement.

Chairman PROXMIRE. I am very impressed by the intelligence and altruism of labor leaders when I have talked with them in depth. Of course, they have a constituency they have to represent or they wouldn't be in their position of authority and power. But many of them are very willing to consider any idea, even the one that may seem to have an adverse effect on the power of the labor union movement, provided it is in the public interest. How could you approach them and get any kind of cooperation with them?

Mr. FERGUSON. This is what I had in mind when I say we need a multifaceted attack on these problems. Attacking any one of these things obviously is highly disadvantageous to a particular group, and I think that the only possibility of getting there from here is to put together packages in the transportation area or the agricultural area or something of this sort, where a large number of the inefficiencies are reduced simultaneously so that what workers might lose by one measure is somewhat offset by what they might gain in another.

Chairman PROXMIRE. It is exactly that that makes it difficult.

Mr. FERGUSON. Yes.

Chairman PROXMIRE. If it weren't such a big package, I think it might be more workable. For instance, Ralph Nader has had an enormous effect; people may disagree with him but he certainly has had a tremendous effect in making the country more aware of consumer abuse and making business more conscious of what they have to do, and making regulatory agencies more conscious. He argued what we ought to do, and it is along your line, would be to beef up the Antitrust Division. He said if you want to make an economic investment which would give you an enormous advantage based on its cost, we ought to beef up the Antitrust Division. Now our Government often has no more than two antitrust lawyers against the enormous array that any corporation throws into an antitrust fight—the result is too often predictable.

This is the Joint Economic Committee not the Judiciary Committee and the question is what would be the economic effect of fracturing the monopolistic power of these business units? Would it necessarily be, in your judgment, all favorable? After all, we have had more competition in certain phases of our past when we did have even more severe problems; we had more severe unemployment; we had other problems that were very serious.

Mr. FERGUSON. Well, I am not sure that there is any way that any greater employment could be linked to the greater competition. That is not a link that is obvious to me.

Chairman PROXMIRE. No, what I am saying is that in order to get this kind of action to inspire enough people that this is in the public interest, you have to show that you are going to get some benefit, substantial benefits.

Mr. FERGUSON. Right.

Chairman PROXMIRE. One of the benefits is that you get perhaps a lessening of inflationary pressures from that structural element.

Mr. FERGUSON. Well, there are a number of things that could be done to be reasonably practical about the whole thing. There are a number of initial steps without taking cognizance at the moment of the jurisdiction of one committee relative to another. The antitrust is a clear-cut case in point. It is a simple thing, simple conceptually like the cabotage laws. I think most people have not the slightest conception that the cabotage laws cost us the kind of money they do cost. The removal of that one very old law, one of the first few acts passed by the Congress, the removal of that one law would find for us something on the order of one-fourth billion dollars worth of resources.

Chairman PROXMIRE. You don't have much in your statement about that, do you?

Mr. FERGUSON. There is a sentence that says just about that.

Chairman PROXMIRE. Why don't you give me a memo on that because I have not thought much about it?

Mr. FERGUSON. Yes.

(The following memorandum was subsequently supplied for the record:)

BETHESDA, MD., *September 15, 1971.*

Senator PROXMIRE: This memorandum is intended as a follow-up to my testimony before you at the Joint Economic Committee hearing on Thursday the ninth. You raised questions specifically about the nature of the cabotage laws and their costs, about my suggestion to consider an excess profits tax on undistributed profits and more general questions as to the magnitude and hence the practicality of what I propose. This will be a brief preliminary commentary only on the cabotage question. If possible, I shall provide more complete reaction within the next week or two.

The cabotage laws, initially passed in 1798, now reserve to United States-flag ships the domestic ocean trades: coastwise, intercoastal and with the non-contiguous states and Puerto Rico. Specifically these trades are to be served only by American-built ships manned by citizen crews. This reservation, thus protects the American operators and employees from more efficient foreign competition, and provides a modest market for American shipyards.

Because American ships cost about twice that of comparable ships built abroad and because American operation costs are about twice as much per ton-mile as are foreign costs, the cabotage laws raise the costs of domestic ocean transportation very substantially. Consequently the costs to shippers and consignees are increased, raising the costs to the final consumer of the goods transported: the costs of heating oil and gasoline in the Northeast and of virtually everything in Hawaii, Alaska and Puerto Rico, for example. (This is one of the economic costs to the people of Puerto Rico of being a part of the United States.) Because shipping costs are substantially increased, the volume of shipping is reduced. This is turn distorts the distribution of resources in the economy and directly reduces employment in ports and indirectly (and probably only slightly) in the industries heavily dependent on domestic ocean shipping.

Estimating the direct costs to the economy is difficult. In 1969 Professor Leonard Rapping, in a statement prepared for the Subcommittee on Economy in Government,[1] estimated that the cost was between $150 and $200 million, apparently on a 1965 base. For technical reasons this is probably a moderate underestimation of the cost. Allowing for the degree of inflation and economic growth since then the current cost would be closer to $250 or $300 million.

This is a good example of how rigidities, preventing full market adjustment impose relatively great costs on the economy. These costs never show up in any government's budget; they are borne by the taxpayer in his role as citizen and consumer not as taxpayer.

If the cabotage laws could be repealed Americans would be saved this $250 to $300 million dollars every year (presumably a growing amount as the economy expands). Some present jobs for American seamen would be eliminated, as foreign-owned and flags-of-convenience ships moved into the domestic trades. This loss of jobs would be partly offset in the short run by expansion in port activity as these trades expanded in response to their reduced costs. In the long run these seamen would tend to be absorbed elsewhere in the economy.

The removal of the cabotage restriction is also an example of how in the search for increased efficiency, institutional change can sometimes be at least as effective as merely expanding R & D expenditures. If R & D dollars are expected to produce a return on investment of 10% per year in perpetuity, the elimination of the cabotage laws would have a pay-off equal to an investment of $2.5 to $3.0 billion in R & D.

Eliminating the cabotage protection will not be easy. The maritime interests have traditionally presented a solid bloc in opposition to efforts to remove any of their direct or indirect subsidies. They could be expected to do the same here. The argument that there is a defense requirement particularly for the tankers in these trades will be raised. I can not go into a full treatment of that argument, but it is clear that there are alternatives to the present arrangements that are better and probably less costly, comparable, for example, to the provisions making flags-of-convenience ships in foreign trade available to the government in emergencies.

I also mentioned in my testimony that the solution of many of our problems may require a multi-faceted approach. Again, this is an apt instance. It might be possible merely to repeal the cabotage laws, achieving these savings at no budgetary cost. However, two other legislative steps to be taken simultaneously are worth consideration. First, appropriate compensation for the workers displaced might be provided. Second, the Government might offer to purchase the ships currently in the trade at, say, their book value either for resale in the open market or for retention in the reserve fleet. Thus two of the parties directly hurt economically might be equitably compensated. Both of these actions could probably be taken without incurring anything like the hypothetical investment of some $2.5 billion needed in R & D to achieve a comparable pay-off in efficiency.[2] If both these measures were taken in addition to the repeal, the only uncompensated direct losers would be shipbuilders. It might be possible to compensate them in a way that did not in turn introduce some new permanent rigidity.

ALLEN R. FERGUSON.

Chairman PROXMIRE. One other question in connection with your statement because this again was new and different: You suggested that any profits tax, additional profits tax, be confined to an undistributed profits tax?

Mr. FERGUSON. Yes.

Chairman PROXMIRE. Now that runs absolutely counter to what the administration seems to be reaching for. They have asked that dividends not be increased and, of course, this would encourage the additional payment of dividends and it would discourage retaining

[1] Hearing before the Subcommittee on Economy in Government of the Joint Economic Committee, Congress of the United States, 91st Congress, 1st Sess., Part 2, pp 472–78.

[2] However, it would be logical to take a third action, namely to impose a temporary tax on domestic ocean shipping after repeal of the cabotage laws to recoup the costs of these compensatory acts. Such a tax could permit a significant reduction in costs to the users of domestic ocean trade while still requiring them, as the direct beneficiaries, to bear some if not all the costs of the change.

more funds in a business to renovate it, to provide for greater productivity and expansion and that kind of thing. How would you justify that?

Mr. FERGUSON. There are two or three things. One is that given the tax structure the way it is, if more of the profits were distributed as dividends there would be a larger tax take because by and large the people who hold stock are in the higher income brackets.

The second thing is that it would tend to make the capital market work more efficiently. It would force existing companies to go back and make a case in the general market that their particular investment or acquisition of a particular subsidiary or whatever was a good economic proposition. Third, by virtue of forcing or encouraging the distribution of profits it would make it slightly more difficult for the big to get bigger, especially if there were some sort of a cutoff, and the tax applied only to corporations with gross revenue in excess of, say, $100 million a year, $1 billion a year. I wouldn't at the moment speculate on what the cutoff should be.

Chairman PROXMIRE. We had an undistributed profits tax at one time during the past, I think in the New Deal. There were lots and lots of complaints about it. It is an interesting notion. I think you make as strong an argument as you can make for it but, at the same time, the problem on the other side is you do discourage reinvestment of earnings in efficient corporations. It is true they can go back to the market——

Mr. FERGUSON. You really don't know. There is no reason——

Chairman PROXMIRE (continuing). If you have a tax on undistributed profits, sure you discourage reinvestment, don't you? If you pay it out you can't reinvest it.

Mr. FERGUSON. But at the time you pay the dividend you could issue a warrant simultaneously, you see, and the reason you could——

Chairman PROXMIRE. You would pay a stock dividend instead of a cash dividend?

Mr. FERGUSON. No; I think that would be cheating.

Chairman PROXMIRE. What you would do is pay the dividend and then issue a warrant selling——

Mr. FERGUSON. Issue a warrant to buy the stock at its present price or at a slight discount, but you would get—let me be perfectly clear—there would be in the first instance less money available for investment if, in fact, as I think is the case, dividend receivers average a higher income tax bracket than——

Chairman PROXMIRE. I take it that would not be consistent with continuing a freeze on dividend payments?

Mr. FERGUSON. Pardon me?

Chairman PROXMIRE. You couldn't very well have an undistributed profits tax and at the same time freeze dividends?

Mr. FERGUSON. No, I think a freeze on dividends has some psychological value but it is not ovbious to me it has economic value.

Chairman PROXMIRE. From the standpoint of any stockholder, sophisticated stockholder, if he invested in a good company he couldn't care less if dividends were paid. As a matter of fact, he would be better off holding on to his stock and dividends not paid out and reinvested; if anything, he could sell at capital gains which reduces his tax.

Mr. FERGUSON. This is one reason why increase in dividend is deflationary.

Chairman PROXMIRE. Mr. Tobin, I would like to get back to your observations on monetary policies because once again this is what I had in mind when I said that your presentation was different; and I think you are the first one to comment to any degree on the kind of monetary policy we ought to follow and I think it is most important.

For a long time many felt this was the only thing that mattered, and it has perhaps been exaggerated by the Friedmanites. But you contend that it is most important now that in this period of trying to stimulate the economy and you think that is the No. 1 problem that faces us, that we would make a mistake to let the Federal Reserve Board feel that now they can reduce their more expansionary monetary policy?

Mr. TOBIN. That is right.

Chairman PROXMIRE. When you suggest that, and again I know that you may be reluctant to give specific figures but, as I understand it, the Federal Reserve increased the money supply at a rate of about 10 to 12 percent in the first 6 months of this year; there was a lot of criticism about that. They have increased it at a much slower rate in the last half of this year. The feeling on the part of many people has been they should reduce the rate of this money supply right now and some people argue it ought to average out about 6 percent a year and others say from now on it ought to be at a 6-percent rate for the concluding 4 months which would be much higher.

Could you give us a more specific recommendation with respect to that, or do you feel the money supply isn't a very useful measure?

Mr. TOBIN. I don't think targets as to the rate of increase in the money supply are a useful way of describing what the monetary policy has been or what it ought to be, and I think that is one of the problems with the present situation. You see, my judgment in the spring was that it was proper for the Federal Reserve, given the state of the economy, to be producing a situation in which short-term and long-term interest rates were falling. The rate did decline until March and then in spite of what the Federal Reserve was doing in regard to the money supply, interest rates rose again. It seemed to me it was quite an inappropriate time in the midst of a recession from which the recovery was quite uncertain and at best just beginning, to let short- and long-term interest rates rise. The Federal Reserve should have and I think would have, if they had not been scared by all the propaganda that called attention to the fast rate of growth of the money supply, would have kept interest rates down where they got them in the early part of the year. Now I think they should get them down there again.

Chairman PROXMIRE. Are you suggesting that interest rates ought to be the main target in the evaluation of monetary policy rather than money supply or do you think we ought to look at both and other evidences, too?

Mr. TOBIN. What you ought to look at ultimately is the state of the economy in regard to unemployment and production and output and GNP and prices. That is what the Federal Reserve is there for. It is not there to do anything in particular with regard to these instrumental variables whether they are interest rates or money supply.

Chairman PROXMIRE. Yes, but the trouble with the Federal Reserve is that the status of the market is not clear. They look at several things as you do. They not only look at the unemployment level and the capacity utilization level but they also look at what's happening to prices and they have been perhaps more concerned than they should be with what's happening to prices.

Mr. TOBIN. I thought there was general agreement at the beginning of the year, and I would expect there is general agreement now, that an expansion of aggregate demand is the important thing to do, that you can't tolerate an economy with 6-percent unemployment. You can't go on like that. We are so far away from being at tolerable rates of unemployment and utilization of resources that it does not seem to me the Federal Reserve is in a position where they might fear they were erring in an overexpansionary direction. Maybe when and if we get down to 4½ or 5-percent unemployment then they could begin to worry about overshooting and taper things off and allow interest rates to rise.

Chairman PROXMIRE. How about the lag effect? You see one of the elements here, as I understand it, is that the monetary policy increases the availability of money and credit does not have its effect immediately; it takes maybe 6 months or maybe a year sometimes and it is pretty hard to foresee what the situation is going to be.

Supposing in the view of the Federal Reserve Board they recognize the 6 percent unemployment and they feel the President's new program is going to be helpful, more jobs and utilization of plant capacity because of that, and the situation a year from now may be that inflation may be a more serious problem, therefore, we ought to be rather cautious on the monetary side anticipating the prospect of inflation next year.

Mr. TOBIN. This is the long-fuse dynamite argument—you increase the money supply rapidly now; it doesn't do anything for a while and then all of a sudden it bursts out and causes all kinds of inflation problems—I think that is not an accurate description of the way the process works. There certainly are lags; there certainly are lags in fiscal policy as well; there are lags in all kinds of economic policy—but in the present circumstance we are so far away from full employment that there will be plenty of time for the Federal Reserve or the fiscal authorities to take corrective action if it appears we are going too fast or too far.

The prediction that the rate of increase in the money supply was going to bring about a burst of increase in aggregate spending and national, money, national income and employment and prices, at the end of this year, and the beginning of next year, this prediction of the monetarists is already looking very bad. Maybe the policies of August are going to confuse the situation so badly that we will never know whether those predictions would have been correct or not. I believe that they were pretty clearly wrong predictions and that the course of the economy during the year has been demonstrating that.

Now, some people seem to be under the illusion that monetary policy affects prices in some direct way rather than through the spending of money on goods and services. They say monetary policy should be restrictive because we fear inflation whereas fiscal policy should be expansionary because we need to have more employment and output. Now that doesn't make sense because both monetary and fiscal policy affect prices and employment and output through the same medium, namely, the medium of people spending money in markets for goods and services and for labor; and if the situation is such that the spending of more money is going to be inflationary and not increase employment and output, then it is no more appropriate to have expansionary fiscal policy than it would be to have expansionary monetary policy.

Chairman PROXMIRE. Would you argue the freeze and other efforts to hold inflation under control and to build a longer range program perhaps make it possible for the Fed and the Congress and the President to stimulate the economy with less concern about inflation?

Mr. TOBIN. Why certainly, certainly.

Chairman PROXMIRE. So that is one of the opportunities made available to us by the freeze?

Mr. TOBIN. That is the purpose of the freeze. I would have thought that is the purpose of the freeze.

Chairman PROXMIRE. It is one of the purposes. Another purpose is coping with the inflation problem?

Mr. TOBIN. Yes; but that is an instrumental purpose, too; so I would think that was the purpose of the freeze, to enable us to proceed to full employment, to a higher level of output and employment with the prospect that more of the stimulus that is given to the economy by increased spending, either by Government or by private businesses and consumers, would be channeled in the next few months into increases in employment and output and less into prices than was occurring before. That is the point.

What I am afraid of is that the Federal Reserve, under the pressure of various people who have been complaining about the rate of increase of monetary aggregates, will relax and say, "Well, now that we are going to have expansionary fiscal policy we can and should cut back on our monetary efforts to stimulate the economy.

Now, as you remember, this was done in 1968, at a time when the problem was the reverse, where we were trying to brake the inflation, the boom. We were already over full employment levels. The tax surcharge was finally passed, and the Federal Reserve, which had been holding a somewhat tight rein on the economy, concluded from the fact that a restrictive fiscal policy had at last been adopted, that they could relax their restrictive monetary policy and take an easier policy. Now that turned out to be a bad decision in the middle of 1968 because they essentially offset and nullified the restrictive effects of the tax surcharge, by what they did. I don't want to see them make the same kind of mistake again.

Chairman PROXMIRE. In other words, the emphasis on stimulation ought to be pulling in the same direction and not pulling apart?

Mr. McCracken estimates that the new economic program is going to provide for a $15 billion increase in gross national product and 500,000 in additional jobs. Some witnesses argue it pretty much cancels out. There is about as much restraint in the program as stimulus because of the cut in spending submitted by the President, and so forth. What are the views of you three gentlemen on that?

Mr. Tobin.

Mr. TOBIN. As far as the arithmetic of the fiscal package is concerned, that would appear to be expansionary, I would say it does not cancel out. I don't understand, as I explained before the logic of saying that you have to have a balanced program, that you should cut expenditures because we are cutting taxes. I don't understand saying that at a time when the purpose of the whole measure is to give net expansion. But I do understand that the fact is that in the arithmetic of the calculations on the national income accounting basis, it does not quite wash out and there is net expansion involved in the program, especially because the temporary investment tax credit could be expected to have more than a dollar of stimulus for every dollar of lost revenue.

Chairman PROXMIRE. Well, on the import surtax it should be in a sense arithmetically kind of a restraining factor but actually, because of its effects, it is expanding.

Mr. TOBIN. Yes, substitution of domestic goods for imports would be an expansionary factor. So I would say on net the package is expansionary but I don't think that such arithmetic is the major thing that Paul McCracken is relying on in his estimates.

Chairman PROXMIRE. He is relying half on that and about $7 billion as I recall—$7 or $8 billion—he is relying on additional consumer confidence.

Mr. TOBIN. He is relying on additional consumer confidence, based on the general euphoria.

Chairman PROXMIRE. He said save about $8 billion, to save that.

Mr. TOBIN. It is highly speculative. It depends on very difficult questions of psychology, and we don't really know what the state of consumer—and for that matter—business psychology is going to be when the freeze ends. We have a certain amount of euphoria now which is created just by the fact that somebody is doing something. Now that kind of euphoria we can expect to taper off with second thoughts.

Chairman PROXMIRE. Mr. Saltzman and Mr. Ferguson, do you have views on whether this is enough to give us the $15 billion boost and the 500,000 additional jobs?

Mr. SALTZMAN. Yes, sir, I agree with Mr. Tobin and I have one or two comments of my own.

Certainly as suggested, it is not there just in the package itself. It is implicit in the hope that something may happen which is not related to money but which is related to psychology. The thing that disturbs me is a perpetuation of what we have now; and if it is merely that, I don't think it will work. I don't think that this price freeze, maximum price regulation or anything, can function and can work. It depends on what then will be done. Based on what has been announced so far, it isn't there.

I do believe, however, that for the expenditure of less money that you can get a lot more result from that money by using a rifle instead of a shotgun and by picking your targets and relating them to employment and, as I said, perhaps in using subsidy money to achieve the results, I think it can be demonstrated you get several times as much more job employment that way than the method that has been chosen.

Chairman PROXMIRE. Mr. Ferguson.

Mr. FERGUSON. I have not done the arithmetic but it seems to me that using the analysis that Charles Schultze presented to you a few weeks ago, it does look as if the net balance is stimulative. It would be a net injection.

I think, again, the administration is putting too much emphasis on reducing inflation rather than reducing unemployment; and I think that the degree of stimulation that is achieved looks very modest and its reliance on psychological factors is a very questionable one. The way the stock market behaved is I think, a good example. It shot up enormously for the first couple of days and then fell back and took a look and now it may creep up a little bit, and I think that is a much more reasonable picture.

Chairman PROXMIRE. Mr. Tobin, what additions to the President's program would you suggest? Let me run over just some of the ones and you give me a brief yes or no answer.

On postponement of social security taxes that are scheduled to take effect on January 1, that is about a $1.8 billion increase and some have proposed it be postponed.

Mr. TOBIN. I would be in favor of that. I would be in favor of a general reconsideration of the whole social security system.

Chairman PROXMIRE. How about making scheduled personal income tax cuts retroactive say to last July?

Mr. TOBIN. Yes, that is all right.

Chairman PROXMIRE. How about speeding up welfare reform rather than postponing it?

Mr. TOBIN. Very important and increasing the generosity of benefits.

Chairman PROXMIRE. What family level, what is it— $2,400 now?

Mr. TOBIN. Yes, I would think $3,000.

Chairman PROXMIRE. $3,000.

Increased expenditure for public services employment. We passed a bill that provided some. Would you amplify that?

Mr. TOBIN. I would be in favor of that.

Chairman PROXMIRE. Temporary countercyclical aid to State and local governments. That idea would be to recognize the shortfall that our cities suffer from because of unemployment and because of recession, and provide them with Federal funds to make that effort, to be phased down when unemployment goes down to, say, 4 percent?

Mr. TOBIN. That seems to have merit. I would worry a bit about the formulas by which the allocation would be devised.

Chairman PROXMIRE. You see the advantage of these proposals as I look at them, and these were what the Joint Economic Committee recommended last year in our report just before the President's speech, the advantages are that they are temporary and therefore they don't eat into the permanent situation, and we have been warned again and again, except the welfare form which is, of course, scheduled to take effect; they don't provide new, big programs, that would use up funds we are going to need for such things as combating pollution and for many, many other Federal actions.

Mr. TOBIN. Nor do they give away permanently any Federal tax revenue. I think that is very important.

Chairman PROXMIRE. One of the things which has been bothering me quite a bit, although I don't know how you get away from it, is whether or not it is possible to put into effect the kind of program that Mr. Okun and others have suggested, after the freeze, where you try to provide for perhaps a 5-percent increase in wages, and at the same time provide for a wage-price review board that would operate to recommend to the President; the President would have the authority to mandate it if he thought it was desirable, price performance on the part of each industry. If you have an industry which has normal average increase in productivity their price might increase 1 or 2 percent where their wages increased 5 percent because productivity presumably would take care of the rest.

If you had an industry that had a very dramatic increase in productivity and you could expect that and project it 10 percent, then they would have to roll back the prices. If you had an industry that would have very little or no increase in productivity they might be able to increase their prices 5 percent; the overall balance presumably would be the same thing as you worked out, and you worked on, to get an increase in wages consistent with reasonably stable prices. It would not be the 3.2 that was recommended back in 1962 and was in effect for 4 years and was a very effective, I thought, kind of action, but it would be a compromise; and it would at least lessen the rate of inflation, perhaps bring it down to 2 or 3 percent. Now, the question is: Do we know enough; do we have enough data on the productivity of industries; can we develop with experts working on a crash basis, perhaps in the various big areas where you have concentrated market power, so they can say in the steel industry there is an average projected increase of productivity of 4 percent, in the automobile industry 6 percent, and in the coal industry maybe less than that, but any rate could we develop a sufficient body of knowledge so that this would be an enforceable mechanism?

Mr. TOBIN. Well, I think we may have to try to do it. I think it is very difficult, and I think you would have to give such a board some powers of obtaining information from the sectors of the economy, business firms and others, that they are dealing with. I would be a little hesitant to suggest that the President should mandate those wage and price guideposts. I would rather hope that at this time——

Chairman PROXMIRE. Well, as a last resort we would not expect that to be used a great deal. But where you have a situation where you have a bellwether industry perhaps and the impact of the decision either to raise the wages above the 5 percent or to increase or whatever it is, or to increase prices would be so destructive the President then would have authority to roll back the prices and Congress could veto that action.

Mr. TOBIN. Yes, I just think it is so difficult to say what the prices are really when you have a whole range of new products or a variety of products and so on; and you have——

Chairman PROXMIRE. Well, the idea is this would be very limited. You decontrol most of your prices. This has been the recommendation of most of our witnesses who appeared on the grounds that most prices are determined competitively, and most, of course, organized labor has great power but they only represent 16 or 17 million of the 70 million working force, so that much of the economy would be outside of this. It could be concentrated on the big companies where it seems to me it would be easier to administer and the big union areas.

Mr. TOBIN. I would try to rely on publicity and public opinion. I also think it is reasonable that the whole question of wages and prices be connected in the collective bargaining agreements and negotiations. It wouldn't then be possible for business firms to say, "Well, we are negotiating on wages, and prices are none of your business." If the union was abiding by the guideposts then they could reasonably expect that employers would abide by the price guideposts as well. This could be a kind of quid pro quo in their negotiations.

I would use the services of the board and its staff to provide that information. I think I would be rather reluctant to see us get into mandating particular prices.

Chairman PROXMIRE. Well, that is a departure from what you gentlemen, when you were on the council, the way you operated. I think there is sufficient sentiment in the Congress now for the President to be given that. We have given it to him in the act he is acting under to freeze prices; we have given him enough authority to do that now, simply a question of extending a law that is on the books. But you feel it should probably not be extended to the extent that would give him the authority to actually roll back prices and wages?

Mr. TOBIN. Well, I am not saying you should not extend the authority under which the President has acted.

Chairman PROXMIRE. Because it gives him the authority to roll back prices to the price on May 27, 1970, doesn't it? He didn't use that; we didn't expect him to but it gives him authority to do that.

Well, gentlemen, I want to thank you very, very much. This has been a most interesting panel. We have had a very good variety and lots of initiative and originality, I think, in the suggestions. You have been most helpful in making a record.

The committee will reconvene on Monday to hear former Associate Justice of the U.S. Supreme Court and former Secretary of Labor Arthur Goldberg and Arthur Miller, professor of law, George Washington University, on the issue of the President's new economic program.

(Whereupon, at 12:20 p.m., the committee was adjourned, to reconvene at 10 a.m., Monday, September 13, 1971.)

THE PRESIDENT'S NEW ECONOMIC PROGRAM

MONDAY, SEPTEMBER 13, 1971

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

The committee met, pursuant to recess, at 10:10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire and Fulbright.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; John R. Karlik, Richard F. Kaufman, and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; and Walter B. Laessig, economist for the minority.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Now that the dust created by President Nixon's blockbuster announcement of a new economic program is beginning to settle, the nature of the problems Congress will have to deal with is becoming clear. High on the list of priorities, now as before, is unemployment.

Unfortunately, what this administration is finding out is that it is relatively easy to get the unemployment rate to go up, but it is hard to get it down. For two and a half years we had an economic policy which depended in large part on increased unemployment. The announcement of the NEP effectively declared the old policy bankrupt.

The question now is whether the new policy has enough in it for the workingman. In my judgment it does not. The administration is shooting for 500,000 new jobs. It is highly questionable whether the administration's program will achieve that goal. I doubt very much if it can demonstrate that we will get 500,000 new jobs out of this program. But even if it does it will represent a shortfall against the real needs of the Nation. We need several million new jobs.

There is another set of issues that have not yet been adequately discussed. What does the law and the constitution require when an economic system is drastically modified?

Previous witnesses have referred to World War II and the Korean war when wages and prices were fixed and other economic controls were put into effect. One of the great differences that distinguishes the present situation, however, is the fact that we are not now faced with the emergency conditions that prevailed in the two earlier wartime periods. The administration claims that it has successfully managed the transition from a wartime to a peacetime economy. How is it possible then, under the constitution, that wartime controls can be imposed on a peacetime economy?

Of perhaps greater concern is the problem that is now presented to Congress. If legislation is required to maintain some kind of stabilization policy, what form should that legislation take? Should the Economic Stabilization Act of 1970, which the President acted under on August 14, be extended, changed in any way, or allowed to expire? It does expire, as I understand it, on April 30.

Should we legislate a purely voluntary system of wage-price guidelines, or should we have some mandatory authority to back them up? If mandatory authority is given to the President how should it be qualified so that it may not be abused? If a wage-price stabilization board is established how should it be composed and who should do the appointing? What powers should be retained by Congress?

We are very fortunate to have before us this morning two distinguished experts eminently qualified to answer the kinds of questions I have raised.

Arthur J. Goldberg has been general counsel for several national labor unions, was President Kennedy's first Secretary of Labor, served on the Supreme Court, and was the U. S. Ambassador to the U.N.

I don't know of anybody in America who has had a more extensive and more comprehensive and more expert experience in the fields that bear on our question than the distinguished witness that we have here this morning.

Following Mr. Goldberg's testimony we will hear from Arthur S. Miller, professor of law at George Washington University Law School, a nationally known constitutional law scholar.

Mr. Goldberg, go right ahead.

STATEMENT OF ARTHUR J. GOLDBERG, FORMER ASSOCIATE JUSTICE, U.S. SUPREME COURT, AND FORMER SECRETARY OF LABOR

Mr. GOLDBERG. I am glad to respond to the invitation of the committee to express my views on the economic policy of the administration as recently announced by the President, as well as the other issues that you have mentioned in your opening statement.

At the outset, I wish to commend this committee for the great service it is performing in exploring this subject which is of paramount concern to the country. It is of transcedant importance that Congress play an active part in the formulation of our economic policy. This committee in exploring the relevant factors is performing a role essential to our democratic process.

Our country is in a state of economic crisis. Crisis is sometimes an extravagant and overused word, but nothing less will fit our present situation. Indeed, that we are in such a crisis is apparent, not only from President Nixon's newly announced economic policy, but also from all of the current economic indicators.

I do not propose to review past history and to apportion blame for what has occurred, although it is not inappropriate for Congress, press commentators and an informed citizenry to do so. If we do not learn from the mistakes of the past, we are bound to repeat them. My primary interest today is to look ahead rather than backward.

In commenting on the President's new economic policy, I believe it important to emphasize that what is called for is neither self-congratulations by administration spokesmen on the belated economic turnaround or politically motivated criticism of the President's proposals.

The situation is far too serious for this. I want to emphasize that. This committee and a few others have been saying that we are in a crisis situation but I don't think this is sufficiently recognized. The dimensions of the crisis are very great indeed. What is desperately needed is a bipartisan approach seeking solutions to our profound economic problems.

One does not have to be an economist to define the dimensions of our economic crisis. It can be stated very simply. We are suffering both from intolerable inflation and intolerable levels of unemployment.

