778

CURRENT SERVICES BUDGET

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-FOURTH CONGRESS

FIRST SESSION

DECEMBER 3, 1975

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

73-284 WASHINGTON : 1976

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price $75
There is a minimum charge of $1.00 for each mail order

JOINT ECONOMIC COMMITTEE

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

HUBERT H. HUMPHREY, Minnesota, *Chairman*
WRIGHT PATMAN, Texas, *Vice Chairman*

SENATE	HOUSE OF REPRESENTATIVES
JOHN SPARKMAN, Alabama	RICHARD BOLLING, Missouri
WILLIAM PROXMIRE, Wisconsin	HENRY S. REUSS, Wisconsin
ABRAHAM RIBICOFF, Connecticut	WILLIAM S. MOORHEAD, Pennsylvania
LLOYD M. BENTSEN, JR., Texas	LEE H. HAMILTON, Indiana
EDWARD M. KENNEDY, Massachusetts	GILLIS W. LONG, Louisiana
JACOB K. JAVITS, New York	CLARENCE J. BROWN, Ohio
CHARLES H. PERCY, Illinois	GARRY BROWN, Michigan
ROBERT TAFT, JR., Ohio	MARGARET M. HECKLER, Massachusetts
PAUL J. FANNIN, Arizona	JOHN H. ROUSSELOT, California

JOHN R. STARK, *Executive Director*

SENIOR STAFF ECONOMISTS

JERRY J. JASINOWSKI — JOHN R. KARLIK
LOUGHLIN F. MCHUGH — COURTENAY M. SLATER
RICHARD F. KAUFMAN, *General Counsel*

ECONOMISTS

WILLIAM R. BUECHNER — WILLIAM A. COX — LUCY A. FALCONE
ROBERT D. HAMRIN — SARAH JACKSON — L. DOUGLAS LEE
RALPH L. SCHLOSSTEIN — GEORGE R. TYLER — LARRY YUSPEH

MINORITY

GEORGE D. KRUMBHAAR, Jr. (Counsel) — M. CATHERINE MILLER

CONTENTS

WITNESSES AND STATEMENTS

WEDNESDAY, DECEMBER 3, 1975

SUBMISSIONS FOR THE RECORD

WEDNESDAY, DECEMBER 3, 1975

CURRENT SERVICES BUDGET

WEDNESDAY, DECEMBER 3, 1975

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

The committee met, pursuant to notice, at 10:25 a.m., in room 1318, Dirksen Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey and Taft.

Also present: Lucy A. Falcone, L. Douglas Lee, Loughlin F. McHugh, and Courtenay M. Slater, professional staff members; Michael J. Runde, administrative assistant; George D. Krumbhaar, Jr., minority counsel; and M. Catherine Miller, minority economist.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. We apologize to the witnesses, but we had a roll call vote, as you know, plus a few other problems over in the Senate, all of which were unanticipated at this particular time, but I think most of you know Washington well enough to know that the unexpected becomes the norm around here.

Senator Taft and I have opening statements which we will present at this time.

The purpose of the hearing this morning is to take a hard look at the budgetary problems and prospects which confront the Congress as we begin consideration of the fiscal 1977 budget.

As required by the new Congressional Budget Act, the Office of Management and Budget has recently submitted its current service budget estimates for 1977. These estimates tell us where the budget would go in the absence of policy changes. It should be clearly understood that the current services estimates are no one's prediction of what the actual 1977 budget will look like. There will be policy changes. There should be policy changes. Indeed, the very purpose of the current services budget is to assist us in answering the questi on "What policy changes are needed?"

In the past, Congress has waited until it received the President's budget and has reacted to policy changes proposed by the President. The availability of the current services budget as a public document will enable the Congress to start on a more even footing with the executive branch and to take greater initiative in identifying the areas in which a change in direction is most needed.

Thus we have asked our witnesses this morning to assist the committee not just in evaluating the technical adequacy of the current services estimates prepared by the OMB, but to help us in drawing out the implications of this document. What changes from current policy may be needed in order to make the fiscal 1977 budget a stronger support for economic recovery? What changes are needed to reduce the growth of wasteful or inefficient programs? What changes are needed to make the budget fulfill its fundamental purpose of adequately providing for vital public needs?

Obviously we do not expect to produce definitive answers to such questions this morning. The budget process is just beginning and there are many steps to be taken before the final shape of the 1977 budget is determined. What we do want to achieve today is to get people started thinking about these basic questions of budget policy. Unless intensive and systematic discussion of these questions begins now, we again will find ourselves in the traditional situation of being too little and too late, of being unable to achieve the new directions in budget policy which we would like to see.

While we do not yet have the President's budget proposals, we do know that the President has expressed strong interest in reducing Federal spending below the trend level implied in the current service budget estimates. One extremely difficult question with which Congress must deal is whether such major reductions in total spending are realistically possible or desirable.

To date the President has not been able to specify where or how the desired budget savings can be achieved. And, of course, anyone who has had a little experience in Government understands how difficult it is to get specific about cutting the budget. Nonetheless, we must get specific if any progress is to be made in weeding out unnecessary programs or in making necessary programs work more efficiently.

In order to get some help with these specifics, I recently wrote to a number of economists with extensive experience in budget analysis and asked them to supply me with suggestions for achieving budget savings through restructuring, reduction or elimination of programs which they regard as inefficient or of doubtful value. The committee staff has developed a composite list of these suggestions and has asked the CBO to assist us in estimating the budgetary and economic impact of these suggestions. As much as possible of this information will be contained in the report which the Joint Economic Committee is required to file at the end of this month.

Thank you.

Senator Taft.

Opening Statement of Senator Taft

Senator Taft. The new budget control procedures being developed by the Congress are still in the experimental stage. Nonetheless, they show great promise. The particular aspect of budget planning with which we are dealing today involves a sort of Head Start program for the Congress. This planning will, in future years, enable us to begin consideration of the Federal budget without waiting for, and then belatedly reacting to, the proposals sent down by the White House.

The concept of current services budget estimates is a good one. These estimates tell us, at the start of our deliberations, just where we are. It updates current dollar spending on existing and likely-to-be-continued programs. But it goes further. OMB and the Congressional

Budget Office make various assumptions as to changes in Federal programs, or about the future state of the economy, and project how these varied conditions will affect expenditures under current law. Several projections are made, on the basis of different estimates of future economic conditions. OMB is right to attempt this, and CBO is right to urge that this sort of projection be extended for several years into the future.

These questions will be resolved by trial and error as the new budget process is tested over the next few years. It is experimental, but very promising. I commend the OMB and the CBO for their fine first efforts.

I would like to suggest that we aim at one further refinement. I foresee a day when, instead of several mechanical projections based on different economic assumptions or Federal spending totals, assumed fixed in each example, we shall be given a more dynamic model. This will involve an estimate of current economic conditions, and the changes that would be brought about by various fiscal policies, for several years ahead, based on various assumptions as to the course of monetary policy. The projections for several years out would show the cumulative effects of various fiscal policies over time as those policies interact with other economic variables to influence unemployment, income, inflation, and the growth rate. At that point, we will be able to utilize the full potential of the budget as a tool for economic stabilization.

We have made a good beginning in this direction.

If we are to stimulate the economy, I believe we have reached the point where this should be done by decreasing taxes, rather than by increasing spending, especially consumption spending. Consumption displaces the private investment we need to increase our growth rate. And even an extra 1 percent on our growth rate would quickly provide additional income out of which funds might be had tc promote health care or housing, and eliminate poverty. The added funding available via this route, at lower tax rates, will soon dwarf any transitory gain from higher taxes and higher consumption, which would lead to stagnation of output and an end to improvement of our social services.

Thank you.

Chairman HUMPHREY. Our first witness this morning is Mrs. Alice Rivlin, Director of the Congressional Budget Office. This committee has made an extensive request to the CBO for assistance in analyzing the current services budget. The information on possible program reductions referred to above is only one part of our request. We have invited Mrs. Rivlin to be here this morning to provide what might be described as a "progress report" on this request, and we are very pleased that she is able to appear. We want to say to you, Mrs. Rivlin, how much we appreciate your cooperation and the cooperation of the Budget Office. I want to take this opportunity to personally congratulate you on behalf of the Congress for the splendid work that the Congressional Budget Office is performing. This committee has made an extensive request to the Congressional Budget Office for assistance in analyzing the current services budget. The information on possible program reductions referred to above is only one part of our request.

Also at the witness table is Paul O'Neill, Deputy Director of the Office of Management and Budget. With him are Mr. Dale McOmber and Mr. Rudy Penner, also from OMB. We have not requested any prepared statement from Mr. O'Neill, but after we have heard Mrs. Rivlin's statement, we will allow him a few minutes for any remarks he may wish to make. Also, we have a number of questions for the witnesses. Mr. Lynn, I believe, had to take a little journey.

Mr. O'Neill. Yes, I talked to him this morning.

Chairman Humphrey. He is taking a crash course in Chinese right now. I am happy he could make the trip. It is a very worthwhile experience.

Following the testimony of Mrs. Rivlin and Mr. O'Neill we will have statements from two very distinguished private witnesses. First will be the Honorable John J. Gilligan, former Governor of Ohio and now Chairman of the Council on National Priorities and Resources. He will be followed by Mr. Theodore Yntema, a professor at Oakland University, a well-known economist and a former vice-president of the Ford Motor Co. We feel extremely fortunate to have both of these gentlemen here this morning.

Mrs. Rivlin, why don't you go right ahead? Senator Taft and I will do some interrogation later. Other members of the committee will be coming in from time to time.

STATEMENT OF HON. ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mrs. Rivlin. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I appreciate having this opportunity to discuss with you the current services budget estimates for fiscal 1977 that were submitted to the Congress recently by the President. I believe it would be most useful this morning if I spent some time on the purpose and uses of current services budget estimates, the problems involved in making these estimates, and our assessment of the fiscal 1977 estimates that were prepared by the Office of Management and Budget.

THE PURPOSE AND USES OF CURRENT SERVICES BUDGET ESTIMATES

The primary purpose of current services estimates is to provide a baseline or basic reference point for consideration of discretionary changes in the budget. The baseline that has most often been used is last year's budget level. Thus, a common question in any budget hearing, whether conducted in the executive branch or in the Congress, is "What did you get last year?" While this is an important consideration, it is not always the most relevant question for a number of reasons.

First, economic conditions change significantly from year to year. The level of unemployment may be expected to increase or decrease. Similarly, the rate of inflation may be expected to accelerate or decline. Changes in price levels and the level of unemployment affect budget spending very significantly without any discretionary changes in budget policy, because many Federal programs are tied directly or indirectly to the cost of living or to the level of unemployment. For example, social security benefits are adjusted automatically under current law each June for increases in the Consumer Price Index whenever the CPI increases by more than 3 percent during the previous year. In fiscal 1974, according to OMB estimates, more than 25 percent of Federal budget outlays were for programs with such automatic adjustments for inflation under current law.

Other Federal program outlays are indirectly indexed for inflation. Good examples are health expenditures under the medicare and medicaid programs and Federal employee compensation. The costs of medical care have been rising rapidly for several years and these increasing prices automatically result in higher outlays under medicare and medicaid as the bills are presented for payment. Federal employee compensation is directly related to private sector wages and salaries under the Federal Pay Comparability Act of 1970. Thus, as wages and salaries rise in the private sector partly in response to increases in the cost of living, Federal pay will also rise, although with some delay.

Outlays for unemployment compensation are obviously related directly to the level of unemployment. To a somewhat lesser extent, spending under other Federal programs, such as food stamps and public assistance, is also directly related to unemployment levels.

A second reason why last year's spending level may not be relevant for budget planning purposes is that important program variables change from year to year. For example, the number of social security beneficiaries will increase as more people live longer and retire earlier. The number of beneficiaries of various veterans' benefits programs depends in part on the age of veterans of past wars.

The costs of various Federal programs can be affected by other factors as well. For example, the value of social security benefits will be greater to recent retirees than to average social security beneficiaries because the level of average wages has been increasing over time. Also, the cost of the average public assistance—AFDC—benefit depends to a large extent on average family size for the eligible population, which has been falling recently.

A third reason why last year's spending level may not be relevant for some programs is that some programs operated for less than 12 months during the previous year. Thus, more funds will be required in the following year to provide for a full 12 months of operation or for "annualization."

Thus, more relevant questions to ask for budget planning purposes include: "How are the major built-in forces likely to affect next year's budget?" "What would it cost to provide the same level of operation or service as last year with no policy changes, assuming the following set of economic assumptions?" "What changes would be introduced by making different assumptions about prices, unemployment, interest rates and other variables affecting outlays and revenues?" The purpose of current services budget estimates is to provide answers to such questions. There need be no presumption, as the chairman stated, that current services levels are immutable, but it is certainly important for those making decisions on the budget to know what these levels are.

Current services budget estimates can be used for both macro and microanalysis of the budget. For example, current services budget estimates are essential for examining the fiscal policy implications of a

73-284—76——2

"nopolicy change budget stance. Would such a budget policy provide the right amount of stimulus or restraint to the economy to achieve or maintain full employment, price stability or other economic goals? If not, the comparison of current services estimates with budget aggregates more consistent with full employment and price stability would show how much discretionary change would be needed in the budget to achieve these economic goals.

On the micro side, a detailed current services budget would allow the various congressional committees to see explicitly what discretionary actions the President is proposing for each program when he submits his annual budget. Many of the changes from year to year in the President's budget do not represent changes in policy, but these built-in changes are frequently hard to identify in the President's annual budget.

A detailed current services budget would also allow the Appropriations Committees and other committees with jurisdiction over the budget to judge the implications for real program levels of any given dollar appropriation. In some cases, however, it is not clear that information about current services levels would be viewed as desirable data by those concerned with controlling increases in Government spending. For example, such information could make it more difficult to reduce real program levels by holding to last year's dollar amounts and portraying that action as "no change from last year's budget."

The submission by the President of a current services budget for the next fiscal year on or before November 10 will allow the Congress to get an early start in considering the annual budget. This is particularly important because of the tight time schedule set forth in the Congressional Budget Act for congressional action on the budget each year. The current services estimates will be essential for focusing early attention on the budget.

Thus, Mr. Chairman, I believe that the current services budget estimates required by the new budget process are very important and will provide a useful analytical tool to the Congress in its consideration of the annual budget. They will provide a base from which various budget alternatives can be judged.