I do not recall, in my own experience, any similar situation. When I took office as Secretary of Labor, unemployment was in the neighborhood of 7 percent. But it was not accompanied by galloping inflation.

We have also experienced periods of undue inflation but these, as I recall, were not accompanied by widespread unemployment. Now we have both and we are living, therefore, in the worst of all possible worlds: Galloping inflation and widepsread unemployment.

Looking to the future, the question recurs: What steps should be taken to restore our national economic health?

I welcome the fact that the President has determined to abandon his unsuccessful economic game plan and to proceed with a new policy. It is, of course, long over due but it is still not too late to put our house in order.

The President stated the other day that he did not intend to renew the 90-day wage-price freeze announced in the middle of August. This means that the freeze will end on November 13 and that about 60 days remain to formulate a comprehensive incomes policy to cope with the situation.

If such a policy is to be formulated and to be acceptable to the people, it must necessarily involve the participation of Congress and labor and management.

With respect to Congress, I strongly urge that our future incomes program in all of its aspects—wage, price and profit stabilization, tax proposals to stimulate expansion and measures dealing with trade, fiscal and monetary policy—be the product of properly enacted laws enacted by Congress. I urge this for two reasons: First, to eliminate all legal doubts and challenges concerning the validity of such a program and second, because Congress, as the elected representatives of the people, must and should fully participate so that our future program will be generally acceptable and well conceived. We must constantly remind ourselves that under our Constitution we depend upon the consent of the governed. Such consent, under our Constitution, is best reflected by appropriate Congressional action rather than based solely on Executive action.

In this connection, I should like to point out that recent polls demonstrate that the people, as is often the case, are ahead of their leaders and are prepared to support strong and effective measures which will deal with the problems that afflict our citizenry—unemployment and inflation.

I trust, therefore, that our incomes policy will be developed by both private and public dialogue followed by precise legislation. This can scarcely be the case of the very short law which Congress has already passed and upon which the administration is relying in connection with the wage and price freeze, title II of the act which is entitled "The Economic Stabilization Act of 1970," Public Law 91–379, which became effective on August 15, 1970. This is a very general grant of authority by the Congress. If I remember correctly, Mr. Chairman, this law was not particularly welcomed by the administration. It was Congress that gave the President the authority to do what he is doing.

Chairman PROXMIRE. Yes; as I recall, I introduced the basic bill in the Senate but then the House modified that bill and put in the section to which you refer. We went to conference and it was a fairly brief conference on it and it was almost a make-believe kind of situation because frankly nobody expected that section to be used. The President, as you say, didn't want it. He said he wouldn't use it if we passed it. It was put through on the basis we were making some kind of record as being against inflation and putting the President on the spot, and I think that it is very proper to criticize that legislation in that light and to suggest that we can do a lot better in providing a better framework.

Mr. GOLDBERG. I agree with that very much, Mr. Chairman, and I have an observation to make about it. It is a double observation. First, it will expire on April 30. I do not conceive that our economic problems which have precipitated the turnaround by the administration will be solved in this short period of time. I do not believe, however, that this law is subject to constitutional attack, and I shall say why in a moment.

Nevertheless, faced with a crisis of this situation and in light of what you have described took place in Congress, it is far better that the whole economic program of the administration be formulated with much greater precision and considered by the appropriate congressional committees.

When I said that I did not conceive that constitutional attacks on this legislation will prevail, I don't want to prejudice any lawsuits that are pending so I shall be rather academic and without reference to the issues raised in the lawsuits. But the basic constitutional issue involves a great piece of American history.

In the 1930's the Supreme Court of that day invalidated a great deal of congressional legislation on two grounds. One ground was that legislation dealing with the economy impaired the validity of contracts and violated due process, and the second ground as illustrated by the famous "sick chicken" case, the *Sheckter* case under the NRA, on the ground that there was undue delegation of power to the Executive by Congress.

It has seemed to me that the Supreme Court now has laid to rest both arguments. In *Ferguson* v. *Skrupa*, 372 U.S. 726, at page 730, decided in 1963, the Court, in a unanimous opinion, said:

> We have returned to the original constitutional proposition that courts do not substitute their social and economic beliefs for the judgment of legislative bodies who are elected to pass laws.

I would hope that we would not return to the situation in the 1930's where the courts arrogated to themselves the final determination of deciding what was good or what was bad for our economy. And having said that, that does not mean that I do not believe in very precise legislation.

As you have indicated, Mr. Chairman, the administration was opposed to this law, didn't participate with Congress in formulating it, and I don't think that many people in public or private life conceived the whole dimensions of the problems we have today. To establish my credentials rather than in the spirit of "I told you so," in 1966 I told President Johnson and the Cabinet that we could not fight a major war, and that was what we were fighting, without having controls over the economy. I repeated that when I left the Government in 1968, in an internationally syndicated newspaper series. But more importantly it all adds up to this: That if we are to have a comprehensive incomes program it ought to be the product of congressional consideration as well as executive action. It is imperative that such a program be generally acceptable. Acceptability is better assured by congressional action rather than by unilateral executive action based upon a very general statute which in any event will expire shortly.

The reaction to the administration's unilateral action in imposing the accelerated depreciation allowance under very vague language corroborates my views in this regard. It would have been far better, it seems to me, had the administration invoked congressional approval or disapproval of this action. There would have been hearings and there would have been a determination of whether or not this action was appropriate and desirable.

The President's proposals to deal with the present situation fall into two essential categories: One, price and wages; and two, tax, trade, fiscal, and monetary policies.

I shall deal with each of these in turn.

With respect to prices and wages, it seems clear to me that the 90-day freeze will have to be replaced, if it is to have the intended effect, by a comprehensive wage and price stabilization program. It is now stated by the administration that we are only in phase 1. I would have welcomed that statement right at the outset. Had it been stated in those terms at the outset some of the opposition which developed might well have been dissipated and if we need anything in the country today we need agreement rather than opposition in light of the serious situation we are in.

Now, what should this wage and price stabilization program include? Many suggestions have been made. I read with great interest a newspaper article the other day by one of the great authorities, ambassador Chester Bowles, in which he indicated that perhaps we might use selective controls limited to large companies which operate in the administered price area. I don't think this suggestion is very practical and I disagree with my great friend, Chester Bowles, in this regard.

Medium-sized and smaller companies compete with our larger companies, more or less effectively, and patchwork controls will result in a chaotic labor and price situation which will not be tolerated. We cannot very well impose price and wage controls on a segment of the steel industry because there are many small companies that operate and if they are uncontrolled and the giants are, it won't work. In Pittsburgh, for example, where there are many large and small companies, workers will simply not tolerate the spectacle of discrimination against workers employed by the large companies. Selective controls simply will not work.

In the auto industry, for example, there are many parts manufacturers organized by the same union. If restraints were imposed only on the larger automobile companies, parts manufacturers being exempt, the workers again represented by the same union, it would be an impossible situation. Very often these companies are across the same street and this would create a considerable amount of chaos.

Chairman PROXMIRE. Are you saying, Mr. Goldberg, that we have to have comprehensive across-the-board complete controls on every firm? Are you saying that within particular industries you have to have that kind of control?

Mr. GOLDBERG. We might exempt some industries. Take, for example, the textile industry, which is an industry where wages are low and prices are not high because of competition. We might very well say that it is a marginal industry and that there is no occasion for imposing controls unless the situation gets out of hand. I would believe appropriate legislation would see to it that the tools are available to impose it throughout the economy and then under standards prescribed by Congress there might be some "play in the joints" with respect to some industries.

It is very difficult to impose controls over a basic manufacturing industry and not impose controls over fabricators. Again the industry scene vitiates that. Fabricators are very often organized by the same union and patterns have been established and we will have extreme labor unrest if fabricating industries enjoy exemption from controls and manufacturing, the basic industry, does not. I think we have to be very careful in this area because of the complexity of the American industrial scene.

Chairman PROXMIRE. How large a bureaucracy would this take?

Mr. GOLDBERG. I am going to come to that in a moment if I might.

True, none of us likes controls. But it is better by far that we have full employment and controls than high levels of unemployment and inflation. None of us likes the creation of a new bureaucracy. But it is better to have a bureaucracy than an incomes program administered by a skeleton staff inadequate for such a formidable task. I trust that the remaining days of the 90-day respite will be utilized to set up an adequate administrative machinery to administer a well conceived incomes policy.

Now I deal with the question you asked, how large a bureaucracy should we have; what should be the administrative machinery? I believe Congress should decide this important question in cooperation with the administration. It also requires the cooperation, as I said earlier, of labor and management.

It seems clear that if there is to be a stabilization program, which is desperately needed, we simply must have the cooperation of labor and management. I welcome the fact that the President is now proceeding with consultations with labor and business and, indeed, express the conviction that had such consultations preceded the freeze it would not have encountered the opposition that has occurred.

Labor and management should not only be consulted but should be invited to participate in the administration of an incomes stabilization program as well as sharing the responsibility accompanying such a diffcult undertaking. Here we would be well advised to follow the precedents established by the War Labor Board of World War II and the Wage Stabilization Board of the Korean war. A tripartite agency of labor, management, and public representatives will be far more acceptable than a council of administration officials. If I may be permitted an observation, I recall when we used to criticize President De Gaulle as having the most certralized government in the world. I believe that our Government is in danger of becoming the most centralized government in the world. There is so much authority now invested in the President or asserted by the President that even the de Gaulle regime pales by comparison with the authority which the President exercises without supervision by Congress, the elected representatives of the people, and this is true in many areas not only this one in foreign policy as well as domestic policy. It is time that our Constitution be adhered to for our Constitution did not contemplate this.

The board or agency, whatever its name, will have to be furnished with standards to administer. Again I reiterate, the present legislation passed by the Congress, uninvited by the administration, doesn't provide appropriate standards. I conceive that the standards should be stabilization of prices at levels not to exceed the present ones, subject to inequity adjustments, and wage increases linked with productivity growth, again, subject to inequity adjustments. Perhaps I should state what I mean by "inequity adjustments." It is unseeming, if one company or union has beat the deadline—either the freeze or the stabilization machinery which will be established—that its competitors or similarly situated workers be straitjacketed. The sense of fairness of the American people will not permit this.

Now, it is a fact of economic life that wage increases based on productivity do not warrant price increases except for exceptional instances. I might cite an example of what an exception is. If, for example, there is an industry where the wage increase is not the predominant factor but material costs are the predominant factor, obviously that has to be taken into account; if the raw materials have increased in price to a point where the employer cannot operate at a profit or conversely, if there is a labor union which is suffering from substandard conditions, the same thing will be true. And also if prices are not stabilized, cost-of-living adjustments will have to be permitted to prevent an erosion in living standards.

There will have to be some play in the joints. But during the War Labor Board period of World War II and the wage stabilization period of the Korean war, despite inequity adjustments, prices and wages were kept in reasonable line.

Now, under the existing legislation, as I recall it, under the Economic Stabilization Act, prices, rents, wages, and salaries are subject to control, although the act will expire on April 30.

Interest is subject to control under the Credit Control Act. Profits and dividends are not subject to any control under any legislation as far as I know.

Now, it is true that at the present moment profit levels do not call for an excess profits tax, but any legislation should contain provisions that permit the administering agency to impose controls over profits and dividends in the interest of elementary fairness. If the American people are to be called upon to sacrifice in the interest of stability, there must be an equality of sacrifice.

Now, Mr. Chairman, you mentioned in your opening statement something I would like to comment on.

It is said that a stabilization program of wages and prices and profits is not workable in a time of peace. My answer to this is that we are not in a time of peace; we still have a tragic war going on with considerable outlays of Government funds, widespread troop deployments elsewhere and a defense budget of great magnitude. All of these are scarcely to be comported with a "peacetime" economy. I again reiterate my conviction that the American people will support a fair and balanced incomes program as they did in World War II and I believe the polls indicate this.

In my own experience, when I represented the labor movement, I was told time and time again by workers that if prices were kept in line they would be satisfied with much more moderate wage increases than they were negotiating for. And I think this is a simple fact of life. Because wage increases, as the economic indicators show, however large, cannot keep up with inflation. And the American worker is a sensible man, and if he isn't his wife is, and he knows the diminution in the real value of what he is getting and his very primary concern is doublefold: One, to keep inflation in line, in which event there will be restraint in extravagant wage demands, and the second, full employment, fear of layoffs.

Now, there seems general agreement that it would not be appropriate at this stage to exact a no-strike pledge on the part of labor. If this be the case, then the Government's labor agencies—that is, the Department of Labor, the Federal Mediation Service, and, if necessary, the White House itself—will have to become more actively engaged in dispute settlement if we are not to be engulfed in strikes against the stabilization program.

Activism is essential to bring home to both leadership and to the rank and file the seriousness of the situation and the necessity for cooperation in the public interest. Cliches about the freedom of collective bargaining must yield to the hard realities of the consequences which have flowed from an overly nonintervention policy.

You and Senator Fulbright know I was not exactly a proponent of the Taft-Hartley Act when I represented the labor movement, but when I became Secretary of Labor we had a law on the books, it became my obligation to enforce it.

I have just returned from a trip to San Francisco. The docks are closed on the west coast. We simply cannot afford that with the state of the economy being what it is. I think the administration should have invoked the statute. That seems very strange coming from me, but we are in an economic crisis. The courts have said that the statute encompasses our economic health when it refers to national health and safety, and I think this is a very poor period for protracted strikes which make our economy sicker than it is.

I now turn to the tax, fiscal, and monetary aspects of the President's program. Here, too, the participation of Congress is essential. Our Constitution contemplates that Congress maintain tight control over tax and monetary policies. In fact under our Constitution the primary role in the first instance is given to Congress. The spirit of our Constitution, giving Congress primary responsibility over our national purse—I could add over the sword as well—must be complied with if we are to obtain support for the incomes program that must follow the expiration of the 90-day freeze.

With respect to the monetary, trade, fiscal, and tax aspects of the administration's program, it seems to me that, at the earliest possible moment, the situation with respect to the dollar and the surcharge on imports must be clarified. We cannot both devalue the dollar, request our trading partners realistically to adjust currently stronger currencies and, at the same time impose a surcharge on imports and give tax relief to our exports without creating both political and economic hardship for our foreign trading partners.

It seems to me that the best approach would be, as soon as may be, frankly to acknowledge that the dollar is being devalued—the words "floating the dollar" are abstract words. It may have meaning to experts but even they are confused by what we mean by that. We should, in consultation with other countries, define the limits of devaluation and negotiate agreements concerning readjustments of their currencies.

Mr. Chairman, one does not have to be an experienced diplomat to know that there is considerable resentment among other countries about the unilaterial manner in which we have proceeded in this area. I simply do not understand why it was not possible for appropriate diplomatic consultations to take place where the interests of other countries are very much involved in what we are doing. Now, we in times past have taken strong objection when other countries have proceeded unilaterally in this important area. I read in the papers, and I think it is true, that friends and allies, like Canada, which I think is our first exporting country, and Japan, which perhaps is the second, were caught by surprise by our unilateral action. We cannot engage in such actions without breeding retaliatory measures and also suffer political consequences which can be very disastrous to our country. Because we are a great and large country, we must particularly avoid the concept that we can do it alone. We cannot do it alone. We live in one world.

There is an additional consideration that disturbs me very much.

We face the additional danger of reviving the tariff route to protect domestic production. This has superficial appeal to segments of labor and management, but resort to the tariff route in our national history has proved to be disastrous in terms of our own domestic economy. As I have indicated and as I have read in the paper today, retaliatory measures are not only open to other countries but are being considered by them. Furthermore, we are parties to a treaty, the GATT treaty, and I read with great dismay that all of the countries that are involved in the current GATT discussions feel we have violated the treaty and the United States is the sole country which has taken the position we have not. Treaties confirmed by the Senate of the United States are solemn commitments and they ought to be adhered to.

There is a basic economic factor of life which I thought we learned after the McKinley tariffs brought us a depression. We simply cannot sell abroad if we do not buy from abroad. And there are other measures which it seems to me can more appropriately deal with the situation. It should be made explicit, and this would help our diplomatic relations with other countries, that the surcharge on imports is a temporary one pending agreement on readjustment of currencies.

With respect to the domestic tax proposals of the President's economic policy, I am strongly of the view that they require revision by Congress, again in the interests of fairness and equity. If we are to move toward full employment, we must make sure that appropriate tax relief is granted to workers and consumers as well as to business. The administration's proposals seem to be too heavily weighted in favor of business and against workers and consumers.

Additionally, I believe that this is the least appropriate time to delay much needed welfare reforms and financial assistance to our cities and States which have exhausted their own potential to raise revenue to meet pressing social needs.

I am not in complete agreement with the entire administration programs with respect to welfare reform and revenue sharing—this is a different subject—but they are steps in the right direction, and with congressional help, measures in this area can be perfected to provide help which is urgently required.

Concerning the proposal for tax incentives to business to modernize plants and equipment, I have this to say. I think it is of the utmost importance that our plants, factories, and mines be equipped with the best that our technology can offer and have no objection in principle to tax incentives designed to this end. But I do feel that pyramiding tax incentives on top of accelerated depreciation allowances ordered by the administration under a dubious congressional mandate are unwarranted. Here I emphasize again it would have been far better in my opinion to go back to Congress so that Congress could determine as representatives of the people whether the accelerated amortization was encompassed in the vague congressional mandate upon which the President is relying. In any event one or the other of these tax benefits should do the job; both are not required.

We must have economic expansion if unemployment is to be checked and full employment restored. But this presents great difficulties. As I said at the outset, we must avoid inflation and try to achieve full employment and generally the measures designed for this run in opposite directions. To achieve the objective requires a double-barreled approach: one, measures to increase purchasing power, but in order to prevent inflation control over wages and prices, interest, and if necessary, profits and dividends. I cannot conceive how it can work otherwise in order to achieve the twin goal of restoring full employment and controlling inflation as well.

I conclude by reiterating: 60 days is a very short time to shape a comprehensive incomes program, but we simply cannot afford to proceed in this situation with all deliberate speed. There already has been too much deliberation and not enough speed in putting our economy right.

I thank you.

Chairman PROXMIRE. Thank you very much for an excellent and most stimulating presentation. We have had a number of distinguished witnesses. But you put the most emphasis on the crisis situation we are confronted with and indeed many of your recommendations flow from the fact this is a crisis, and, therefore, Congress must act, and act in a more comprehensive way than some of the other witnesses have recommended.

Now you have referred to the economic indicators as part of your justification for this. Will you spell out a little more clearly precisely why you think we are in a situation of such a crisis that we have to act the way that you would recommend?

Mr. GOLDBERG. The economy indicators show several things. Our productivity is the lowest of all of the countries of any major economic significance. I believe that the most recent, you will correct me, you and Senator Fulbright have gone over this ground, but I believe we are below 3 percent in our productivity increase while other countries range from 4 to 12 percent in their productivity rate. You simply cannot have an expansion economy with productivity that low.

Chairman PROXMIRE. The productivity measure depends upon the period you take?

Mr. GOLDBERG. Yes, sir.

Chairman PROXMIRE. You are absolutely right. In the 1970 period when I guess we had negative productivity, we didn't have any increase at all. More recently there has been more encouraging——

Mr. GOLDBERG. A little increase. Our productivity figure, of course, reflects upon the growth of our national product. That is advancing much below even the administration estimates. The consequences of that are readily apparent. Tax revenues to the Government which are desperately needed to fill social needs which cannot be delayed have fallen below estimates.

I saw a statement made that the administration has probably overestimated the receipt of revenues by as much as 15 percent. The wholesale price index is still rising in a measure which later will be reflected in retail prices at inordinate rates. The general retail cost of living is going up at a rate beyond 4 percent a year. Unemployment is 6.1 percent, which I think from my experience as Secretary of Labor is an underestimate of our actual unemployment situation.

We measure unemployment in our country as against those seeking jobs but we all know from our experience as fathers, grandfathers, that young people, many of them, and some adults as well, have simply given up in this area and they are not in the job market, and if they are not in the job market their unemployment is not added.

I witnessed a personal evidence of this the other day in Warrenton, Va., where I have a little farm. I heard a conversation. There was a young man out of school and as I was waiting to do some shopping he was asked by a neighbor, "Are you working?" and he said, "No." "Are you looking for work?". "What is the use?" He is, therefore not included in the unemployment figure.

The weakness of the dollar is a most significant economic indicator. The imbalance in our trade requires very strong congressional scrutiny and here Senator Fulbright has been attempting to concentrate on what aid is essential as well as you yourself.

I was astonished to see a figure which, if I understand correctly, is $12 billion on an annual basis in our balance of payments. I myself had thought it was in the $2 or $3 million range.

Chairman PROXMIRE. $12 billion.

Senator FULBRIGHT. $12 billion in what?

Chairman PROXMIRE. Balance of payments.

Mr. GOLDBERG. Yes, sir.

Chairman PROXMIRE. The annual rate is well over $20 billion, isn't it? It is over $20 billion. I will check with the staff here. I think that is correct. It is $23 billion, I think; $23 billion adverse balance of payments at an annual rate based on the first 6 months of this year—on the basis of the last quarter.

Mr. GOLDBERG. The last quarter. That would be annualized.

Chairman PROXMIRE. Annualizing the last quarter.

Mr. GOLDBERG. This enormous deficit which is——

Chairman PROXMIRE. And the trade balance, as you indicate, if it continues on the same path for the rest of the year will be adverse for the first time since 1893.

Mr. GOLDBERG. We always had—whatever our problems were—we always had, as I recall it, a favorable trade balance on exports versus imports.

Chairman PROXMIRE. Right.

Mr. GOLDBERG. But it links up with what Congress has been trying to point out, and with all respect I think the time has come for the Congress to do something about it, let me point out, and that is review more intensively the nature of our aid and military commitments abroad.

Senator Mansfield's proposal was not sufficiently supported. The Senator was pointing out something I think very significant and that is we are now what, 26 years after World War II. It is time that this be recognized and the Washington Post articles yesterday and today indicate the presence of American troops abroad without enough to do is having very bad effects upon our Military Establishment.

I am not a unilateral disarmer by any means and I don't think our Constitution is a suicide pact, but I do believe that the time has come realistically to liquidate the heritage of World War II, particularly in an age of nuclear weapons, troop carrying capacity, many things which did not exist 26 years ago.

Our plants are underutilized. That accounts for our decline in productivity. If I remember the figure correctly, we are down to about 72 percent?

Chairman PROXMIRE. Something like that.

Mr. GOLDBERG. Something in that area.

Chairman PROXMIRE. Seventy-two to seventy-three percent.

Mr. GOLDBERG. That is a very bad economic indicator. It is an ironical thing, Mr. Chairman and Senator Fulbright, that our defeated adversaries in World War II have more modern plants and equipment and are far more productive than we are.

Chairman PROXMIRE. Let me follow up by saying I think you have documented this case for an economic crisis extraordinarily well. But you say what we should do on the basis of this Congress has to get in the act far more than it has and take action and spell out the kind of program we should have in phase 2.

Secretary Connally was reported in the newspapers on Sunday as saying that he doubted that Congress would have to legislate a phase 2 program.

Now, suppose the executive branch doesn't submit a phase 2 legislative program, which is perfectly possible. Should Congress take the initiative and develop a program anyway without the recommendation or the cooperation of the Executive?

Mr. GOLDBERG. Yes; and there are many precedents for that.

Chairman PROXMIRE. Is it feasible for us to do that?

Mr. GOLDBERG. Yes, sir. I recall in 1961, when I was Secretary of Labor, and I say this quite candidly, the administration of which I was a part was slow in offering legislation dealing with our manpower situation. There was a committee of Congress headed by Senator Clark which developed the first comprehensive approach toward manpower problems and then the administration acquiesced.

I think that Congress, with all respect, as I said earlier, has been too reluctant to assert its own prerogatives in this area.

I put to you a simple fact which I think I read in Secretary Connally's statement. They are relying upon, the administration is relying upon this general law which Congress enacted but I point out it expires shortly.

Does anyone believe really, since it expires on April 30, that we can turn this economy around and restore it to health in that short period of time? I don't believe so. This is a tremendous economy and Congress will have to be consulted sooner or later. Better sooner in my opinion.

Chairman PROXMIRE. Now, Mr. Goldberg, you specify more stringent goals than other witnesses have specified. Most of them have indicated that they would be satisfied with a 1-, 2-, or 3-percent increase in the price level. You say that the standards should be stabilization of prices at a level not to exceed the present ones with, as you say, a play in the joints, which I presume would mean you would have overall maybe a half percent, maybe a 1-percent increase, and you would confine wage increases to increases in productivity on the average again with adjustments for inequities. That is a more stringent recommendation than we have gotten from Gardner Ackley, from Arthur Okun, from other very able men whom I am sure you respect and who have worked in the field a great deal.

Do you think that kind of program can be achieved realistically?

Mr. GOLDBERG. Yes; I do and I think it is necessary. I say again that I think the dimensions of this crisis have not sunk home and have not been brought home. Part of it is, as I have explained self-congratulations by the administration of their turnaround and part of it to balance the equation is due to an unwillingness of Congress to face up to the dimensions of the crisis. We are in a great crisis and it is very serious and it ought to be treated as very serious.

Now I am not saying that from now until doomsday that we need perpetual controls but I am saying now and in the immediate future we had better act and act vigorously to control inflation and combat unemployment.

Just as a matter of interest, to illustrate in a very simple fashion, I was at my farm this weekend and I picked up a paperback book published about 7 years ago. The price of it was 25 cents. You cannot buy a paperback today that is less than $1.95. We have gone unhappily some distance since that time. Look at the indicators which indicate the amount of wage increases as against the wage increases of 1961, where they were generally kept within the productivity limit. And look what the consequences of these wage increases are. The immediate announcement by affected industries of price increases. The steel industry hopes to be protected by this surcharge on imports. Well, there will be retaliation or there will be an increase in investments abroad by our companies. This isn't desirable from the standpoint of employment. I know what some economists have said. Paul Samuelson, for example, is a great economist. His theory is that we can live with "moderate inflation", which I think he defines to be anything up to

4 percent. But we are paying the consequences of that inflation in many ways and when it gets 4 percent it becomes 5 and 6 percent.

What I am saying is at the present time we had better hold our price level and I believe if we held our price level our labor people would cooperate in a program that would generally limit wage increases to productivity.

Chairman PROXMIRE. Let me ask you one other question before I yield to Senator Fulbright. Much of the labor cooperation seems to hinge on whether or not we provide a limitation on profits, and this is very, very difficult because again the economists are just about unanimous in agreeing that we shouldn't do that.

If we provide a confiscation of profits you just take out of the act the discipline over costs. The reason that the American business has been efficient is because we have been overwhelmingly a profit-motivated country, economically, and you can see in military procurement if you have a cost-plus operation with the profits guaranteed the costs get out of control. So for all of these reasons, even though you have a rather mild profit control recommendation, that is you don't say put it in effect now, you say put it in standby, give the President the authority to use it.

Should we provide that authority over profits if it is basically in principle wrong and if it is going to result in costs which are not under control?

Mr. GOLDBERG. When you have a stabilization program you must not only be fair, you must have the appearance of fairness, and we don't know what is going to happen. It is my view that if a program fashioned by Congress took cognizance of the fact that if profits went out of line there would be authority vested to take action with respect to it, that would make such a program more acceptable.

At the moment there is an element of unfairness. The average worker is not an economist but he is not a fool. He says, "Well, here I am, I am going to be restrained, and what about companies?"

The simple way to do this, it seems to me, is to say, "Yes, we are not unaware of this, and if companies are getting a windfall, our legislation provides that action can be taken to prevent this." Sort of a watchdog role on profits.

I would have thought if some indication had been indicated with respect to this in the freeze, then labor would have been more receptive to the freeze. In fact the administration has had to react that way when a few companies increased their dividends. They had to call them down even though the order they issued did not encompass dividends.

It is precisely for this reason I say attention must be directed in this area.

Chairman PROXMIRE. Senator Fulbright.

Senator FULBRIGHT. Well, Mr. Goldberg, it is always a great pleasure to hear you. It is very unusual these days to have any witness who thinks this Congress still has any part to play in our Government. I take it as a great compliment you think the Congress ought to have a hand in these activities. I don't know whether you can make that sale downtown or not, but I for one agree. I think not only in this field but in other areas that the Congress ought to have a hand in it and ought to do what it can, because I agree with you about the nature of the crisis.

When the chairman asked you if you think it is feasible to do the things that you are advocating, my own feeling was that he meant do you think it is politically feasible, not is it feasible if the Congress wants to do it.

This is the crux of the matter because I don't believe the Congress or the country recognizes that there is a crisis, as you describe it.

I think this administration is extremely adept in the application of phsychological euphoria, I guess.

I was particularly impressed when Mr. McCracken was here. Instead of referring to a deficit in our balance of trade he had a very lovely phrase. I think he referred to it as a surplus in imports. It made the impression we had another surplus that was very useful and beneficial, and they are extremely adept at this and I honestly believe the country thinks the war is over.

The wife of the Attorney General flatly said on television the other day the war is over, and she said the recession or whatever you want to call it is cured. This was on national television and, of course, everyone has taken her now as a prophetess and I think the President has succeeded in selling the Congress the war is over. He has taken these measures to control the economy, he is going to Peking and there is, therefore, no longer any problem in international affairs. We are negotiating at SALT and there is no resaon to worry or do anything about it. This is what I took "feasibility" to mean.

What do you say about that? Do you think it is politically feasible when the administration and the country as a whol, doesn't accept your view that we are in a crisis? What are you going to do about that?

Mr. GOLDBERG. Senator, I think the people are ahead of their leaders. It is true they respond as you have indicated to statements but upon sober reflection the facts of life are going to catch up.

Senator FULBRIGHT. The poll shows this morning every day when the President makes a statement his popularity goes up and every one takes it at face value.

Mr. GOLDBERG. They have recognized——

Senator FULBRIGHT. I assume you mean the Congress ought to do something. Do you think we have the votes to do what you propose?

Mr. GOLDBERG. I think that politically it would be to the advantage of Congress.

Senator FULBRIGHT. I agree with that. That isn't what I asked you. The Senator from Wisconsin certainly has the courage to try. I was asking you do you really think we have the votes to put through a program?

Mr. GOLDBERG. I don't know, Senator. I think the votes ought to be there. I still think the American people basically want inflation controlled and they want jobs and they are ready to cooperate and, by the way, I don't think the American people believe the war is over. We have a couple of hundred thousand men still there.

Senator FULBRIGHT. Those men don't believe it but, you know, any time you try to tell the truth you are immediately attacked by various people as being a prophet of gloom and doom and not having faith in the American people and the country. This is the usual reaction in the press and elsewhere. They simply don't like to be told the truth. The poor fellows in the Army—I know they know it—but they are only 300,000 or 400,000 and their families out of 200 million.

I don't want to be gloomy here in saying they don't subscribe to your analysis. I do subscribe to it. The war is not over and it isn't likely to be over in the near future if we continu what we are doing. I come back to the matter you mentioned in passing. The conditions that have developed in our Army are absolutely astounding. The theory of having our Army around the world is that we are restraining Communist expansion, yet these stories that have just come out in the press—by Haynes Johnson and some of the best reporters I know—tell of a really terrible situation. That together with the stories out of Saigon and the demoralization there. We are undermining the free enterprise system. We are undermining the stability of the United States by our own acts.

Mr. GOLDBERG. And that concerns me very much.

Senator FULBRIGHT. Those stories about our Army in Europe are just absolutely awful. It is not only there—you read them—I don't want to go into them now. The one this morinng, if you read it, is absolutely horrible in its implications, as was the one yesterday.

Mr. GOLDBERG. Yes.

Senator FULBRIGHT. I think the crisis is not only the economic crisis that this meeting is concerned with, I think it goes back to this. That is the reason why we are in such dreadful economic condition—the long continued extravagance with our resources and the attention of our people and our manpower in this worldwide effort to restrain communism, in the course of which we have undermined the strength and integrity of the free enterprise system. That is just the way it looks to me.

Mr. GOLDBERG. I served in the armed services very proudly in World War II and held a commission until I was appointed to the Supreme Court. Then I resigned it because I found a case involving one of the armed services and I thought it would be a conflict of interest.

By the way, my commanding officer was Senator Goldwater, since I was assigned to his unit. But I think this: We simply as a country have not faced up to the fact that it is 26 years after World War II, which is perhaps a different way of saying what you have just said. We did get into the cold war and Korea and the Russians made plenty of mistakes which fed our own political attitudes. I was affected by them. I am sure we all were.

Chairman PROXMIRE. We all were.

Mr. GOLDBERG. But we simply have not kept abreast of both the political developments and technological change. It simply does not make any sense to me, for example, in Germany, to maintain those forces in the amount in which we maintain them. The idea that you negotiate mutually, sounds good. But sometimes the United States ought to take some initiatives and just not respond. If one were to describe our foreign policies as I witnessed it for 3 years at the U.N., we had a responsive foreign policy, not an initiatory one. And perhaps the time has come for the United States as the greatest power in the world to initiate some moves. It took Willy Brandt to initiate a move and now we have followed through. He was criticized for that. I defended that move, to liquidate the World War II heritage, and now, of course, we are supporting that. Perhaps we should have taken the initiative.

Take Japan. You are familiar with my views since we once participated in a discussion on this subject. I don't see why after 26 years we maintain the primary task of defending Japan which I believe now is what, the second most productive country in the world? I think we ought to liquidate the consequences of that war and why should we bear the expense and the heritage of that? We should not be the proponents of renewing the Defense Treaty. I can understand the Japanese. It is cheaper that they devote 1 percent or 2 percent of their national product to defense while we devote 9 percent of our gross national product.

Isn't it time for the United States to reappraise this? It would be far better to do it than to impose an import surcharge on Japan.

Senator FULBRIGHT. Well, I certainly agree with what you are saying. I come back to the initial point. I think people are diverted by all these dramatic changes designed to create a dramatic impact. They keep people from concentrating upon what really needs to be done and the only question I raise is not the substance of your recommendations, I think they are very sound. I am very dubious about getting them done, getting the Congress to participate in them. I am afraid the Executive will simply proceed along the lines you say and it is difficult to get the Congress aroused to do anything about it. They are going to ask for $80 million for defense. Today we will have the draft bill and right after that the military procurement bill. I shall support efforts to cut it and I am quite sure the Senator from Wisconsin is going to support these efforts. But I just have to be frank about it. It is very dubious whether we can get the votes to do it. I hope we can. If you can convince people how serious the crisis is, it will help us get some votes.

Thank you very much.

Chairman PROXMIRE. Thank you very much. I do have more questions for you, Mr. Goldberg. We have another witness and he has been very patient and we have a rollcall at 12 noon, from which I will return.

Let me ask one more question. I am concerned about how you administer the proposal you make to hold prices down when you have such a variation in productivity in industries? It is easy, relatively easy to hold prices down and to make adequate profits where you have average productivity increases. Where you don't have that, and this is true of many industries, you are either going to have to permit the price to increase or you are in trouble. When you have extraordinary profit you have to have a price rollback or you have an exploitation of the situation.

Mr. GOLDBERG. It is very difficult but it is total result that is important and if you permit variations there has to be play in the joints. But if you come into totality, with total impact of wage increase being linked with national productivity, then the total price structure, it kind of balances out. The total price structure ought to be stable.

Chairman PROXMIRE. Getting there and enforcing it by industry.

Mr. GOLDBERG. It is very difficult. I don't want to again say that, it is not easy, but I want to again emphasize we are in serious economic trouble. What is the use of kidding anybody about it? What is the use of saying or even implying that we are going to be out of it in 60 days, 90 days, 120 days? It is going to take us considerable time to turn this economy around.

Chairman PROXMIRE. You said in the course of your remarks, as I recall, that the surcharge was viewed by many of our trading partners as a clear, conspicuous violation of GATT.

Mr. GOLDBERG. Yes, sir.

Chairman PROXMIRE. I didn't get what your own judgment was on this matter.

Mr. GOLDBERG. I think it was.

Chairman PROXMIRE. You think it was?

Mr. GOLDBERG. Yes, sir. I think we entered into an agreement which required consultation, and negotiation before imposing such charges and I looked at the GATT treaty and I think we made a move which at the very minimum requires consultation before we made it. It may even require more. But at the very minimum it required consultation and negotiation before we did it.

Chairman PROXMIRE. The other question related to Japan which has been such a very serious problem. Trade is so much more important to our trading partners than it is to us. For a country like Japan it is almost trade or die or trade or stagnate and the 10-percent surcharge, the buy American aspect of the investment credit, the insistence on a revaluation, some very substantial reevaluation on their part, all make it very difficult for them. Do you think the Japanese are being unnecessarily difficult in resisting these pressures?

Mr. GOLDBERG. The Japanese are very difficult, stubborn negotiators. In 1961, I negotiated some quota arrangements where they were flooding our market with goods at prices they should not have flooded them with. But we negotiated a settlement of that. My point with respect to the Japanese is they live on trade. They perform miracles. Take steel which they set at prices that disturb our steel industry. They produce steel at lower prices even though they import everything. They have no iron ore, they have no coal, no scrap, and all of this must be shipped to them and they must ship. Now, I don't think the destiny of the steel industry is going to be solved by a surcharge.

Now, it was true that currencies are out of line, the dollar is overvalued, the yen is undervalued. I would much rather see after consultation and negotiation a realistic readjustment of currencies as a method of dealing with this problem than the tariff route. I am very fearful if we go the tariff route what is going to happen to us and I see evidences already of what is going to happen to us, because, as I said, we are also a trading nation and retaliation can be invoked against us. People can fall out of jobs who are in export industries as well as people falling out of jobs who are in industries menaced by imports.

Senator FULBRIGHT. That is especially true in soybeans, rice, and cotton.

Mr. GOLDBERG. Yes, sir.

Senator FULBRIGHT. It puts the poor farmer out of business.

Mr. GOLDBERG. Yes, sir.

Chairman PROXMIRE. And dairy products.

Mr. GOLDBERG. Yes.

Chairman PROXMIRE. Well, thank you very, very much, Mr. Goldberg.

Senator FULBRIGHT. Thank you very much.

Chairman PROXMIRE. Our next witness is Prof. Arthur Miller, a distinguished and nationally known constitutional law professor who has made some fascinating and significant observations on the constitutionality of the President's action and the legality of his action and we would like very much to hear from you.

I should tell you we do have a rollcall coming up in half an hour. Don't be worried about that, I will come back after that.

STATEMENT OF ARTHUR S. MILLER, PROFESSOR OF LAW, NATIONAL LAW CENTER, GEORGE WASHINGTON UNIVERSITY

Mr. MILLER. I will try to get through these remarks. I appreciate very much being called to testify here.

I am going to disagree, with great deference, with former Associate Justice Goldberg about his views of the relevance of *Ferguson* v. *Skrupa*. We are not talking about the ultimate power of government; we are talking about how government acts. I don't think there is any doubt about the ultimate power of government to act in the area; but the type of action itself is very important.

The public has been bemused, even dazzled, by the way in which the President can neatly reverse his field and change his economic game plan. On August 15, 1971, he casually tossed overboard what had apparently been his personal and professional philosophy. Wage and price freezes, plus a 10-percent surcharge on imports and a dollar float, were announced to a stunned world. The President, of course, grabbed at statutory authority enacted over his will in 1970 and renewed in 1971—the Economic Stabilization Act of 1970. Immediately, the public administration swung into action in ways more than faintly reminiscent of F. D. R.'s famous "100 days" in 1933. A Cost of Living Council was established and interpretations of the vague Presidential language began to pour out. The public opinion polls showed that a majority of Americans were in agreement.

After the dust had settled a bit, a few—a very few—began to ask some tough questions. Some were those of "policy." The NEP favored the corporations at the expense of the working class, said some. Others complained because they were left out of the action; the trade union leaders are examples. The legal or constitutional questions were not even raised, save by Governor Smith of Texas, who soon backed down; and by four law professors at Catholic University, whose suit is still pending in a Federal district court in Washington. For the most legalistic of all nations, for a people who make litigation a way of life, and, most importantly, for the reason that the NEP poses grave constitutional questions, this silence was indeed strange.

That silence should be shattered. The legal issues in the new economics deserve widespread public attention and debate before laws and attitudes become so solidified that they cannot be altered. It may already be too late, if reported congressional reaction to President Nixon's address to Congress on September 9 is any indication. According to the Washington Post, a typical reaction to the speech was that the President "ought to get with George Meany and work something out." I ask you this: Who elected Meany to public office? Or the corporate presidents? If, indeed, postfreeze economic policy is worked out in conjunction with business and labor leaders, the obvious result is the American version of the corporate state. Perhaps we should have a corporate state and it may well be that we are already far down that road—too far down to change—but if so, the American people ought to make very sure that this is what they want. I should like to address a few of the legal and constitutional issues raised by the NEP, and also to suggest some possible guidelines for what is rapidly becoming the critical question: What happens after the freeze goes off? Unless Congress wakes up, and immediately, it will find that the ball it handed the President in the Economic Stabilization Act is now almost entirely in his possession. If so, there will be little that can be done on the Hill except to approve, or at times to alter somewhat, policies established by the Executive. We are already far down the road to executive government; this would make it irretrievable.

THE FOREIGN POLICIES

There can be no doubt that the 10-percent surcharge on imports violates the General Agreement on Tariffs and Trade. As the London Economist put it, "The surcharge breaks almost every rule in the agreement and the United States admits it." The latter part of that quote may not be quite accurate, although the former is. The New York Times for September 12 carried a dispatch from Geneva saying that "the GATT had, with one abstention the United States, voted to say that the surcharge violates the agreement." I find this an odd position for a nation that has trumpeted the need for the rule of law in international affairs and whose leaders—plus the press—have often belabored other nations for breaking treaties.

But the violation of a solemn international agreement is of lesser importance than the fact that it signals an "economic fortress America" viewpoint. It is neoisolationism, and it comes at the very point in history when purely national economic policies no longer are viable, when they are being replaced by larger-than-national resolutions. That is a constitutional matter of great magnitude, even though it may never be litigated. How economic policies are structured are, under the American form of government, a matter of the coalescence of several factors: economic, political, and legal. We have reached the brink of a reversion to the "beggar-thy-neighbor" policies of the 1930's. Writing in 1969, the well-known economist, Charles P. Kindleberger, said:

> The nation-state is just about through as an economic unit. General de Gaulle is unaware of it as yet, and so are the Congress of the United States and right-wing know-nothings in all countries. Tariff policy is virtually useless * * *. Monetary policy is in the process of being internationalized. The world is too small * * * (to) permit sovereign independence of the nation-state in economic affairs. (Kindleberger, American Business Abroad, 207–208 (1969)).

Kindleberger, of course, is not alone in these views. They are echoed by many others, economists, lawyers, journalists, et cetera.

My point, in brief, is that the 10-percent import surcharge is not only a violation of an international agreement, it may well denote a reversion to a moderized form of mercantilism. That is a constitutional problem that the Congress cannot safely ignore.

Several important constitutional questions are visible. First is the delegation of authority to the President. He is given a blank check to stabilize prices, rents, wages, and salaries; he may "issue such orders and regulations as he may deem appropriate." "Gross inequities" may be adjusted. Willful violations of an order or regulation are punishable by fines up to $5,000; and injunctions may be obtained to enforce them.

That is the Economic Stabilization Act of 1970, a statute that the President himself said when it was enacted that it "will do far more harm than good," a statute that Arthur Burns, head of the Federal Reserve Board, said conferred "dictatorial powers" on the President. By enacting it, Congress gave away not only the ball game, but the entire ball park. The discretion the President has is limited only by the one provision that he cannot set wages and prices below those of May 1970. Anything else apparently is all right.

That poses the legal question of delegation of legislative power—a separation of powers principle that has had an uneven treatment by the Supreme Court. In spirit, the Constitution calls for general policies to be set by Congress, with implementation left to the public administration. Congress, that is, may delegate legislative powers, provided that the delegation is confined by "an intelligible principle." Courts and others must be able to determine, as the Supreme Court said in the leading case of *Yakus* v. *United States* (1944), whether the delegate has exceeded his grant of power. That calls for standards in the statute to canalize the delegated power within recognizable boundaries.

No such "intelligible principle" is in the Economic Stabilization Act. The President may do anything that he considers "appropriate." That is an economic Gulf of Tonkin resolution; it indicates that Congress did not care to confine the President. No such sweeping economic power has ever been upheld outside of wartime. The critical question, then, is whether the Constitution permits such a delegation. In my judgment, based on cases decided by the Supreme Court, there are substantial grounds for saying that it does not. There are some scholars who maintain that the nondelegation doctrine has been a failure. Permit me to explain my reasons for saying that.

Whether legislative powers could be delegated came to a peak in 1935 when the Court in two cases shot down the Blue Eagle, the National Recovery Act, mainly on delegation grounds. Those are the only times that the Court has ever invalidated delegations to permanent Federal agencies. Said Justice Cardozo in one of them, the statute was "delegation running riot."

Since that time, many transfers of legislative power to the bureaucracy have been validated, even though the standards were vague and nebulous, even almost nonexistent. *Lichter* v. *United States* (1948) is an example; renegotiation of war contracts was upheld even though the only standard was that "excessive" profits were to be recovered. Congress did not define the term. As late as 1967, in *United States* v. *Robel*, the Court swept aside a delegation argument allowing the Secretary of Defense to designate certain arms plants as "defense facilities"—invalidating some Government action on other grounds.

Those decisions, plus others like them, run, however, only to limited segments of the economy. They indicated what Congress wanted done within a narrow part of the social structure. But in the Economic Stabilization Act of 1970, the President can manage the entire economy.

Furthermore, one should read *Yakus* and *Lichter* as wartime cases. In my judgment, the fact the Nation was in World War II had an impact on the decisions, even though the opinions were written otherwise. But—and this is very important—the war powers cannot be used today for economic controls. In fact, neither Congress nor the President has sought to do so. What, then, provides a constitutional basis for freezing the economy? The best one can find is the power of Congress to regulate interstate commerce, a concept that has been so expanded that it can be said to cover about every commercial or economic transaction in the Nation.

That might solve the problem of ultimate power, but not that of delegation. The 1935 cases are still on the books, even though the Court has had numerous opportunities to overrule them. That they have not been expressly repudiated may indicate a latent judicial attitude of their basic merit. Prof. Louis L. Jaffe of the Harvard Law School has said that the 1935 cases prod "Congress into awareness of its responsibility for bringing major policy decisions into focus." That Congress has not done so far. That it should do, in my judgment; it should not leave phase 2 of the NEP up to the Executive.

What I have said so far about the Economic Stabilization Act deals with its general provisions. Some specific interpretations by the Cost of Living Council, in my judgment, are at least questionable and probably invalid. The orders concerning contracts entered into prior to August 14 for salary increases to come after that date obviously abrogate existing contract rights. No case to my knowledge permits the Federal Government so to alter the obligation of a contract. Under the fifth amendment, no property can be taken without due process of law and just compensation must be paid for property expropriated by the Government. The freeze confiscates without compensation contract rights existing before August 14. According to the September 10 New York Times, the Council admitted as much regarding corporation dividends, but they have not as yet applied that notion to wage contracts. Why the difference in treatment? There is none in principle.

The Government, so I understand, relies on *El Paso* v. *Simmons* (1965) for its authority to do this. The decision is not even remotely on point, although there is language in it about the power of government to alter contract obligations. The controlling case is still *Blaisdell* v. *Home Building and Loan Association* (1934), in which Minnesota's mortgage moratorium law was upheld, the Court saying that contracts were not impaired but that creditors' remedies were merely changed. Again, the war powers cannot be used. As Chief Justice Warren said in the *Robel* case:

> * * * the phrase "war power" cannot be invoked as a talismanic incantation to support any exercise of congressional power which can be brought within its ambit. "Even the war power does not remove constitutional limitations safeguarding essential liberties."

As for State employees, Governor Smith of Texas may well have been on sound legal ground when he challenged the power of the

Federal Government to deny raises to Texas schoolteachers. Smith backed off, to be sure, but if federalism means anything, it means that the Federal Government cannot regulate all State activites. Some cases, for example, *Maryland* v. *Wirtz*, have applied Federal statutes—in that case, the Fair Labor Standards Act—to State employees. But when one takes the federalism principle and adds it to the contract principle, then I think it wholly clear that schoolteachers in, say, South Carolina and Georgia and elsewhere are entitled to their minuscule in-step raises. To deny them that is petty as well as unconstitutional.

Two due process arguments can be made about the orders of the Cost of Living Council: (*a*) They tend to be ambiguous and conflicting, and are given different interpretations in different parts of the country. That means, since this is a criminal statute in that criminal sanctions can apply, that the orders may well be "void for vagueness." A person often cannot know in advance whether his conduct is or is not prohibited. What we have here is a classic case of the grand pronouncement followed by complete confusion at the working level. (*b*) Orders are issued in a summary fashion, without giving notice and an opportunity to be heard before issuance. That can be said to violate procedural due process of law. It also appears to violate the requirements of section 4 of the Administrative Procedure Act of 1946. I do not argue that a full dress, trial-type hearing should be held before an order is released. But surely some orderly procedure should be followed—not government by decree, as we now have it.

NEXT STEPS

I have spoken thus far only about phase 1 of the NEP. Of probable greater importance is phase 2. Where do we go now? Is the field to be reversed again? Will wage controls be imposed and let prices drift? Or vice versa? Will there be controlled inflation? If so, how much? And so on.

I do not attempt to speak to those questions, save in general. What I do say is that Congress has the duty to follow the Constitution, and not to abdicate its governing power to the executive. It must be more than a rubber stamp to policies that come to the Hill from the other end of Pennsylvania Avenue.

Some measures must be taken. The status quo ante cannot, and should not, be restored. The alleged "free market" is not magically going to come into existence. The hand of government must be at the economic tiller, now and indefinitely. What is needed is something else than an agreement between executive officers, corporate managers, and union leaders.

My suggestion for legislation is establishment of an economic stabilization board, with carefully confined powers to keep inflation within reasonable bounds. How the board should be manned is a most difficult question. I make no suggestions about who should be on it.

But I do suggest that domestic economic policy must, of course, be meshed with international policies, and that it is long past time when this Nation can go it alone economically—or otherwise.

And I emphasize that some crucial questions must be analyzed and answered, if such a board is established.

(1) Who appoints the members?

(2) From what groups should the members be taken?
(3) Most importantly, what powers should the board have?

As for the latter question, these must, in my judgment, be carefully stated. No uncontrolled discretion should be granted. If that takes repeal of the Economic Stabilization Act—or merely letting it lapse—so be it. As I have tried to indicate, it is invalid constitutionally. Furthermore, it is indefensible on grounds of good public policy. Government by Executive decree runs contrary to the letter and spirit of the Constitution. But that is what we have now. Senator Ervin's Subcommittee on Separation of Powers, within this year, has considered what seems to be misuse of the pocket-veto power to thwart Congress, the impoundment of more than $12 billion of appropriated funds by the executive, and the use of executive privilege as a means of denying Congress vital information. Now in the NEP we have government by decree, with the thus far willing acquiescence of Congress. I think it high time that this be halted.

One final word: There does not appear to be any constitutional impediment to Congress employing its interstate commerce power to establish some sort of economic stabilization board. Such a board could not tamper with contracts already concluded, but it could deal with future matters. The Supreme Court has not invalidated any economic measure of Congress since the 1930's, and only one minor State statute. But there are solid grounds, in law and in policy, for saying that Congress should set the ground rules for such a board, not the Executive. Congress does have the ultimate power, if it will use it. I do not believe anyone will deny that. I suggest that Congress do so.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you for a devastating analysis of the act and the action of the President under the Economic Stabilization Act of 1970.

You stated the legal constitutional issues are far more pointed than any of the other witnesses who have appeared before this committee and we have had a number of them.

Do you really think that the Supreme Court is likely to rule this act unconstitutional?

Mr. MILLER. It depends on the type of cases brought before it. I think there is a possibility. If I might speak generally about the case pending before the Federal district court in Washington, the judge said there were substantial constitutional questions present at the first hearing. He gave the plaintiffs 10 days to come back in with some amended complaints and more papers. I believe it is going to be decided this week. If so, a three-judge Federal court could be convened. Then there will be a straight shot to the Supreme Court after that. If it is argued on proper grounds and it is a proper case, I don't think there is any doubt about contracts already in existence. I don't know anyplace where the Government can confiscate existing contract rights. I think there is a serious agreement in the delegation question; I found in a very hasty look at some cases where five members of the present Supreme Court have expressed misgivings about it.

Chairman PROXMIRE. Here we have 29 days of the freeze gone by, there are only 61 that remain. The question would be moot after November 12.

Mr. MILLER. No, sir, it wouldn't, not for the wage freeze, unless they permit retroactive raises. It still could be argued on the contracts.

Chairman PROXMIRE. What might happen after that, those who bring suit in connection with this action might get compensation, that is true, but as far as the economic effects of this action, as far as the fact that it has frozen most wages and prices during this period, there would be no way of changing that?

Mr. MILLER. You have to find a plaintiff with a justifiable controversy. No one can come in and ask that the Court come in and make a blanket determination. He has to have some case or controversy under article III.

Chairman PROXMIRE. Let me ask you the fundamental question. You are obviously a very able lawyer and authority. How can a system of wartime type economic controls be imposed during peacetime under the Constitution?

Mr. MILLER. Well, it seems to me that the Supreme Court's present-day interpretation of the interstate commerce clauses gives Congress the power. There is a little noted but important case the Court decided last spring, *United States* v. *Perez*, which upheld the Loan Shark Act of 1968, I believe, with respect to some loan shark activities of a very local nature. That plus the motel case under the Civil Rights Act of 1964 and so on give the Federal Government the ultimate power, in my judgment, to make the economic determination.

It would be my considered opinion, Mr. Chairman, that a policy agreed on by the Congress and the President to enter into some economic controls would be approved by the Supreme Court, provided that existing contract rights and other matters are taken care of. I don't see the Court intervening between Congress and the President on economic matters unless some obvious contract rights are involved.

Chairman PROXMIRE. Would it be possible for the Congress in your view, perfectly proper and constitutional for the Congress to delegate to the President the authority to roll back prices and wage increases or not? You talk about not being able to vitiate contractual agrements.

Mr. MILLER. It is one thing, if I may say so, it is one thing to say rollback and quite another to take Mr. Goldberg's position and say let's stop where we are now.

Chairman PROXMIRE. Obviously we can do that.

Mr. MILLER. Now, it is possible, of course, for Congress to delegate its power but it has to erect some sort of standards, as the Court said in the *Yakus* case. That is a wartime case. The Supreme Court must be able to determine if the delegate has exceeded his power. You don't have that in the Economic Stabilization Act of 1970. If Congress will build in some standards, yes, it can.

Now, as far as a rollback is concerned——

Chairman PROXMIRE. Would it be possible for the Congress to do this then instead of trying to act to cancel an agreement, a contractual agreement? Supposing Congress required that in certain cases and they were carefully specified, that any proposed increase in wages or prices must be announced 30 days in advance, then the President would have the authority to use the full power of his Office to try to secure a compliance that required them to modify their proposal and presumably you could add to that the authority of the

President to take action to prohibit it, or could you, prohibit them agreeing to a settlement which was inflationary?

Mr. MILLER. I think this would be upheld with one proviso—and that is that Congerss has to set the guidelines.

Chairman PROXMIRE. Provided Congress set the guidelines.

Mr. MILLER. Somebody has to set them because you can't leave it in my judgment to the delegate.

Chairman PROXMIRE. Spell out what you mean by guidelines?

Mr. MILLER. How much inflation, how much price increase, how much wage increase, and so on. Somebody has to set it. The ultimate power to rule on these matters is congressional and the Congress, it seems to me, cannot give away the entire game, as it has already.

Chairman PROXMIRE. When you say guidelines, do you mean that there would have to be numbers? There could be a 5 percent increase in wages or a 6 percent, or would some kind of verbal provision be adequate?

Mr. MILLER. Well, without getting into precise wordage on the thing, I think it can be rather flexibly imposed or suggested.

Chairman PROXMIRE. I wouldn't have to use numbers?

Mr. MILLER. Probably not. I would say probably not because I don't know of any cases—I am merely guessing on that—but probably not. I think if you want my preference, again this is a personal preference, whether Congress should use numbers is a different matter. As Senator Fulbright suggested earlier, getting Congress to move in these matters is very difficult. Perhaps the outside boundaries can be set by Congress, leaving the President's flexibility within those boundaries. You could use numbers, I think, for that, say, from 3 to 6 percent or some such thing as that. The President could then move within those boundaries.

Chairman PROXMIRE. Now you have the problem which I wasn't able to press very much with Mr. Goldberg, but I think it complicates this legally. You would have to follow some kind of a very discriminatory policy on pricing if you are going to get economic equity and fairness. Where you have a firm which has no increase in productivity, no increase in the efficiency, and you can expect that in a particular industry, I am talking about an industry, maybe food processing might be such an industry, under those circumstances if you permitted an increase in the wages of, say, 5 percent, you would have to permit almost a corresponding increase in prices. On the other hand, if you have the appliance industry or computer industry where you have an extraordinary increase in productivity as has been in the past, we know it is going to continue for several years in the future, there if you provide for a 5-percent increase in wages to make it fair and equitable for other industries, you should probably reduce prices. How can Congress write a statute which would require one industry that prices could go up and another industry they have to go down, and in your view would this be consistent and legal?

Mr. MILLER. Well, I would answer that saying first that as a general point of view I get nervous by all of this talk about economic growth. It is a sort of a false goal. That aside, there is no equal protection clause with respect to the Federal Government in the Constitution. At times that clause has been applied by the Supreme Court, mostly in racial segregation matters. There is no reason, in my judgment, why different industries cannot be treated differently, provided there is, though, some reasonable basis, some reasonable classification for making distinctions.

Chairman PROXMIRE. Here again there is great advantage in leaving a considerable amount of flexibility to the administration authority and the best administration authority is the man elected by all of the people, the President, as we have done in the past, so he has some discretion to apply this without such detailed guidelines by the Congress that he is inhibited to achieve the kind of equity from the reasonable standpoint he could.

Mr. MILLER. You might think about this. In my judgment, we are in for some sort of economic controls for the rest of our lives, somewhat short of infinity, as the Wall Street Journal put it. How much authority do you want to give to the President? You might ask this before he puts anything into effect, the proposal be laid before the appropriate committees of Congress for 30 or 60 days so they have a chance to take a look at it.

Chairman PROXMIRE. Supposing we confine that to any rollback, something of that kind, rather than putting into effect a jawbone policy trying to persuade business and labor to comply with guidelines? I am just afraid that Congress is going to be swamped with details and with infinity of economic problems effecting every kind of industry, every kind of employer, all over the country. We won't be able to cope with it. We have to limit this very much if it is going to be effective.

Mr. MILLER. I agree with you. I wrote a memorandum for Senator Ervin's subcommittee earlier this summer on the executive privilege hearings. There is no use getting more information up here to Congress unless you have the facility and the capacity for dealing with it. Unless you have staff members and full capability of dealing with it, there is no use of trying to get in the act; you will only complicate matters. I can't agree more. I may be reading you wrong, sir, but you are saying that we don't have the capacity for dealing with it, therefore, we should get out of it?

Chairman PROXMIRE. No, no. What I am saying is we should try to limit it so the Congress, which can't do its work now very well, as you know. We did take a 1-month recess but we expect to be in for the balance of the year and we expect in the future to be working a good solid 11 months a year. If we are going to get into scrutiny of individual contracts in any kind of a substantial comprehensive basis we are not going to be able to do the job.

Mr. MILLER. I would agree entirely. I think, however, that the ingenuity of lawyers and legislative drafters can fulfill this requirement.

Chairman PROXMIRE. We certainly would like to consult you on the legislation. We are very interested in legislation along this line. I am a ranking member of a committee that should have principal responsibility for any phase 2 legislation with respect to controls.

Mr. MILLER. It will be a pleasure, sir.

Chairman PROXMIRE. May I ask you would a U.S. importer have legal standing before GATT? Couldn't an importer go to the court and protest, based on GATT, an illegal infringement of his business activities? It is such an emphatic finding on the part of a unanimous GATT that this action is in violation of the agreement.

Mr. MILLER. That is right. I talked to a friend of mine who is at the Georgetown Law Center who I think is the outstanding expert on international economic law. He agrees it is what he calls a technical violation of the GATT. He says we could have imposed quotas. They are worse, he said. Now, as to whether an importer would have standing, it seems to me the answer would be quite obviously yes. It would have standing to challenge. After all the Court did litigate in the *United States* v. *Belmont* and *United States* v. *Pink*, the validity of an executive agreement on the Litvinov assignment which President Roosevelt entered into in the early 1930's; and they also decided the *Sabbatino* case a few years ago applying the act of State doctrine on the question of who owns some sugar that got out of Cuba. The Court said we are not going to get into the act. Congress came along and in effect overruled the Supreme Court on that. The Court permitted in the *Sabbatino* case the National Bank of Cuba, an agency of a nation we had not even recognized and still don't, to use the Federal court to challenge an action. So I don't have any doubts about standing.

Chairman PROXMIRE. What kind of legislation do you think we ought to consider on phase 2? Do you think this situation calls for voluntary or mandatory guidelines?

Mr. MILLER. Well, my feeling is this: I don't think voluntary guidelines are worth anything. I don't think people pay any attention to the voluntary——

Chairman PROXMIRE. We had voluntary guidelines from 1962 to 1966 and many people thought they worked very well, under circumstances a little different than now. Unemployment diminished and yet our wage costs were stable and we had reasonable prices during the period, 1- to 2-percent inflation, the kind of period we would like to get back to from an inflation standpoint.