It should be clear that a current services budget does not necessarily represent the policy recommendations of either the President or the Congress. It simply provides a baseline from which such policy recommendations can be constructed than is provided by last year's budget.

THE PROBLEMS WITH MAKING CURRENT SERVICES ESTIMATES

At first blush, it may appear a relatively easy matter to develop current services budget estimates. This may be true for some programs, but for most there are many problems involved.

One problem area involves the appropriate set or sets of economic assumptions to be used. Economic forecasting models are better at indicating trends than giving precise point estimates for various economic variables during the next year or two. Obviously, the further out in time you go, the less precise the accuracy of the models. Therefore, it is advisable to have more than one set of economic assumptions.

There is also a problem with how the economic assumptions should be constructed. Should they represent a forecast of the most likely outcome with appropriate confidence levels or should they represent the most desirable outcome or goals or targets? In the past, a set of assumptions representing full employment were considered to be the most neutral for developing current services estimates. This makes sense when the economy is operating close to full employment. However, when the economy is far from full employment, as it is now, a set of assumptions based on full employment would not be considered plausible as a base for current services.

Another problem is that the current services budget estimates will not necessarily be consistent in a macro or fiscal policy sense with the economic assumptions used to develop individual program estimates. For example, the economic assumptions underlying the current services budget may contain a rate of real economic growth that would not occur if the Federal budget actually adhered to a current services level, unless there was very strong growth in private investment, consumption, net exports, and/or State and local govtrnment spending. In this case, it would be useful to calculate the difference between Federal revenues and outlays on a current services basis with those under one or more fiscal policies that would be consistent with the assumed or target rates of growth. This difference would represent changes needed in discretionary spending and/or taxes to achieve these growth rates.

Another difficulty relates to defining "no new policy changes." One approach might be to adopt a current law definition, but this turns out not to be very useful. Some Federal programs are permanent under current law and others have to be renewed periodically. The difference appears largely to be an accident of legislative history in many cases. Therefore, the most useful approach is to assume renewal of all programs except those which are genuinely temporary in nature.

A third problem area involves adjustments for inflation. A large portion of the Federal budget is not directly or indirectly indexed for inflation. Should a current services concept include inflation adjustments for all programs? The argument for including such inflation adjustments is that this would provide a consistent treatment for all programs and not change the relative spending priorities that are embodied in the base year. On the other hand, the Congress has the discretion each year to decide whether to maintain real program levels in many areas or to allow inflation to result in a decrease in real program activity. Thus, the argument against including inflationary adjustments for nonindexed programs is put forth to avoid the appearance of committing the Congress in advance.

There are also other conceptual problems in defining current services. For example, it has been argued that certain defense purchases should be increased 4 percent a year in real terms in order to provide a constant defense capability. Presumably, the same argument could be made for other program areas. Another problem involves large procurement and construction programs that generate outlays over a several year period. Should a no-new-starts assumption, a constant number of new-starts assumption, or some other assumption be made?

I dwell on these problems so as to emphasize that applying a current services concept is not easy to do in practice and that there will be many differences of opinion as to the most useful way to define current services. However, I believe that with time many of these problems will be resolved and that current services budget estimates will prove to be enormously useful to the Congress.

ASSESSMENT OF OMB ESTIMATES

My staff has examined the 1977 current services estimates submitted by the President on November 10. Our overall assessment is that a very professional job was done. The OMB staff are to be congratulated for handling the various problem areas very well. We have not found any serious inaccuracies in the OMB estimates based on the economic assumptions and current services definitions used.

I believe the calculation of current services estimates under four alternative sets of economic assumptions is useful. This is prudent given the uncertainty over the economic outlook for the next few years, and it also demonstrates the sensitivity of Federal revenues and outlays to changes in economic assumptions.

OMB also has provided information on the effect of nonrenewal of certain programs that expire under current law, including general revenue sharing, so that alternative definitions of current services can be used. Similarly, while OMB did not adjust all Federal spending for expected inflation in 1977, information is provided separately which shows the impact of including inflation adjustments for nonindexed programs under current law, such as veterans benefits.

Finally, OMB has provided a large amount of program detail in its estimates which should aid congressional staff in understanding the forces underlying the Federal budget.

There are some problems with the OMB estimates, but OMB should not be held responsible for most of these. One problem is the fiscal 1976 estimates for budget authority and outlays are too low as viewed by the Congress. This is largely because the OMB estimates are based on actions taken as of September 1, 1975. As of that date, only three regular fiscal 1976 appropriation bills had been enacted. Three more were enacted in October and the large Defense and Labor-HEW appropriations bills are still under action in the Congress.

The Congress is presently acting upon the second concurrent resolution on the 1976 budget. As passed by both the House and the Senate, the totals for budget authority and outlays are above the OMB 1976 current services base estimates by several billion dollars. On the other hand, the OMB current services base estimates for total budget receipts for 1976 are slightly higher than provided by either the House or the Senate in their action on the second budget resolution. As a result, the OMB current services base deficit is significantly lower than it is likely to be in the second budget resolution.

The differences between the OMB 1976 current services base estimates and the House and Senate second budget resolution figures can be explained largely in terms of: One, appropriation increases over the continuing resolution levels; two, allowance in the second resolution for certain new spending initiatives, such as additional foreign aid to the Middle East and new energy measures; and, three, different estimates for spending for certain nondiscretionary or entitlement programs. In addition, OMB has included $1.2 billion in outlays for the earned income tax credit provided to low-income taxpayers under the Tax Reduction Act of 1975. The House and Senate budget resolutions treat this item as an offset to receipts.

It is, therefore, likely that the OMB 1977 current services estimates for budget authority and outlays are somewhat below the levels that would be obtained if the second budget resolution were used as the 1976 base. Thus, the 1977 OMB estimates for outlays might be raised from $414.5 billion to something over $420 billion. Furthermore, if inflation adjustments were made for all Federal programs, another $7.5 billion would have to be added. So it would not be unreasonable to have a 1977 current services outlay estimate as high as $427 to $430 billion under plausible economic assumptions. This would be as much as a $55 billion increase over fiscal 1976. This compares to an increase in total outlays from 1975 to 1976 of approximately $50 billion. In percentage terms, the 1976–77 increase would actually be smaller than the 1975–76 increase, especially when converted to an annual rate by correcting for the intervening transition quarter.

A second problem with the OMB current services estimates is that they are made for only 1 year in advance, which is all that is required of the President under section 605 of the Congressional Budget and Impoundment Control Act of 1974. However, I believe it would be more useful to make current services estimates several years in advance in order to provide the proper perspective for explicit decisions about budget priorities.

Fortunately, the Congressional Budget Act in section 308(c) also directs the CBO to make a 5-year projection of the Federal budget as soon as practicable after the beginning of each fiscal year. We are currently working on the projections for 1977–81. We will use a current services concept to make these projections and they will be based on the second concurrent resolution on the 1976 budget. We will also use two separate sets of economic assumptions for the projections. This report should be ready by the first part of January.

We will also supply the Joint Economic Committee with a 5-year budget projection based on the economic assumptions supplied to us by the committee.

A third problem with the OMB current services estimates, and I believe this is a serious one, is that they will not be updated by OMB and included in the President's 1977 budget. The preparation of the November 10 estimates was conducted as a separate undertaking by OMB and Federal agency staff and not as an integral part of the 1977 budget formulation process. I believe the estimates would be more useful to the OMB if they were an integral part of the budget planning process in the executive branch. The President's annual budget would also be more meaningful and useful to the Congress if the budget year column were divided into two parts: a current services estimate and the President's recommended changes in current services spending levels.

In closing, Mr. Chairman, I want to emphasize again the potential usefulness of current services estimates as an important analytical device for considering various budget alternatives. I believe that the use of such estimates will become widespread, both in the Congress and in the executive branch.

[The fiscal 1976 budget estimates and outlay estimates referred to follow:]

TABLE 1.—COMPARISON OF FISCAL 1976 BUDGET ESTIMATES

[In billions of dollars]

	Total budget authority	Total [1] outlays	Total [1] revenues	Deficit
OMB current services base	396.6	368.5	303.6	64.9
Second budget resolution:				
House action Nov. 12	408.0	373.9	301.8	72.1
Senate action Nov. 20	406.2	375.6	300.8	74.8

[1] OMB estimates include $1,200,000,000 in outlays for earned income credit. The second budget resolutions deduct this amount from revenues.

TABLE 2.—COMPARISON OF FISCAL 1976 OUTLAY ESTIMATES FOR MAJOR FUNCTIONS

[In billions of dollars]

Function	OMB current services base	Second budget resolution	
		House	Senate
National defense	91.5	91.6	92.1
International affairs	4.6	5.0	4.8
General science, space and technology	4.3	4.6	4.6
Natural resources, environment and energy	11.2	11.2	11.5
Agriculture	2.4	2.5	2.6
Commerce and transportation	17.2	18.6	18.3
Community and regional development	6.0	7.0	7.1
Education, manpower and social services	18.7	21.3	20.9
Health	32.5	32.9	33.0
Income security [1]	129.9	128.5	128.1
Veterans benefits and services	18.6	19.1	19.1
Law enforcement and justice	3.3	3.4	3.4
General government	3.4	3.3	3.3
Revenue sharing and general purpose fiscal assistance	7.2	7.3	7.3
Interest	35.1	35.4	35.2
Allowances	1.1	.9	.9
Undistributed offsetting receipts	−18.5	−18.6	−16.6
Total [1]	368.5	373.9	375.6

[1] OMB outlay estimates include $1,200,000,000 for earned income credit. The second budget resolutions deduct this amount from revenues.

Chairman HUMPHREY. Well thank you very much. Now, Mr. O'Neill, I gather you would like to make some comment. We surely would appreciate your comments to some of the points raised by Mrs. Rivlin particularly the differences which seem to arise between the OMB approach and the Congressional Budget Office.

STATEMENT OF HON. PAUL H. O'NEILL, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY DALE R. McOMBER, ASSISTANT DIRECTOR FOR BUDGET REVIEW; AND RUDOLPH G. PENNER, DEPUTY ASSOCIATE DIRECTOR FOR ECONOMIC POLICY

Mr. O'NEILL. Thank you, Mr. Chairman.

First I would like to say that I think that we have made extraordinarily good progress in building a good working relationship with the newly established Congressional Budget Office and with the budget committees in both the House and the Senate. Should there be any remaining doubt, I would like to say here that OMB and the administration feel very strongly that the process that has been set in motion by last year's act is an absolutely essential process. We are committed to working with the Joint Economic Committee, and with the Congressional Budget Office and the budget committees in the respective Houses of Congress to do everything we can to make this process work as well as it possibly can.

There are a few comments I would like to make on some of the points that Mrs. Rivlin made in her statement. First I would like to join her in her appraisal of the difficulties that are presented in putting together a current services budget. There are certainly a great number of assumptions that one need make in order to provide a current services budget. As we indicated in the published current services document, we made choices. We tried to make them explicit so that you and other interested people could clearly understand the choices we made and have a basis for making different assumptions, if you so choose. We tried as much as possible, to be explicit as to the way we approached the problem.

We are very happy with the reaction to the report, especially to the approach we took in using a variety of economic assumptions. We did this to show the sensitivity of budget spending projections to such economic assumptions.

Now I would like to respond to a couple of points that Mrs. Rivlin made toward the end of her statement, specifically the suggestion that we might provide 5-year estimates on a current services basis. As you know, since 1971 we have been publishing in the President's budget 5-year estimates of spending and we now publish them by department and agency, and by function. I understand her interest in the possibility of our doing that on a current services estimate basis, but I frankly think we would face great difficulties if we tried to do that. All of the problems that Mrs. Rivlin pointed out in the first part of her paper with regard to assumptions one need make, become even greater as one tries to look out 4 or 5 years from now. The kind of assumptions that need to be made, I think, necessarily reduce the usefulness of any such estimates on a current services basis.

I would also like to comment on the last point Mrs. Rivlin made, which she indicated she felt very strongly about. She said it would be very good if we were to add current services estimates to the President's budget document so that one could see the differences between current services estimates and what the President is proposing. Well, I just would recall for you an experience I think many of us in this room shared. In 1966, the executive branch set out on a course, the so-called PPB process, to try to do many of the things we are now doing. My recollection of PPB is that we started very well. The principles were very good and I think we were dedicated to doing the right thing. But I think very early on in the process we became intrigued with doing all the things the computers can help us do. Some departments and agencies began to produce voluminous computerized documents of data. And I think we killed the PPB process, or at least seriously damaged it, by trying to go too far, too fast. My observations with regard to the idea that we now add a new column of data to the budget documents is made in recollection of that experience. Before we make substantial changes to the Congressional Budget Act as written and put new requirements into the law, I think that we ought to live with the current law and we ought to allow the members a time period to become familiar with many of these new concepts. Of course, the computer would allow us to add these things but I think, perhaps this would be beyond many of the people who follow closely the budget process and——

Chairman HUMPHREY. Would you forgive me for a moment, Mr. O'Neill? I must leave for a very brief moment but Senator Taft will take over and continue. I do want to get back to you. I have a lot of questions here. Senator, you just continue on.

Mr. O'NEILL. Thank you very much. I think, Senator Taft, that concludes the general remarks I would like to make as an opening statement. I would be very pleased to answer any questions you might wish to put. As Senator Humphrey has indicated at the opening, I have with me my technical experts. So if you want to go into technical matters, I think maybe we can satisfy your questions.

Senator TAFT. Thank you very much, Mr. O'Neill. We will just start with a few questions here. Maybe we will start with one for Mrs. Rivlin first.

Mrs. Rivlin, one section of the new budget law requires that OMB submit this current services document and it requires the JEC to evaluate it. A different section requires the Congressional Budget Office to make 5-year projections of the budget. Could you explain how these sections of the law relate to each other and why we need both? What is the Congressional Budget Office's time schedule on their 5-year budget projections?

Mrs. RIVLIN. Yes; I would be glad to. I am not too sure exactly why both are in the law. I might have thought that the Congress would have required either the OMB or the Congressional Budget Office to produce 5-year projections, on the budget, but not to ask the OMB to produce 1-year current services estimates and to the CBO to produce 5-year budget projections.

We interpreted the requirement for the 5-year projections, although the law doesn't exactly say this, to be a mandate to do 5-year current services estimates, because we don't see any other way of doing it. That seems to us to be the most useful baseline; that is to say, if you don't have changes in policy, what will the budget look like over the next 5 years. It is certainly true that the first year of our 5-year projection either ought to be the same as OMB's 1-year projection or we all ought to know why they are different. They will, as indicated in my statement, be somewhat different mainly because of the timing. Our 5-year estimate will be built on the second concurrent resolution on the budget. But OMB did not have those numbers available when they made their projections. But you have to cut off somewhere and they decided to cut off on the first of September.

We will also probably make somewhat different assumptions about the economy. However, we will make very clear what those assumptions are so that it will be possible to move from one to the other.

The schedule we have now involves, first, waiting to see what the Congress actually does on the second concurrent resolution because it seems sensible to have that information before we make new projections; and thenw ith that information, apply two sets of economic assumptions—for the various programs. We expect to have this all finished some time in December, probably for release when Congress comes back in January.

Senator TAFT. Now in your testimony you have mentioned the preparation of the November 10 estimate was conducted as a separate undertaking by OMB and the Federal agency staff, not as an integral part of the 1977 budget formulation process. You say you believe the estimates would be more useful if they were a more intimate part of the budget process. How would this relate to the November 10 deadline? Do they make that that early or should that be moved up if you are going to try to integrate the planning on the two?

Mrs. RIVLIN. It would be interesting to see what Mr. O'Neill says to that. In the first place, if the current services budget is really useful to the Congress as a baseline, I would expect it to be equally useful to the OMB, which, after all, has to make a budget. It should be available for internal consumption in the OMB before they move into the budget process. Now, that implies, I think, that sometime in the late fall or around November would be a good time to have those estimates both for OMB's purposes and for the Congress' purposes.

Senator TAFT. Are you condemning the Congress never to adjourn before November 10?

Mrs. RIVLIN. No; as a matter of fact next year it is hoped that, if the Congressional Budget Act is followed, at least all the budgetary matters will be out of the way by the first of October.

I don't see any obvious reason to change the date but it does seem to me that it would be logical for the OMB to integrate the preparation of the current services budget more into their own process. And I would think they would want to do this for their own purposes if for no other.

Senator TAFT. Mr. O'Neill, perhaps you would like to comment on that particularly as to that date question.

Mr. O'NEILL. Well Senator, the date as it happened this year was very difficult for us because it fell right in the middle of our own budget formulation work with the President. So we had to double-track, in effect, and do two different jobs at the same time.

I think in point of fact there has been integration this year in the substantive way that Mrs. Rivlin is suggesting. Certainly I think there will be more integration in the future between the current services estimate process and the budget formulation process. I think it would be fair to say that we were not surprised by the numbers that we produced for current services. We tried to keep fairly much on top of where the numbers seemed to be trending. We tried to do that, so that we weren't surprised about how the numbers came out. From a workload point of view, as I indicated, it did represent a problem.

One of the problems that we observed and Mrs. Rivlin did as well, is that the current services estimates are less useful this year than they hopefully will be in future years because there were so many things we had to assume. For example, with regard to all the appropriations bills that had not been enacted in general we assumed the levels under the continuing resolution, which on their face are artificial and reduces the usefulness for people who don't follow the process every day. It is essential to recognize the impact of some of the assumptions that were necessarily made because of the bad timing this year when the Congress had not finished action on the last fiscal year that begins on July 1 and ends on June 30. The new process will hopefully put those problems aside.

Senator TAFT. Do you agree with the idea you can integrate the two?

Mr. O'NEILL. As I indicated, I think indeed they were fairly well integrated this year. I think they will be an integral part of our process next year, but frankly I don't think that we at OMB can wait until the 10th of November even under the new process, Senator, to be on top of the numbers. Because as you certainly know, we begin our budget planning for the next fiscal in January or February as soon as the President's budget has been submitted. As soon as that budget has been submitted, we begin planning for the next year; trying to assess for the President what kind of ceilings he may want to suggest to the departments and agencies.

Senator TAFT. If you get into this integration of the two, aren't you in effect pushing the presentation of the President's document back to November 10 rather than having a January presentation? And doesn't that raise a lot of questions with regard to transition when you move from one administration to another or even when you don't have transition but move from one Congress to another? I mean you are acting within just a few days, every other year, of a congressional election. I just wonder whether it is practical to do that.

Mr. O'NEILL. Well I don't know. As you look at the time calendar for other congressional action mandated by a Congressional Budget Act, it is hard to see how the budget could be submitted earlier. Under the law, as I remember it now, the second concurrent resolution doesn't require final settlement until the 25th of September. So it would be very difficult to do a useful job on the current budget estimates for the upcoming year much earlier than November 10th.

Mrs. RIVLIN. Senator, I was not suggesting an earlier submission of the President's budget although one could argue for that. But I was suggesting one keep the November 10 or approximately that date as the submission of a current services budget. I think when this becomes a routine and is something that everybody does all the time, that probably both we and the OMB will be producing fairly frequent updates of the current services budget so that we know most of the time how the workloads are changing for various programs and how the estimates are being affected with different assumptions on the economy and on inflation.

We think it would be useful to have both a November submission from the OMB on how current services look at that point and an update in connection with the President's budget so that when it is submitted in January, there are, as we said earlier, sort of two columns: we would have a current services column and a new initiatives column.

Senator TAFT. Let me get into some other areas. I would ask this of either of the witnesses. Do you think it is realistic to have a single interest rate assumption for the entire fiscal year 1977 as is described in the current services estimate?

Mr. O'NEILL. Well Mrs. Rivlin might want to comment on this as well. As we indicated, it is a convention that we have adopted. There are alternative assumptions which provide a range of interest rates that one might choose. We think it is very difficult to forecast precisely what the interest rate is going to be so in putting together budgets we have consistently assumed current interest rates for the upcoming period.

I suppose if the Congress felt there was some value in adding other interest rate assumptions, we would be prepared to do that.

Senator TAFT. What do you think about that?

Mrs. RIVLIN. We will show the effect of alternative interest rates in our 5-year projections, partly by way of showing the sensitivity of the estimates.

Senator TAFT. Mrs. Rivlin, with regard to the economic assumptions, which of the four sets in the OMB document do you believe to be the most realistic?

Mrs. RIVLIN. "Path One," which assumes high employment and high inflation, is the principal one chosen by the OMB. While it is a little more pessimistic than we are inclined to be, it unfortunately looks to us to be probably the most realistic of the group.

Senator TAFT. How would you weigh the resources of the Congressional Budget Office vis-a-vis those of the Office of OMB with regard to the ability to analyze and put together budget estimates? In other words do you believe the intent of your enabling legislation that Congress will have its own budget bureau, do you blieve that is actually being carried out?

Mrs. RIVLIN. Well I think the OMB and the CBO have somewhat different functions. It is true, I think, that the Congressional Budget Act intended that Congress have at its disposal comparable expertise on the budget to that provided to the President by the OMB. Nevertheless the jobs are somewhat different. We do not have to make up a budget. The OMB has to be responsive to the President's priorities and policy initiative desires and it has to be tremendously familiar with the details of all the myriad Federal programs and has to be on top of all of them. That is a tremendously manpower-consuming job to put together a budget in all its details.

The role CBO has as we see it at the beginning of this new process, is to look at some of the larger budget questions but not necessarily to be experts in every detail on every individual program. Rather, the CBO should look at the major programs and program alternatives as well as look at the economy and fiscal policy alternatives and what they might require.

We think this can be done with a somewhat smaller staff and with a somewhat different kind of staff than the OMB has. The OMB has about 600 people on board. We currently have about 193. We don't think that is quite enough, but we are not aiming for 600.

Senator TAFT. Thank you. I would like to explore now the values of the alternate functions of interest rates and other variables from the past. In this connection do you think it is useful and feasible to develop not only estimates for current services in the Federal budget but also for potential claims on the GNP under the various economic assumptions set forth by the OMB document? The point I would like to make here is that the Federal budget policy does not seem to take place in a vacuum. Budget decisions might depend on some estimate of activity in the private sector as well.

Mrs. RIVLIN. Oh, clearly one would like to have a picture of the whole economy under various economic assumptions and how the private sector and the Federal sector interact. For example, in a particular area like health, Senator, one would like to have not just estimates of where the Federal programs are going, but where State and local and private spending might be going under differing assumptions about the economy and about price levels. But I think that at this point I would retreat to where Mr. O'Neill was a few minutes ago and say we can't do everything at once. And it does seem to me extremely useful as a first step to have the projections of the Federal sector and begin working with those on a careful basis. And then when we get that down, we will move to the rest of the economy.

Senator TAFT. Do you have any comment on that?

Mr. O'NEILL. Well, Senator, if I understand the direction of the question, I think the Executive now does in a very substantial way what you are suggesting, albeit not in the budget documents but in the reports from the Council of Economic Advisers. It seems to me that what you are suggesting is really that Mrs. Rivlin's office, or perhaps some other office, take on responsibilities for viewing from a congressional point of view what is done by the Council of Economic Advisers.

Mrs. RIVLIN. Well I think we have done that. I thought I had heard the Senator's question a little differently, perhaps because several other people have been pressuring us to put 5-year estimates of the budget not just in the Federal context but to have alternative gross national product budgets for the various sectors under differing economic assumptions. I'm not sure the Council of Economic Advisers does that nor that it could be done at this stage.

Senator TAFT. What tradeoffs do we face between extra inflation and lowering unemployment an extra percentage point next year and the year afterwards?

Mrs. RIVLIN. Well, the Congressional Budget Office has attempted to answers this question a couple of times. We did a report on September 17 in which we looked at alternative fiscal policies for the next year and estimated how current fiscal policy and somewhat more stimulative or somewhat more contractuary policies would affect unemployment and price levels. And from those numbers one can get an idea of the tradeoffs. It certainly is clear that a more stimulative fiscal policy would lower unemployment somewhat but would also have some consequence for the inflation level, probably more in the long run than in the short run.

At the present slack state of the economy with high unemployment and underutilized capacity, one would not expect increases in Federal activity to have immediate inflationary consequences, but they may well have longer run ones.

We have looked at some of these numbers and their possible effects. The way the estimates come out, using the admittedly uncertain estimates of economic model forecasting, is that an approximately 1 percentage point reduction in the unemployment rate can be traded for an addition of one-half percentage point to the inflation rate at a somewhat later period.

Senator TAFT. Do your calculations come about to that, Mr. O'Neill?

Mr. O'NEILL. Well, I will let Mr. Penner talk to the specific numbers, but I would like to make a more general point. First of all, I join Mrs. Rivlin in what she says about the questionable value of using models for some of these things. I think I have had some good discussions with Mrs. Rivlin about this. Alan Greenspan also testified before several Members of Congress as to the care we must use in interpreting results gotten out of computer models.

But, I think the President himself made it very clear that we in the administration believe that we have got to slow down growth in Federal spending or we are doomed to rates of inflation like those we have seen over the last few years. As a general policy matter, we, together with the Congress, have to stop doing some things we have been doing that cost money and reduce others, we must adjust our priorities and move toward a more balanced fiscal picture, hopefully toward a balanced budget within 3 fiscal years. We recognize, as Mrs. Rivlin, I think, said, that there may be some apparent short run attractiveness to more fiscal stimulus; but we firmly believe that if we do not convince the people of this country that we are dedicated to a more balanced fiscal policy, we are going to pay a price in inflation that we cannot stand.

Senator TAFT. Thank you very much. That completes the questioning I have at this time. I don't know whether Senator Humphrey will be able to get back in time or not. I would ask the witnesses to wait for just a few minutes. We will make inquiries as to whether Senator Humphrey will be back and reserve some time for him to question you. If not, we reserve, of course, the option for him to submit questions to the witnesses for completion of the record. Thank you very much.

I would call next Mr. Gilligan. Mr. Gilligan, we would like to have you next please, and I think it might be useful to have Mr. Yntema come up to the witness table too. We will go through the two statements and then we can question you after the two statements have been presented.

Mr. Gilligan and Professor Yntema, we welcome you here this morning. Oh, here is the chairman.

Chairman HUMPHREY. No, go right ahead.

Senator TAFT. I had asked the witnesses, who just completed their statements, to stay and give you an opportunity to ask some questions. Would you care to call them back and then we can go on to the next witnesses?

Chairman HUMPHREY. Yes, just stay where you are, Mr. Gilligan and Mr. Yntema. I would like to ask Mrs. Rivlin and Mr. O'Neill if they would share with us some observations on some questions.

We had a chance to look over your testimony before, Mrs. Rivlin, and the staff prepared some questions and that is why I asked whether they have been placed before you. The OMB current services estimates make allowance for inflation only in programs where such allowance is mandated by the law. In your statement, Mrs. Rivlin, you indicate that if the second concurrent resolution was taken as the base, and if all programs are adjusted upward for inflation, outlays would reach the range of $427 billion to $430 billion. I believe that is what you have indicated to us. Now, how would you characterize the fiscal policy implied by an outlay range of that amount for $427 billion to $430 billion, coupling this with the revenue assumptions in the current services budget? Would this be, roughly, neutral fiscal policy? Would this be highly stimulating policy, or how would you characterize it?

Would you be concerned that this level of outlays would overstimulate the economy leading to excessive expansion and inflation?

Those are a broad series of questions which I think naturally flow from the statements which you have made. Would you like to comment?

Mrs. RIVLIN. Well, let me comment first on what the deficit would likely be if we are approximately right about the numbers for fiscal 1977. If you take an outlay level of about $428 billion for 1977 and couple that with revenue estimates that we now think will fall between $355 billion and $360 billion based on our most recent projections of the economy that implies a deficit in the $70 billion range for fiscal 1977 on a current services basis. That is a large number. We have not yet made a set of fiscal policy estimates for 1977. We are about to do that. Even if we had made estimates, it would be difficult to say exactly what the effect of a deficit that size would be. As you know most of the deficit that we now have—and it will continue to be true in fiscal 1977 unless some dramatic change occurs—most of the deficit we now have is attributable to the recession. It is not attributable to stimulative policies undertaken to correct the recession. But at the moment I think the most we could say about a deficit in the $70 billion range for 1977 is that it would certainly not be a highly stimulative fiscal policy.