Mr. MILLER. I would respect your statement and respect your opinion, Senator. In my judgment, I don't believe that in the long run voluntary measures will be at all adequate.

Chairman PROXMIRE. Do you think we could have a combination? For example, could we have voluntary wage-price guidepost system with this mandatory provision? The President would have the authority to enforce the guidelines in particular cases where they are in danger of being violated. What I have in mind is in 1966, as you may recall, the airline strike blew up the wage-price guideline. Until that time they had been abided by quite well. The airlines settlement was so far out of line that after that there wasn't much effort even to try to keep the unions and management in line holding down wages and prices.

Mr. MILLER. I suppose I would have to ask the question how would you enforce them?

Chairman PROXMIRE. In this case if the President had the authority he might be able to step in and say we are not going to permit this kind of settlement, it has to comply with such guidelines as Congress may have provided, certain percentage increases in wages and so on.

Mr. MILLER. I think this will be valid constitutionally. If Mr. Goldberg is right in his perception of the crisis, I would question whether that is adequate. Now, I don't necessarily agree that we are in that great a crisis. We are in some sort of a major problem and we are hung up, if I may use the colloquialism, on some 19th century economics and some warmed over, musty New Deal concepts that seem to me really don't even meet the problem at all. I also think that someone should look into the question of the matter of technological unemployment. Why is unemployment so high? Will buying that many more automobiles employ that many more people?

It seems to me we are taking a lot on faith, rather pious faith, touching faith.

Economists as someone said, it was George Bernard Shaw, if you laid them end to end they would never reach a conclusion.

I don't believe that the economists know. We are in a new ball game entirely. I don't think that we have ever had anything like the giant corporations and their power, nothing like the giant unions and their power, nothing like the transnational corporations and their impact.

Professor Kindleberger's statement in the book from which I quoted, "American Business Abroad," is not alone in saying that trying to get a purely national economic policy is no longer a viable thing.

Chairman PROXMIRE. Let me ask a specific and limited question. Suppose you were a Senator and you were a member of the Senate Banking, Housing, and Urban Affairs Committee and you had responsibility for acting to amend to this Price Stabilization Act or Economic Stabilization Act of 1970. What kind of standards and limitations would you recommend to restrict the delegation of authority of the President?

Mr. MILLER. Well, one thing I would do, I would look into the composition of some sort of a board or agency to administer. You have to face up to the question who is going to administer. You can't turn this over to the tax collector, he has all of the taxes to collect.

Chairman PROXMIRE. Assuming you had a Wage-Price Board?

Mr. MILLER. Who should appoint? I don't think necessarily it should be left up to the President. I think maybe Congress should help in that.

Chairman PROXMIRE. It is pretty hard for Congress to get into this appointive act, but let's assume that the Board has been appointed. How do you further limit——

Mr. MILLER. So far as the critical question, the really critical question, of course, is the one you suggest: What are the guidelines which should be set down?

Now, I would be rash indeed, it seems to me, to sit here at this moment and say what I think they should be, simply because I don't think this can be done without thorough study and I am not sure that they will be done adequately within the 60 days remaining. I do believe this, and this is not an answer specifically to your question. I do not believe a freeze at present levels is advisable. I believe some sort of controlled inflation is desirable, if you want to use the term "inflation."

What are the numerical indicators that would be put on there I wouldn't be prepared to say.

Chairman PROXMIRE. Let me get back to one final question with respect to GATT.

You have indicated that the surcharge on imports constitute a violation and you have great support for that. But isn't it true that other nations have committed similar technical violations in the past?

And when I say "technical violations," as I understand the administration position, that they could legally have imposed quotas but they couldn't impose a tax on tariff.

Assuming the President's action was a technical violation of the agreement, what practical consequences can follow, what can be done about them?

Mr. MILLER. Followed by other nations? They can retaliate.

Chairman PROXMIRE. Yes, but again our bargaining position is a very powerful bargaining position with respect to retaliation because trade, while important to us, isn't the very nature of the survival of our economic system, and it is for most, or many of our trading partners, especially our principal ones. Our bargaining power with Canada is overwhelming and Mexico and the United Kingdom and even Japan.

Mr. MILLER. I agree with some it is sort of like a person saying to me or a man saying to his son, I am 6 feet tall and weigh 200 pounds and you are 3 feet tall and weigh 40 pounds; I can beat the hell out of you, so don't complain about it. If it is a technical violation, it is still a violation. If someone holds a gun to my head and says, "Give me $500, $600, or $700," that is a violation of the law.

If the President of the United States says he is going to freeze my raise for this coming year and takes away an equal amount of money, that is also, in my judgment, a violation of the law. These technical violations—I even dislike the term "technical"—for of course every violation is a violation. It might be called a technical violation, of course.

The fact that other nations might not be able to do anything merely says that we are stronger and we can have our way. Do we want to be a bully in the world?

Chairman PROXMIRE. The point I am saying is many other nations have done this, they have done this consistently.

Mr. MILLER. I am not sure about that. I know of Great Britain several years ago when they devalued.

Chairman PROXMIRE. Didn't Canada take some action of this kind in 1962?

Mr. MILLER. I cannot speak to that, sir, at this time, but I don't believe there has been a substantial number. I believe it ill-behooves, as I said before, this Nation, to say, on the one hand, let's observe international law and international agreements and, on the other hand, make violations whether they are technical or not. I don't see it. If we are that strong that we can get away with it without retaliation, why do we need it in the first place? Why not get, as Mr. Goldberg said, together with the trading partners? There was no need for hastiness, this secrecy. We could have gotten together in Geneva with other members of the GATT and very possibly negotiated something. The only thing that was needed for secrecy in the whole package was the dollar float, because otherwise some speculators would have made lots of money on it. There was no need for haste and secrecy otherwise. What we have here is Government by fait accompli.

Chairman PROXMIRE. Professor Miller, I want to thank you for a most useful contribution and you have gone into an area which has been neglected by this committee and by the Congress generally and you have made some most constructive and useful recommendations, and I thank you very much.

The committee will stand in recess until Wednesday morning when we meet in this room to hear Mr. Samuel Lubell and Prof. Lloyd Ulman.

(Whereupon, at 12:25 p.m., the committee recessed, to reconvene at 10 a.m., Wednesday, September 15, 1971.)

THE PRESIDENT'S NEW ECONOMIC PROGRAM

WEDNESDAY, SEPTEMBER 15, 1971

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

The committee met, pursuant to recess, at 10:05 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senator Proxmire.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Courtenay M. Slater, economist; Lucy A. Falcone, research economist; and Leslie J. Bander, economist for the minority.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Today we are just less than 2 months away from the end of phase 1 of the President's new economic program when the wage-price freeze will be lifted. Increasingly over the past month, since the President announced the demise of the old game plan and the adoption of the NEP, it has become clear that success of phase 2 will depend on the ability of the Government to establish a program which will win the confidence of the American people in its practical effectiveness and in its equity.

Last Monday we heard from two eminent lawyers, both of whom stressed the urgency of congressional action to more specifically lay down the guidelines by which future wage and price developments should be determined. This congressional leadership was, it was stressed, an essential ingredient in the development of a national consensus. Indeed one of the witnesses made a very strong case that the wage-price freeze action and the manner of its implementation would be found to be unconstitutional, a situation which can hardly be conducive to the building up of public confidence.

Another fact which becomes more clear daily is the requirement that all major interests in our society be treated equitably if the success of the NEP is to be achieved. In particular, it is highly important that labor be treated as fairly as capital. All witnesses noted the danger that whereas wage restraints have a built-in policing mechanism, that is the employer's desire to minimize cost, no similar restraint pertains in the case of profit and interest rates. Any future program must contain such a mechanism.

We have as our first witness today Professor Ulman, director of the Institute of Industrial Relations at the University of California, Berkeley. Professor Ulman has a long and illustrious record dealing with labor-management problems, a record of fair and impartial dealings attested to by both labor and management.

Professor Ulman is also noted as a student of incomes policy. He is the coauthor of the authoritative book, "Wage Restraint: A Study of Incomes Policies in Western Europe."

We hope to call on his expertise in this area to provide light on what we should be doing in the way of preparing for phase 2.

Professor Ulman, go right ahead. You don't have a prepared statement but I will be happy to hear from you. I understand you didn't have the time to prepare it.

STATEMENT OF LLOYD ULMAN, DIRECTOR, INSTITUTE OF INDUSTRIAL RELATIONS, UNIVERSITY OF CALIFORNIA, BERKELEY

Mr. ULMAN. Thank you sir. This call came just a few days ago, as it were, and I did not have time to prepare a statement, but I might, with your permission, make a few comments, trying to summarize my impression of some of the lessons we might learn from European experience at this juncture, and then, perhaps, you may wish to raise questions about certain aspects of that experience.

Perhaps I might begin by saying that I recently received a letter from a very distinguished British colleague of mine who indicated that the Heath government in Britain seems reluctantly and in a disguised way to be embarking on an incomes policy—much in the manner of a small boy who, lacking the price of admission to the circus, walks in backwards to give the impression that he is leaving.

We took a belly flop instead of walking in backwards, although it was a delayed belly flop and although it is still regarded by many people as being essentially a temporary policy.

This seems to be quite implicit in the President's statement about deadlines, and even by organized labor statements which closely pursue a World War II emergency analogy.

There is a lesson from European experience in this because that experience suggests that prospects for the success—the effectiveness of an incomes policy are most favorable in the short run under conditions of excess supply. As a long-term policy designed to maintain full employment at a steady state by education and persuasion, incomes policy has not, unfortunately, been very effective so far.

This is true because, with one exception, the incentives offered for compliance and cooperation have not proved to be efficient or satisfactory. The great exception is the existence and the acceptance of the existence of a national emergency. Under such emergency conditions, incomes policy arose following World War II and had its greatest successes in the Netherlands and in the United Kingdom in the Stafford Cripps period.

But the other incentives have proved less successful. One is the avoidance of unemployment. Originally our own guideposts were designed to educate people in the belief that if they were educated concerning the existence of a tradeoff between unemployment and inflation, they would abstain from full use of collective economic power. Now European experience, and it is probably true of the United States as well, suggests that workers can be quite sophisticated and yet not be moved by this Phillips curve lesson.

The question is, Whose wage rate and whose unemployment? It does not follow that those groups in the economy whose wage rates increase most rapidly at anytime are going to be those who are going to bear the consequences of excessive wage increases.

The second incentive that has frequently been offered is that incomes policy enables the economy to grow more rapidly and thus to provide a faster rate of growth in real incomes for everyone. The reaction of most union groups seems to indicate that they have a short-time horizon and they would rather have a bird in hand, from their viewpoint, than one or even two in some future bush.

And a third incentive that was held out is that incomes policy abroad has invariably been linked with some redistribution of income in favor of the poor and the lowest paid groups in society; but this incentive has not been too effective as far as low level leadership and membership in the higher wage groups are concerned. It has been most effective with the leadership at the top of the labor movement, but that has not been sufficient to do the trick.

Now, there remains the possibility that short-run effectiveness is all that is needed. This depends upon one's view of cost-push inflation, on whether one believes that cost-push is generated solely by prior increases in the cost of living—in which case a temporarily effective policy, by dampening down the increase in the cost of living, could solve the problem once and for all.

I do not share this view myself. I wish that I could. But there are other causes of cost-push inflation. One of these is summarized in trade union parlance or industrial relations terminology by the term "inequities"—wage relationships which are viewed by some groups as inequitable and there is a danger that in taking freeze-type measures to abate the cost of living because of cost-push inflation one can exacerbate inequities and thus insure that at the end of a temporary policy cost-push will resume. Indeed, European experience tends to show that incomes policies are frequently marked by a drift of wages at the lower level past norms, which, in turn, set off and reflect inequities and have often been punctuated by wage explosions at the end.

The probability of the occurrence of wage explosions depends upon how long the policy has been running in the first place. The longer and more efficiently it runs and the closer the economy moves to full employment, the more probable it is that an explosion will occur.

Let me indicate at this point that I think we have certain advantages in our industrial relations system over most European countries in this respect: In the first place, we have gone in more heavily for fixed-term and indeed long-term collective agreements. For example, I noted recently that the British dustmen (or garbage collectors), having negotiated a big wage increase some few months ago, are now pressing demands for another big wage increase. Now that is typically not feasible and not possible under our system, and in this particular case I think the calendar of contract expirations and renewals favors the prospects in the United States right now.

A second advantage that our system has is that drift is minimized in this country—the drift of wages over negotiated levels or negotiated increases—because our collective bargaining and wage determining system reaches down to the plant level to a greater extent than in other countries and that means that when one negotiates an agreement at a companywide or industrywide level one effectively fixes earnings at the plant level than is done elsewhere. So we have these two advantages on our side.

Nevertheless, my own gloomy guess is that unless very vigorous efforts are made at this time in this country and elsewhere as well (because they are all wrestling with the problem) we will revert to a stop-go-stop type of policy relying on periodic deflations to try to dampen down the cost-of-living increase.

But people's memories grow longer and deflations are probably becoming less and less efficient in dampening down the increases in the cost of living, as businessmen discount the present, as it were, look over the valley to the mountain beyond, and make their plans with respect to a current recession on the basis of anticipated reflation which they are sure will come. That means, then, that deflation has become, tends to become, progressively less efficient and the choice is then either prolonging them which, as we have seen, becomes politically unacceptable, or accompanying them with some form of wage and price controls.

That is not a very happy picture. It is perhaps a tolerable picture were it not for the fact that it is particularly hard—periodic deflation is particularly hard—on the poor, the unorganized, the less well educated, and the people who are generally in unprotected labor markets. These are the people whose greatest source of gain is the prospect of a raidly expanding, rapidly growing economy maintaining tight, full employment in the labor markets. That tends to give them escape from these unprotected markets into better paying jobs. It tends to provide them with more employment; tends to force up wages in the low-paid markets.

The trouble is, of course, that in the forcing up of wages and of prices in these markets, the cost of living is increased and then both unionized wage earners and corporations with discretionary price control raise their wages and prices. And this then tends to set up a cost-push type of spiral which then is met with a deflation which tends to cancel out and stop the gains; whereas, still our greatest potential weapon against poverty in this country is the prospect of full, tight employment.

So that is why I would hope that we would take this opportunity really to benefit from the experience of other countries and to see whether we cannot give this a gung-ho effort.

Even shortrun effectiveness requires two elements to judge from the European experience. The first is active union cooperation and the second is some statutory legal enforcement authority.

When I mention active union cooperation, I think primarily of the Dutch experience. The Dutch accompanied their incomes policy with a philosophy which in our book Professor Flanagan and I called quasi-government. Their theory is that private interest groups who are powerful enough, who wield significant degrees of economic power in a country, can and should be called upon to restrain that power in the public interest and thus effectively participate, to some degree, in policymaking. In other words, if you are strong enough to create a mess then it is up to you to clear it up or to prevent it from occurring.

The second area that is required is some statutory authority, and this for two reasons: First, it is needed as a supplement to voluntary cooperation by large, powerful collective groups (including corporations) in certain protected markets. It is needed as a supplement to fill the gap, as it were, between the degree of enforcement required to administer a policy successfully, and the combination of ordinary management resistance to union wage demands, and union cooperation.

Second, statutory authority in Europe seems to be required as a complement to union cooperation. Some British have called this the rogue elephant theory; and the idea is that, while it is appreciated that no law can be effective, including this kind of policy, without the cooperation of the great majority of people significantly concerned; nevertheless there must be some residual official sanction to take care of the rogue elephant, the fellow who will not cooperate. For if he is not prodded back into the herd then the rest of the herd is no longer going to remain compliant with the policy; they cannot afford to.

Indeed one of the problems in industrial relations today is the fact that, in the absence of any overall restraint, if one union leader negotiates an agreement for x percent and then some other union negotiates for x plus y percent the following week, the first unionist is in trouble.

Thus union cooperation is essential; and it is dependent upon a number of conditions: The first is some protection against increases in the cost of living. The aim of the policy is to control inflation. If unionists cooperate in a policy of wage restraint and then some other factor comes to increase the cost of living, some other factor comes into operation which would tend to increase the cost of living, it is not fair for the trade unionist to have to bear this burden. In fact, this is increasingly recognized in countries which have been experimenting with incomes policy.

The second factor is the maintenance of equitable wage relationships. I have spoken about this already; and we can appreciate that especially in a decentralized system of our own, more decentralized than in most other countries, the maintenance of equitable relationships among industries and occupations is very important.

The third is special treatment for the lower end of the income distribution. Most European policies have provided extra wage increases for low paid workers; and while unions have demanded this, at the same time they have frequently used such increases to lever up wages all along the line. Thus, this type of protection for the lower income distribution has not been effective; and that has led unionists in other countries—especially Britain and the Netherlands—to insist that incomes policy be tied in with a tax policy. The object is to take the desired redistribution of income out of the wage determining process.

Then there is parity of treatment vis-a-vis nonwage incomes. Direct restraint of nonlabor incomes is an inevitable feature of incomes policies in other countries. We can see this concern reflected in the attitude and in the statements of trade union leaders in this country. They are concerned with the fiscal portions of the President's overall economic package—with the proposed reduction in Government spending and the impact of this on our poverty problem and, on the other hand, with the investment tax incentive and the absence of an excess profits tax.

Thus, the tightness of the policy, the degree of restraint that one can achieve with the policy, depends on the level of cooperation. The greater the level of cooperation that one can obtain from the trade union movement the more effective the policy can be as an anti-inflationary instrument. The level of cooperation itself can be made to depend upon the effectiveness of the policy. Hence, there are two mutually determining elements, the degree of cooperation forthcoming and the degree of policy effectiveness or the tightness of the norm which one wants to impose. The more effective the policy the greater the achievable rate of increase in real wage income, and the greater the achieved rate of increase in real wage incomes, the more probable the cooperation that you get from the union. Hence, the circle is completed.

Now, this kind of statement has been made in general terms. I have heard Prine Minister Wilson make this point to a trades union congress at Blackpool. It is a general statement, however, and trade unionists in Europe have been increasingly regarding it as pie in the sky; it is not good enough. The Dutch have raised this objection most recently because, while their trade unions have been the most determined supporters of incomes policy in Europe, they have been suffering as a result of this support. They feel that they have lost members because they have gone along with a policy of restraint; and they have put their case in the following form: "It is necessary for us to guarantee to our members that they will achieve and secure a higher rate of increase in real wages with a lower rate of increase in money wages than they would have had in the absence of such a policy."

And they have been seeking to put this in terms of numbers. In other words, they said a couple of years ago, "We want a real increase of 3 percent the coming year in real wages. We expect the prices will go up by 2 percent. Therefore we want a guideline rate of increase of 5 percent in money wages, and if the cost of living goes up by more than 5 percent we want that indexed 1 for 1."

This is, then, a real incomes policy—real perhaps in the layman's sense of the word as well as in the economist's sense of the word. It is a policy which is risky and costly to a policymaking authority. But economists and policymakers should be well aware that there is no free lunch and that one of the reasons why, in the past, incomes policies abroad and in this country as well have not been effective is because people tended to regard it as not only a desirable alternative to severe deflation but as a cheap policy, a costless policy. For a policy to be effective it must not be costless; it must have to cost something; it must have to require adaptation of fiscal and monetary policies in a number of ways. It must have to cost something in terms of genuine accomplishment in income redistribution, and it must have to cost something in terms of what the authority is willing to risk in expansion.

That seems to me to be the lesson that we must learn from European experience. Otherwise one must have to report that incomes policies have not, on the whole, been effective in Europe.

On the other hand, people persevere with these policies. Sometimes one is tempted to say they are the only game in town; but as the people persevere they grow more determined that these policies must work. And the direction in which they are going, it seems to me, is toward a real incomes policy which other aspects of overall economic policy, including demand management, must take explicitly into account and to which they must adapt.

Now that is why I would hope that we take advantage of the current situation to make a very determined effort, to seize the mettle, as it were, and to make the necessary adjustments that will cure what is rapidly becoming not only an economic, but a social evil as well.

If I may just conclude with these remarks on a personal note, Mr. Chairman: Some 10 or so years ago I was privileged to appear before this committee and Senator Douglas asked me to take note of the death of my teacher who was a very great and brilliant economist by the name of Sumner Slichter.

Thirty years ago, Slichter wrote:

> It is frequently said that political democracy cannot exist without industrial democracy. There is truth in the statement. It also is true that industrial democracy, if unwisely operated, may threaten the existence of political democracy.

Now, in the intervening 30 years I think that our industrial relations system has shown a flexibility and capacity to adapt to opportunities and restraints that have been placed in its way by the Congress and by the public generally. I think we have an instrument that can adapt to new situations, and that if the new rules of the game are sufficiently sophisticated and intelligent and thoughtfully carried out—and carried out with determination—we will find once again that this flexibility will not be lacking.

Thank you.

Chairman PROXMIRE. Thank you very much, Mr. Ulman. I sat at the foot of Sumner Slichter, too, some years ago. He was a brilliant teacher and, also, I think he came from Wisconsin——

Mr. ULMAN. He did.

Chairman PROXMIRE (continuing). Which really makes him especially elite. [Laughter.]

Your presentation was most helpful to us. I must say in your book your prognosis was quite pessimistic. You say, and I quote.

> The accumulation of experience in the countries studied in this account suggests that in none of the variations so far turned up has incomes policy succeeded in the fundamental objective stated, of making full employment with a reasonable degree of stability.

And yet you give us some reasons to suspect what we are doing here may be able to accomplish not everything, full employment and price stability, but at least some relief from the kind of inflation we have and some opportunity to stimulate the economy and provide more employment.

For example, you argue that the freeze and the following period, the period following the freeze, offers an opportunity to succeed to the extent that the period is short and, of course, a 90-day period is relatively short, I take it.

You say when you have no excess demand—heaven knows we don't have any excess demand now; we have a great shortage of demand—it has a better chance of succeeding so far as price stability is concerned.

Then, you also argue that now in this country we do have long-term labor-management contracts and therefore there is no opportunity for unions to step in with a concerted effort right after the freeze is over to drive prices up—that is helpful. But recognizing all this that you have told us, wouldn't you argue that the period of a modified, kind of voluntary trial of incomes policy we had in the country from 1962 to 1966, did succeed to a considerable extent?

Let me just point out that, No. 1, during this period wage costs were quite stable; in fact, the early part of the period they were flat and this was the only country in the world that had stable wage costs during that period. Wage increases were tied to productivity increases.

No. 2, you had an extraordinary degree of cooperation really when you think of it from organized labor, steel workers, the automobile workers, and others.

No. 3, you had a vigorous action on the part of President Kennedy and President Johnson—President Kennedy in the case of the steel situation, President Johnson in the case of aluminum and copper, to either rollback or hold down price increases.

Why can't we base our program on that experience of our own, not looking to Europe which has quite a different kind of situation and really looking toward a really different, long term kind of an answer?

Mr. ULMAN. The experience under our wage guideposts is subject, as you know, to considerable discussion because you can never establish, you can never really answer the question, what would have happened if these guideposts had not been in effect?

Chairman PROXMIRE. There have been a couple of books written on that including Sheahan's, as you know.

Mr. ULMAN. Yes, and I would say the question is still unanswered.

It was claimed that some econometric models demonstrated the effectiveness of the guideposts because the models tended to overpredict the wage increases which actually did occur. Other models claim that they have taken account of what did occur with the aid of other explanatory factors.

I would feel more secure about the former type of Phillips' curve models if they were still in existence, but they are not because they no longer predict satisfactorily at all. This is true not only of these but practically all of the econometric relationships which were built up in that period.

Let me make one comment, which is just an informal comment, on the steel situation which led me to have certain reservations about the effectiveness of the guideposts.

The greatest claim of success was, of course, in the steel wage negotiations in 1961 and 1962. If one looks at the actual outcome of those negotiations, I believe that the steelworkers union gained an increase of something around 2 percent, certainly not more, possibly less.

The guidepost itself was 3.2 percent.

Now, when a fellow is wearing a belt that is several sizes too large for him and his trousers stay up, one looks for something else; maybe he is wearing suspenders, too. This was not an effective constraint in that situation and it is at least a matter of conjecture that the guideposts might have been used to get the companies to go up as high as 2 percent. At that stage of the game the companies' ability to pay was low; and the steelworkers union, it was well known, was in no shape and in no disposition to take a strike.

Chairman PROXMIRE. Yes. You see what I have in mind is that during this period you did have, as I say, stable wage costs.

Mr. ULMAN. We had stable wage costs.

Chairman PROXMIRE. We had relative price stability. We had prices rising between 1 and 2 percent. We had diminishing unemployment, steadily diminishing unemployment and, as I say, this favorable slowdown persisted until the airlines strike blew the guidelines out of the water in 1966. So it seems to me you might say, well, without it we would have had a better situation or the same situation, but you never know. You never know, of course, but recognizing that you did have a period of recovery, you did have a period of diminishing unemployment and you did not have rising wage costs in manufacturing, and you did have relative price stability.

It seems to me you have some case there. I think you have argued very eloquently this does not prove it.

Mr. ULMAN. Senator, may I make one comment?

Chairman PROXMIRE. Yes.

Mr. ULMAN. Let's recognize, regardless of the specifics of that situation, that there is one important difference as we look to the present situation. When the guideposts were first formulated, it was started in a situation where we not only had a high degree of unemployment, but we had price stability to begin with. The task of an incomes policy is obviously much greater when you start with an inflationary situation in which the cost of living has been rising and is rising, than when you start with a situation in which the cost of living is stable.

Chairman PROXMIRE. Well, you are quite right, yes.

Mr. ULMAN. So I would say if the guideposts had been effective, granted for the sake of argument they had been effective in that situation, something stronger would seem to be indicated than in the current situation.

Chairman PROXMIRE. Yes. Of course, you do have a situation now where you have the fundamental advantage of no excess demand.

Mr. ULMAN. That is right.

Chairman PROXMIRE. And the thing you want to break, the thing you want to get into, is the wage-cost push element of inflation.

Mr. ULMAN. Right.

Chairman PROXMIRE. And it seems to me if this kind of an approach can accomplish anything, that is what it ought to get at. Maybe it cannot do it; maybe nothing can do it short of wage controls and price controls, but at least it might have some promise in this area.

Let me ask you this: How can business, labor, and the public best be brought into the formulation of this policy? You stress again and again the great importance of getting cooperation, that this will rise or fall based on whether or not unions cooperate. I am not sure I would go that far, but I think there is a strong feeling that way; and I think that many people would agree with your argument.

Do you think to achieve this you need what labor has asked which, as I understand it, is a tripartite board including labor, management, and the public—Government out of it, off the board—a politically voluntary kind of arrangement where there will be an effort to negotiate between the board and business and labor to achieve a level of wage increases and of price increases that would be in the public interest, or do you think we should take the tack which business has proposed, that Government ought to be in it, and they also think there ought to be a mandatory feature that would enable the Government to crack down in the event you get out of line?

Mr. ULMAN. Well, first, may I say I indicated the conditions that I think are necessary for success. Unfortunately we cannot say they are sufficient ones as well because of the experience that the Europeans have had.

Maybe we can do it without it, but it seems to me that there has to be some degree of some effective input on the part of the parties concerned.

When you get into a situation of restraining wages then wage relationships become extremely important and the administration of a policy is one which does require a very effective input from the labor side. They have to be given not only some authority, de facto authority, as it were, but the responsibility of saying, "OK, now, union A you are getting out of line." Because they know that unions B, C, and D will suffer if union A gets out of line.

Chairman PROXMIRE. But you see here is something that confronts us right now. One of your points was you have two conditions: (1) you ought to have active union cooperation; and, (2) you ought to have some kind of legal authority. Labor says, "No, no, we are not going to go along if you have legal authority. We don't want legal authority; we want this strictly voluntary, strictly voluntary;" no shotgun in the closet to be used to roll back, to bring the rogue elephant, as you put it, or the maverick into line. "We want it strictly voluntary." And as you say, you feel that you ought to have some kind of legal authority. How do you break through this impasse?

Mr. ULMAN. I am not an expert on these matters. I certainly am not a lawyer. But there should be some sort of standby reserve authority so that if, let us say, labor and management and the public participate in a board and make certain decisions, their decisions can then be effectively enforced.

Now, one would want to do that with the least possible degree of bureaucracy and of compulsion, but there has to be something.

When the British had their wage freeze—they had a wage freeze in 1966 and 1967 which was extremely effective—it was effective because it was supported very overwhelmingly by labor and by management. But they gained that with a law which did provide for some sort of—I can't recall the details now—reserve power. They waved that legal club every once in a while and that was sufficient, but they provided it even though they had strong voluntary support.

So I don't believe that you can operate this policy on a completely voluntary basis just as I don't believe that you can operate efficiently without any input from the parties.

Chairman PROXMIRE. Then the problem is you simply have to persuade labor to change their view, change their view on having it strictly voluntary. That was their condition, as I understand it. We are having Leonard Woodcock before us next Monday, but Mr. Meany and Mr. Woodcock seemed to emphasize that very emphatically when they discussed that with the President.

Mr. ULMAN. Well, of course, people are putting forward different plans and if we are to get anything going at all there will have to be modifications of positions since the management position is all Government and the union position is all voluntary. If this policy is to get off the ground there will have to be some give and take. Collective bargaining may be transforming itself right now in this current kind of discussion.

Chairman PROXMIRE. Are you proposing that all prices and wages be the subject of guidelines or do you feel that this should be confined simply to the elements in our economy that have bargaining power, particularly the big unions, the big companies, say the 100 largest companies or the 500 largest companies and perhaps those areas like medical services where you have shortages and, therefore, an inflationary situation that requires some kind of restraints? Would you apply it across the board or would you be selective?

Mr. ULMAN. First, let me just amend your question in slight detail. I am sure you would agree that it is not only big unions or always big companies that have bargaining power but also trade unions at a local level and that can be true of companies as well.

The thrust of this kind of policy, the policy aimed at cost-push, is precisely at those areas which have this kind of discretionary authority, as it were, to set prices and to raise wages.

However, if unregulated prices or prices and wages in areas which are very weakly organized move up, while control is centered in the others, and European experience suggests this—that the bargaining control over these latter areas tends to break down.

The Swedes have a very centralized system of collective bargaining with virtually all blue-collar labor blanketed under one big federation contract. And because they were so centralized they really administered their own system of attempted restraint, because they wanted the Government out of it, which was a very praiseworthy objective. But, they found that even this centralized system was not sufficient. The salaried workers began to get restive and, because they felt that they were being squeezed in the income distribution, they organized their own union outside of the Swedish Federation of Labor, which is a union basically of university degree holders. It embraces all the professions, the top civil servants; it is really the intelligentsia of the country who are in this union. And they said they would no longer be bound by the same bargaining, by the same agreement that bound the centralized system. So the centralized system has been coming under terrific strain because the blue-collar people then say, "We cannot go along unless we know what the other people are doing."