Chairman HUMPHREY. Now there have been discussions, as you know, of cutting down that projected outlay by, let us say, $30 billion. I am sure Senator Taft read those same things I have of late with the Conference Board and with the different meetings that have taken place as to the degree of recovery that is underway. I think it is fairly well agreed now that the recovery is fragile on the one hand and is not rapid. It may very well be—I guess you would call it somewhat sluggish. It may be a degree above that. I want to be as factual and as accurate as possible. But in light of the possible weakening of economic recovery as suggested by recent statistics on unemployment retail sales, capital outlays, housing in particular—and housing is still in the doldrums—does an outlay of, let us say, $395 billion to $400 billion sound like the kind of fiscal policy which would support continued recovery or would that necessitate additional tax cuts and the continued erosion of the tax base?

I just toss it out for both you and Mr. O'Neill.

Mrs. RIVLIN. Well, in the first place, the outlay level has to be coupled with some assumptions about the revenues before one could tell what effect it would have. The only thing that we have done which would throw some light on this question is a comparison of projections that implied a continuation of current fiscal policy, that is, approximately what one would get from the second concurrent resolution on the budget. It was a projection of the likely events in 1976 with an alternate set of assumptions that included the President's proposed tax cuts and the expenditure cutbacks to the $395 billion figure. It was our rough estimate that the effect of the President's proposal would be to stimulate the economy slightly in the beginning of 1976 over what would otherwise happen, because of the tax cuts. Our estimate also indicated a slightly lower level of unemployment in the beginning of the year. However, this proposal would also restrict the economy in the last quarter of the year because that is when the expenditure cuts occur. It would possibly raise the unemployment level in late 1976 and into 1977.

Chairman HUMPHREY. Mr. O'Neill, do you have any comment?

Mr. O'NEILL. Well Senator, while you were away, we did go into some of these questions.

Chairman HUMPHREY. Do not repeat it then, I will get the record.

Mr. O'NEILL. It is the administration's very strong view that a deficit in the neighborhood of $77 billion would be very counterproductive for the long-run economic health of the country. We believe quite strongly that we need to be moving down toward a balanced budget within 3 years. The President has recommended the coupling of a $395 billion spending total with tax cuts for the working people. We believe that is consistent with a gradual, careful, steady improvement in our economic health that can be supported for a long period of time. It would get us away from the gyrations that we think are built into a stimulative policy that would give us back-to-back deficits on the order of $77 billion.

Chairman HUMPHREY. I have just another note here that was given to me as a result of a review of some of the material that we have here. It is a question on the income programs. This question is for you, Mr. O'Neill, that in recent years there has been much discussion on the rapid increase in spending for income security programs. Those are always the target, as you know, for a good deal of rhetoric. Most of this increase has resulted from increasing the number of persons eligible for benefits. I notice in your current services projections, the increase for income security programs is about 10 percent; the increase for natural resources, environment, and energy is about 20 percent; the increase for health is about 12½ percent; the increase for interest is about 15 percent, for a total budget of about 10 percent. All of this indicates to me that it is rather erroneous to think of this income security program as being the major driving force behind increases in Federal spending. What do you have to say about that?

Mr. O'NEILL. Well, Senator, total spending in the area of energy and natural resources, as you well know, is a minor fraction of the amounts that are being devoted to income security programs. So I think the factors you suggested are not inconsistent with each other. In absolute dollar terms, the major driving force in the increase in outlays from year to year has been income security programs.

Chairman HUMPHREY. Is not a lot of that social security?

Mr. O'NEILL. A significant part of it, absolutely.

Chairman HUMPHREY. That is paid for by the people. I mean the people pay for that by their taxes. You don't have any subsidized social security now, do you?

Mr. O'NEILL. We are not, at this point, making any general fund contributions to social security, but if there are not some changes made either in the benefit levels for the social security program or in the taxes that are collected to pay for those benefits, the Social

Security Advisory Council has estimated that the trust fund for social security will have zero dollars in 1983.

Chairman HUMPHREY. Well, I am sure that is not going to happen. I am sure you know that the Congress does change the levels for taxation, the amounts that can be taxed and the tax percentages. I do not want to get into a protracted argument about the insolvency of the social security system because that isn't going to happen. It will, like the insurance companies, raise the price of the premium. So, you know, that just isn't about to happen.

But my point is that there are more beneficiaries—and I grant you that, because as the population gets older, you have smaller families, and there is bound to be more people that get into the social security structure percentagewise in the population, and also inflation takes its toll upon people. They have their income eroded. So sure, the number of beneficiaries has increased, but my point is—and I think it is a valid point—that percentagewise the income programs have not increased as much as the interest rates, for example.

Mr. O'NEILL. Well, as I said before, I don't think the factors suggested are inconsistent with each other.

Chairman HUMPHREY. Yes.

Mr. O'NEILL. And I would again make the general observation that the major impact on the budget in terms of the absolute dollars has come from income security programs.

Chairman HUMPHREY. Mrs. Rivlin, I believe that I have heard somewhere you have been doing a study on the projections up to the year 2000 as to the percentage of GNP that will go into these programs. If I understand it, the study shows we can expect the major transfer programs, social security and medicare and so forth, to remain relatively constant as a share of GNP, assuming current laws remain in force. Is that correct?

Mrs. RIVLIN. Yes; it is, but the last assumption is very important. As you know, the income programs have grown rapidly over the last 20 years as new programs were added and as new beneficiaries were added and the benefit levels were raised. They have gone from about 3 percent of GNP to about 9 percent of GNP in the last 20 years. That, of course, raises the question of what will happen for the future. And the report that you refer to, which we did for the Senate Budget Committee and which was released actually this morning, shows alternative ways of calculating the future benefits in the year 2000. Now, one thing to do would be to just project past rates of increase. This has been a method used by various members of the administration and others. If one simply projects the past rates of increase in these programs in dollar terms, then one would get a very large figure for the future. By the year 2000, income programs would be eating up one-third of the gross national product, and that is scary, but——

Chairman HUMPHREY. Might I just interrupt to say I just had to go over to the Agricultural Committee, and that is what took me away. I had to go over for a quorum. Over there, we were projecting the rate of increase of production each year between now and the year 2000 as compared to what happened in the last 20 years. And when we did that, we came up with the astounding fact the world would be stuffed with food.

Mrs. RIVLIN. That is right.

Chairman HUMPHREY. We wouldn't know what to do with it if we did it that way. For example, 20 years ago, the average rate of production per acre of corn on a farm was about 30 bushels. Now you know and I know there comes an optimum point where no matter how much new fertilizer you put on or no matter what kind of new seeds you have, that you don't get an astounding increase. You may get a percentage point increase, but there is a law of diminishing returns in farm production. So all of these horrendous projections are misinterpreted projections. It is sort of like a child between the age of 8 and 12 growing 5 or 4 inches, but that doesn't mean every 4 years, you are going to grow another 5 inches. If you live to be 60, you would be taller than a redwood tree out in the redwood parks, but this is absurd.

But that goes on with some of these figures. And I just think somebody has to stand up and say that this is a lot of malarkey, and these projections don't make sense.

For example, we blanketed in thousands of people under social security. Well, you can't blanket them twice. They are there. You know, there are only so many people who can crawl in under the sheets, and they are filled then.

Mrs. RIVLIN. Well, without saying that anything is a lot of malarkey, we did offer some alternative ways of looking at and projecting what might happen to these programs. We constructed from census estimates and other estimates a picture of what the population might look like and what its income distribution might be in the year 2000, and then applied current laws for the income maintenance program to that population to see what they would then cost. Now, if one does that, then one has to make some assumptions about how benefit levels would change. One has to ask would they be at the current level, would they rise in accordance with increases in cost of living over that period? Some increases in cost of living are built into the law, and some are not. Would they be raised in accordance with increases in the standard of living? And it turned out that it doesn't make much difference what one assumes about those three things. Whether one applies current law or a law with cost-of-living increases or a law with standard-of-living increases, they would all reach about 9 or 10 percent of the GNP being spent on these income maintenance programs by the year 2000, which is not a lot more than we are expending now. This does not say anything about what will actually happen, but it does make clear that in order for income maintenance programs to eat up a rapidly rising percentage of GNP, something additional would have to happen. New programs would have to be undertaken or some major changes made in congressional policy.

The increases are not built into the current programs.

Chairman HUMPHREY. The only thing I wanted to comment on—and I say this to Mr. O'Neill for whom I have a high regard, and it is nothing personal at all—is that I think when Government affixes its signature to projections which any person with enough sense to come out of the rain knows are falacious, then it is really a disservice to the credibility of Government itself.

I just left Earl Butz, and I can tell you that if the present projections, if the present rate of decline in dairy products, for example, continues, there won't be a bottle of milk left in any store in the next 10 years. Now, you and I know that is not going to happen. Those are seasonal. There are lots of things that happen between the fall and the spring that affect those.

Likewise, as I said awhile ago, and since I am somewhat knowledgeable in this field, we produce today in terms of corn and wheat, tremendous quantities per acre as compared to what we produced 20 or 25 years ago. For a period of time, there was phenomenal increases, but then it kind of leveled off. As a matter of fact, it has been leveling off in the last 5 or 6 years to where it is really kind of balanced, where you get a little increase one year and then a little decrease the next year. It not only depends on the weather, but there seems to be a sort of static situation in what we call growth per acre, and I just would point out that if I wanted to be a really first class demagog about this, then I would say to those persons who say it looks like we are going to have a food shortage in the world, I would say: "What you really ought to be doing is preparing to fill up the Grand Canyon with the projected estimates of increases in production on the American farms." But you know and I know that is not going to be the case, because you are not going to be able to get 180 bushels per acre of corn in the next 10 years.

No scientist that I know of has ever projected that you could possibly get 175 to 180 bushels of corn per acre between now and the year 2000. However, if you go back 25 years ago, you would see you more than doubled the acreage, the production of corn per acre. In fact, you have tripled it.

So you see, projections are misleading. My only point is that I try, when Mr. Burns comes in here and others, I try to get these governmental agencies and Congressional and executive people to get away from the confrontation situation and see if we can't come to an understanding on the figures. Let's come to an understanding on figures, and then we can argue about whether the figures are too much or too little, but we ought to be in the ball park as to what our projections are, particularly if we use the same set of assumptions. And that way, of course, we will give the public some confidence. Because today what happens is Hubert Humphrey goes out and argues with one set of figures, and Bill Simon—and he is a man I highly regard and respect highly—but he goes out with another set of figures, and the public asks who is telling the truth? Well, we both stand there and argue with each other, and you can't get the audience to listen long enough to go through all of these gizmos you have and all of these assumptions to get at the facts.

I think we've got to come to some understanding between OMB and the Congressional Budget Office and the Joint Economic Committee and others so that we are talking, at least, in the framework of the same assumptions. After we do that, then we can argue whether we are spending too much or spending too little. But let's not frighten the living daylights out of each other by these projections.

Mr. O'NEILL. Senator, if I may? I certainly agree with you. Although I have not had a chance to look at Mrs. Rivlin's study, it is my understanding that in a general way, her study confirms what we began saying early this year as to the possibilities of what would happen if we were to continue on the track that we have been on for the last 20 years. As you know, we take great professional pride in what we do. I think we have been enormously careful. You remember, as I do, that we had a discussion last March where you were troubled by our use of the projections of the trend lines we have been on for the last 20 years into the year 2000. As you recall, we showed you the document that we had put together, which very carefully spelled out the assumptions one need make in order to show——

Chairman HUMPHREY. But when it gets into the media, they don't get those projections, and I'm going out home tonight to talk to about 10,000 farmers. Now if I go out there and say: "I want to tell you friends something. I just met with the experts here, and we got a projection that if it keeps going on like it has, there isn't going to be room enough in Minnesota to store the corn or soybeans or wheat—and that is what the projections show on the trend lines. So don't worry." And if I went out and told them that, they wouldn't buy it. I can't deal with people like that. I've got to deal with them on the basis of some historical facts and some sensible computations. This is like talking about, as I said awhile ago, the growth of the body. My goodness, there is a certain growth of the body between the ages of day 1 and 21 when the body and bone structure and the physique is basically designed. But if you are going to take that 20-year projection, then good God, there isn't going to be room enough on Earth for anybody.

Mr. O'NEILL. Senator, I think the simile is a very good one. It is obvious we cannot have growth rates like those we have had for the last 20 years, especially in the income security programs because if we were to simply extrapolate past trends forward for 40 years or 45 years, there wouldn't be anything left but the Federal Government, which is an absurdity. But I think we have done a valuable thing in raising this point to the public and bringing it to their attention. I must agree with you that it is very difficult to get the people to sit still long enough to understand the assumptions that were included in those estimates.

However, I think if you look at some of the things being proposed today, it is not too far-fetched to see an enormous growth in the Federal share of GNP resulting from just a few programs. People have been talking seriously about the idea that the Federal Government should provide a free school lunch for every child in the country or provide health care for everybody. That alone by today's calculation would be over $100 billion. There are responsible officials urging that the Federal Government assume the entire load for welfare cash assistance. Now those are policy matters that are extremely important to debate. But from a fiscal point of view, I think it is important that people recognize that these things, which may on their merits be desirable as individual things, have substantial implications for the Federal share of GNP as we move out into the future. I say that because I think we have all observed that once we take on a responsibility, our ability to get rid of it is next to nothing.

Chairman HUMPHREY. Yes; I won't deny that. I think you also need to point out that the legislative process is a negotiation process. After all, every mother tells her boy and girl that you can be President of the United States, but there is only one office. But then you don't want to go around telling mothers not to tell their boy or daughter they can't be President of the United States or you can't be in the Office of Management and Budget. You've got a right to have some hopes and aspirations. And I think what we see being overdone is taking proposals, which are offered in good faith, but taking them as if somehow or other they were all automatically going to be adopted. After all, there are 535 members of Congress. You can't get them to agree on what day they want to adjourn, much less what they want to do in terms of legislation.

Well, I don't mean to keep you here any longer. We have some other questions. If you don't mind, Mr. O'Neill, we will put them to you in writing. I am pleased to hear—and I hope that Mrs. Rivlin agrees—that the Congressional Budget Office and the OMB are trying to work together for the same set of assumptions. This will help us immensely. We do not need to politicize these matters. We really need to have accurate—well, if not accurate, we really need to have at least reasonably accurate—estimates so that we know what we are doing. I don't think there is any Member of Congress that I have found that wants to go pellmell down the path that is going to evolve into what you call insolvency. We have had enough examples of that in recent days. I think everyone has reason to be concerned about the rate of expenditure of the Government, but I do think we need to know what the base lines are, what the facts are, and then we can draw our judgments and stand the test of public scrutiny as to whether or not those judgments were valid. That is my hope. I really appeal to you to take that message back to your colleagues. I know you have a professional organization in OMB. I sometimes wish you had a little more heart. I don't mean that personally, of course—— [Laughter.]

But OMB is sometimes one of my problems. I guess it is sort of like the banker.

Well thank you very much.

Now we will call back our next witnesses. It is very considerate of them to have waited. All right, Governor, glad to see you.

Would it be all right if we had you both testify with one following the other, and then Senator Taft and I will toss in questions to each of you. So we will lead off with you, Governor.

STATEMENT OF JOHN J. GILLIGAN, CHAIRMAN, COUNCIL ON NATIONAL PRIORITIES AND RESOURCES

Mr. GILLIGAN. Thank you very much. Thank you, Senator Taft. I am appearing today on behalf of the Council on National Priorities and Resources. With me is Joan Bannon, an economist with the council.

In the interest of time, Mr. Chairman, I would respectfully ask that the full text of the prepared statement I brought today be accepted for the record, and I will attempt to summarize it as briefly as I can.

Chairman HUMPHREY. Of course. Please proceed.

Mr. GILLIGAN. The Council on National Priorities and Resources is a nonprofit nonpartisan association committed to promoting government action to meet human needs.

In enacting the new budget process last year, Congress was wise in requiring submission of a current services budget early in the budget cycle, almost a full year before the beginning of the new fiscal year. The current services budget gives Congress an opportunity to review the fiscal implications of ongoing programs and policies before the President submits his proposed budget in January. It enables Congress to confront the same budget forces and constraints the President considers—for example, the impact of inflation on entitlement programs—and to reach its own conclusions about the adequacy of current programs in the next fiscal year. The current services budget is a benchmark—a measure of existing activity—against which the President's proposals for cutbacks or new initiatives can be evaluated.

The current services budget is released sufficiently early in the budget cycle so that the Congress still has plenty of time to make meaningful budget decisions.

Yet, with all due respect for the new budget procedures, it does seem to me that it is already too late to make any fundamental changes in the 1977 budget. It would be much more effective and appropriate to analyze new potential changes that could be made in the budget for 1978 or even 1979.

This year, unfortunately, the Joint Economic Committee must base its current services report for fiscal year 1977 on a document that is somewhat disappointing. Not only is the OMB report overly terse, but the lack of background materials and the failure to break down aggregate numbers by program contributes to the document's relative uselessness.

Still, the current services budget is useful in one sense—it gives us a clear picture of the fact that the budget too often controls our decisions rather than the reverse. Automatic and runaway increases in military programs are particularly disturbing: While an inflation rate of 7.5 percent is expected in 1977, according to OMB's own estimates, outlays in the defense function will increase by 13 percent and budget authority by 11 percent, and this substantial growth in the defense budget does not include new initiatives like the costly B–1 bomber. The education, manpower, and social services function, on the other hand, shows a net decrease in outlays. Health programs, excluding medicare and medicaid, and other social programs also show decreases or little or no increase.

Thus our policy directions for the next fiscal year are being inexorably controlled by automatic increases. It is critically important that Congress begin to look long and hard at the uncontrollable increases scheduled for fiscal year 1977, revamping them where necessary. Simultaneously, Congress must begin to look at where it wants to be in the long term, as opposed to where it's going automatically. The current services budget makes it clear that no decision is a decision.

While the recession continues to hang on, unemployment has remained at intolerably high levels. October witnessed an 8.6 percent level of unemployment—meaning that there are still more than 8 million Americans out of work, even by strict Labor Department standards. There are millions more discouraged workers and workers forced to work only part time because of the recession. Three million people have been unemployed for longer than 15 weeks—a number that is nothing short of a national catastrophe. November statistics, to be released in the next few days, do not promise much, if any, improvement.

Not suprisingly, the high rates of unemployment documented here have had major ramifications throughout the economy. National output and consumption, corporate sales and profits, housing construction and business investment, interest rates and economic activity in general have all suffered enormous declines and have only just begun to revive from their recession-induced troughs.

To further cloud an already gloomy picture, there is every indication that the recovery will be exceptionally prolonged. The temporary rise in unemployment last month, and the 2 months of consecutive decline in the index of leading economic indicators, pointedly reaffirm what economists have been telling us for several months—that the recovery trend is a very, very slow one. The Congressional Budget Office now tells us we can expect high unemployment rates, along with high inflation and an economy still in the last grasp of the recession through 1980.

The administration notwithstanding, the bleak economic statistics and the equally distressing forecasts make it absolutely essential that action be taken to stem the tide of suffering. In economic terms, it is crucial that the Congress devise and implement expansionary fiscal policies to support and accelerate the recovery. Phrased in human terms, what is needed today are jobs. It is only through the creation of millions of jobs—both in the private sector and the public sphere—that we can raise this Nation from depression and despair.

Unemployment rates represent people and families. Each 1-percent increase in the unemployment rates means a shattering loss of income to more than 920,000 workers and their families. Yet, the administration has elected high unemployment and enormous human suffering, in the hope of holding down the budget deficit—and now for the purpose of cutting back equally on expenditures and taxes.

The Council of National Priorities and Resources has made several urgent recommendations to the Budget Committees with respect to those programs which we believe should be initiated, or expanded, in fiscal 1976 to lift our economy out of recession. Given the durability of the recession, these recommendations, we believe, are just as appropriate in fiscal 1977. Our program recommendations include (1) drastic expansion of present CETA public service employment programs to provide an additional 1 million jobs on a temporary basis; (2) enactment of a $10 billion public works employment program; (3) emergency countercyclical assistance to State and local governments to help stabilize local budgets and prevent further expenditure and service cutbacks and tax increases; (4) full funding of all authorized housing programs; (5) full funding of all Federal education programs; (6) expansion of the unemployment insurance system so that all workers receive adequate benefits; (7) initiation of a health insurance system for the unemployed; and (8) greater congressional control of interest rates and monetary policy in general.

Certainly, the size of the expenditure needed to realize these program ideas is immense—at least in the immediate perspective. Yet, there are four factors which must be considered in gaging the effect of such programs and expenditures on the Nation's economy and the deficit.

First, it is almost axiomatic that any solution, to be effective, must be tailored to the size of the problem it is designed to solve. An additional expenditure of $25 or $30 billion, or a deficit of $90 to $95 billion, is dwarfed in comparison to a GNP of $1.5 trillion and an economy operating nearly $250 billion below capacity.

Moreover, we should remember that in other periods of national or economic crisis, our Nation has engaged larger deficits and expenditure levels in relation to GNP than we are urging the Congress to spend in fiscal 1976 and 1977.

Second, very little of the gross stimulative expenditures for employment translates into a higher deficit, since by putting people to work, other outlays for unemployment compensation and food stamps and welfare will be correspondingly reduced and tax revenues increased.

Third, the much heralded effects of increased Government expenditures on inflation and on credit markets, in the middle of a recession as deep as the present one, are largely illusory or too far distant to warrant immediate concern.

A fourth consideration is the fact that there are offsetting cuts that can be made in wasteful Government programs. If we decide that the deficit cannot shoulder any large increase, then there are many Government expenditures that can be reduced, thereby allowing more productive expenditures to be increased. Military expenditures, presently consuming a huge share of the budget, can be cut still more than they were this year by the Congress. Today more than $2 out of every $3 controllable on an annual basis goes to the Pentagon. Given the budget preponderance of the military budget scheduled for the next 5 years, it is time that the role of military power in fulfilling national security needs be thoroughly debated—and different budget priorities established.

The Council on National Priorities and Resources is committed to the principle that the resources of this Nation be allocated pursuant to priorities which give first attention to human needs. In line with this concern, we believe it is also important—perhaps more critical than any other endeavor—that the Congress begin to commit more resources to the goal of attaining full employment.

While temporary, countercyclical employment programs tied to triggers like the unemployment rate are necessary in a recession, they are not and should not be designed to last permanently. However, full employment programs should be enacted as a permanent part of the Federal landscape. Given relatively high levels of structural unemployment in our economy—perhaps as high as 5 or 6 percent for the next few years of automobile and other industry shifts—it is safe to assume that a guaranteed job program will be extremely beneficial.

It is long past time to shift the emphasis of governmental policies and programs from the supply side of the job market to the demand side—that is, to the demand of people for meaningful work. In short, the Government should commit itself to guaranteeing and creating respectable jobs for every person able and willing to work.

A guaranteed jobs program would go far toward restoring the dignity and sense of self-worth of all members of the society. We all know that a job represents much more than income. It is also a measure of a person's status and postion in society, a determinant of whether a person is a full citizen of American society or an outsider, looking in.

It is ironic that as we enter our Bicentennial year, having enjoyed 200 years of abundant resources, material prosperity, and technological progress, we have still not found a way to insure the simple and fundamental right of every person to a job—and to the income and dignity a job brings. As a result, we find ourselves on the threshold of the third century of our Nation's history with mass unemployment of truly nightmare proportions.

Still, we believe there is cause for optimism. As untenable as the problem of unemployment seems, it can be alleviated. The one critical prerequisite is congressional willingness to reorder budget priorities.

[The prepared statement of Mr. Gilligan follows:]

PREPARED STATEMENT OF JOHN J. GILLIGAN

Mr. Chairman and distinguished members of the Joint Economic Committee, I am John J. Gilligan, Chairman of the Council on National Priorities and Resources.

The Council on National Priorities and Resources is a nonprofit, non-partisan association committed to promoting government action to meet human needs. The participating members of the Council are: Amalgamated Clothing Workers of America, AFL–CIO; Americans for Democratic Action; American Federation of State, County and Municipal Employees, AFL–CIO; National Education Association; National Farmers Union; Oil, Chemical and Atomic Workers International Union, AFL–CIO; United Auto Workers; United Church Board for Homeland Ministries; United Mine Workers of America; United Presbyterian Church, USA; the U.S. Conference of Mayors; and the National Association of Home Builders.

In enacting the new budget process last year, Congress was wise in requiring submission of a current services budget early in the budget cycle, almost a full year before the beginning of the new fiscal year. The current services budget gives Congress an opportunity to review the fiscal implications of on-going programs and policies before the President submits his proposed budget in January. It enables Congress to confront the same budget forces and constraints the President considers—for example, the impact of inflation on entitlement programs—and to reach its own conclusions about the adequacy of current programs in the next fiscal year. The current services budget is a benchmark—a measure of existing activity—against which the President's proposals for cutbacks or new initiatives can be evaluated.

The current services budget is released sufficiently early in the budget cycle so that the Congress still has plenty of time to make meaningful budget decisions. This year, I believe, many Congressmen and Senators felt severely constrained in attempting to make any changes in the 1976 budget by the relatively tight timetable followed in enacting the first and second budget resolution and the 13 appropriation bills. By the time the second resolution was debated by the two bodies—just in the last few weeks—there was a general feeling that it was too late to make even minor alterations in the aggregate numbers, much less to effect any meanful change. Of course, next year the schedule will adhere more closely to the deadlines of the Budget Act—but even next year the September deadline for appropriations bills is so late that the Congress may confront the same problem—that of getting locked in to certain numbers and budget ceilings, so that the second concurrent resolution does nothing more than reflect a set of already-established numbers.

With all due respect for the new budget procedures, it does seem to me that it is already too late to make any fundamental changes in the 1977 budget. It would be much more effective and appropriate to analyze new potential changes that could be made in the budget for 1978 or even 1979.

This year, unfortunately, the Joint Economic Committee must base its current services report for FY 1977 on a document that is somewhat disappointing. Not only is the OMB report overly terse, but the lack of background materials and the failure to break down aggregate numbers by program contributes to the document's relative uselessness.

Still, the current services budget is useful in one sense—it gives us a clear picture of the fact that the budget too often controls our decisions rather than the reverse. Automatic and runaway increases in military programs are particularly disturbing: While an inflation rate of 7.5% is expected in 1977, according to OMB's own estimates, outlays in the defense function will increase by 13% and budget authority by 11%, and this substantial growth in the defense budget does not include new initiatives like the costly B–1 bomber. The education, manpower and social services function, on the other hand, shows a net decrease in outlays. Health programs, excluding Medicare and Medicaid, and other social programs also show decreases or little or no increase.

Thus our policy directions for the next fiscal year are being inexorably controlled by automatic increases. It is critically important that Congress begin to look long and hard at the uncontrollable increases scheduled for FY 1977, revamping them where necessary. Simultaneously, Congress must begin to look at where it wants to be in the long-term, as opposed to where it's going automatically. The current services budget makes it clear that no decison *is* a decision.

While the current services budget is not—and is no intended to be—a policy document, we already have a fairly clear idea what the President's fiscal and budget policies for FY 1977 will be. The President's $28 billion tax cut package, tied to equivalent reductions in federal spending, suggests what is likely to happen in the formulation of the 1977 budget—veto after veto after veto. Not only directly controllable programs, but uncontrollable programs, too, are likely to feel the impact of cutbacks, with caps on cost-of-living increases, ceilings on pay increases or more restrictive eligibility criteria.

Ironically, the President's proposed cutbacks come at a time when exactly the opposite is urgently needed. Given the tenacity of the present recession, what is needed is massive stimulative spending, not unreasoned adherence to old-fashioned ideas about inflation and employment tradeoffs or conservative notions about the role of government. If the spending and tax cuts of the Administration are enacted, the result will not only be *less* stimulation of the economy than in fiscal 1976, but potentially an even deeper recession than that of 1974 and early 1975. At the least, it threatens to irreparably harm our present already-prolonged recovery.

While the recession continues to hang on, unemployment has remained at intolerably high levels. October witnessed on 8.6% level of unemployment—meaning there are still *more than 8 million Americans out of work*, even by strict Labor Department standards. There are millions more discouraged workers and workers forced to work only part-time because of the recession. *Three million people* have been unemployed for longer than 15 weeks—a number that is nothing short of a national catastrophe! November statistics, to be released in the next few days, do not promise much, if any, improvement.