Chairman PROXMIRE. What you are saying is it has to be comprehensive; is that it?

Mr. ULMAN. I think it would have to be comprehensive.

Chairman PROXMIRE. It would be State and local governments and Federal Government employees?

Mr. ULMAN. Certainly, I would include them in your original bargaining group even if we had a selective system.

Chairman PROXMIRE. Well, you see, the problem is the President has announced two things with respect to this: No. 1, that the freeze will end November 12 and, No. 2, that any increase for Federal workers will be postponed, I think, until July 1.

Mr. ULMAN. Yes; I think this is correct.

Chairman PROXMIRE. Does that seem fair? We have been working hard at trying to put Government workers on the same basis as everyone else, comparatively; we have been trying to achieve that. If you cut loose the freeze on November 12, and if that means anything it means at least some people will be free to get some wage increases, why should you make an exception for Government workers and say, "But in their case we will hold these people down, as an example, until July 1."

Mr. ULMAN. My answer to that question is in two parts: The first part is that the public sector of course has to be included in any kind of incomes policy.

Chairman PROXMIRE. They ought to be treated all alike.

Mr. ULMAN. That is No. 1.

Number 2, some countries have found that when they tried to use the public sector as a cutting edge for incomes policy, both perhaps to save money on government expenditures and to set an example for the private sector of the economy, this has a tendency to break down. The British found out in 1961–62, the so-called Selwyn Lloyd pay pause, where they administered it heavily in the public sector. The private sector did not go along very well; and then the public sector had to get a big makeup.

Now the Dutch have felt that, dedicated as they have always been to a tight control over their rate of wage increase, that when their policies have broken down, which they periodically have been doing, they should at once allow the public sector a makeup. They index them to the private sector even when the private sector is breaking the policy because the alternative, they feel, is that the public sector will then get a big lump makeup at some later date and that will start off a round in the private sector again. So you cannot use the public sector as the leading edge. I believe that President Johnson had tried to do that, too, with a postal rate increase at one stage. He cut that back or rolled it back or tried to roll it back. That is a natural temptation for any administration because the government is an employer and it feels it can do so. But it has to handle that with the greatest discretion. This doesn't mean that the public employees are exempt. They have to be included along with every other group.

Now, as to the specifics of this situation, Senator, I just don't know whether one can make out a case that they have gotten ahead in the private sector but the principle is clear.

Chairman PROXMIRE. Mr. Ulman, I just have a few more questions. Mr. Lubell has been patiently waiting and he is a distinguished American and we want very much to have him up quickly, so let me try to be as brief as I can in my questions and I would appreciate precise answers to the extent you can give them.

Should wage increases be based on productivity? Should that be the fundamental principle?

Mr. ULMAN. Yes, productivity and cost of living.

Chairman PROXMIRE. Productivity and what combination? How do you do this? One proposal by former Budget Director Schultze has been that you provide full productivity increase and half the cost of living of the previous year. Would you accept that kind of an approach?

Mr. ULMAN. Oh, there are any number of possibilities; you could even do it the other way around. You could say, "We will give you the full increase in the cost of living and part of the increase in productivity." Of course, they are all the same.

Chairman PROXMIRE. What do you do about other income shares? How about profits and interest?

Mr. ULMAN. That is very difficult—you wanted a short answer. I am tempted to say that is a difficult and unsolved problem so far as the Europeans are concerned.

Like most economists, I don't like the idea of an excess profits tax and I think that perhaps given the great loophole possibility of these devices, it may be a shadow-boxing game anyway; but my own feeling is that one should try to encircle this question of profits to the extent that one can. Dividends should be subject to restraint. Executive compensation should be subject to restraint. Partners' bonuses based on profits should be subject to restraint.

Chairman PROXMIRE. But isn't subjecting dividends to restraints really meaningless? I mean, what happens is, the corporation reinvests your dividends; it doesn't pay them out and the value of your stock increases; the stockholder is better off; he sells his stock on a capital gains basis and reduces his taxes and he really gets the benefit.

Mr. ULMAN. Correct.

Chairman PROXMIRE. At the same time I am sympathetic with your view on profits. I think once you take that out of the act then your overwhelming incentive for holding down costs disappears. You lose the ballgame there.

Mr. ULMAN. Yes. I do feel, and this is why I stressed the element of guaranteed growth in incomes, if we can do that. I think that what people are most interested in, including the unionists, is doing better than they have been doing or better than they could do under the policy. That may be wishful thinking, but that is why I would try to stress a policy that, through rising profits incidentally, creates a faster growing economy and yields higher rates of increase in real incomes than would otherwise be available.

It is true, the head of the Danish multiparty group made a statement that there is very little than one can do about profits and that is a problem. It seems to me other more centralized labor movements with stronger centralized positions are more concerned about the distribution of aggregate income than unionists in our more decentralized and more pragmatic type of system have typically been. And if a fellow on the shop floor feels that he is getting a fair shake vis-a-vis his fellow workers and people in other industries, if he feels he is moving ahead faster, and if he feels that other individuals themselves at this moment in time are not profiting from the policy in a visible way, perhaps we might all move ahead.

If the excess profits tax were an absolute essential and considered as such by you, as you listen to all this testimony, as well as by other people in the Government, to attaining this kind of policy, then I suppose one might make a kind of accommodation. But I feel that the willingness to make this kind of accommodation is really based on the knowledge that excess profits taxes are poor taxes and that ultimately they don't do the job. That type of policy is just distasteful; you are just hoodwinking people then; you are saying to the workers, "Yes, we are now holding down excess profits," when you are not, really.

Chairman PROXMIRE. But you see what gets to me: We have had a lot of experience in this committee with defense procurement and when you get into the cost-plus contracts, where you guarantee a certain profit, no more, no less, a particular profit and permit management to pretty much do what they want with their costs, they are going to get their profits anyway; you are costing through the ceiling. The judgment of Admiral Rickover, who has had great experience in this, and others has confirmed in cost plus and in other negotiated contracts costs are 35 to 40 percent higher; and that really explodes your whole anti-inflation program.

Mr. ULMAN. Yes; I understand that.

Chairman PROXMIRE. If you eliminate the profit incentive for keeping costs down and for working as hard as managements must to do everything they can to achieve efficiency to hold their costs down, you just lose the game right there.

Let me ask you one other question because I get a feeling from your remarks that you envision this as a more or less permanent approach; that this is something that is in the American economic system, that we cannot expect in the future to control inflation by relying on unemployment; it is cruel; it is unfair, grossly inequitable; on the other hand, the administration and many of us would like to have this as a temporary way station to complete decontrol and hope that we could operate in the future during most of our economic period except in wartimes and extraordinary periods without any controls at all. We would hope that if we adopt a system it would last maybe 6 months, maybe a year, no more.

How realistic is that kind of thinking?

Mr. ULMAN. Well, I gave my response for feeling that the problem is a fairly deep-seated problem, but one does not know; and I don't see what could be lost essentially by treating it as if it were, contrary to my present belief, a temporary problem. Perhaps it could be knocked on the head and solved by adopting a temporary policy and then maybe things can go along very well. Unless I am quite wrong in this or I misunderstand your question, my forecast would be that we probably would be coming back in a number of years for another crack at the problem but I would not insist that you go at this thing now whole hog. I have no crystal ball.

Chairman PROXMIRE. Well, Mr. Ulman, thank you very, very much for an excellent job, most useful and I appreciate it.

Our next witness is Samuel Lubell, a nationally known public opinion analyst and author of a recent book, "The Hidden Crisis in American Politics."

Mr. Lubell has been for many years a close student of the changing mood of the American people. I know he will provide us with some clues as to the receptiveness of our people to the new economic program. He was also closely associated with those great Americans, James F. Byrnes and Bernard M. Baruch when they were deeply involved in World War II stabilization efforts.

I have had a chance, Mr. Lubell, to read your excellent statement and I am most impressed. It is a real departure from the kind of more technical economic approach we have had and it is highly welcome; very, very useful.

Please proceed.

STATEMENT OF SAMUEL LUBELL, PUBLIC OPINION ANALYST, AUTHOR, AND COMMENTATOR

Mr. LUBELL. Thank you for the opportunity to appear before your committee. What I will try to do today is to present to you the results of two pieces of learning.

During this past spring and summer I did a good deal of interviewing across the country, particularly on the effects of lowering the voting age to 18 and also on the current crisis.

Wherever I interviewed, both youths and adults, I was impressed by how wide a gap of credibility had developed between what was being said in Washington and the uncertainties and anxieties spreading among the people, not only on the economic situation but on the whole of the future.

My second piece of learning took place during the World War II period as an assistant to James F. Byrnes, then Director of Economic Stabilization, and as the principal assistant to Bernard M. Baruch, in his fight to gain acceptance for an overall price and wage ceiling; also on his report of postwar demobilization policies for President Roosevelt.

In recent weeks I have been trying to put together these two pieces of learning—my World War II experience with wage-price controls and the problems of going from peace to war and back to peace again, and my voter interviewing this year.

Here in summary is where I come out:

In the minds of the American people the crisis we face is much bigger than is covered by either the President's economic proposals or the suggestions advanced by some Democratic leaders.

People generally feel we have been too slow and have taken too long in getting to work on our own domestic problems. They see these problems as more than economic alone.

Where economics does come in, people tie it to the many troubling questions they are asking about the future as a whole—about what kind of society America is shaping.

The specific actions proposed by the President are good beginning steps but we should go beyond stimulating the economy through incentives for capital investment and consumer spending.

Such measures should be made part of a larger whole that will include quicker action against pollution, efforts to strengthen family stability, and the conscious balancing of our economy between the needs of defense and peaceful activities.

Vigilant action should be taken to expand economic entry opportunities for returning veterans and the 4 million additional youths who come of working age each year.

The creation of new jobs should fill varied purposes including the desire of young people to work on the problems of urban deterioration and to improve their country.

One key approach toward these objectives is to supplement tax incentives with well-directed priority actions that give more purpose to our economy than simply buying and selling more of anything and everything, priority actions that will be targeted directly at many investment neglects and at overcoming the distortions in supply and demand that pressure for constant inflation.

On the issue of what is to come after the current price-wage freeze, more is at stake than the raging argument over prices, wages, and profits.

This past summer most of the people I interviewed feared that our Government had become helpless, which made them feel helpless.

The deeper test of our anti-inflation efforts is whether we can make Government believable once more.

Any price-wage stabilization program should be written into a new law, with clearly stated principles, equitable for all and with completely visible administration. "Voluntary controls" have generally turned out to be a means of legalizing inflation.

Failure could demoralize the country beyond the economic effects.

We need a new visibility in all government in place of the prevailing trend toward psychological and economic manipulation.

The purpose of this new visibility should not be merely to find fault and fix blame but to organize a unifying learning experience by keeping in clear view what the effective government of a society like ours requires.

We might constantly be asking our officials and ourselves this question, "What have you learned lately?"

The economic actions the President packaged together, even if carried through fully, will not overcome the crisis of confidence in the country; nor will the changes in the President's plan being talked of by some Democratic leaders. Simply raising the gross national product—to whatever the level—cannot meet the needs of this Nation. Much of the troubled concern over where we are going as a nation runs deeper than economics alone.

Also, many voters have put together their own economic package, which doesn't fit into anyone's computers.

For example, young people in general want more purpose in the economy than merely buying and selling more of anything and everything. They want useful work. One question we asked was, "Would you give me an example of what you think is a patriotic action?" The most frequent response came back: "Doing something that's good for the country."

With voters of all ages and income levels, pollution remains a deepening concern. Its emotional impact is so strong, it affects family planning. Asked how many children they expect to have, most young married couples reply, "No more than two and maybe only one."

A major reason given for this decision is "there are too many autos and too many people being born." This desire for more effective action on the environment runs uphill, of course, against the President's program for stimulating auto sales.

There is also a deep fear of another war, even after Vietnam is over. This dread is often linked to our failure to act effectively on our domestic problems. My own judgment is that at least as long as there is a war in Indochina, much of the public will see our economic problems differently than they are seen in the White House and by many Democratic Party leaders.

There is also this torment of mothers, across the whole country, who are fighting to restore the conditions for family stability.

This desire first showed up in my interviewing during the 1970 campaign. I wrote a piece about it saying that the heroes of that campaign were the mothers of the country who are fighting desperately to regain the ability to raise a stable family. In my interviewing, I was struck by how many women would interrupt me when I was talking to their husbands and demand, "Why don't you ask me something? Maybe I have something to say?"

Naturally I would ask them questions. Always it turned out they felt they were losing the ability to raise their children in so unstable a society. They went through the 1970 election with just one thought in mind. They didn't care who was to blame; they wanted something workable that would help them hold their families together.

This year, this sense of family disruption was even stronger. There was more economic demoralization because of the continued inflation and uncertainty over employment.

In Iowa farm wives were saying "more houses have been broken into around here this year than ever before." Other people felt "drug addiction is coming out of the big cities into the small cities." There was a spreading dread that the country was falling apart.

The dominant desire of the American people today, in short, is to "get to work on our own domestic problems." This inward turn is sometimes labeled "isolationism"; actually it is more a reflection of a widespread sentiment that we have been "too slow" and "taken too long" in setting our own house in order.

It is on this score that the President's program is so disappointing. It falls so short of what most Americans feel needs to be done.

Any tax incentives that are enacted to stimulate the economy, either through investment or consumption, should be supplemented by a number of priority actions. By priority action I mean simply putting one thing ahead of another because it is more important to do. These priority actions should be targeted directly at specific sectors of the economy, toward correcting some of our sorest neglects, also toward relieving the distortions of supply and demand that cause high, inflationary price increases.

Handled effectively such priority action could speed the return to free market conditions. Without it, efforts to control inflation are likely to remain ineffective.

One reason the administration's "game plan" fared so poorly was that it set out to curb total demand in the whole economy without any sense of the need for priority action. Production was not stimulated where it would undercut rising prices; priority preferences were not used to guide handling interest rates or the flow of credit.

For example, a housing shortage which was causing rent increases was aggravated. Utilities, whose facilities had to be expanded to care for a growing population, had to pay 9-percent interest rates to compete with other less useful demands. This was bound to lead to requests for rate increases. This year's cost of living index (July 1970 to July 1971) shows a 7-percent rise in gas, electricity, and other utilities, and further increases are likely.

What was done in the name of fighting inflation in 1969 and 1970 actually made for more inflation this year.

Those of you who heard Baruch testify to so many committees of Congress will recall the emphasis he put on priorities and price control going together—"like Siamese twins" was one of his favorite phrases.

Both prices and priorities serve the same function of deciding how resources are to be allocated through the economy. At the start of

World War II the effort was made to allocate resources through priorities alone, without price and wage control. That didn't work and the administration had to move to an overall wage and price ceiling.

Today the talk is of price and wage control standing alone.

If the back of inflation is to be broken, we should use priority actions to reinforce price and wage control efforts. Wherever costs have risen more rapidly and persistently than the general price level, as with medical care and local transportation, more thoroughgoing action is needed than the mere imposition of a price ceiling.

Priority actions can be effected in varied ways—if we have the will to do so. In the 1930's a lower interest rate was employed to stimulate the development of rural electrification with spectacular success both economically and socially. Areas now particularly hard hit by social and economic dislocations could be revitalized in a similar manner.

Gov. Andrew Brimmer of the Federal Reserve Board has advanced an important new, well-thought-through plan for differential investment incentives which would encourage all commercial banks in the country to channel funds into economic activities that are not on the main line of investment, as with many State and local needs.

Stimulating capital goods and machinery or consumer buying will help some parts of the economy. But it could produce a lopsided pattern of economic recovery in a country already torn by the distorted investment mix that reflects all the neglects of 6 years of war and so many dislocations.

We will not be able to correct everything for years. Through priority action now we can at least make a start toward bringing into being a healthier and more balanced economy and society.

The additional jobs that are needed for an expanding future can and should be sought in a variety of ways. One specific recommendation you may want to consider would be to skim off part of any investment credit incentives into funds for an accelerated antipollution effort, tied to a work program on ecology and urban deterioration which will enable unemployed youths to make a useful contribution to improving the quality of American living.

Each year over the next 10 years, 4 million additional youths will reach the age of 18. My interviewing of youths, both in and out of school, reveals that they do not want an economy which has only one purpose.

Many are eager to make money and to enjoy material comforts and even luxuries. But a great many more want to work on the problems that trouble the country.

The reconciliation between the generations that is indispensable for the American future will be more readily arrived at if our economy is employed for a number of unifying purposes.

This need to broaden our sense of economic purpose is underscored by at least one other consideration—the possibility that we will fail to come up with an effective program of price and wage stabilization after the current freeze expires.

Many will paint a dark picture of the dire economic consequences of such a failure. On the basis of my su nmer interviewing I would raise another consideration—how demoralizing would be the impact of such a failure on the American people.

To most Americans, and this includes many staunch Republicans, the apparent inability of the Government to halt the 6-year rise in living costs and to curb unemployment seemed evidence of helpless government, which made people feel helpless. This in turn eroded confidence in our economy and in all our political leaders, of both parties.

You hear much talk about a "free market." You cannot have a free market for long if your government is helpless.

The test that the Congress and the President face is not just an economic one. It is w ether what you do about wage and price stabilization will make government believable to the American people once more, which it is not today.

The psychological effects of what is done or not done after mid-November will be as great as, perhaps greater than, the economic effects.

This is a very difficult problem. Although I've done a good deal of thinking about it, I am not dogmatic in my views. I can see arguments on all sides. Still I believe this wage-price stabilization program should be written into a new law. I emphasize a new law that ought to have clearly stated principles, equitable for all, as best as can be drawn, with completely visible administration, no behind-the-scenes pressures and nothing to give the people the belief that the Government has been captured or is being bulldozed by any special interest.

I understand how difficult it is to tie together price and wage adjustments with all the other considerations that get involved, such as profits and dividends, the salaries and bonuses paid to the management of corporations and labor unions, and so on.

It would be unconstitutional, I believe, to require any person to work for a company making a profit on his labor, which means that the Government would have to take over a company to end a strike. We went through all that in World War II.

Still, our experience then taught that "voluntary controls" amounted to legalizing inflation in some form or another.

I also urge a new law because I do not think the wage-price stabilization program should be administered for any length of time under the generally phrased authority in the present law. In writing the freeze powers, the Congress did not state the principles upon which price-wage stabilization should be operated. The President was left with too broad and too generalized an authority.

What I am trying to say is that we should write a law which we are ready to accept, all of us, all of the interested parties, and which will put the national interest above any special interests and which will also be fair to all.

Left as it is labor would feel the administration of any stabilization program would be stacked against labor in favor of business. Some of this sense of inequity reflects the timing of the freeze. No freeze can be held to rigidly. Adjustments in wages and prices must be made and they should follow standards set by law, not Executive order.

Now maybe we will not succeed in writing all this into law. Still there is a great stake in establishing lawful Government in our society at this time precisely because so many disintegrating forces are pulling us apart. When a society tends to pull apart you get conflicting reactions. Some people reach out for a greater sense of collective responsibility and try to bring things together. Others just say, "The hell with it; I am going to cut loose and go out for my own." This conflict is going on all through the whole country today.

We ought to come down on the side of those who want to establish equitable, visible procedures—under the law. We can change the law if needed. This is a sounder basis for a long-time management of the economy, which we apparently are heading for. People have to feel that their government has enough strength to be effective. Right now that feeling is not present in the country.

That is one requirement for believability—complete visibility. A second requirement is that the key administrators keep reminding themselves that government belongs to all of the people.

A third ingredient needed is a sense of the shared experience, or learning quality. The spectacular success of the tax cut of 1965 created a euphoric feeling that managing the economy was rather easy, as if some new magic had been discovered.

Since then, the American people have come to understand how difficult it is to manage an economy like ours. People expect mistakes will be made, and that many things will not go according to Hoyle and his game plan.

How reassuring it would be if administrators had enough faith in themselves and in the people to say candidly, "This didn't work and this is why." Such a confession would suggest that the administrator was actually capable of learning from experience, a capability that is sorely needed in the whole country.

We will be at the problem of managing our economy for the rest of our lives. Perhaps your committee should address one standing question to all of the officials who appear before you: Have you learned anything lately?

You may have noted my emphasis on the importance of having the Congress set forth clearly visible procedures that should be followed inside the Presidency. This, of course, departs from a long-established custom of giving a President a generalized grant of authority, letting him apply it as he sees best. That custom should be shelved—and I would be saying this whether there was a Democrat or a Republican in the White House.

Examine, if you will, the nature of the tremendous changes that have taken place in the Presidency in only 5 or 6 years. It is no longer the relatively simple office described in the Constitution.

The so-called Keynesian revolution brought into existence a whole set of new relationships between Washington and local government, between varied segments of the economy, between the people and the government. On top of that came an undeclared, unthought-through war.

All this was happening at a time when our elected officials—both Democratic and Republican—came to accept the mythology that elections are won by the tricks of image making and other manipulations, both psychological and economic.

The Presidency has become a huge conglomerate of power, often disorderly in its impacts. This is not a partisan observation. I do not believe these changes are primarily the result of the Presidents themselves, of either Lyndon Johnson or Richard Nixon, but a reflection of the tremendous changes sweeping the whole country, changes which have been blurring the traditional restraints of a separation of powers, between public and private life, between free and subsidized enterprise. You have Lockheed, of course, as one exhibit.

May I give you just one example of how important it is for Congress to lay down orderly procedures to be followed inside the Presidency, and how disastrous the consequences can be when such procedures are ignored?

The inflation which still defies control today got started, it is generally agreed, because the impact that the Vietnam war would have on our economy was not properly anticipated so that action could be taken in time.

What is not generally appreciated is that Congress had established an agency inside the executive branch which was charged by statute with preventing exactly what happened.

This agency, known in 1965 as the Office of Emergency Planning, had been set up under the National Security Act of 1947 as part of the National Security Council. A civilian agency, independent of the military, the OEP was charged with reviewing all strategic plans of the Defense Department to determine their likely effect on the domestic economy and to recommend action to prevent inflation and other upsetting consequences.

But when the crunch came with the mobilization of 1965, that was to increase the numbers of American troops in Vietnam from 184,000 to 450,000 a year later, both the Defense Department and the White House ignored and bypassed the procedures that had been written into the National Security Act.

When the OEP requested the troop estimates that were necessary to project the economic effects of the war, the Pentagon would not supply such estimates.

The Office of Emergency Planning carried its request to the White House where the Pentagon was upheld in its unwillingness to supply the needed troop information.

Defense budgeting, which would have revealed the scope of the planned mobilization, was also held back.

These happenings are not a matter of general knowledge. Yet even now all the Pentagon and White House papers dealing with the economic decisions of the Vietnam mobilization should be made public. As long as they remain stamped "secret," they actually hurt our national security in that we are denied the knowledge we should have to avoid repeating the same mistakes.

The question, in fact, should be asked and answered whether the Nixon administration fell into the same trap of failing to tie together its strategic policy with our domestic economic policies. Here again we should have a public report on what thinking was done about the relationship of our Vietnam withdrawal to the so-called "game plan." How fully was it thought through? Was it watched vigilantly as time passed so that policy changes could be made?

As matters developed, this interconnection between the "game plan" and Vietnam policy became a key influence in the near-panic feelings that swept much of the country last spring and summer.

Wherever I interviewed I found the same conflict raging. Among both youths and adults, the President's refusal to announce a definite timetable for Vietnam withdrawal was being defended—and attacked—as if this main motivation were economic, not strategic.

Some argued, "If we get out of Vietnam now, unemployment will jump out of sight."

At the University of Kentucky a prelaw student admitted, "I'd like to pull out of Vietnam but the economy couldn't stand it, which is a hell of a reason for fighting a war."

The counterfire returned, "Too many people are getting rich off this war to end it," or "Pull out now and spend that Vietnam money here at home."

One effect of this debate was to generate a general expectation that economic conditions would be worse next year. An engineer in Minneapolis reflected this reasoning when he asked, "If we can't control unemployment now, how much worse will it get next year when the soldiers come home?"

Many persons said they had stopped buying things they didn't have to buy. Predictions that "another depression is coming" were being voiced fairly frequently. In Iowa where I interviewed, a third of the Republican farmers talked of voting against the President because of economic uncertainty.

Statements of reassurance from Washington only alarmed people into saying "the economy must be in really deep trouble if no one knows what to do."

People had passed the point of no verbal return on rhetoric. The only message that could be communicated from the White House was one of action.

Many voters still think "this country has to have a war to prosper." Among young voters this sentiment is reinforced by a feeling, "We need to change the economy" to reduce the emphasis on defense and increase the emphasis on "peaceful activities."

Now this may strike you as odd but I would say that today there is more fear in the country that another war would come from the economy than from either Soviet Russia or Red China. This fear is locked into the minds of people psychologically as a result of their experience last spring and summer. This link of war to the failure of domestic policies will not be wiped out automatically. It is a force to be reckoned with for some time to come.

May I summarize quickly my main recommendations:

1. That any price and wage control program that follows the current freeze be established by law, with clearly stated principles and complete visibility. The operations should be conducted with the equivalent of a goldfish bowl, with tape recorders and telescopic photo lenses.

2. That tax incentives designed to stimulate industrial investment be supplemented by priority preferences for specific sectors of the economy, suffering from investment neglect, or where distortions of supply and demand cause price increases in excess of the general price level.

3. That some part of any proposed tax incentives be skimmed off for an accelerated antipollution effort, tied to the creation of an improve your country work program for the Nation's youth.

4. That a new post be created—that of director of economic entry—charged with a double responsibility:

(*a*) To coordinate all efforts to facilitate the employment of Vietnam veterans and young workers coming of age, as well as older workers who may be displaced;

(*b*) To study all governmental policies and private economic practices, including the effects of wage-price negotiations, to judge and report publicly whether opportunities for entry into the economy are being reduced and how that is being checked.

5. That the relationship of strategic-defense policy to domestic economic policy be brought under constant, vigilant analysis by a revitalized Office of Emergency Preparedness, with new vigor and direction.

6. That the administration arrange for the prompt publication of all papers of the National Security Council and other agencies that will give the public a full and clear picture of how the economic decisions relating to the war and our domestic economy were made.

Through much of this statement, you probably have noticed repeated references to the need for more visible government. To some degree I suppose this reflects the bias for open discussion that every journalist shares.

But for you to dismiss my obsession with visibility as little more than professional bias would be to overlook what my interviewing over the years has suggested is perhaps the most needed single change in Government—a more straightforward, direct approach to the problems that vex us.

That is why I have proposed the creation of the post of Director of Economic Entry, to name a single administrator, clear to the public eye, who would be charged with the many complexities that are involved in what to most Americans is a single problem—how do the young and the displaced find entry into our society? That question should not be allowed to get lost in a maze of charts or statistics.

My emphasis on visibility also points to what I have come to believe is the key to understanding what is often labelled "the credibility gap." I doubt that it is really an accurate label.

It would be more accurate to say that our problem is that we are waging psychological warfare against one another. No one has ever written a truce, let alone an end to psychological war. Visibility may give us the equivalent of an armistice in a war of manipulation which we all are losing.

Thank you.

Chairman Proxmire. Mr. Lubell, thank you very, very much. I think this is, as I said when I introduced you, your statement is most refreshing and different and highly welcome.

I would like to ask you a number of questions.

You indicated that our problem wasn't entirely economic and you are absolutely right. This is the Joint Economic Committee and, of course, we understandably focus and stress the economic aspects of problems; that is our job. But I would agree wholeheartedly that something like family stability is of great importance to our society and it is in the greatest danger perhaps that it has ever been.

You did indicate that one of the reasons for the increased difficulty in families is because of the economic situation itself. In addition I think there are a number of things that Government can do to help overcome that.

Wouldn't you feel that, No. 1, if we provide more jobs that that might help? No. 2, if we end the draft that might help? No. 3, if we get out of Vietnam that might help? No. 4, if we move in some of the priority areas that you have suggested with vigor and effort that that might help also?

Mr. LUBELL. The economic impact on family stability has been strong this year, largely because of the fact that living costs have continued to increase. This has been more upsetting to mothers than to men since they do the shopping. Housewives would tell us, "Now I go into that supermarket and I see that new price fixed over the old one and I tear off the new price."

Chairman PROXMIRE. Isn't it also demoralizing that the head of the family in some cases is unemployed, and that the young people who would like to have constructive activity, like to have a job, cannot find a job? They drift into difficulties?

Mr. LUBELL. There was less demoralization in the family sense over unemployment because the impact of unemployment has not been as general as the effects of rising prices.

You did have a deepening concern over future employment prospects, in terms of jobs in the future and the returning Vietnam veterans, which also had a general impact. I draw this distinction to be precise in my answer to you, Senator, that price rises were felt generally; unemployment in a direct way was not. But the uncertainty over the future was also general. There was this feeling that next year would be worse. This also came from the feeling that the Government seemed helpless to stop either prices or unemployment from going up.

The frustrations of family instability began before the economy got into trouble. I can show you interviews of people whose economic situation has been improving but they still feel they are not able to bring up their children in a stable way.

We have not been able to translate prosperity into social stability, which is one reason I place so much importance on priority action.

One dread that troubles parents is drug addiction: this is a fear that their kids will become addicts because of the effects of society. There is also the fear of another war.

Chairman PROXMIRE. And they tie that in, it seems to me, a very interesting observation on your part, they tie in the reduction in war spending to a very great extent with the failure of our government to be able to provide a reliable future without some kind of military involvement.

You said something about how this seemed to be more of a threat to them than the threat of Russia or China?

Mr. LUBELL. Yes. This was a quite strong feeling. You have had a great inward turn on the part of the American people. You hear it said this is "isolationsim." Perhaps it is more a reflection of the failure of our domestic economic policies, which have not been effectively interrelated with our foreign policy. My statement points out that the interrelationships between our domestic economic policy and what we are doing abroad were not recognized and acted upon by the Johnson administration. These interrelationships were not recognized and acted upon properly by the Nixon administration either. This is a basic defect in the economic programing that is put into computers—what is left out often upsets the computer programing.

At this point, the American people are preoccupied with the need to straighten ourselves out at home. It wouldn't be right to say they don't care what's happening in the world. That isn't right. But they are not tuned to world problems; they are not listening on that wavelength. They want to put our house in order. This is the dominant, overriding feeling. The people have turned inward in this sense, which is why I feel you must reestablish an effective enough government in this country. You cannot have a constructive foreign policy without effective government at home. And an effective program to put our house in order requires more than just stimulating consumption and buying.

Chairman PROXMIRE. Does your polling indicate that the people would be willing to accept the kind of compulsory wage and price controls or the compulsion element in wage and price controls, that you feel is necessary on a long-term basis?

Mr. LUBELL. I have not argued for compulsory wage and price controls on a long-term basis. We should draw two distinctions. One is between a freeze and an overall ceiling with adjustments. When I was working with Mr. Baruch we advocated an overall ceiling across the economy; we never called it a freeze. We always said you started——

Chairman PROXMIRE. When you were with Mr. Baruch, it just seems to me the situation was so different. When you were with Mr. Baruch, No. 1, we had a war enthusiastically supported by the overwhelming majority of the American people. No. 2, we had shortages so rationing was so necessary you had to work out your priorities on meeting the national military effort.