Unfortunately, too, the brunt of this continuing level of high unemployment has been borne by blacks and other minorities (with a jobless rate of 14%), for teenagers (10%), for women (8%) and blue-collar workers (11%)—those least able to cope with unemployment. Yet no part of our strategy for dealing with unemployment has been specifically designed to meet the needs of these groups.

Not surprisingly, the high rates of unemployment documented here have had major ramifications throughout the economy. National output and consumption, corporate sales and profits, housing construction and business investment, interest rates and economic activity in general have all suffered enormous declines and have only just begun to revive from their recession-induced *declines*.

To further cloud an already gloomy picture, there is every indication that the recovery will be exceptionally prolonged. The temporary rise in unemployment last month, and the two months of consecutive decline in the index of leading economic indicators, pointedly reaffirm what economists have been telling us for several months—that the recovery trend is a very, very slow one. The Congressional Budget Office now tells us we can expect high unemployment rates, along with high inflation and an economy still in the "last-gasp" of the recession through 1980.

The continuation for so many years of high unemployment has disastrous implications not only in terms of fundamental damage to the economy but also for the future earnings and job potential of those hit by unemployment—especially teenagers. Teenagers, blacks, women and other groups experiencing unemployment disproportionate to their numbers are losing valuable skills, work experience and other opportunities while unemployed. In fact, given the high unemployment expected until 1980, many young people will be 24 or 25 before they have any prospect of holding a full-time job.

Thus, the Congress cannot afford to bask complacently, as many Administration officials appear to be doing, in the hope that the economy is recovering and will take care of itself.

There is a story that in June of 1930 Herbert Hoover was approached by a group of public-spirited businessmen and economists, who urged him to expand federal public works projects in order to provide jobs to the unemployed. The ranks of the unemployed were already rising into the millions. "Gentlemen, you have come sixty days too late," the President said. "The depression is over." In their constant assurances that the economy is recovering, President Ford and his advisors are acting in a tradition that is older than they know.

The Administration notwithstanding, the bleak economic statistics and the equally distressing forecasts make it absolutely essential that action be taken to stem the tide of suffering. In economic terms, it is crucial that the Congress devise and implement expansionary fiscal policies to support and accelerate the recovery. Phrased in human terms, what is needed are jobs. It is only through the creation of millions of jobs—both in the private sector and in the public sphere—that we can raise this nation from depression and despair.

Unemployment rates represent people and families. Each 1% increase in the unemployment rates means a shattering loss of income to more than 920,000 workers. Yet, the Administration has elected high unemployment and enormous human suffering, in the hope of holding down the budget deficit—and now for the purpose of cutting back equally on expenditures and taxes.

The Council on National Priorities and Resources has made several urgent recommendations to the Budget Committees with respect to those programs which we believe should be initiated, or expanded, in fiscal 1976 to lift our economy out of recession. Given the durability of the recession, these recommendations, we believe, are just as appropriate in fiscal 1977. Our program recommendations include (1) drastic expansion of present CETA public service employment programs to provide an additional one million jobs on a temporary basis; (2) enactment of a $10 billion public works employment program; (3) "emergency" counter-cyclical assistance to state and local governments to help stabilize local budgets and prevent further expenditure and service cutbacks and tax increases; (4) full funding of all authorized housing programs; (5) full funding of all federal education programs; (6) expansion of the unemployment insurance system so that all workers receive adequate benefits; (7) initiation of a health insurance system for the unemployed; and (8) greater congressional control of interest rates and monetary policy in general.

To battle effectively the crisis of unemployment and recession, we believe the government must adopt a strong and balanced package of such counter-cyclical programs. Programs of public service and public works employment and fiscal aid to cities which promptly meet emergency human needs during a recession but phase out with recovery are essential if the nation is to enjoy economic stability without harmful fluctuations. In fact such counter-cyclical programs, tied to leading economic variables, should be as much a permanent part of our automatic fiscal structure as the unemployment compensation program. Programs like these can be especially valuable if tied to formulas that give some emphasis to high unemployment rates in particular areas or among certain groups, rather than simply national unemployment aggregates. With a trigger that is more sensitive to the historic patterns of high unemployment for minority groups, women, teenagers, and for certain areas of the country, these groups will not have to wait for a national crisis before they are federally assisted, and areas of substantial unemployment can be aided before the cost of assistance skyrockets due to delay.

Certainly, the size of the expenditure needed to realize these program ideas is immense—at least in the immediate perspective. Yet, there are four factors which must be considered in gauging the effect of such programs and expenditures on the nation's economy and the deficit.

First, it is almost axiomatic that any solution, to be effective, must be tailored to the size of the problem it is designed to solve. An additional expenditure of $25 or $30 billion, or a deficit of $90–$95 billion, is dwarfed in comparison to a GNP of $1.4 trillion and an economy operating nearly $250 billion below capacity. In fact, in an economy this large, a stimulus must be large simply to provide the leverage needed to get us out of the recession quickly.

The economy must grow at an annual rate of 4% simply to keep pace with the growing number of young workers entering the labor force and with increases in productivity. To reduce unemployment by even one percentage point requires an annual growth rate of 7%—the rate of growth predicted for 1976 by the Administration. Thus, it would take *four years* of continued 7% economic growth to reduce the unemployment rate to the level attained in 1966–1969, and such continued high growth seems highly unlikely with current policies in effect.

Moreover, we should remember that in other periods of national or economic crisis, our nation has engaged larger deficits and expenditure levels in relation to GNP than we are urging the Congress to spend in fiscal 1976 and 1977.

Second, very little of the gross stimulative expenditures for employment translates into a higher deficit, since by putting people to work, other outlays for unemployment compensation and food stamps and welfare will be correspondingly reduced and tax revenues increased.

Looking at the reverse side of the coin, the cost of *not* taking action to relieve unemployment will amount to additional *billions* of dollars of unemployment compensation, plus welfare and food stamp costs, plus millions of dollars of lost tax revenues, plus other more intangible losses due to increased crime or due to the reduced future earning power of the unemployed. It costs as little as $8,500 a year to give a person a job, most of which is retrieved in taxes and in production services, but $4,000 or more just to keep a person idle. Given these costs, how can we afford *not* to adopt bold measures to reduce unemployment?

Third, the much-heralded effects of increased government expenditures on inflation and on credit markets, in the middle of a recession as deep as the present one, are largely illusory or too far-distant to warrant immediate concern. The counter-cyclical program we recommend is similar in magnitude to the $25 billion expansionary policy outlined by the Congressional Budget Office—although our proposed distribution of that amount between additional expenditures and tax cuts is somewhat different. In analyzing the expansionary alternative, CBO states, "There are good reasons to believe that at present the unemployment effects [of an expansionary $25 billion fiscal policy] would be unusually large and the inflationary effect unusually small, so that an expansionary policy at present would reduce unemployment more than usual and add to inflation less than usual." One reason for this, according to CBO, is that wages are less sensitive to the unemployment rate when it is 8% than when it is 4% or 5%. Furthermore, capacity bottlenecks are unlikely to occur when the country is operating at only 75% of capacity.

On the other hand, a fiscal policy like that promoted by the Administration, is likely to cause a whiplash of boom and bust, at the cost of higher-than-usual unemployment rates.

What all of this means is that it is an absurd oversimplification to maintain that deficit spending for employment programs will necessarily trigger a new wave of inflation.

Similarly, the irrational fear that increased expenditures, necessitating heavier Treasury borrowing, will "crowd out" private and corporate investors is a case of Peter crying wolf long before the wolf appears. Not only have the credit demands of households and businesses declined dramatically during the present recession (as they do in all recessions), so that the Treasury has largely financed the deficit with "idle" funds; but, in addition, the Federal Reserve has the always-available option, if and when high interest rates become a problem, of expanding the money supply to accommodate the credit demands of the private sector. The fact that the Federal Reserve under Chairman Arthur Burns has failed to adequately expand the money supply seems, in our view, to warrant closer congressional scrutiny and control of Federal Reserve action.

A fourth consideration is the fact that there are offsetting cuts that can be made in wasteful government programs. If we decide that the deficit cannot shoulder any larger increase, then there are many government expenditures than can be reduced, thereby allowing more productive expenditures to be increased. Military expenditures, presently consuming a huge share of the budget, can be cut still more than they were this year by the Congress. Today more than two out of every three dollars controllable on an annual basis goes to the Pentagon. Given the budget preponderance of the military and the startling increases in the military budget scheduled for the next five years, it is time that the role of military power in fulfilling national security needs be thoroughly debated—and different budget priorities established.

Tax expenditures offer another source of potential revenue to offset increased recession expenditures. The Council on National Priorities and Resources has analyzed the $100 billion tax expenditure budget and has found that by eliminating several deductions, deferrals and credits benefitting only the wealthy and serving no defensible national objective, the nation could gain as much as $20-$25 billion in additional revenues. These resources could be used to meet the needs of people for jobs, income, decent housing, health care, food and education.

Unfortunately, this year's much-lauded tax reform effort has proven keenly disappointing. As reported by the House Ways and Means Committee, the Tax Reform Act fails to raise as much as $1 billion in additional revenues or to make any significant changes in the equity of the tax system. It may be that the only way Congress can meaningfully alter the tax system is through the budget process, by looking at the comprehensive revenue and expenditure picture.

The realignment of priorities and the enactment of many of the federal programs this nation needs depends, in the last resort, on making tough fiscal and budget decisions with respect to comprehensive tax reform and the reduction of wasteful spending. Given the constraints upon our nation's resources and the possible limits to our economic growth, these budgetary tradeoffs will become increasingly important. Either we cut expenditures in some areas or we have nothing to invest in new and urgently-needed government programs.

Certainly the overriding concern of the Congress in the next two years must be the present economic crisis and the enactment of a recovery program of public service jobs, public works programs, and anti-recession aid to state and local governments. Yet, both in FY 1977 and in the longer-run perspective of the next five years, there are many *permanent* social programs, of intrinsic merit to the nation, that are also needed. Some of the areas that are likely to become increasingly critical in the next few years, requiring large investments of commitment and resources, and new or expanded programs, include:

Enactment of a comprehensive system of national health insurance and health care delivery;

Expansion of existing housing programs, including revitalization of Section 235 and 236 programs, so as to provide 25 million new housing units a year and thereby meet the needs of all people for adequate housing;

Expansion of federal education programs so that quality education can be offered to all students, whether black of white, young or old;

Massive investment in urban, inter-city and rural transportation, expanding and updating bus, subway and rail service;

Increase of price supports to farmers, buildup of natural food reserves and the adoption of other measures to avoid drastic and destabilizing food shortages, widely fluctuating food prices and inefficiency in food production;

Overhaul of the nation's income support programs and policies (Food Stamps, A.F.D.C., Social Security Programs, Supplemental Security Income and Public Assistance Programs) to standardize, rationalize, and expand the coverage and benefits of such programs;

Reenactment, expansion and modification of general revenue sharing.

We have elaborated in a general way on each of these program areas in our testimony to the House Budget Committee in October. Each is of vital economic and social importance to the nation.

The Council on National Priorities and Resources is committed to the principle that the resources of this nation be allocated pursuant to priorities which give first attention to human needs. In line with this concern, we believe it is also important—perhaps more critical than any other endeavor—that the Congress begin to commit more resources to the goal of attaining full employment.

While temporary, counter-cyclical employment programs tied to triggers like the unemployment rate are necessary in a recession, they are not and should not be designed to last permanently. However, full employment programs should be enacted as a *permanent* part of the federal landscape. Given relatively high levels of structural unemployment in our economy—perhaps as high as 5%-6% for the next few years of automobile and other industry shifts—it is safe to assume that a guaranteed job program will be extremely beneficial.

It is long past time to shift the emphasis of governmental policies and programs from the supply side of the job market to the demand side—that is, to the demand of people for meaningful work. In short, the government should commit itself to guaranteeing and creating respectable jobs for every person able and willing to work. Ideally, the jobs offered by the government would pay decent wages and provide opportunities for training and upward mobility. At the same time, to enhance the credibility of a full employment program and to strengthen public support for it, public jobs created should be designed to provide productive and useful services to society, such as free child care, improved public transportation, and enhanced recreational areas.

A guaranteed jobs program would go far toward restoring the dignity and sense of self-worth of all members of the society. We all know that a job represents much more than income. It is also a measure of a person's status and position in society, a determinant of whether a person is a full-citizen of American society or an outsider, looking in.

Most jobless workers are unemployed through no fault of their own. Even under more normal economic conditions, unemployment is caused by a shortage of jobs, not by individual deficiencies of workers.

In initiating a full employment program, one way to go is along the lines of the Equal Opportunity and Full Employment Act (H.R. 50), introduced by Congressman Augustus Hawkins in the House and, in its original version, sponsored by Senator Humphrey in the Senate. The Hawkins bill, which aims to provide every able-bodied person with a decent job, would require the federal government to reduce the unemployment rate to 3% within 18 months of the bill's adoption.

An alternative and perhaps more practical approach is that embodied in the language of the Joint Economic Committee's October report on the mid-session budget review—a plan which, I understand, will be introduced in bill form by the distinguished Chairman of this Committee, Senator Humphrey. The program would provide jobs to one-half of all the unemployed above 4½% unemployment—a formula which would translate into 1.6 million jobs in calendar year 1976.

While not advocating one specific approach over another, it does seem to me that there is a real place for CETA public service employment programs within the context of a full employment policy. CETA, with only about 300,000 jobs funded in 1976, can easily absorb more employees. What's more, it can do so effectively. Although established only a few years ago, CETA is already an important fiscal tool—one which offers a staff of people and an administrative apparatus specialized to individual localities and labor market areas.

Yet CETA programs in and of themselves cannot bear the entire burden of "employer-of-last-resort" federal policies. Rather, Congress ought to coordinate public service employment, manpower training, job creation and unemployment insurance programs under a comprehensive and workable employment policy through the adoption of various trigger mechanisms or through other means.

At the same time, labor market policies should be pursued to further alleviate the burden on public service employment mechanisms. The reduction of unemployment depends on the adoption of a lot of tough measures to make the national labor market more fluild and open, including the encouragement of occupational and geographic mobility and the reduction of barriers against youth and minorities, women and other disadvantaged groups.

Thus, if the economy is to perform better, some very serious, long-range institutional changes will be needed. We urge the Joint Economic Committee and the Congress to begin to analyze which of these changes would be the most useful forerunners and components of a national full employment policy.

Thirty years ago, the Full Employment Act was enacted, committing the U.S. government to creating and maintaining economic conditions "under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking work."

Yet, at a time of 8.6% unemployment, the Administration is more concerned with one number, the deficit, and a no-spend philosophy than with the suffering of people—workers and businessmen, farmers and consumers alike. The President's refusal to spend what is necessary to put people back to work shows a serious lack of faith in the health and vitality of our nation and its future.

In light of the vacuum of courageous leadership, the Council on National Priorities and Resources urges the Congress to rise to the challenge of leading this nation out of recession and back to full employment. The new congressional budget process holds out the promise, and the way, that this can be done. The budget resolutions and the documents required of both the Congressional Budget Office and the Joint Economic Committee provide the vehicles for Congress to grasp boldly the initiative in setting budget priorities and in determining fiscal policy.

It is ironic that as we enter our bicentennial year, having enjoyed 200 years of abundant resources, material prosperity and technological progress, we have still not found a way to ensure the simple and fundamental right of every person to a job—and to the income and dignity a job brings. As a result, we find ourselves on the threshold of the third century of our nation's history with mass unemployment of truly nightmare proportions.

Still, we believe there is cause for optimism. As untenable as the problem of unemployment seems, it *can* be alleviated. The one critical prerequisite is congressional willingness to reorder budget priorities.

Chairman HUMPHREY. Thank you, Governor, for your very fine statement. I just want to quickly note before it slips my mind that I noticed the figures that you used on unemployment, where you said: "The unemployment rates represent people and families. Each 1 percent increase in unemployment rate means a shattering loss of income for more than 920,000 workers." That figure I think is generally accepted as one of the figures we seem to agree on in the executive and legislative branch and the private groups.

My question, and I do this out loud for the staff primarily and to get it in the record and save you writing a memo, is who are these families and who are these workers? For example, what income, what amount of income did they have on jobs when they were working in the employment force as compared to the benefits they received without a job? I think this is a matter that ought to be looked into. I hear, for example—and I don't necessarily accept it—but I hear that many of these people in the unemployed roles or who are classified as unemployed—and I say "many" but surely not all—were earning incomes that were not appreciably higher than they are able to get through unemployment compensation and other assistance programs such a food stamps and other forms of public assistance. I don't know whether that is true or not. I think we ought to know whether it is true.

There are people that say that why should people go to work if they can make as much not going to work as they did when they were working? Of course I have witnessed that when we had public service jobs available people lined up to get those public service jobs even though they didn't pay very much money. What were they paying? Was it like $2 or something? Was it the minimum wage? It was about the minimum wage.

So they were lined up for inexpensive jobs. But I wanted to mention this. And let me be more precise—and staff, you can confront me on this if you want—but I think we ought to pin down what the facts are as best we can because there is so much loose talk about whether or not people will work under the present circumstances where there is unemployment compensation, where there is public assistance, food stamps, medicare, et cetera. My judgment is that is an argument that is way overused and is not supported by genuine facts, but I think it is important to get the facts as best we can. I just want to put that down.

Mr. YNTEMA. Mr. Chairman, there is a very interesting study by a professor from the University of Virginia and his name is Browning. It is a welfare study that might be of interest to you.

Chairman HUMPHREY. Mr. Browning?

Mr. YNTEMA. I think so.

Chairman HUMPHREY. Well, thank you. Well, I guess we will turn to you. We welcome your testimony.

STATEMENT OF THEODORE O. YNTEMA, BLOOMFIELD HILLS, MICH.

Mr. YNTEMA. Mr. Chairman, my name is Theodore Yntema. I reside in Bloomfield Hills, Mich. I do not represent any group or organization—only myself, an interested and concerned citizen.

In my formal training I got a master's degree in physical chemistry, a master's in business, a doctorate in economics and a CPA degree. My experience includes serving on the faculty of the University of Chicago, directing research for the Committee for Economic Development, chairing the Research and Policy Committee of CED, and administering the financial affairs of Ford Motor Co. as vice president finance and chairman of its finance committee. I have been a consultant to various businesses, and sometimes expert witness, in price, wage and financial matter. In the Federal Government I served in the NRA, in the Defense Commission, in the War Shipping Administration and more recently as chairman of the Commission on Railroad Retirement. For the past 10 years in semiretirement I have been busy as a student of economic phenomena, as an adjunct professor and as a part-time financial consultant.

I am pleased and honored by your invitation to be here. I must say I was hesitant to accept your invitation because I did not feel really competent to give you the advice you need. As I have watched and studied the economy from various vantage points for more than 50 years, I have learned a little and discovered a lot that I do not know. Drawing on the little that I have learned, I shall have questions as well as partial answers. And I hope that you will bear with me if I do not show respect for sacred cows.

First of all, I want to express my very great appreciation for the work of this committee in illuminating the economic problems confronting us. The evidence collected in this forum and your findings and decisions can have an enormous influence on the kind of life we shall lead. Had such a committee as this been in action during the thirties, a great deal of hardship and suffering could have been avoided; and the economy today would, I believe, be better able to cope with the shocks to which it has recently been subjected. I should like to take a few minutes to review this page in our history, because there is much to be learned from it that will help us understand the problems we have today.

The Great Depression was not diagnosed correctly either under the Hoover regime or under Roosevelt's New Deal regime, and the proper remedial actions were not taken. By 1933 unemployment reached a level of 25 percent and throughout the first 8 years of the New Deal, through 1940, it averaged 18¼ percent, never falling as low as 14 percent average in any year.

In those days economists did not have much of a voice in determining economic policy. Our knowledge was rather primitive and we did not deserve much of a voice, but the tragedy was that the leaders from finance and industry, the lawyers, the political scientists and the politicians, those who masterminded the New Deal, knew a good deal less than the economists. The depth and length of the Great Depression must be attributed to the failure of the Federal Government, caused in turn by the ignorance of our political and intellectual leaders. And ultimately, part of the responsibility for that ignorance can be laid at the door of the economics profession.

The dominant driving force that produced the Great Depression was the destruction of money and credit caused by the collapse of the banking system. What was needed at the time was to stop the destruction of money and inject additional money into the system. Instead of closing the banks and putting many of them through the wringer, every dollar of bank deposits should have been underwritten by the Federal Government and made immediately available to depositors. And then, one or more of the various available means should have been used to inject enough money into the system to get it going full steam ahead.

My tongue-in-cheek remedy at the time was to print a lot of dollar bills and sprinkle them over the country. The poor and the unemployed would go out and find the bills, spend them, and create the increased demand to lift us out of the Depression. This idea horrified my New Deal friends, but in simple, crude form it illustrated exactly the kind of thing that should have been done.

The New Deal, however, zeroed in on prices and the need to get them up. Prices had fallen because of reduced demand. The New Deal remedy was to get them up by controlling and restricting supply. Thus were born the NRA, the AAA, and the various acts for strengthening labor unions. No wonder that the Great Depression kept on and on, and that finally we were rescued only by the expansion of demand brought on by World War II.

Today our problems are much more complex than those in the Great Depression. We can't simply spend our way out of them. In no small part the complications you face in this committee are an inheritance from the New Deal concepts and actions that fostered monopoly and restriction of supply to raise prices and wages. Those concepts and actions were declared unconstitutional in business, they have dwindled in importance in agriculture, but they still dominate the scene in labor.

In response to your invitation to comment on priorities in the budget, I have suggestions on only a few points, and those are of a rather general character.

ENERGY

The energy situation today and in prospect for the next 10 or 15 years threatens our national independence. It also threatens to hamper, and possibly strangle, economic progress; and it may well cause serious economic disruptions and social conflicts. We need a sufficient assured supply of energy from domestic sources so that we cannot be coerced by foreign suppliers of petroleum. Even though energy from domestic sources costs more, we must have such an assured supply. Obviously, however, we want to obtain our domestic supplies as efficiently and economically as possible. This means an all-out effort to improve technology in the use of coal and nuclear energy, as well as energy from solar, wind, and geothermic sources. Furthermore, the expansion of the production and distribution of energy from domestic sources will require huge investments and correspondingly large savings. The expansion of our domestic energy supplies must be one of our top priorities over the next 10 to 20 years.

I am not sure as to the precise ways in which this energy expansion should be accomplished but I suggest three concepts that should guide us: (1) Insofar as possible, this expansion should take place in the private sector. (2) To the extent really necessary, the Government should give its assistance to these private efforts. (3) Because of the need for a very large amount of private savings, budget policies should tend to augment these savings or reduce them as little as possible.

NATIONAL DEFENSE

As for national defense, we must maintain sufficient power to deter attack on us and also to have some leavening and peaceful influence in other parts of the world. I am not a hawk; I was opposed to the Vietnam War from the beginning because it seemed a stupid enterprise: No matter how it came out, we would certainly incur terrible costs and losses, and at best have very little to gain. On the other hand, the Vietnam debacle is not a reason for crippling our national defense. If we do not maintain enough military strength to deter attack on us and lend some aid to other free countries, we shall court disaster.

The inevitable proliferation of nuclear power installations and the availability of nuclear bomb material poses new and frightening dangers in the years ahead. To cope with these dangers we need to maintain leadership in nuclear technology and capability which will give us leadership in worldwide pacts and arrangements to lessen the hazards.

Our intelligence agencies will have a mjaor role to play in keeping us informed of possible uses of nuclear bombs by terrorist groups based either here at home or abroad. This problem of use of nuclear bombs by terrorist groups or small nations in desperate straits has not yet surfaced, but it will, and it is urgent that our best minds be brought to bear on it. Much as I abhor the thought, it is even possible that we may have to sacrifice some of our privacy and personal independence in the interests of our collective safety.

At the same time, means must be found for directing intelligence and covert activities to legitimate ends, while still permitting them the secrecy and anonymity required for their operations. Congressional investigation of our intelligence and covert operations has brought some of the problems into the open but thus far has done little to solve them. And, as a really worried citizen, I can't help wishing that further activities by Congress could be directed more to the dangers confronting us as a nation and less to political ends.

MASS TRANSIT

The murky field of mass transit needs illumination. Thus far there have been very few competent, unbiased studies in this field. Before any mass transit proposal is accepted, a thorough impact study should be made and subjected to review and criticism. Such a study should cover alternative types of transportation, the benefits, the cost of such benefits, and, in view of the benefits derived and the ability to pay for them, who should bear the costs. Such studies should then be subjected to study and review by competent critics.

My guess is that such impact studies, competently checked, would yield some surprises—pleasant ones—and that as a result, both the big cities and the Federal taxpayers would benefit substantially. Mass transit is a subject about which we hear much and know little. Perhaps the study now being made in Cincinnati will illustrate what can be learned.

EDUCATION

College education has been a lifelong interest of mine. I have no suggestions with respect to advanced, specialized education and accompanying research. But in the area of general education, which everybody needs, I am appalled by the lack of carefully considered objectives and by the conflict between the needs of the students and the incentive-reward system of the faculties. When I speak or write on this subject, I get lots of applause and practically unanimous agreement, but nothing is done about it. Colleges and universities are organized by the categories appropriate for research—but the categories for learning in general education cut across many of these fields and recognition of the useful categories for learning tends to interfere with the status quo.

If money and talent could be brought to bear on this problem over a period of 10 years a near miracle could be wrought. Money doled out to existing institutions will not do the trick. What will be required is an institute or commission not dominated by conventional departmental interests, but free of such restraints and devoted to inquiring what students need to learn and how best to help them to learn. This will require not only a fresh approach, but the development of curricular materials not now available. The cost of the enterprise might be $10 million, perhaps double that, spread over a 10-year period. Such an enterprise could produce benefits with an economic value running into the billions and billions and nonmonetary reward to students that would be beyond price. I cannot imagine any budget expenditure of comparable magnitude that would yield such enormous benefits to the people of this country.

BUDGET BALANCE

How big should the net deficit, or, in better times, surplus, of the Federal budget be? To the extent the Federal deficit is financed from savings that would otherwise be used to buy stocks, bonds and mortgages and, indirectly or directly, go into investment and spending in the private sector—that is, to the extent that the budget absorbs private savings, it does not have much, if any, expansionary effects. While the budget expands expenditures in other areas, the deficit financed out of private savings depresses stock prices and bond prices and raises long-term interest rates. It depresses housing by raising mortgage interest rates; it reduces business investment needed to maintain and increase employment and productivity.

On the other hand, to the extent the deficit is financed by purchase of Government securities by the banking system, without corresponding curtailment of private loans or investments, the Federal deficit is expansionary in its effects, contributing to an increase in the money supply and increase in demand.

My worry about a huge deficit financed out of private saving is that such savings are desperately needed to finance energy requirements, additional housing, protection of the environment and the expenditures of business necessary to create additional jobs and raise productivity.

Moreover, reducing the demand for equities and depressing stock prices tends to suppress the new issues of stocks needed to improve the liquidity of businesses and thus reduce the hazards of financial stress and failure.

Mr. Chairman, I do not pose as an expert in this field, but commonsense and elementary economics tell me that it is better to have a small deficit and finance it through the banking system than to have a large deficit financed mainly by the preemption of private savings.

SAVINGS

There are other important factors that bear on the supply of savings, especially the savings that increase the net worth or equity base of businesses. One of the factors is the failure of accounting to recognize the effects of inflation. As a consequence, in recent years profits have been overstated and overtaxed, and the real profits plowed back into business have been very small.

In the Wall Street Journal of last Friday, November 27, I noticed that the Government of Great Britain has given approval to inflation accounting. We should do the same: require inflation-adjusted accounting as a basis both for taxation and for reporting to shareholders and the public. Unless this is done, business actions will continue to be based on fictitious cost figures, and the public will not have a firm base for making investment decisions or determining public policy.

One of the reasons equity prices are so low is that investors expect businessmen to act—and tax collectors to collect taxes—on the basis of inflated and/or nonexistent profits. This is a most unhealthy condition for the economy because it is eroding the equity base in business. This equity base is critical for survival in times of stress and critical for the expansion required to provide more jobs and increase productivity.

If you have not already done so, may I urge that you put the matter of adequate savings for private investment and adequate incentives for such investment high on your agenda.

Chairman HUMPHREY. We have a study underway of what we call capital formation, and I suppose that would fit under that general title.

Mr. YNTEMA. Good, thank you.

We have some critical years ahead that require huge investments to increase the domestic supply of energy, preserve and improve the environment, expand jobs, and increase productivity. If we fail in these, we shall be in deep trouble—trouble that can be avoided.