You don't have anything like that at all now. We have a war that is, we hope, ending; we have no shortages to speak of.

We have a great capacity on the part of the American industry to produce far more than can be used. They are operating only at 73 percent of capacity now. We have 5 million unemployed. When you were working with Mr. Baruch we had virtually no unemployment; is that right?

Mr. LUBELL. Partly so, but my working with Mr. Baruch extended over different periods of time.

Chairman PROXMIRE. I don't want to be critical.

Mr. LUBELL. No; let me make things clear. I want to answer your question.

Chairman PROXMIRE. This was World War II?

Mr. LUBELL. What I learned in those years extended beyond World War II—beyond the World War II period. The same sort of situation arose during the Korean war.

Chairman PROXMIRE. Again, we had shortages.

Mr. LUBELL. Again, when the Korean war started we tried to operate in a piecemeal way, instead of acting across the economy. At first the President didn't want to do anything about controlling prices and wages. Congress gave him the power to do so. He acted and it stabilized things.

The first distinction I was trying to draw was between a ceiling and a freeze. You cannot put a freeze into effect and hold it for long. As soon as you say "stop" to prices and wages and other things as of a certain date, you have to establish orderly means of adjusting prices and wages upward, but it has to be done equitably, on the basis of clearly recognized principles. This, it seems to me, is essential regardless of what the economic situation might be.

Chairman PROXMIRE. Didn't you say it had to be done with some kind of legislation, which would require compliance to some extent?

Mr. LUBELL. I would write anything that is done into law; whether we will be able to write it into law I do not know.

Chairman PROXMIRE. You keep emphasizing the fact that voluntary controls are not enough and they won't work. I take it if you don't think voluntary controls will do the job, that you must be for some kind, some degree of compulsory controls; and my question was, do you feel the American people without a war will accept compulsory controls for any length of time?

Mr. LUBELL. To the extent that they are needed, we should make the effort. You ask me whether they will accept it. Right now most people want the freeze to stay on prices but many want their wages to go up.

Chairman PROXMIRE. Well, that is understandable.

Mr. LUBELL. Perhaps I should stress this distinction. There is no formula for action that will automatically give you stability or equity or any guarantee of success. You have a choice of alternatives—maybe that is a bad word—none of which is ideal. I understand why labor prefers a voluntary approach. In my statement I pointed out that during World War II we took the position that you could not make a person work for anyone who was making a profit on that labor. This raises the question, do you get a no-strike pledge or not? During World War II when you had a strike, the Government took over the plant, so the workers returned to work not as workers for an employer who was making a profit, but for the Government, for the country.

Chairman PROXMIRE. Then if you say you have a no-strike pledge you have to put into it a strict limitation on profits pertaining to that operation?

Mr. LUBELL. Not rigidly, I would not.

Chairman PROXMIRE. You would not?

Mr. LUBELL. In all of this—let me digress a bit on what I would do about profits. No action that is considered or taken stands alone. I agree with you on the necessity of keeping profit as an incentive. I also think that it is scandalous—and you have argued this more eloquently than I—the lack of cost control in the Defense Department. This is one place where excessive profits are not an incentive to efficiency. This battle for cost control needs to be waged in many parts of our society. Now in the writing of any stabilization law, I would put a limit on management salaries, bonuses, stock options and that sort of thing; and to be fair, a similar ceiling on the management of labor unions. Put a ceiling on them and on corporate managers.

Chairman PROXMIRE. Would you do it in the postfreeze period, the phase 2 period?

Mr. LUBELL. I would. We did that during World War II and it was effective psychologically.

Chairman PROXMIRE. Even though you might not control all wages you feel that management salaries and other compensation might be controlled; is that correct?

Mr. LUBELL. Yes, there should be some limit on all the big earners in the country. May I add—and you are going to have more to do with writing this law than I—maybe neither one of us will; but I should sketch my concept of how laws are enacted. It is not that somebody writes down a law which everybody accepts. In the writing of a really important statute, there is a process of negotiation, through which the concerns and interests of varied groups and the public generally are considered. Concessions—if that is the word—are made in various directions to make the law workable. This is what government is all about. I am not a purist. Nothing political can be completely antiseptic. Now I prefer this process be done by law, than by creating "voluntary" bodies outside of the law or by Executive order operating within the present loosely drawn frame of authority.

This is the distinction I am trying to make.

I mentioned a ceiling on management salaries as a possible move toward equalizing the feelings of some labor leaders that labor is being singled out for sacrifice while the corporations may draw great advantages under a freeze situation. In a democracy we all ought to give up something; when restraints are asked of other people you ought to be willing to accept some restraint on yourself. I throw in that suggestion as a possible equalizer.

There is no machine on the market that you can get into and use to stabilize the economy. We have to put the stabilization machine together, piece by piece. I would try to do it by law, through Government, operating as a Government, representing all the people. Maybe this is impossible at the present time. It may be that those who head all the different fragments of power around the country are stronger than the Government.

Chairman PROXMIRE. Let's move quickly into the priorities area.

Mr. LUBELL. Yes.

Chairman PROXMIRE. I was delighted to see you approve the Brimmer proposal for encouraging the banks to provide differential reserve requirements when they invest in State and local government projects and housing and so forth. I proposed that before Brimmer did and after Brimmer made the proposal I thought it might be possible to get it through the Banking Committee and through the Congress. So I introduced legislation along that line and asked Andy Brimmer to testify on it and also asked Governor Burns to do so.

Mr. LUBELL. Hereafter I will refer to it as the Brimmer-Proxmire or the Proxmire-Brimmer proposal.

Chairman PROXMIRE. Here is what happened, at any rate. The Federal Reserve Board had a meeting on this and Brimmer was outvoted 5 to 1; anyway, he was outvoted; he was the only member of the Board that took the position.

Mr. LUBELL. That doesn't make him wrong.

Chairman PROXMIRE. So he was unable to come up and testify in favor of the bill. They said they still favored the principle but would have to study it and think about it longer; but the rest of the Board opposed it, but I agree with you this is one way of getting investment into this area without additional Government spending. It is one way of letting the discipline and efficiency of the private sector operate, to get more money into housing and antipollution and get it into these areas. But it is extraordinarily hard to get our Federal Reserve Board, which is in the position really to make it possible by encouraging Congress to do it, to go along with it.

Mr. LUBELL. At that time I think one objection was raised that this would make it political but with a wage-price ceiling in effect. What isn't political?

Chairman PROXMIRE. Yes. When they said political, I think what they had in mind was that Congress would then play a role, a different kind of a role, and especially the Federal Reserve Board would play a role in allocating the resources of our economic system which had been left in the past, successfully, in the view of many people, to the play of the free market. But this was such a mild modification of that, and it was something that has been done by the central bank in virtually every other major industrial country in the world, and it certainly called for, as you indicated it, so I am very happy you emphasized that today.

Mr. LUBELL. You said that some people think this allocation of credit resources by the Federal Reserve Board had been successful. I would dispute that, sir. As far as the record of recent years is concerned, I see no issue of principle or of good sense in why we cannot say, "put more of our credit resources in this or that field because it is more useful to the country, more needed." What people call "a free market" means that priority—first crack—is given the corporations with the strongest muscle, with the greatest access to commercial banks or who have the ability to raise these funds on their own. That would continue, of course. But I want some of those investment funds directed into neglected areas which drag all society. I want a more balanced society.

There is no way of avoiding the setting of priorities. At present they are set by credit institutions. We are just making the assumption that this will automatically produce the best investment mix. In leaving things "to work themselves out" one must assume that we have lots of time for adjustments to take place. But the crisis in this country doesn't justify such an assumption. We are also saying that the economy now in existence should be preserved without changes, or with as little change as possible.

I am not one to propose change blindly just for the sake of change. I do believe that we need more purpose to our economy now than in the past. This lack of purpose undermines confidence in our economy and in the whole of our society.

Chairman PROXMIRE. Now you come down very hard in your discussion of priorities, and I am delighted to see it, on the side of combatting pollution, and cleaning up the environment and so forth. And you point out that this has very strong popular approval and especially on the part of the younger people who will be playing more and more of a part in our political process—with the 18-year-old voters.

Your specific suggestion along this line is that we ought to provide, as I understand it, some of the benefits of the investment credit; instead of providing such a large investment credit we should expend funds for environmental improvement and employing as many young people to assure as great an environmental improvement as possible; is that correct?

Mr. LUBELL. I would like to see some of it skimmed off in a fund and——

Chairman PROXMIRE. That is what I did not understand. When you say "skim off," do you mean instead of a 10-percent investment credit you would have a lower credit, instead of losing that much revenue you would use that revenue in some way——

Mr. LUBELL. In some way. I am not an expert on how to achieve that purpose. My purpose is to get a work corps out there working on problems of environment and urban deterioration. Many young people want to do that. The need is there. The financial means should be made available.

Chairman PROXMIRE. Now, you indicated a considerable feeling of criticism and of unease on the part of the public with respect to the economy and our Government and our Nation. Have you noticed any change since the President's new economic program has been announced? I understand the polls indicate a rather strong approval of it; in fact, in some respects it is 75 percent, 80 percent—I think one of his proposals even got an 85-percent approval.

Mr. LUBELL. My interviewing hasn't been anything as extensive since the freeze went into effect as it was before the President acted. Sometimes the answers you get in a poll depend on how the questions are asked. There has always been a strong sentiment in the country—this has been true in other years as well—most people will tell you they prefer price stability to rounds of escalating wage increases.

Currently, though, you have sizable numbers of people who say they were promised a wage increase before the freeze took effect; they feel they have earned that wage boost and are quite restive about being denied it. They will feel unfairly treated until they get their wage increase. Something of that feeling was probably developed with the earlier witnesses.

Chairman PROXMIRE. You raised the question of Government workers.

Mr. LUBELL. I do not think that freezing the salaries of Government workers for a longer period than other workers should be done by Presidential Executive order alone. This brings us back to the point raised earlier, I want stabilization to be done by law; the Congress writing the law should establish standards that apply equitably for all. In my statement I didn't particularly have Government workers in mind when I said that it should be done by law. The same standards should apply to all.

As to whether the public will accept or reject the stabilization program, this will hinge primarily on whether it proves effective. If prices remain stable—and prices are the point of impact for more people than wages at any one time—people will like the program. If at the end of the freeze you have a new burst of inflation, people will think this was all a farce.

Chairman PROXMIRE. Let me put another hypothesis: Supposing you are able to get inflation under better control. We have inflation of say, 3 percent or something of that kind which would be an improvement, on the one hand, and at the same time you don't do very much about unemployment; unemployment continues at its present level of 6 percent or so. What is the reaction to that?

Mr. LUBELL. Both levels would be unacceptable.

Chairman PROXMIRE. Three percent inflation; it would be a great improvement?

Mr. LUBELL. I don't think so. Now I am giving you an opinion, of course. I get the sense that people do not think of inflation in statistical terms. If people became convinced that we could not control inflation, if they thought it was a perpetual affair, you would get other significant changes. We are already getting them. The whole concept of retirement in this country is changing because of persistent inflation. We used to think, "Well, I am going to get a pension at 60 or 65 and then I will live out gracefully and go fishing in the northern part of Wisconsin. This isn't so much the thinking now. When people talk about retirement, they often say, "I am going to retire as quickly as I can so I can go out and get another job to add to my pension. This is the result of their hedging against persistent inflation.

Chairman PROXMIRE. Is this really becoming quite widespread?

Mr. LUBELL. It is brought up by ordinary people who are quite young. It was one of the major demands behind the sanitation and garbage workers' strike in New York City earlier this year. More and more of the labor unions will be demanding earlier pensions. You will also get this demand in any city where there is great trouble, racial or otherwise. People now in the bureaucracy are thinking, "Give me an earlier pension and I am going to get out." In other words——

Chairman PROXMIRE. This is why our Social Security Act prevents people between 65 and 72 from working without losing most of their social security benefits.

Mr. LUBELL (continuing). People look ahead and to the extent that they can, will hedge against continued inflation and try to protect themselves against the uncertain future.

I don't think that you can say by law or by any other means that you are going to have 3-percent inflation every year and not affect the savings habits, the spending habits and all kinds of other attitudes of people. They will try to make up for it in wage demands and other changes.

On the question of 6-percent unemployment, this is not acceptable because, again, as I mentioned earlier, this is tied together in people's minds with a deep uncertainty over the future. Right now this economic uncertainty causes many people to fear—and this is the term people volunteer—"They'll get us into war somewhere else." Now I don't believe any such motivation is at work, but many people fear unemployment brings war.

Chairman PROXMIRE. You find that quite common?

Mr. LUBELL. This year the feeling has been quite strong. I interviewed all during the Korean war and I plot these answers, when they show up, when they do not.

Chairman PROXMIRE. Could you give us any notion in terms of quantity how many?

Mr. LUBELL. It is much stronger today than at any time over the last 20 years.

Chairman PROXMIRE. What proportion of the people really believe that our military policy is determined by economic factors?

Mr. LUBELL. There is a very strong interrelationship in their thinking but when you use the term "really believe it"——

Chairman PROXMIRE. Indicate they believe it?

Mr. LUBELL. Let me give you a short lesson about public opinion.

When people give you an answer, it doesn't mean they believe it in the sense that this is a thought-through consideration. What it usually means is that they are repeating to you how they are arguing among their neighbors. During the 1952 election, for example, the big issue for most people was whether we were going to end the Korean war or whether we were going to get a depression if a Republican President were elected, I followed this argument carefully. Toward the end of the campaign people began to tell me, "Let's have a depression and get the war over with."

Now, clearly they didn't want a depression but this was the language they were using to argue with somebody across the workbench. One man would say, "You are going to get a depression if you vote for Eisenhower." What answer does this bring? "Let's have a depression; I want to get the war over with."

What you have at present is the interlocking of these two uncertainties and—it is an emotional locking together. As long as you have war and unemployment people will think the war is being kept going to keep unemployment from mounting. These emotions and uncertainties lock together. Words won't unlock them. If you change the conditions, they will come apart.

That is why I can't give you a figure and say so many people "believe" this. If you have fears in the country and they persist, they don't stand alone on a street corner. They embrace each other. When they do come together you have a different psychological pattern than when each fear stood alone. This is what happened last spring and summer, many uncertainties came together in people's minds into one big uncertainty about the future of this country. This concern over the future is bigger than economics alone and it won't be laid to bed by economics alone.

Chairman PROXMIRE. One final question: I expecially like many things you have been talking about and I think you have made a great contribution.

Mr. LUBELL. You stimulate me more when you disagree with me, sir.

Chairman PROXMIRE. I particularly appreciate your emphasis on the carrying on the stabilization program in a fishbowl of visibility, as you say.

Mr. LUBELL. I added with tape recorders and telescopic lenses; make it as visible as possible.

Chairman PROXMIRE. Just how can we accomplish this? There is a mountain of evidence that the Executive tells us only what they want us to know, and then generally only long after decisions are already made in many of these areas that have nothing to do with the national security and there is every reason why the taxpayer and the public and the Congress ought to know it. What can we do to secure greater frankness and visibility?

Mr. LUBELL. I think it is important in writing the law, any law, that you lay down orderly procedures that ought to be followed inside the Presidency. I stress inside the Presidency.

Chairman PROXMIRE. Give me an example of that.

Mr. LUBELL. Well, I can give you one example which is now a matter of sad history. The National Security Act of 1947—I think it was—laid down a very orderly procedure for action inside the Presidency if any emergency situation developed that might involve a mobilization for war. All the plans of the military were to be screened and analyzed well in advance so you would not have a disruptive impact on the economy, with inflation.

But this procedure was ignored when the Vietnam mobilization was stepped up, so that in 1 year the number of American troops in Vietnam jumped from roughly 180,000 to 450,000 troops. There was this agency that Congress had set up by law—at that time it was called the Office of Emergency Planning—and it was charged with preventing what happened. The creation of this agency was carefully thought through. The agency was inside the National Security Council so that military secrets would remain secret. But it was to be a civilian agency, without military personnel so it would be independent of the military. It would then be in a position to take the mobilization projections and say, "All right, here you want this and this. We are going to look at the likely effects of your demands on the economy. Maybe we will say you cannot do this without upsetting the economy. Maybe we need to expand certain facilities. Maybe the military can't have all it wants or we have to raise taxes or put controls on the economy to prevent a runaway inflation. The whole idea was not to let these demands get thrown on the economy with no one prepared for them.

Well, when the Vietnam mobilization got started, this agency asked for troop estimates and the Pentagon would not give it to them, and the White House upheld the Pentagon in its refusal to do so. This agency never could get its information that it needed to do the job Congress assigned to it.

Chairman PROXMIRE. You say the OEP in your statement; you say the OEP went to the White House and the White House specifically turned them down although they not only had a right to know but they couldn't function without knowing?

Mr. LUBELL. That is correct. In the whole Vietnam mobilization the orderly, lawful procedures that were set up, written into law, were ignored.

Chairman PROXMIRE. What can we do about that?

Mr. LUBELL. There is nothing you can do about that except keep writing these orderly procedures into law and require the agencies to report back to you why the procedures were ignored. This is part of what I mean by visibility. We should stop making fuzzy grants of power. Write laws as visible as we can make them so the burden of what happens is clear and we can learn from experience.

There is no way of writing good faith into an agreement. You cannot write virtue into law. But you can make the functioning process of government so clear that it will be visible. This requires analysis of problems in advance of writing a law, so that the parts of the problem are clear, the steps to be taken in sight. If the law is violated, you can ask, well, why didn't you do it the way the law intended it? We have not yet had an answer to that question on the example I cited, with the Vietnam mobilization. Now what I call visibility isn't perfect but it may add something to the governmental process and it may be a partial answer, some kind of answer, to the spreading tendency to turn government into manipulation, to throw all kinds of powers together and just manipulate things any way one pleases.

Chairman PROXMIRE. Well, thank you very, very much, Mr. Lubell, for a most interesting and most helpful statement and responses to our questions.

The committee will stand in recess until Friday, when we convene in this room. I am not sure of the time; 10 o'clock, maybe a little later, when we hear David Ginsburg who was formerly General Counsel of the Office of Price Administration and Harold R. Sims, acting executive director, the National Urban League.

(Whereupon, at 12:15 p.m., the committee was adjourned, to reconvene at 10 a.m., Friday, September 17, 1971.)

THE PRESIDENT'S NEW ECONOMIC PROGRAM

FRIDAY, SEPTEMBER 17, 1971

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

The committee met, pursuant to recess, at 10:30 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senator Proxmire.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Richard F. Kaufman and Courtenay M. Slater, economists; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., minority counsel; and Walter B. Laessig and Leslie J. Bander, economists for the minority.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Today in these hearings we shall address our attention to two broad but related issues which are involved in the President's new economic program. The first involves the development of a fair system of measures to assure that whatever price stabilization success is achieved in phase 1 of the new economic program is sustained in the succeeding months while we pursue efforts to achieve full employment and stable growth.

The second issue, which once more stresses the equitable treatment of people, relates to the questions of priorities implicit in the President's program and what steps should be taken to improve the distributive aspects of the program.

Basic to a resolution of the first issue is the assurance that whatever measures are adopted, they are legal and constitutional. The questions of legality and constitutionality have already been raised by several previous witnesses with respect to the law and interpretations under which phase 1 was adopted and is now being implemented. Professor Miller, an eminent constitutional lawyer, has raised the serious question of the very constitutionality of the Stabilization Act of 1970 used by the President to promulgate the wage-price freeze.

Questions of priorities implicit in the President's new economic program have risen time and again in our hearings. Largely these have centered on possible favoring of business at the expense of consumers, and now particularly the poor, in the President's tax program. Much less weight has been given to the proposals to put off welfare reform and aid to State and local governments.

We have with us today two eminently qualified witnesses. David Ginsburg, one of the Nation's outstanding lawyers, has had extensive experience with the problems inherent in wage-price control systems. He was General Counsel of the Office of Price Administration in World War II. As Executive Director on President Johnson's National Advisory Committee on Civil Disorders, he is also well aware of the dangers to society when society fails to develop programs of a fair, equitable, and progressive nature.

Mr. Ginsburg, I understand you will speak from a prepared outline. We hope you will be able to highlight the major points you wish to discuss in 15 minutes or so. We have some questions for you.

STATEMENT OF DAVID GINSBURG, ATTORNEY AT LAW, WASHINGTON, D.C.

Mr. GINSBURG. Thank you, Mr. Chairman. I appreciate the opportunity to be here. I am sorry I do not have a prepared statement. I will be glad to supply any additional details you or other members of the committee may desire.

I plan to address myself essentially to matters of structure. There is no need for me to repeat or try to qualify the testimony of the distinguished economists you have had before you.

I find few relevant precedents. You spoke of the Office of Price Administration. There was also the Office of Price Stabilization during the Korean War, as well as the work done in the White House, in an effort to achieve a better degree of stabilization, during the Kennedy and Johnson years, particularly 1966 and 1967. I was personally involved in some of these efforts. We also have the background of many White House and other Government task force reports, and a number of important and useful private studies.

If we seek to be guided too much by the past, I feel we're likely to compound error. The problem is what should be done in existing circumstances, now. It is important to avoid being dogmatic; we should be flexible; we should remain very skeptical about what can be accomplished by Government intervention until we test our procedures. Public support and understanding, and voluntary compliance with understandable, reasonably specific guideposts will be indispensable.

I had not planned to speak, Mr. Chairman, to the issue of the wisdom or the constitutional validity of the existing law. Although the delegation in that law is very broad, I think it would be sustained by the Supreme Court. From the viewpoint of public legislative policy. I regard the breadth of the provisions and the paucity of standards as unwise.

The Congress should formulate controlling standards. They should be embodied in law. These standards should guide administration by the executive branch.

My first point, however, is that we are moving into uncharted areas, and that the past should not be taken as an automatic guide for the future except, perhaps, to point the dangers. The problems we face today exist because of rigidities in some areas of the economic system; unhappily, we need price and wage stabilization because of those rigidities—because competition does not exist or work as it must for our system to operate smoothly. What we do now may be with us in varying forms for a long time. The assumption that we are structuring an interim or very temporary system of controls is probably erroneous, although it is certainly true that the better the structure, the briefer the interval of controls.

I see, Mr. Chairman, at the present time, three levels of authority within the executive branch. This structure can and probably should be changed from time to time but here is the kind of distribution of power that I think we need now. At the top, the President in whom the Congress would vest—indeed, has already vested—full responsibility and authority. It is important that that responsibility and authority not be divided, diluted, or qualified. I would hope that any new law would provide explicit, fair, and equitable standards for administration. Below the President, I would recommend the establishment of what might be called an Economic Stabilization Board. The ESB would embody some of the functions of the Cost of Living Council, some of the functions of the White House Economic Council, and other functions which I'll describe later. The President would delegate to this Board authority to stabilize prices and wages. I emphasize that the sole agency to exercise the statutory power to stabilize prices and wages would be the Economic Stabilization Board. It would, in addition, act and make recommendations outside the field of direct price and usage controls to reduce and eliminate the rigidities of which I have spoken, and help to create a freer economic environment in which competitive forces can operate more effectively.

The Economic Stabilization Board would thus administer the Government's incomes policy.

Just below the Economic Stabilization Board, I see two operating agencies, a Wage Stabilization Board and a Price Stabilization Board. I would separate the administration of wages and prices. When I speak of "wages" incidentally it should be clearly understood that I'm also speaking of salaries. I believe that all of these Boards and most certainly ESB and the Price Stabilization Board should be comprised of distinguished public interest representatives and not spokesmen for particular interest groups. There must be men in this country—I'm sure you have had some of them before you—who understand the problems of business or labor, who are trusted by business or labor but who are not members of, say, the Business Advisory Council or the AFL–CIO Executive Council. It would be relatively simple—and very important—to establish advisory committees to these operating Boards that would directly represent the several interests affected by their decisions. I plan to return later, Mr. Chairman, to the matter of composition and membership of these Boards.

This, then, is the pattern: The President in whom responsibility is vested and to whom authority is delegated; an Economic Stabilization Board to serve within the executive branch as incomes policy administrator; separate Price and Wage Stabilization Boards.

I'll deal first with the Price Stabilization Board. I assume that as of November 14, perhaps sooner, there will be published guidelines for prices and wages that will take into account increases in productivity, increases in the cost of living, increases in the cost of materials and labor, and the other factors which this committee has heard discussed often before. The guidelines, I further hope and assume, will operate on a voluntary basis, across the board, nationwide.

Now, beyond those guidelines——

Chairman PROXMIRE. You are talking now about the price aspect; is that right?

Mr. GINSBURG. I am talking first and mainly now about prices.

Following the freeze, I see three categories of price actions. I say "three" but it could conceivably be two or more than three. For convenience in analysis, however, I see three areas which are probably separable.

First, industrial products sold by producers—basic items or industrial material in concentrated industries, on which the freeze would be continued for a further limited period, say, 6 months. After the freeze period, these items or materials would be subject to removal from control or the price notification procedures of the second category.

Second, items or materials on which no substantial price increases may be made without, say, 60 days prior notice to the Price Stabilization Board. These might include the important consumer-durable goods, the big ticket items, and some items from concentrated industries particularly important in the cost of living.

In this category, no lawful price increases could be put into effect without prior notice to the Board.

Third, all other goods and services. These would all be released from special controls, but would remain subject to the guidelines and specific Board orders. I shall speak of rents later.

Thus, released from all special controls, would be all sales by retailers, wholesalers and jobbers, agricultural and fishery products, rents, personal and professional services, and various other areas of the economy, including areas where price competition remains reasonably effective or which have little impact on the Consumer Price Index, and so forth.

The Price Stabilization Board should, of course, have power to compel testimony, subpena books and records, conduct hearings, make recommendations, publish findings.

Appeals could be taken from the recommendations of the Price Stabilization Board to the Economic Stabilization Board which alone would have power finally to interpret and apply the guidelines and the legislation enacted by Congress.

I doubt whether any specific maximum price should be continued in effect, without review, for a period of more than 1 year. Every specific price action, moreover, should be accompanied by a summary of evidence and statement of the reasons for the action.

I think that exports should be exempt from price regulations.

I believe it is important that the Price Stabilization Board and the Economic Stabilization Board should have power to reduce or roll back prices.

We have heard a lot of talk during these last few weeks about excess profits taxes. I think myself such a tax is unwise and difficult to administer. The Price Stabilization Board and the Economic Stabilization Board could instead, in many cases, so use the price provisions of any law as to insure that excess profits are not, psychologically or economically, a serious problem.

I will speak briefly, then, of the parallel——

Chairman PROXMIRE. That power to reduce prices which you say you lodge in both the Price Stabilization Board and the Economic Stabilization Board—is that correct?

Mr. GINSBURG. Recommendations only would be made by the Price Stabilization Board. If those recommendations are accepted, no further action by ESB would be necessary.

Chairman PROXMIRE. The determination would not be by the President but by the Economic Stabilization Board?

Mr. GINSBURG. By the Economic Stabilization Board; only the ESB could take legally enforceable action.

Chairman PROXMIRE. Would you set any limits as to what kind of prices could be reduced? Could any prices be actually reduced?

Mr. GINSBURG. It should be possible to reduce any price if an appropriate justification exists. The Price Stabilization Board should have the power to hold hearings, to consider the evidence, to make recommendations, to issue orders which reduce prices. The final determination, in the event of contest, would be made by the Economic Stabilization Board.

Chairman PROXMIRE. Are you talking about price—say, for example, the steel corporations announce a price increase. They intend to put a price increase into effect. Then the hearings could be held and then the Economic Stabilization Board make a recommendation, the Price Stabilization Board could stop that price increase. Are you talking about that, or are you talking about how a particular price might be construed as too high in view of the productivity in the industry and actually rolled back without any proposed increase?

Mr. GINSBURG. I am speaking at this point of the latter, of the rollback of prices because of increases in productivity—in which case recommendations would be made by the Price Stabilization Board and, in the event of resistance, final action taken by the Economic Stabilization Board. From that action, I believe there should be an opportunity for judicial review, of which I'll speak in a moment.

The Wage Stabilization Board, the parallel agency, would administer the wage guideposts. Certainly, and this is vital, free collective bargaining would continue. At the outset, wages in low paid, especially unorganized industries, should, I think, be excluded. Hopefully, WSB could and would resolve all of the important cases on a voluntary basis.

If proposed wage increases—this is important, too—require price changes, then I think the WSB recommendation should be certified for review by the Price Stabilization Board. I believe that price and wage administration should be separated, partly because the functions are different, partly to safeguard confidential data, and partly to minimize the risk of a tacit partnership between labor and business, at the expense of the purchaser or consumer.

If a single board administered prices and wages, it seems to me unlikely that we would see many price rollbacks or price reductions. The probable consequence of a unitary board would be division of excess profits between higher prices and higher wages.

The Economic Stabilization Board would be the sole repository of legal power. It would act on appeals from the recommendations of the Price Stabilization Board and the Wage Stabilization Board. Its decisions would be final, subject only to judicial review. There would be no appeals to the President or action by him except in the event of grave emergency.

The Economic Stabilization Board would also make recommendations to the President, to the Congress and to other departments and agencies in the other areas involved in an incomes policy. In the event of a railroad or airlines strike, for example, it would make recommendations to the Congress and to the President. It would be to the ESB that the Congress or the President could turn for guidance and information. The Economic Stabilization Board should be prepared to make recommendations over the entire area of actions comprised in the concept of an incomes policy. For example, increased imports in the event of supply shortages or, conceivably, to cope with recalcitrance on the part of those unwilling to operate within the price guidelines.

Government procurement policies can be extremely important; procurement policies of the Defense Department and the GSA. Other areas include stockpiling and release from stockpiling; changes in tariffs and duties; capital assistance for new enterprises.

One way to administer an antitrust policy is to create competition by assisting new enterprise to enter the field. We did that, you may remember, Mr. Chairman, after World War II, in aluminum production. ESB might also propose direct antitrust action where it found undue rigidity. It might recommend the suspension of antitrust prohibitions to permit merger or concerted action by smaller competitors in an area dominated by a larger concern. It would also make recommendations in the field of economic stabilization to other departments and agencies, including the Department of Interior on oil policy; the ICC, DOT, CAB and others on rates; Agriculture on farm production policies, etc.

ESB should also have responsibility for stabilizing rising institutional medical costs. This is vital. I don't see how CPI stability can be achieved unless there is greater stability in this area. I doubt whether such medical costs could be handled effectively by the Price Stabilization Board or the Wage Stabilization Board. It should, I think, be a direct responsibility of ESB, working with HEW.

It should also be a responsibility of ESB to work with the States and local governments, and with their ratemaking authorities, to curb increases in rates, in excise and in government sales taxes, and to secure the cooperation of Governors and mayors in the implementation of wage and price guidelines. The Federal Government is not helpless. A determination that Federal grant funds may not be used for payments in excess of the Federal guideposts could be very effective.

I believe there is ample power in the Federal Reserve Board to deal with interest rates, although coordination between ESB and FRB would be important.

I see no threat to economic stability from dividends, but I don't view this as a major issue. I think that dividends could be included in a guidepost policy without too much difficulty, if politically necessary. I hope this can be avoided.

In agriculture, we're not beset with shortages and this year we're anticipating the largest crops in our history. For agricultural and fishery products I see no need whatever for price controls now. There should be, however, contingency plans, and this should be the responsibility of ESB working with the Department of Agriculture.

My recommendation, for operational reasons, would be to decontrol rents.

Chairman PROXMIRE. Are yo going to mention interest rates?

Mr. GINSBURG. I would leave interest rates for administration by the Federal Reserve Board, hopefully in consultation with the Economic Stabilization Board. I see no need for additional legislation at the present time.

I'm troubled about rents because they are important and rising. I do not now propose a Federal system of rent controls because such controls would require the establishment of offices in virtually every community throughout the country. I'm also concerned about their effects on maintenance and construction, particularly for low-cost housing. Perhaps some broad formula can be worked out and included in the guidelines for voluntary action. I think it will be difficult. This area, it seems to me should be subject to local control when control is really necessary. The Federal Government can probably assist and cooperate with local governments, but I doubt whether at this stage it can operate effectively alone.

Let me speak briefly to the issue of judicial review. Under the Mandamus and Venue Act of 1967, suits against the Government can, generally speaking, be brought not only in the District of Columbia but wherever the plaintiff company or individual has its head office or resides. It would be very harmful if, for example, one court intervened to fix the price of steel at one level in Pittsburgh, another intervened to fix it at a different level elsewhere, and so on. In both World War II and during Korea, this problem was met through the establishment of what we called an emergency court of appeals. I remember how we discussed the matter with Chief Justice Stone. Ultimately, the legislation authorized the Chief Justice of the United States to select sitting members of constitutional courts—the courts of appeal or the district courts—who comprised a new court to which appeals from final action of the OPA or OPS could be taken. This was simple, effective, and insured uniformity. I believe that final price and wage actions of the Economic Stabilization Board should similarly be subject to appeal to an emergency court of appeals. The court would, of course, sit throughout the country. During World War II the emergency court of appeals sat in some 60 different cities.

So far as concerns enforcement, final price and wage actions of the Economic Stabilization Board should certainly be enforceable by injunctions. Another possibility—I want to think more about this—is to have the IRS collect an excise tax both from responsible individuals and from companies, related to the overcharges. This technique is not a new one. The Congress used it as a sanction for foundations as recently as 1969.

Chairman PROXMIRE. What kind of excise tax would that be? Say the overcharge was found to be on a particular item, a dollar item, say the overcharge was found to be 10 cents?

Mr. GINSBURG. At the housewife-consumer level, I'm inclined to believe that the only way to get effective private enforcement, as contrasted with Government action, is through class suits. In heavy manufacturing, however, an excise collected by the Government might be a very effective way to deal with a substantial overcharge—especially if applied to individuals responsible for overcharges as well as to corporations.

Chairman PROXMIRE. Is this not redundant? Why do you have to have a rollback power if you have the capacity to impose that kind of penal and I would think effective tax? I would think that would stop any excessive price increase that would go beyond the guidelines.

Mr. GINSBURG. In part they are alternatives and do overlap. But I see excise taxes as collectible after the event, if over-ceiling prices are in fact charged; price rollbacks could be used for cases of increased productivity and allegedly excess profits. In these cases the consumer, the purchaser of the product, could, through a rollback, be given the benefit of a price reduction. Price rollbacks should be preceded by ample notice and a hearing leading to a specific, appealable order.

Chairman PROXMIRE. Now, as I understand it, these guidelines will be verbal, or would they be quantitative? Will you have a specific limit, or would you simply say that they try to put language that would require a limitation on them?

Mr. GINSBURG. To begin with, standards for guidelines should, from time to time, be changed; clarity and flexibility are important—to permit and assure voluntary compliance. I think that guidelines should be reexamined at least annually, and rewritten to reflect current economic and policy changes.

Chairman PROXMIRE. Can you give me an example of the kind of guideline you would have for a particular industry?

Mr. GINSBURG. I have great difficulty visualizing separate guidelines for separate industries. I do not believe the economy works that way. I think a single overall guideline for the economy as a whole is probably essential. In service industries, for example, substantial increases in productivity are far less likely than productivity increases in manufacturing and industries where automation is being put into effect. Yet we know that over time, wages in services industries tend to remain more or less in line with others. I see little likelihood that we shall be able to develop individual guidelines for each major industry. It may be possible to develop broad categories; I am not sure of this.

Chairman PROXMIRE. But you see, what I am getting at is this: How would the management of a particular concern know whether or not they were in compliance with the guidelines when they set their prices? Would they have to go to the Price Review Board and ask them what price they could set? This, I think, would obviously be much too detailed.

Mr. GINSBURG. Individual applications would be far too burdensome. On wages you have had a number of suggestions put before you. The most sensible beginning was made, I think, by Arthur Okun, who proposed an initial guideline reflecting increases in productivity in the range of 3 percent, plus half the increase of the prior year in the cost of living.

Chairman PROXMIRE. I am sorry. We were on different wave lengths. You were talking about a wage guideline.

Mr. GINSBURG. I was.

Chairman PROXMIRE. I understand that. That is relatively simple. I am talking about the price guidelines for a particular concern, which as you indicated, would have to vary quite a bit depending on the productivity of the industry.

Mr. GINSBURG. On price guidelines, Mr. Okun suggested a formula which would require cost absorption of a part—he proposed 1 percent—of the cost increases in labor and materials. Authorized cost increases beyond this point would force price increases. All of these formulae for voluntary compliance, would have to be more detailed than I have indicated and generally acceptable to both management and labor.

Chairman PROXMIRE. This assumes that the administering agency would have a great deal of information about costs which have been concealed to date. We have had tremendous difficulty getting any cost data from any of these industries. The automobile industry, for example, again and again, I requested the Council of Economic Advisers, when there were automobile price increases, to tell us whether or not this was warranted; get us some cost data. The answer has always been they cannot get it and the labor unions have said they have been trying for years to get it and have been unable to get it.

Mr. GINSBURG. The Price Stabilization Board would simply retain the existing price until such time as a case is made for adjustment. The industry, if it feels that a price increase is required, will have to produce the relevant cost data.

Chairman PROXMIRE. That will not help at all on rolling back prices, will it?

Mr. GINSBURG. No, it will not.

Chairman PROXMIRE. How do you handle that?

Mr. GINSBURG. I don't know the answer to that. I do not know how the Price Stabilization Board could effectively roll back prices without more information than the Government presently has available to it. Perhaps the Price Stabilization Board could be given the power to conduct hearings, to require testimony and the production of books and records for these purposes. If the standards of the law were sufficiently precise for investigations of this sort, I think it would be upheld by the courts.

Chairman PROXMIRE. One signal, though historical and it may be a little too late—one signal would be the profits in the industry. If an industry had very sharp increases in profits, with fairly stable sales, then it would seem that there might be grounds for considering action to roll back prices, would it not?

Mr. GINSBURG. Yes. Here we are moving on treacherous ground. There are both constitutional and economic issues which must be faced. What is the ultimate basis for the action of the Congress? If not the emergency and war powers, then perhaps the congressional powers over banking and currency and over interstate commerce. Equally important, and perhaps more difficult, a price rollback on a large efficient producer may destroy smaller, less efficient competitors. These are issues on which I think the Congress will want to reflect long and carefully.

Chairman PROXMIRE. Have you completed your statement?

Mr. GINSBURG. I have, sir.

Chairman PROXMIRE. First, let me say this is one of the finest statements we have had and it is most useful, because I think nobody has gone into such detail as you have. I know you are always asking for criticism when you do that, as you are well aware, but it is the most helpful kind of testimony we can get. You have said precisely the kind of organization you would have. You are the first witness who has indicated how he would break it down, how he would organize it, what powers would get to each agency, and so forth. This is most helpful.

However, I can see some serious practical political difficulties along the line. The main power agency, as you put it, in enforcing phase II would be the Economic Stabilization Board.

Mr. GINSBURG. This is true.

Chairman PROXMIRE. This would obviously not meet the proposals of labor, who have indicated what they want is a Wage-Price Review Board and they want it volunteer and they think the labor people themselves should be on it.

I take it the Economic Stabilization Board—would that be the same—would the Cost of Living Council be the people who would take over, in your view, people of this kind, at least?

Mr. GINSBURG. It need not be, I would like to comment on your observation.

Chairman PROXMIRE. All right.

Mr. GINSBURG. I have tried to take into account both the desires of labor and the needs of Government. There will in fact be no compulsion behind the actions of the Price Stabilization Board—the Wage Stabilization Board in the case of wages. Compliance at this level will be voluntary. Moreover, the interests of labor will be adequately, indeed I think, fully represented, both through public interest representatives and advisory committees. Other patterns, at this level, are also possible.

Chairman PROXMIRE. As I understand it; you would simply give an advisory capacity to the union representatives themselves? If anybody came from the AFL–CIO, UAW, Teamsters, and so forth, they would be in an advisory capacity. The Wage Review Board itself would have people like John Dunlop, perhaps, of Harvard, people of that great stature who have the confidence of labor, but they would not be people who are in the labor movement, as I understand it.

Mr. GINSBURG. This certainly would be my preference

Chairman PROXMIRE. But there is real power here. This is something that I interpret labor is opposed to, to give power to the Economic Stabilization Board to determine wages.

I did not get from you how firmly you would establish this. You adopted the Okun principle more or less, that you would have, say, a 5-percent increase in wages permitted after the freeze?

Mr. GINSBURG. Yes; in general, and for the first year. An increase which would——

Chairman PROXMIRE. Something of that kind?

Mr. GINSBURG. Yes. This would be embodied in generally applicable guideposts which the Wage Stabilization Board, in the case of wages, would carry out.

Chairman PROXMIRE. The Wage Stabilization Board would develop these guidelines and recommend them to the Economic Stabilization Board, which in turn would determine whether or not they were the ones they wanted and they would modify them if they wished, is that right?

Mr. GINSBURG. I think as a practical matter, Senator, that we will probably begin on November 14 with guidelines which will gradually be revised over time as a consequence of the interaction between the Wage Stabilization Board and the Economic Stabilization Board. The Wage Stabilization Board will surely be able to deal with 98 percent of the problems that come before it. Hopefully, only a fraction of the cases will ever reach the Economic Stabilization Board.

Chairman PROXMIRE. The Economic Stabilization Board itself would be a governmental board; it would not be a board that would be private members appointed by the President. As I understand it, this would be like the Cost of Living Council which is headed by the Secretary of the Treasury and the vice chairman is the chairman of the Council of Economic Advisers. As you say, you would not be stuck with those particular members, exactly, but they would come from this administration, is that right?

Mr. GINSBURG. Yes; it would certainly be a government board but this does not mean that it would operate in isolation or apart from labor, management, consumers, agriculture, or others. It would have to set up vitally important advisory committees to work closely with the Board. One cannot deal with these problems by fiat.

Chairman PROXMIRE. Now, you have said something else that I think makes a lot of sense. In fact, logically, I think it is very hard to rebut it, although we have some witnesses coming in next week who I understand have a different view. So far, all the economists agree with your view that we should leave profits free. You say we should also leave dividends free. If you give mandatory clout to an administration which has been viewed by labor, at least, as being not prolabor, probably more probusiness, then if you free dividends and free profits, can you really, realistically, expect to get the kind of cooperation you are probably going to have to have out of labor with that kind of program? Will they not refuse to cooperate? Will they not feel that this is not something they could possibly accept?

Mr. GINSBURG. I did not say, Senator, that we should free profits. The reason that I introduced, emphatically, the possibility of price rollbacks—price rollbacks, not merely holding the line—is to come to grips with this problem of excess profits.

Chairman PROXMIRE. But profits themselves as such—you do not favor an excess profits tax, you do not favor a limitation on profits. As I say, I think the economic argument is overwhelming for that position. But you would get at profits only through rigorous price administration.

Mr. GINSBURG. By proper price administration. The Price Stabilization Board, could, I think, deal with the problem of excess profits in some industries, not perhaps with a scalpel, but in a blunter way. This is one of the reasons why I would separate price administration from wage administration.

Chairman PROXMIRE. This is such good testimony in a specific area that I hesitate to ask this question, but it seems to me I cannot very well avoid it. If you are going to have this kind of program, it seems to me to provide some balance, you would have to have a fiscal program that would provide more benefits for labor and working people and poor people. I am talking about a stimulative fiscal program, a fiscal program that perhaps would look to funding the Welfare Reform Act, for example, something of this kind.

Mr. GINSBURG. Unless that is done this kind of program would be neither politic nor economic. The effort will surely fail unless the stimulative actions of which you speak are taken. It cannot succeed because we are catching the economy at a certain point in the cycle.

Unless we begin to move up, unless we increase production, say, from 75 percent of capacity to, say, 90 percent of capacity, reduce unemployment from 6 percent to 4 percent, this type of program cannot succeed. A different and far more rigid program would then be necessary.

I have therefore assumed throughout that the type of stimulative actions to which you refer will in fact be taken.

Chairman PROXMIRE. Now, in actually putting this program into effect, you say that you should have congressional action, you should have a statute, it should be statutorily based, is that correct?

Mr. GINSBURG. I would recommend that. I believe that these actions can, however, be taken under existing law. I think that existing law, as I indicated at the outset, is deficient at least as a matter of policy if not as a matter——

Chairman PROXMIRE. You also indicate that it is too broad and I take it the implications are that Congress might consider cutting down the power that is in the law.

Mr. GINSBURG. Yes. I think Congress should share responsibilities in the field of domestic affairs essentially as it has indicated it would wish to participate in the field of foreign affairs.

Chairman PROXMIRE. Now, do you envision this again as a more or less permanent program, at least on a standby basis, or do you see it as a way station with complete decontrol within a year or so? Something of that kind?

Mr. GINSBURG. I do not see complete decontrol coming within a year or two. I think much depends upon the success of the ESB, as I have described it, in administering an incomes policy. I think this will take time. I think the ESB will be needed more and its functions will continue longer than the Price Stabilization Board and the Wage Stabilization Board. The administration of an income policy and the elimination of major rigidities in the economic system will not be a 1-year effort.

Chairman PROXMIRE. You said that you would leave the interest rate policy to the Federal Reserve and the Economic Stabilization Board working together without any particular guidance—at least I inferred that—from Congress; is that right?

Mr. GINSBURG. At the moment I see no need for additional authority or further intervention by the Congress. I think the views of the Congress are known; I think that the actions so far, at least, of the Federal Reserve Board look toward carrying out those objectives. I think that the Economic Stabilization Board might wisely hold hearings in these areas and make public recommendations in the event of differences between the ESB and the Federal Reserve Board.

Chairman PROXMIRE. This is another sticking point with labor. They envision, and I think there is a lot of merit to the way they look at it, they feel that you are putting limits on the compensation of labor and no limits on the compensation of capital, no limits on dividends, no limits on interest, and the limits on profits indirect and related only to prices. And you conceded that we cannot roll back prices unless we have a very productive situation. So they make the point that we are far more specific and firm and clear in holding down wages than we are in holding down the compensation of capital, that there is no equality.

Mr. GINSBURG. To an extent this is true, but at the moment labor is talking of what may happen in the future. The reality is that interest rates are not rising; the reality is that profits are low; the reality is that we are not threatened with substantial increases in dividends. The central problems that we face are problems of prices and wages. If excess profits develop which cannot be gotten at without regulation or by price rollbacks, then I think at that time Congress should consider it.

Chairman PROXMIRE. How effective, in your experience, was the Emergency Court of Appeals procedure in World War II and the Korean period?

Mr. GINSBURG. I thought it was extremely effective. I thought it insured uniformity of treatment. It offered judicial administration or judicial supervision by judges who came to understand the economic problems that were involved—Judge Maris, Judge Hastie, Judge Magruder, and others. They knew what the issues were. They sat throughout the country.

I believe this device is useful; I hope it will be incorporated in any legislation that the Congress considers.

Chairman PROXMIRE. What are the advantages of having an Economic Stabilization Board consisting of Cabinet officers as compared with something like the Council of Economic Advisers, a group of economic experts?

Mr. GINSBURG. To have Cabinet officers in an Economic Stabilization Board would probably be unwise. They will not sit; they have many other matters to attend to; the fact is that others, or their deputies, will normally conduct operations. This, I think, is a mistake. I see the Economic Stabilization Board performing the functions of the Cost of Living Council plus some of the functions of the Economic Council, and other functions as well. But I see no necessary reason why the ESB should be comprised of the same people; indeed, my view is to the contrary.

Chairman PROXMIRE. You speak of class actions and there has been a lot of interest in that and a lot of enthusiasm for it in Congress, and a lot of concern and dread in business, for understandable reasons. If price guidelines are general for all business firms, how would business be protected from harassing suits if consumers can bring class action? This just opens it up so wide, because everything is affected now by prices.

Mr. GINSBURG. I see no basis for class actions at the consumer-housewife level, because I see no need for price control at the retail or wholesale level. Under the price guidelines alone, this issue, at least for the foreseeable future, would not arise. It is only in the event that specific prices are established by the Price Stabilization Board and the ESB as, for example, a ceiling or maximum price regulation covering the price of gasoline or heating oil. The Price Stabilization Board, let's assume, steps in, holds a hearing, makes a recommendation that the price of gasoline be held at current levels. The industry, let's assume, appeals that price to the Economic Stabilization Board and the ESB affirms the action of the Price Stabilization Board. That, then, would become the fixed maximum price of gasoline.

Let us assume further that one company seeks to test the ESB action and increases the price of gasoline by 1 cent. I should think that that company, being fully aware of the views of the Price Stabilization Board and the Economic Stabilization Board, and having the right to appeal to the courts, should take the risk of a consumer class suit. I would not regard that as harassment in any circumstances.

Chairman PROXMIRE. Would you confine your class suits to just the first category—that is, the basic materials—or would you extend it to the big ticket items and then extend it further to all items that would be affected by guidelines?

Mr. GINSBURG. I would authorize class suits for any items subject to frozen or specific, lawfully established fair and equitable prices, not to guideline violations.

Chairman PROXMIRE. I see. So that would eliminate the third category; that would confine it to the big ticket items as far as the consumers are concerned?

Mr. GINSBURG. Exactly. There would be no right to bring a class action at retail unless the Price Stabilization Board and the ESB had frozen or had fixed the price of a particular item or particular category of items.

Chairman PROXMIRE. How would you distinguish between prices to be, to remain, frozen again? I would just like to get that clearly in mind, and prices subject to 60 days' notice and others. The prices to remain frozen are the basic materials prices, is that right? That would be prices like prices in steel——

Mr. GINSBURG. I would adopt Gardner Ackley's approach: industrial products sold by producers.

Chairman PROXMIRE. Industrial products sold by producers, all right. Then the big ticket items you would define as being automobiles, and appliances, things like that?

Mr. GINSBURG. Major consumer durables plus some important cost of living items from concentrated industry. These items could be added by the Economic Stabilization Board.

Chairman PROXMIRE. But I take it on wages, you would not have any distinction, is that right, just leave it across the board?

Mr. GINSBURG. I would not. I would omit from initial control low paid unorganized workers, but I would leave wage determination to action by the Wage Stabilization Board. This introduces a further element of equity for labor.

Chairman PROXMIRE. Mr. Ginsburg, this has been most helpful testimony. I just can't thank you enough. As I have said, you have come up and given us exactly the kind of hard, specific proposals that have been most useful to this committee. I am certainly going to do all I can to call this to the attention of members of the committee and the Congress, and I think it is very, very useful. I certainly want to thank you.

Mr. GINSBURG. Thank you very much.

Chairman PROXMIRE. Our next witness is Mr. Harold Sims, executive director of the National Urban League.

The Urban League, as we all know, is a nationwide, people-oriented organization, which for a half century has been at the forefront of the fight for equality and equity for those peoples who have been discriminated against by society.

I have had a chance to read your excellent prepared statement, Mr. Sims. We will print it entirely in the record. You may proceed as you wish.

I might say that I want very much to hear you and to question you, but I have to warn you that unfortunately, there is going to be a rollcall in about 8 minutes and I will go to the floor and return immediately after the rollcall, which will only take me about 10 minutes altogether. So we will just be in recess while I am out of the room and then I will come back. I just wanted to let you know so you would understand.

STATEMENT OF HAROLD R. SIMS, ACTING EXECUTIVE DIRECTOR, NATIONAL URBAN LEAGUE, ACCOMPANIED BY DOROTHY NEWMAN, DIRECTOR OF RESEARCH

Mr. SIMS. Thank you, Senator.

Chairman PROXMIRE. Will you introduce the young lady with you?

Mr. SIMS. I will be glad to. This is Mrs. Dorothy Newman, who is our director of research at National Urban League. As you know, she is one of the leading economists in the country, with a distinguished public service record.

Mr. Chairman, first of all, I would like to commend you for these hearings. We are excited about it. We think this is a useful way to continue the oversight role of Congress.

I also would like to thank you for inviting us and allowing us to give a perspective on an issue that affects a unique constituency in this country, the poor and minority group members.

As you know, I am the acting executive director and have been so since Whitney Young died. I want to highlight my testimony in terms of the impact of the President's new economic policy on the lives, the future of millions of Americans, Americans who happen to be members of minority groups and the poor. I beg your indulgence as I do this, because in the language of the ghetto, I am afraid I got the bug.

Senator, last May, our national board of trustees expressed grave concern over the crises of unemployment in our cities. In June, the National Urban League asked that 53 areas of substantial unemployment be declared disaster areas and made eligible for special Federal funds. Nothing was done, and I want to highlight that the list has now grown to 62. We would argue that in terms of the impact upon lives, the crisis of massive unemployment in major urban areas is as devastating as the impact from floods and hurricanes and what have you. So we want to repeat today our previously expressed concern for this deteriorating economic climate and our suggestion for an incomes policy or wage-price guidelines, although we admitted in May we might already be too late for voluntary measures at that time, and we are saying so again.

I want also to emphasize that our concern has not been based upon cold statistics, frightening as they were. We are more concerned about the frightening effect the increasing unemployment rate is having upon the blacks, the browns, and the poor.

I want to emphasize here that in the core areas of most of our major cities, the average unemployment for blacks in certain categories exceeds the average for the overall society during the depression, in excess of 25 percent.

Accordingly, we felt a sense of great relief on August 15 when the President at last recognized the need for drastic action to avert economic calamity and avoid human suffering. This action, as I said, was belated, but it did come with other measures that are, of course, helpful. We are also somewhat pessimistic.

We have come today not to criticize the President, but to applaud him, and also to indicate that this is only the tip of the iceberg, it is the very beginning. In effect, we have to have an incomes policy that really gets at changing this country and making it more viable.

There are certain new road maps, certain modifications that have to be made in the President's proposal. We want to address our testimony mostly to jobs, welfare reform, and to methods for action. I will just briefly highlight a few things.

The job development credit is a misnomer, in our opinion. There are 5 million people unemployed, 1 million of whom are black, substantially higher than other population in this country.

We respectfully submit that the Emergency Employment Act of 1971, which the President said, when he signed the bill on July 12, would have "an immediate effect in areas of high unemployment" should be expanded substantially to enable us not only to get some creative manpower to meet some critical needs in our urban centers and our rural areas, but also to help us create a whole new spectrum in the public service with a future, career jobs. People without jobs do not spend money. This whole business of business tax credit is not going to produce those jobs immediately and this has been pointed out many times. We are in an employment crisis now in many of our ghettos. We are at depression level statistics, depression level averages in terms of unemployment. We need jobs now. If people do not have any money, a tax cut does not affect them.

The consumer, then, and we agree with many people, is the key to the dilemma we are in. As many distinguished economists have said, we are not in a consumer demand-pull or any other kind of thing but a cost-push inflation. Yet consumer demand has been curtailed becaused consumers are depressing the economy for lack of jobs and money to buy.

So it seems to us, Mr. Chairman, that the human resources development that we are proposing is just as valuable, perhaps even more so, to the future of the country as Federal assistance to business. We would suggest that there is a tragic mixup in priorities. Things are being placed before people, and this is intolerable; and in spite of our wealth and our prestige and our power, many of the less viable countries in Western Europe have a better track record in terms of providing for their own, especially the man farthest down. We think that is pathetic. Even England has a lower unemployment rate, substantially below 4 percent, even by American standards.

We would like to suggest, Mr. Chairman, that in the case of welfare reform, permission granted by the Federal Government and assumed on a voluntary basis by many of the States, such as providing assistance to families where there is an unemployed father, be made mandatory now. Immediately, this would have substantial impact upon the masses of working poor or unemployed by virtue of the economic turndown. It would also, it seems to us, be one of the major guidelines of many Americans, that is, to provide incentives to keep families together.

We think this Federal assistance to States which permits support of a 2-parent household is consistent with the administration's philosophy of helping families stay together and is especially necessary at a time when so many fathers are unemployed. The Federal aid could be made in relation to State needs and tax effort.

What is the method? How would we propose to go in addressing ourselves to some of these things? Here we would like to suggest that as we move from the freeze to other interim arrangements, your committee and the President's other advisers consider the importance of bringing the whole public with you. A voluntary system, even one proposed by the previous speaker, or one which involves some voluntary controls, necessarily rides on public support. We have learned in the past few years of the history of this country that organized dissatisfied minorities can adversely affect great issues and great change. So it seems to us the leaders would be well advised to forego the impulse to seek out only those in strong leadership roles in the public eye, but to labor, business, and the Government must be added, in our view, the voices of the community or the general public.

We want to reemphasize here that we welcome the new economic policies that have been proposed, because they recognize at last that we are indeed in a crisis. But I would use another roadmap and go in the direction of benefiting at once those who need help the most—the poor, the near poor, the unemployed, and the underemployed.

In this sense, on the permanent income tax relief, I would strongly recommend an immediate adjustment even more heavily weighted toward the lower end of the income scale and remitting entirely all of those who are poor according to the 1970 definition of the poverty level, $3,968 for a family of four. I would even suggest that this committee consider looking seriously at what I believe we have determined to be an adequate income for a family of four to be making, about $6,500 a year, to see which way we can adjust the whole income tax program so that no man or family is forced to, because of income tax, live below $6,500.

Prof. Walter Heller of the University of Minnesota has recommended, in fact, that the individual tax relief be back dated to July 1 of this year, providing stimulus now, and some reform for next year. I agree with this, and also his proposal and that of several other distinguished economists that the January 1, 1972, increase in social security taxes be postponed.

In fact, I would go a step further, Mr. Chairman, and recommend seriously, that this is an excellent time to review the degree to which social security taxes eat into the individual purchasing power and living cost of the lowest wage earners. It seems to us that there are a number of things that we can do that can keep people from being in welfare demand situations, that the whole tax structure versus both income and social security really ought to be looked at.

Also, the excise tax on new cars is a sumptuary tax. Some of it, at least, we think should be retained. The auto excise tax is only levied on the first sale of a car, domestic or imported. Relatively few families at or below the middle income level of about $10,000 buy a new car, and blacks are twice as likely to buy a used car as a new one. This does not do very much for the man farthest down. It affects the folks who can buy the expensive new cars.

We think in this regard that the 90-day period set by the President as the extent of the present freeze provides, or should provide, both him and the Congress with a unique opportunity to turn this new economic policy into a comprehensive reform, toward what we call the Whitney Young dream, the domestic Marshall plan. That would mean a massive infusion of funds into all the areas of American human need, with a timetable of 4 to 6 years, aimed at transforming their country as it transformed Western Europe; a program which not only provides a separate Federal structure of resources, but a program like the Marshall plan of Europe which provides substantial community participation and influence. A program aimed at at least recognizing, as the economists are saying about Japan, that one way of increasing the gross national product is to look at your domestic situation and apply certain kinds of economic incentives, both to the private sector as well as to the public, which enable it to make a profit, if you will, of the kind that may come out of meeting human need.

We believe the piecemeal approach to our grave domestic problems simply does not work, We have concentrated on form and not on substance. The President's own Commission on Productivity tells us that human resources precede capital resources as the prime mover in reaching productivity goals. Suppose with all these tax benefits, industries decide not to create new jobs for the man farthest down but choose to invest in new equipment which in turn displaces labor. Industry, in a sense, automates and engages in some kind of new technological whirl or miracle which in effect does not really affect the man farthest down.

We would say, Mr. Chairman, that our research, our experience suggests that currently in this country our blaming the victims for what happens is in large part untrue. Most folks are in poverty because of things beyond their control and when we invest in and develop them, they are the most enthusiastic and the most cooperative in terms of doing kinds of things that give them jobs for the future. We can substantiate this in our experience with sharecroppers in Mississippi or a cooperative in Alabama or some of our articulate and more vocal brothers in the urban ghettos of the North.

In summary, the President's economic plan does little to help the blacks and the poor, the minorities, and people below what the Federal Government described as poverty. Their interests are not at all well served.

Chairman PROXMIRE. Mr. Sims, let me just interrupt here. You can complete your summary when I return. But we are about 5 minutes into the rollcall, so I think I had better go. I will be back, as I say, within 10 minutes.

(Whereupon the committee was recessed.)

Chairman PROXMIRE. Mr. Sims, go right ahead.

Mr. SIMS. Senator, I just wanted to repeat a part of my summary, a couple of recommendations that we feel rather strongly about. One is that we feel very strongly that people below the poverty level must be exempt from paying income taxes now, and that this ought to be part of the economic plan and hopefully made retroactive to July 1, 1971. Of course, we also recommend in this regard that adjustments be even more heavily weighted toward the lower end of the income scale.

Then the question naturally arises, who will pay for this? I think this could be paid for by closing the remaining loopholes which the rich enjoy. Some of these expensive loopholes are itemized, Senator, as you know, in your recent compilation of Federal tax expenditures.

As I said earlier, we would retain some of the new excise tax on new cars, because the folks who pay that excise tax are the folks who can afford it in most cases. If we are going to uplift this country, we have to uplift the man farthest down as well as the guy farthest up.

In summary, as I said earlier, the new plan does little that is currently needed to help the blacks, the browns, the yellows, the reds, and the poor. Their interests are not at all well served by the present plan. I am not suggesting here that any help be denied to any sector of the economy. But at the same time, I must insist on the need for providing help to all sectors, and this is not being done. And for all of the pessimistic cry, Senator, this has never been tried in the history of this country. We think it is time that we move beyond theory to really see what can happen if we create new markets, new consumers, and better workers among those who happen to be victims beyond their own control.

Despite the present high cost of living which we think can't be expected to appreciably drop within the next few months, poorly paid workers are being told they must continue to exist on inadequate salaries for at least the next 90 days. Efforts are being made all over the country to raise the wages of hospital workers, sanitary workers, and domestics, for example—I was shocked to find out that 20 percent of the domestics hired in New York State are black—and these efforts would have to be deferred.

Any more drastic domestic policies which favor the rich over the poor will not be tolerated too long, we think, by the general public, which has to support this program if it is really to work. Already, labor is beginning to growl and the chorus of discontent, we feel, will become louder and louder as more wage earners experience wage denials.

This program also fails the jobless, particularly the black jobless, who in May of this year stood at 10.5 percent. We have asked for more current statistics which will be even higher.

Black unemployment this year is at the highest level in this decade, going back even farther. Even were the total unemployment to drop some under the new economic program, the black unemployment rate will still be at white depression levels.

The President made it clear that this is not in the offing when he expressed his primary concern as being for the "2 million workers who have been released from the Armed Forces and defense plants because of our success in winding down the war in Vietnam." Most of these are white workers who are temporarily affected by the Nation's economic slowdown. The black and poor people who make up the majority of the long-term unemployed and underemployed were never really beneficiaries of the war machine in recent date and their plight remains essentially the same.

Another concern blacks have about the new program is how the proposed $4.7 billion reduction in the Federal budget will be made. Given the tendency to make the initial and heaviest reductions in providing services to people rather than in arms and subsidies, further cuts appear likely in already underfinanced people-oriented programs.

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For what it can do to revitalize the economy, the President's program is well intentioned, but it falls far short of answering the needs of those farthest down the economic ladder. So after the 90 days, the Nation should be looking forward to an American domestic Marshall plan, for nothing less can bring full employment and prosperity to all.

We ought to recognize by now, Senator, that a piecemeal approach to our domestic plight has never really worked. If we continue this, all we can do is buy time. We have a further commitment, Senator, to our own people to try to accomplish here what we are trying to do in Vietnam. It is tragic that we are trying to pacify a foreign nation and create all kinds of foreign experts, with billions of dollars to help people who are less viable to our national will or national objective and not make at least a similar or greater effort here at home. That is the most appalling tragedy of our current economic dilemma.

Thank you.

(The prepared statement of Mr. Sims follows:)

PREPARED STATEMENT OF HAROLD R. SIMS

Mr. Chairman and members of the Joint Economic Committee, I am Harold R. Sims, Acting Executive Director of the National Urban League which has affiliates in 99 cities, and five regional offices. In addition to its national headquarters in New York City, the League operates a Washington Bureau, A Development Foundation, and a Research Department in the District of Columbia. The League is a nonprofit, nonpartisan, and interracial organization founded in 1910 and is devoted to a wide variety of programs, research, and educational activities to further the cause of black Americans and, in recent years, of all minority groups and the poor, whoever and wherever they may be.

I am here to speak in human terms of the impact of the President's new economic policy on the lives and future of millions of Americans—Americans who also happen to be members of minority groups and the poor.

Last May our National Board of Trustees expressed grave concern over the crisis of unemployment in our cities and in June the National Urban League asked that 53 major areas of substantial unemployment be declared disaster areas and made eligible for special Federal funds. Nothing was done and the list has now grown to 62, and includes Boston and Philadelphia. In July, in our quarterly economic presentation at our national conference in Detroit, we repeated our concern for the deteriorating economic picture and suggested an incomes policy or wage-price guidelines although we admitted that it might already be too late for voluntary measures.

Our concern was based on more than the cold statistics of unemployment, frightening as they were. We were more concerned about the frightening effect the increasing unemployment rate was having on blacks, and browns, and the poor.

Therefore, we felt a sense of relief on August 15 when the President at last recognized the need for drastic action to avert economic calamity and even more human suffering. The action came late, but it did come and along with other Americans we are hopeful—yet also somewhat pessimistic.

I appear before you today, not to criticize, but to point out what we consider to be needed modifications in the President's urgent proposals if they are to inject the human element into the Nation's economic picture. I am speaking now, not of big business or the rich, that stand to benefit most from the new economic proposals, but of those at the lower end of the economic scale whose needs have been too long ignored.

My remarks will be directed largely to the job creation and certain fiscal measures contained in the President's program since they concern people, the human factor, most directly. In addition, I will say a few words about the methods by which constructive action might be undertaken to enlist all citizens to cooperate in achieving the economic ends we seek.

JOBS

The "job development credit" is a misnomer, in my opinion, and a hoax on some five million people who are unemployed—one million of whom are black.

Several of the expert witnesses who testified before today have already drawn attention to this mechanism as, at best, an indirect and slow way to jobs, by means of a huge bonus to business. We are in an unemployment crisis this minute, which is not improving. Therefore, we need swifter and more direct methods to create jobs—not next year, but right away.

I respectfully submit, Mr. Chairman, that the Emergency Employment Act of 1971, which the President said, when he signed the bill on July 12, would "have an immediate effect in areas of high unemployment," should be expanded substantially. This expansion is needed to create jobs now, to provide local governments with needed public services, and, to add stimulus to consumer markets this year. People without jobs do not spend money. If they have no jobs and no money, a tax cut does not affect them. Many businesses may thus not be able to afford the incentives being offered because poor business does not encourage capital expansion.

The consumer is the key to the dilemma we are in. As several of the distinguished economists have said, we are not in a demand-pull, but in a cost-push inflation. Yet consumer demand has been further curtailed this past year by reducing Federal expenditures. No further reduction must be made. We must now quickly grasp the opportunity to turn sagging employment and demand into a huge reservoir of services we so desperately need in schools, hospitals, clinics, forests, museums, parks, libraries and in prisons and our outdated correctional system.

A program that would do this might cost about as much as accelerated depreciation. It seems to me that the human development resources that I am proposing is just as valuable, and perhaps even more so, to the future of the country, as Federal assistance to business. I would suggest that there is a mixup in priorities. "Things" are being placed before "people" and this is intolerable.

WELFARE

And speaking of priorities, what happened to the President's number one priority for those who cannot work or have no work, and for their families—that is, welfare reform. Let me hasten to say that I could not support current welfare reform legislation (H.R.1) in its present form for many reasons, nor can I support the President's number two priority, revenue sharing, as it has been presented. The Nation badly needs both welfare reform and revenue sharing, but both programs must be altered substantially. At any rate, they have become casualities of the economic plan—a loss we can ill afford.

I strongly recommend that neither of these measures be allowed to languish and that they be drastically revised during this period of inaction to meet realistic needs.

In the meantime, Mr. Chairman, may I suggest that in the case of welfare reform, permission granted by the Federal government already and assumed on a voluntary basis by many States, such as providing assistance to families in which there is an unemployed father, be made mandatory. Half the States cover such families now. If the other half were to do so, the welfare system we have now would be greatly improved and more evenhanded.

Federal assistance to States which permit support of a 2-percent household is consistent with the Administration's philosophy of helping families stay together, and it is especially necessary in a time when so many fathers are unemployed. The Federal aid could be made in relation to State needs and tax effort.

THE METHOD

And how would we go?

Here I would like to suggest that as we move from the freeze to another interim arrangement, your Committee and the President's other advisers consider the importance of bringing and holding the whole public with you. A voluntary system, and even one which involves some involuntary controls, necessarily rides on public support. Leaders would be well advised to forego the impulse to seek out only those in strong leadership roles and in the public eye. To labor, business and government must be added the voices of the community or the general public.

The President, the Congress, the economy, and the new economic policy need community spokesmen and support. The new policy has to reach out for other dimensions to win widespread understanding and cooperation. By adding the voice of the community, by listening to its needs and its concerns, governmental policies can only be helped, not hindered.

Let me re-emphasize that I welcome the new economic policies that recognize at last that we are indeed in a crisis. I would use another road map, however, and go in the direction of benefitting at once those who need help most—the poor, the near-poor, the unemployed, and the underemployed.

TAXES AND FISCAL POLICY

The personal income tax relief which the President has recommended is too little too late, in my opinion. In explanation let me point out that the relief is limited to those who pay Federal income taxes, the vast majority of whom are not poor. I am not suggesting that relief should not be granted, but at least let us not be deluded into believeing that there will be anything more than minimal impact on the poor and near poor.

Several adjustments are needed to provide adequate fiscal relief to other low-income people and to the consumer. Since this is a consumer-related recession, it makes no sense to begin tax reductions next January. I strongly recommend an immediate adjustment even more heavily weighted toward the lower end of the income scale and omitting entirely all those who are poor according to the 1970 definition of the poverty level—$3,968 for a family of four.

Professor Walter Heller of the University of Minnesota has recommended, in fact, that the individual tax relief be backdated to July 1 of this year, providing stimulus now, and some refund next year. I agree with this and also with his proposal and that of several other distinguished economists, that the January 1, 1972 increase in social security taxes be postponed.

I would go a step further and respectfully submit, that this is an excellent time to review the degree to which social security taxes eat into the individual purchasing power and living costs of the lowest wage earners. The late Whitney M. Young, Executive Director of this agency, as a member of the President's Advisory Council on Social Security, recommended, along with some others on the Council, that low-wage workers' contributions be reduced. The Council as a body, however, affirmed continuation of a flat rate. I hope this matter can be reconsidered in view of the regressive nature of this tax.

Also, the excise tax on new cars is a sumptuary tax, and some of it, at least, should be retained. The auto excise tax is levied only on the first sale of a car, domestic or imported. Relatively few families at or below the middle-income level of about $10,000 buy a new car, blacks are twice as likely to buy a used car as a new one.

The 90 days set by the President as the extent of the present freeze provide both him and Congress with a unique opportunity to turn the new economic policy into comprehensive reform—in fact toward Whitney Young's dream of a Domestic Marshall Plan.

Haven't we learned yet that the piecemeal approach to our grave domestic problems, many of them of an economic nature, simply does not work. We have concentrated on the form and not the substance. The gross national product has been the important factor, not what we were doing to people. We invest more heavily in material capital than in human capital, where our real riches lie. No less an authority than the President's Commission on Productivity tells us that human resources precede capital resources as the prime mover in reaching productivity goals.

In summary, the new plan does little to help the blacks and the poor. Their interests are not at all well served by the present plan. I am not suggesting that any help be denied to any sector of the economy, but at the same time I must insist on the need for providing help to all sectors, and this is not being done.

Despite the present high cost of living, which cannot be expected to drop appreciably within the next few months, poorly paid workers are being told they must continue to exist on inadequate salaries for at least the next 90 days. Efforts being made all over the country to raise the wages of hospital workers, sanitation people, and domestics and others to at least the minimum wage will have to be deferred.

Any more dramatic domestic policies which favor the rich over the poor will not be tolerated too long by the general public, which has to support the program if it is to work. Already labor is beginning to growl and the chorus of discontent will become louder and louder as more workers experience wage denials.

The program also fails the jobless, particularly the black jobless, whose unemployment rate in May of this year stood at 10.5 percent. The rate has remained close to 10 percent ever since. Black unemployment this year is at the highest level in almost a decade. Even were total unemployment to drop some, under the new economic program, the black unemployment rate will still be at white depression levels. A massive effort on the part of the Federal government is needed to provide jobs for the million black people who are unemployed and want to work.

The President made it clear that this is not in the offing when he expressed his primary concern as being for the "two million workers (who) have been released from the Armed Forces and defense plants because of our success in winding down the war in Vietnam."

Most of these are white workers who are temporarily affected by the nation's economic slowdown. Black and poor people who make up the majority of the long-term unemployed and underemployed were never beneficiaries of the war machine, and so their plight remains the same.

Another concern blacks have about the new program is how the proposed $4.7 billion reduction in the Federal budget will be made. Given the tendency to make the initial and heaviest reductions in providing services to people, rather than in arms and subsidies, further cuts appear likely in already under-financed people-orientated programs.

For what it can do to revitalize the economy, the President's program is well-intentioned but it falls far short of answering the needs of those farthest down the economic ladder. After the 90 days, the Nation should be looking forward to an American Domestic Marshall Plan, for nothing less can bring full employment and prosperity to all.

Chairman PROXMIRE. Mr. Sims, thank you very, very much. I think your testimony is just an excellent supplement for the testimony we heard from Mr. Ginsburg. He concentrated very, very usefully, I thought, did a brilliant job, on the necessity for establishing an effective price-wage control system. You are hitting very hard on the necessity, as I understand it, for providing a fair, equitable, effective stimulus for the economy.

The poor people in this country, tens of millions of people with low incomes, suffer far more when conditions are depressed and when unemployment is rising or is very high than any others, undoubtedly. And it seems to me they may suffer somewhat less, although they suffer, from inflation, inasmuch as to the extent that we are moving along and making progress in an expanding economy, even if you do have an inflation, at least they have jobs. Is that not right?

Mr. SIMS. Right, sir. Those are our conclusions. We essentially agree with that.

But even more than that, if you have dollars, you have flexibility and you can at least buy beans if you do not buy steak. But more important is the work experience you get. An inflationary situation allows minorities to get into jobs they never had before. They may lose those jobs 2 or 3 years from now; the fact is they were there. They learned new skills, they had exposure, they have a work record in new areas for some career orientation in the future. So basically, the inflationary spiral of the past was infinitely better to our constituency than the President's current economic policy for the country.

Chairman PROXMIRE. Now, I take it that you regard the President's program as a trickle down "things" approach, as you say, rather than a people approach. I wonder, what do you really mean by this distinction between things and people?

Mr. SIMS. Well, the program is oriented to giving physical incentives to large bodies.

Chairman PROXMIRE. You are talking about the investment credit?

Mr. SIMS. The investment credit program, that kind of thing, the artificial things in dealing with the dollar abroad. The more needed impact could be had upon our constituency by a program creating jobs.

Chairman PROXMIRE. The President argues that that program will put people to work. He claims that in the machine tool industry, for example, the extent to which you provide incentives for business to buy new equipment, the companies that build machine tools will hire people who are now unemployed and expand. That has been a depressed industry for the last 2 or 3 years. The theory behind the President's investment credit, I think, as far as unemployment is concerned, is that this particular industry will be helped.

Mr. SIMS. We are not saying you should not have some investment credit. We are saying that that in itself is not enough. The evidence tends to support that jobs may be created, but the impact from those jobs may be a year from now or 2 or 3 years from now. There are ways to create jobs, and not just jobs that are not needed, not make-work jobs.

Our cities are in deplorable condition. Public service is a distinguished career. You can ride through New York and see the desperate need for this.

Chairman PROXMIRE. Have you had a chance to analyze this program, either you or your very able economic expert, to determine whether or not you think the President's program actually is stimulative? Economists disagree on this. Some say this provides a substantial stimulus; others say it does not. Do you folks have a view, that is, that it will increase jobs?

As an example, Mr. McCracken argued that the President's program as it is will provide for 500,000 new jobs. That figure has been disputed by other witnesses.

Mr. SIMS. I want Mrs. Newman to comment on that, Senator, but I would just like to add something for the record in terms of the argument with the machinists, or the tool industry. Our figures tend to suggest that all the manufacturing, especially machine tools, is really going to really add a very small percent to the 83 million labor force. The administration using that as an example, that is not going to have much of an impact.

We also do not know what kind of expansion is going to take place. If the machine tool industry, like many industries, expands with new equipment and in many automated ways, it may in fact displace certain kinds of labor while creating other kinds of jobs, benefiting, then, the guys farthest up who have those kinds of skills and are even more trainable than guys farther down, or who are not even in that industry now.

I would like Mrs. Newman to comment on that.

Mrs. NEWMAN. I think basically that is a very important point, and that is that the industries being discussed are not high employing industries. Even if you were to take the secondary and tertiary employment from those industries, it would not add very many jobs, especially not immediately, because a job development program requires a good deal of time for tooling up.

Chairman PROXMIRE. Have you made any study of whether or not the President's program would provide for 500,000 jobs? Is it stimulative?

Mrs. NEWMAN. I have not done a study, but I would be very skeptical of 500,000 jobs, certainly at the moment. If, for instance, the Public Service Employment Act is set only to supply with its funds 150,000 jobs rights away, how could a job development program, introduced, let us say, in the next few months, provide 500,000?

Chairman PROXMIRE. Mr. Sims, do you have a comparison of how your program would compare with the administration's program in stimulating the economy? You have suggested several specific tax measures, for example, that you think would be more useful. You have suggested that the Welfare Reform Act be modified, I take it, with some substantial benefits to low income people being provided. You have also proposed more jobs in public services, especially in the cities. Do you have any estimates as to the comparison between the administration's program and yours?

Mr. SIMS. I do not have any precise estimate, Senator, but I do know that our program can substantially reduce unemployment more immediately than the President's and it can give more incentive for families to stay together and greater incentives for people to work. If you are making $3,900 some odd dollars in New York State and they are taking out all the various taxes, by the time they get through, you are lucky if you have a couple of thousand bucks and you are better off on welfare. If you eliminate that and the guy can continue to work, even at that poverty level income, he will continue to work. That is less money out of the public till. Certain kinds of industries that cannot pay high salaries will be more predisposed to continue to hire, the guy will continue to work, and he may have the incentive to do a second job. Many do.

Chairman PROXMIRE. I was especially interested in your views on H.R. 1. The President devoted part of his address to Congress to the necessity for this. Then he asked us not to act on it, at least not to make it effective, for a year. Unlike many liberal groups, it seems that your organization, you are saying that you would oppose passage of H.R. 1 in any form resembling its present form.

Mr. SIMS. Yes, we do. We oppose H.R. 1 because in its present form, it is really worse than the current bill. Let me just give you some of the things that bother us.

Safeguards against the invasion of privacy are not contained in H.R. 1. Not only must the family head provide all information prescribed by the Secretary of HEW, but in addition, all Federal agencies are required to provide such information as the Secretary may request.

We feel in H.R. 1, secondly, that an onerous burden of proof is placed upon the head of a poor family to establish his initial and continued eligibility for benefits. We feel that harsh and unreasonable penalties are meted out for failure to comply with complicated requirements which many more fortunate citizens are not required to meet to obtain other types of Federal benefits.

Under H.R. 1, the family involved must furnish data as prescribed by the Secretary of HEW in his initial application and not later than 30 days after each quarter in which he has received benefits. Failure to submit such a report will result in suspension.

I can go on and on, but essentially, it is a very repressive piece of legislation as currently formed.

Chairman PROXMIRE. I can see that, and some of these proposals that you make, perhaps Congress can improve it. But fundamentally, as I understand it, even the President's very limited proposal, or the proposal that has emerged from the House of Representatives, would provide an additional $5 billion a year of funds that would go to people of very low incomes, in some cases almost no income. To this extent, it would have a stimulative effect on the economy. To this extent, you would have those with the least income helped; to this extent, you would have that money spent rapidly. It is not the kind of money that people can decide to save part of. They need to spend that right away because they have to live, they need the necessities of life.

So I take it you would favor a program, but not the program that they propose. Is that right?

Mr. SIMS. We favor a program that is federally administered, with standards that are universal, with less flexibility on the part of the State, a program with compulsory work requirements a little more humane, where people have the option to work, taking into account family conditions and which gives them career jobs with a future and not be forced to work at below the minimum wage. There is a variety of ways in which we would like to strengthen this bill. I do not know if you want me to elaborate on them here.

Chairman PROXMIRE. I think that is right. I just wanted to get the thrust.

Mr. SIMS. The problem, Senator, is that we have learned painfully that the existence of money can be offset by the procedure used to disburse the money. $5 billion more being out there can be applied in ways that our constituencies are not effectively profited by.

Take the old age program right now. We are convinced that even in the South, greater proportions of money are being expended for people over 65 who need assistance. But what happens to the black aged who happens to be poor, black, you know what have you? It is a sort of double jeopardy. Unless we strengthen the guidelines in the legislation toward the disbursement of those resources, we find that the black aged are much worse off than white aged because the systems, the houses, those kinds of things that serve them are kind of restricted in their racial outlook and in their policy.

Chairman PROXMIRE. You emphasize the restrictiveness and the unfairness, in some cases, perhaps, the bias of the State governments in administering these programs. Is this the fundamental reason why you are opposed to unrestricted revenue sharing?

Mr. SIMS. Yes; take Mississippi, for example. A friend of mine who is an expert on the State, has worked there, lives there, McKinley Martin, made the observation that in the adult education program of HEW, I forget which provision, but in 1969, where they give bloc grants to States to expend funds as they so desire, 75 percent of the people who benefit from this program are black. But all of the counselors are white. So the program was used as a way to give jobs to certain kinds of white folks in Mississippi in the public service, but it denied a kind of sensitivity, a kind of input that professional people who are black could also have brought to this kind of experience.

So the track record of our States, Senator, I think this is substantiated, as you know, by numerous studies, does not suggest that they should be given money on the basis of quantitative standards. They should be qualitative standards.

If the Congress demands standards out of private industry, if the Congress demands standards out of, I would say, an organization like the Urban League, and even out of itself, in the spending of public moneys, the Congress ought to demand standards out of the States. Because their track record in public welfare is often suspect and they should be qualitative as well as quantitative standards.

Chairman PROXMIRE. What do you think about this committee's proposal for payments to localities to make up for the shortfall of their suffering because of the stagnation of the economy and the heavy unemployment? What I have in mind is the fact that in city after city, they are unable to hire people to provide for policing, for fire protection, sanitation services, for health services. It is pitiful. We have had mayors in here and Governors who testify that they simply do not have the funds, and although they desperately need these services, they cannot provide them. So our committee recommended that the Federal Government provide, I think it would have worked out to about $5 billion a year under the present circumstances, phase it down as unemployment diminished, but provide this as a temporary measure to assist in this specific area, with the clear provision that these funds be used for jobs in the public sector in our cities. What would you feel about that?

Mr. SIMS. I strongly endorse this, Senator. I strongly endorse it.

Chairman PROXMIRE. We passed something very close to it, of course, but it was limited. I think that was a billion dollar program. We are proposing, of course, a much bigger program.

Mr. SIMS. What we have found is that contrary to popular opinion, the people who live in these so-called disadvantaged areas are appalled at the conditions of them and desperately would be vulnerable to programs which gave them the money to take care of their own communities.

We have found also that when they have this option, they do a better job of cleaning their streets, picking up their garbage, repairing their plumbing, what have you, than anybody else, because this is where they live. We have never funded substantially programs that give concerned people who live in communities the options to help themselves. We talk that rhetoric, but the dollars do not flow in that direction. When they do flow, they create all kinds of super administrative structures that eat up the dollars and still do not control the situation. You still do not get down to funding and meeting human need.

Chairman PROXMIRE. Mr. Sims, you have a very interesting proposal to supplement the tripartite nature of the board. Labor has talked about a wage-price review board, voluntary, with labor, business, and the public represented. Or labor, business, and Government represented. You seem to be suggesting a fourth group representing the community. Where would we look for such representatives? Can you give us your views of the most representative panel? Then would you tell us how this panel would function?

Mr. SIMS. We would hope that you would look to the Urban League, Senator. We think that we certainly have that kind of constituency.

Chairman PROXMIRE. How would this differ from a public member?

Mr. SIMS. I am not so sure. I think it would differ in the sense that like labor, like business, we have a constituency and our constituency happens to be community-oriented, happens to be people who are minority, all minority. Maybe an approach could be some type of coalition, you know. We have a number of coalitions that relate to community problems.

Maybe the kind of thing suggested by Mr. Ginsburg and several people in an advisory capacity.

We are also talking about small business, Senator, we are talking about small labor. We are talking, even to some extent, about small government. There have to be, we think, these dual perspectives.

I do not see, having worked in Washington, now, that it is always possible in big business, big government, and big labor, to effectively have a perspective for people who are outside many of these big systems. Certainly we disagree with many of these organizations we have mentioned, because our degree of particular perspective on a problem is somewhat different. As you well know, degrees are important.

Chairman PROXMIRE. You recommend postponing the social security tax increase scheduled to take effect in January. So does this committee. That was part of our recommendation in our report.

Mr. SIMS. We strongly recommend it.

Chairman PROXMIRE. And the public service employment program that I have just discussed with you and this social security postponement would be, we recognize, temporary measures. We do not pretend that they constitute a domestic Marshall Plan, but precisely because they are temporary, they make no sacrifices in permanent revenue. It means we are still in a position to move ahead with more permanent programs, more comprehensive social reforms programs.

You stress that the 90-day freeze period represents an opportunity to introduce comprehensive reforms. But do you think it is really likely that we can or will move that fast? Is it not necessary for us to adopt some of these temporary measures and then follow up with the more comprehensive measures?

Mr. SIMS. I agree, but I am a great believer in the fact that yesterday is today and that at least if we can move on both priorities simultaneously, we have some assurance that the long range can, in effect, converge and support each other.

We know some of the things that need to be done in terms of long range. The Congress has done an able job of studying some of these problems but they just do not have the legislation or the guidelines to implement them. We quite agree that the short-range things should buy time, but the short-range things are worthless unless the Congress takes this opportunity to deal with some of the long-range things that it can be more instrumental in including some of the things we have had to come to since August 15.

For example, to delay social security taxes is fine. But there ought to be an immediate effort by the Congress to see if we can reorient the way in which these taxes are deducted so that they are not as regressive and so that the poor do not, in effect, precentagewise, pay more. That could be done. We have had experience in reform of the income tax structure to do that.

Chairman PROXMIRE. Let me get back to what you were saying earlier. I think it is most understandable that you feel that H.R. 1 should be moderated and made more humane and that you should not have too severe penalties for people who might have difficulty getting work and so forth. At the same time, to be frank about it, the President I think, with all the criticism that some have made of him, makes a very valid point in arguing that if you are going to get support for this kind of a program in the Congress, you have to convince the American people, you have to convince the Members of Congress that this is going to reduce, eliminate the malingerers and those who get on welfare and are able to work. I have always felt, and I think the evidence is overwhelming, that almost everybody on welfare would prefer to work at almost any kind of a job and that the great majority of people on welfare could not possibly work. They consist of children, old people, sick people, persons who are just incapacitated for work. There are others who could work, perhaps, but to do so would be to neglect their children.

But there are people who are on welfare who are able-bodied men and women who do not have responsibilities of this kind. Do we not have to have some kind of an effective biting edge, some kind of incentive, so they would be better off working than they would be staying on welfare, recognizing that perhaps this then has been used demogogically by some, exaggeratedly by many? But in other words, is there not something to it?

Mr. SIMS. I think that it is certainly something to provide people who want to work incentives to work. But welfare reform should not be perceived as many people in the Congress and in the country tend to perceive it, as an end to all of our problems. Welfare reform, which is not a reform in a way that provides dignity and incentive for people who happen to be poor, is no reform at all. Granted, we will have appeased the repressive instincts of us all. We will have created something where we can punish the victim, but we will not have dealt with the things that caused them to be on welfare in the first place or to admit that the welfare system which we so criticized is not a system that he devised or even asked for. In fact, it was created largely for the white population in the depression years.

Chairman PROXMIRE. You agree then that the present welfare system is not working well at all, either for the people who are on welfare or for the taxpayer? It is something that has enormously increased, that there is great difficulty with it.

Mr. SIMS. But the legislation ought to enforce what it says it is intended to. In other words, it ought to be an incentive to keep families together. There should not be that kind of thing in your legislation that says that if your husband is in the house, you cannot get welfare, that kind of thing.

Chairman PROXMIRE. Yes; but should there not also be some kind of discipline, some kind of provision that if people are able to work, they should be required as a condition of welfare to take a job? And then, of course, you do have a fact that there are some people, perhaps, who are gifted, who are very skilled and so forth, and they say the kind of job they can get is demeaning. I am not so sure I buy that. I would like to know what a demeaning job is. I think there certainly ought to be protections against abusing people on welfare in any way. I think the working conditions ought to be decent. But it is very hard for me to understand precisely what it is that people are concerned about if we provide that those who are incapable of working do not have to work.

Mr. SIMS. Well, I think certainly, there have to be some kinds of controls, some kind of rewards and punishment. But I also think they ought to be integrated in the controls put on Penn Central or Lockheed or farmers who are paid for not planting. We should not be oppressive toward the poor any more than we are oppressive toward Government handouts to industry.

I think what we are also talking about are a very small percentage of people. In New York State—I do not know what the figures are now, but I know last year, I was working with Kim Black on this problem, and he came down and we were talking about 3 percent of all the people in New York City who fit that category of being able to work. Most of those were mothers who wanted to work but just did not have the day care centers and the options, and they were not going to leave their kids in those ghettos for dope addicts to take advantage of while they were at work. Mostly the people on welfare were aged, were children, were crippled, were blind, and New York State was making an awful lot of fuss out of some folks.

I agree also that part of the problem is the lousy administration of welfare, which is not a reflection on the people who exploit the ignorant, but the professionals who themselves need administrative training. But the people ought not to be penalized for the improper administration of social programs. They ought to improve the caliber of administrators, pay more money so they can hire better people.

Chairman PROXMIRE. I think maybe we could make more progress in the Congress and in the country if we argued that what we needed was to have Government as an employer of last resort. People can argue against the notion that there are some people on welfare who should not be on it, and that is certainly subject to debate. But it seems to me nobody can argue that the person who wants to work should have an opportunity to find a job. I think there should be some way in which we can provide work for people if they want it.

Mr. SIMS. We want to make the Government the employer of first resort.

Chairman PROXMIRE. Well, I think to some extent, we can provide more jobs so the Government is the employer of first resort, because certainly some of the things the Government does are some of the most important things in our society—education, health. But the free enterprise sector of our economy is very important, too, being 80 percent of our economy. One of the reasons our economy is so productive is because we have put so much emphasis on the private sector.

Mr. SIMS. Senator, what I am saying is that the system as it exists can still work better for the man farthest down if we give the same kind of incentive that we give to the private sector, to the manufacturer or the builder, to invest in human capital at home as we do to invest abroad. I asked the executive vice president of Chase Manhattan, when we were making a comparison of an undeveloped African nation with some undeveloped urban communities, I asked him, why are you investing more dollars in that country and less in X community where there are the same kinds of people, same kinds of problems? He said, simply because the legislation passed by Congress and the measures set up by the executive branch allow me to invest in foreign nations at no risk or limited risk.

Why can't the Congress find a way to do——

Chairman PROXMIRE. That is an excellent example. I wish you would give me details on that. We have been working with the Chase Bank, the First National City Bank, the Bank of America, and some of the big banks in the country. We are trying to develop a system to provide incentives for them to invest in the inner city, invest in those areas of the country that desperately need capital investment. I think we are beginning to make some progress along that line.

Mr. Sims, I want to thank you very much. You have been most helpful to us. Your testimony has been most useful.

Mrs. Newman, I want to thank you, too. This is, again, a departure from the usual strictly economic expert testimony, but you are certainly very expert in your area and I am most grateful to you.

The committee will stand in recess until Monday, when we hear from Leonard Woodcock, president of the UAW, and Robert Roosa of Brown Brothers, Harriman & Co.

(Whereupon, at 12:35 p.m., the committee was adjourned until 10 a.m., Monday, September 20, 1971.)

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