In conclusion, may I make brief comments on two subjects that concern you.

One is pensions, which I am told you are about to study. When you get on this subject, I hope you will investigate the accounting—or rather, the nonaccounting—for pensions in business and Government. The liability for unfunded past service in business runs into many tens of billions—perhaps more—and although it is a real liability of a going concern, it is hardly ever shown in the balance sheet. Why? Because it's "too big"! The corporate tax laws prohibit very rapid funding of such liability. These practices by business and by Government will eventually threaten the health and even the viability of many businesses, as well as the security of pension benefits for employees.

Perhaps your most important concern in the months and years ahead will be to prevent the expansionary effects of fiscal and monetary policy from being dissipated in inflation. This can happen in open competitive markets when demand presses hard on supply because of bottlenecks or fear of them. It can also happen when substantial business, agricultural, or labor groups have effective control over the supply and price of the goods and services they provide. Such private control over prices and wages is critical also in determining what the response of the economy will be to shocks—for example, from world crop failure—or a great increase in the price of fuel, or the failure of productivity to continue its increase; that is, whether the shock will be partially absorbed, transmitted in full, or even augmented as it is passed along.

To some extent, bottleneck shortages can be alleviated by an adequate flow of private savings into business investment and by adequate inducements for such investment. Also, the information provided by an input-output matrix could help business to anticipate potential bottlenecks and thus eliminate them. Incidentally, if the operation of such an input-output matrix by the Government were designated as an information system and not as a planning system, it would get a better reception in the business community.

Chairman HUMPHREY. We welcome that suggestion.

Mr. YNTEMA. Thank you.

The control of prices or wages through control of supply by business organizations, by agricultural blocs, and by labor unions raises more difficult questions. In business, competition cannot possibly be perfect or pure in the technical economic sense, but it should be workable. In general, collusion and conspiracy among sellers should be prohibited and prevented, except for national monopolies subject to Government price control. There is room for argument about various aspects of competition in business. My personal view is that concern about big business is overdone. My test would be a pragmatic one: how well does the company and the industry serve the public? Over the long pull, would any proposed action provide better products and services and lower prices?

In agriculture, individual farms are numerous and the products sufficiently similar to insure effective competition in the absence of Government interference and support. Farmers are, however, subject to severe shocks from fluctuations in price due to poor crops or bumper crops at home and abroad. I think agriculture and consumers would benefit if these shocks could be cushioned without, however, restricting expansion of agricultural production.

Chairman HUMPHREY. You would like a reserve system there?

Mr. YNTEMA. That is what I mean; yes, sir.

Chairman HUMPHREY. I agree.

Mr. YNTEMA. Organized labor raises the most difficult problems of all. Since wages and salaries and supplements thereto comprise 80 percent of national income, I am inclined in general to the view that "what's good for labor is good for the country," at least as an approximate proposition. And it is a pretty good one over the long run if you take account of secondary repercussions.

What's good for a particular union, however, may not be good for labor. I am not a union hater or a union baiter. I do say, however, that the subject of union power, and let's call it by the right name—monopoly union power—has too long been taboo in government and in most academic circles. For the good of the country—and the good of the workers everywhere—it is time for labor leaders as well as for economists and businessmen to join in a forthright examination of union power, the hazards it creates for the economy and the democracy, and what if anything should be done about the situation.

Inflation is a terrible economics disease that will destroy us if we do not master it. No subject should be taboo and no vested interest sacred in our attempts to keep price and wage increases within tolerable limits. At the same time, it will not do merely to suppress the symptoms or adopt remedies that hurt us more than they help.

Thank you for this opportunity to share with you my worries and questions and my ideas.

Chairman HUMPHREY. Well, we thank you for a very comprehensive statement. And may I say that statement was given from a gentleman that has demonstrated over the years of his life considerable practical knowledge about what happens in our country.

Senator Taft, I have been taking a lot of time and asking a good deal of questions. Why don't you proceed?

Senator TAFT. Thank you very much, Mr. Chairman.

At the outset, may I comment—a few minutes ago the distinguished chairman discussed the problem that we face with conflicting figures and groups of figures. Certainly that is a dilemma in which I share. I find in the testimony, however, of the last two witnesses not only that dilemma, but also the presentation of shall I say a complex theory or approach. And I think a complex theory or approach poses us with equal, if not even greater, problems to choose between.

At the outset let me welcome a distinguished citizen from the State of Ohio the former Governor. He is a long-time friend and sometimes an opponent of mine. It is just very nice to have you here, John.

Mr. GILLIGAN. Thank you.

Senator TAFT. Let me just comment on a few of the items that you have covered in your testimony and ask you to comment somewhat more specifically. Let us take a look at fiscal year 1977 as we are attempting to plan it. And can you suggest on the basis of the various criteria that you have set what kind of a figure we ought to plan on or try to plan on for a deficit or for a surplus in that fiscal year?

Mr. GILLIGAN. Senator, what the council has said in the course of this statement and on other occasions is that a budgetary deficit for fiscal 1977 in the range of $90 billion to $95 billion would not be outlandish or frightening. Again, in an effort to put the matter in perspective, I would recall that in the years of World War II we ran our budgetary deficit equivalent to 25 percent of gross national product. Translating that into modern terms, we might be talking about budgetary deficits in the neighborhood of $375 billion. We think that the problems facing the country in terms of the economy, especially in this most critical field of unemployment have to be dealt with, and that we cannot have a very large portion of our population facing unemployment through the year 1980, which would be the expectation if we were to follow the present course. We are calling for a very strongly expansionary budgetary stimulus, and as I said, we would not be terrified of a $90 billion deficit.

Senator TAFT. Mr. Yntema, on the basis of your testimony, have you come up with any general view as to what type of deficit or surplus we ought to try to form?

Mr. YNTEMA. I don't think the question can be dealt with, without considering how the deficit is financed. The general principle is clear: There should not be a huge deficit that preempts private savings. If you want to get an expansionary effect, it must come primarily from the deficit that is bought by the banking system. I would prefer a smaller deficit financed by the banking system. Otherwise, you are going to have trouble expanding jobs.

Senator TAFT. You feel a $95 billion deficit would be permissible?

Mr. YNTEMA. The $95 billion is a little less than 50 percent of private savings. To the extent the deficit comes out of private savings, you are depressing things that you don't want depressed. You don't want to depress housing or the expansion of business. And you don't want to keep up long-term interest rates. That is the kind of effect you get out when the deficit is financed out of private savings. If you want expansion, you get that out of the part of the deficit financed by the banking system.

My preference would be for a more modest deficit financed largely by the banking system. Furthermore, you have to judge the figure in terms of the degree of unused resources available. But I am not an expert in this field: I am a one-man show. I can give you the general principles, but I will have to let someone else work out the specifics.

Senator TAFT. Mr. Gilligan, would you say your suggestions are consistent with attempting to find the type of financing that Mr. Yntema is talking about?

Mr. GILLIGAN. I think it could be, sir. I would certainly agree on two points: one, how that deficit is handled is a critically important question, as the previous speaker has just outlined; second, how those funds are expended and for what purposes they are expended is equally important. And I recall Mr. Yntema's earlier observations about the faulty diagnosis in the 1930's about what was wrong with the economy. And his observation, as I understood him, was we really didn't climb out of the depression until the war years came along and put people to work and created demand and geared up the whole economy.

I think, again, what we are concerned about is net figure. And money invested in putting people back to work is going to have the greatest impact upon the economy. I think that is the critical factor that we are concerned with.

Senator TAFT. Thank you. In your prepared statement, Mr. Gilligan, you mentioned the matter of military programs. I notice Mr. Yntema also mentioned that. I just came back from the European Continent in the last day or so. I met with some representatives of our European friends, allies of ours, and also the Japanese were represented at that conference. It was an unofficial conference, but nevertheless, the reactions were very interesting. And I wonder whether the economic impact on the nations of Europe and Japan, if we do radically decrease our defense expenditures, might not be a rather upsetting one? I mean they are going ahead relatively well in their planning and hoping to pull themselves out of a recession that they have been in as well as ourselves. But it does seem to me to be still based to a considerable degree on our umbrella, and in that respect, I think we ought to make clear at this point in the record that defense expenditures are increasing and are in the $90 billion figure for the 1976 estimates and probably in 1977 too, but as a percentage of our total expenditures, this is a figure that has continually been going down. I have a table here which lists those expenditures over the last 20 years showing that the percent of the defense budget out of total expenditures has gone from 58 percent down to 27 percent against the amount of human resources expenditures going in that same period which went from 21 percent to about 52 percent. Now, if we take those figures alone, we find that in constant dollars, that really there has been no basic increase in defense expenditures as opposed to the human resources field which has gone up twelvefold in current dollar expenditures and at least six times in constant dollar expenditures.

And I would ask at this point that this table and also some other tables that I have here relating to manpower costs as a part of those expenditures be included in the record.

Chairman HUMPHREY. Fine.

[The tables referred to follow:]

BUDGET OUTLAYS BY SUPER CATEGORY: 1940-76

[Fiscal years; dollar amounts in millions]

	National defense [1]		Human resources [2]		Net interest [3]		All other		Total outlays (amount)
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	
1976 estimate	$94,027	26.9	$176,989	50.7	$26,114	7.5	$52,242	15.0	$349,372
1975 estimate	86,276	27.2	163,368	52.1	23,562	7.5	41,240	13.2	313,446
1974	78,569	29.3	131,491	49.0	21,489	8.0	36,843	13.7	268,392
1973	75,072	30.5	115,677	46.9	17,377	7.0	38,400	15.6	246,526
1972	77,356	33.4	103,808	44.8	15,493	6.7	35,219	15.2	231,876
1973	76,807	36.3	88,960	42.1	14,844	7.0	30,814	14.6	211,425
1970	79,284	40.3	72,688	37.0	14,376	7.3	30,240	15.4	196,588
1969	80,207	43.5	63,550	34.4	12,694	6.9	28,097	15.2	184,548
1968	79,409	44.4	57,274	32.0	11,077	6.2	31,073	17.4	178,833
1967	69,101	43.7	50,502	31.9	10,258	6.5	28,393	17.9	158,254
1966	55,856	41.5	41,547	30.9	9,369	7.0	27,380	20.7	134,652
1965	48,581	41.0	35,357	29.9	8,579	7.2	25,913	21.9	118,430
1964	52,738	44.5	34,151	28.8	8,189	6.9	23,506	19.8	118,584
1963	51,548	46.3	32,511	29.2	7,731	6.9	19,521	17.5	111,311
1962	50,376	47.2	30,727	28.8	6,877	6.4	18,833	17.6	106,813
1961	46,596	47.6	29,095	29.8	6,704	6.9	15,400	15.7	97,795
1960	45,219	49.0	25,473	27.6	6,937	7.5	14,594	15.8	92,223
1959	45,936	49.9	24,252	26.3	5,750	6.2	16,166	17.6	92,104
1958	43,821	53.1	21,765	26.4	5,596	6.8	11,393	13.8	82,575
1957	42,266	55.1	17,737	23.1	5,352	7.0	11,386	14.8	76,741
1956	39,754	56.4	15,815	22.4	5,076	7.2	9,815	13.9	70,460
1955	39,862	58.2	14,579	21.3	4,849	7.1	9,219	13.5	68,509
1954	46,304	65.3	12,768	18.0	4,811	6.8	7,007	9.9	70,890
1953	49,864	65.5	11,668	15.3	5,156	6.8	9,419	12.4	76,107
1952	43,261	63.9	11,452	16.9	4,701	6.9	8,307	12.3	67,721
1951	21,775	47.8	10,709	23.5	4,665	10.2	8,397	18.4	45,546
1950	12,405	29.1	14,061	33.0	4,812	11.3	11,319	26.6	42,597
1949	11,761	30.3	10,600	27.3	4,523	11.6	11,950	30.8	38,834
1948	7,845	26.3	9,742	32.7	4,341	14.6	7,845	26.3	29,773
1947	11,601	33.6	9,822	28.4	4,204	12.2	8,905	25.8	34,532
1946	41,553	75.3	5,356	9.7	4,111	7.4	4,163	7.5	55,183
1945	81,858	88.3	1,756	1.9	3,112	3.4	5,964	6.4	92,690
1944	78,080	85.5	1,840	2.0	2,219	2.4	9,141	10.0	91,280
1943	65,660	83.6	2,692	3.4	1,529	1.9	8,652	11.0	78,533
1942	24,937	71.0	3,574	10.2	1,052	3.0	5,551	15.8	35,114
1941	6,046	44.3	4,191	30.7	943	6.9	2,454	18.0	13,634
1940	1,490	15.8	4,344	45.9	899	9.5	2,723	28.8	9,456

[1] National defense is the national defense function.

[2] Human resources is composed of the education, manpower, and social services; health; income security; and veterans benefits and services functions.

[3] Net interest is composed of the interest function net of interest received by trust funds.

DEPARTMENT OF DEFENSE

MANPOWER COSTS AS A PERCENTAGE OF TOTAL DOD BUDGET

	Fiscal year outlays (billions)				
	Actuals			President's fiscal year 1976 budget	
	1964	1973	1974	1975	1976
DOD budget outlays	$51	$74	$78	$85	$93
Manpower costs	22	41	43	47	49
Percent of DOD budget	43	56	55	55	53

MANPOWER COSTS EXCLUDING MILITARY RETIREMENT COSTS

[Dollar amounts in billions]

	Outlays			
	Fiscal year 1964		Fiscal year 1976	
	Amount	Percent of budget	Amount	Percent of budget
DOD budget outlays	$49.6	100	$85.9	100
Manpower costs	20.8	42	42.3	49

DOD MANPOWER COSTS BY MAJOR CATEGORY

[Dollar amounts in billions]

	Outlays				
	Fiscal year 1964		Fiscal year 1976		
	Amount	Percent of Budget	Amount	Percent of budget	Change in Percent of budget
DOD budget outlays	$50.8	100.0	$92.8	100.0	
Manpower costs:					
Military personnel costs [1]	13.5	26.6	27.0	29.1	2.5
Civil service payroll	7.3	14.4	15.4	16.6	2.2
Military retired pay	1.2	2.4	6.9	7.4	5.0
Total personnel costs	22.0	43.3	49.2	53.0	9.7

[1] Includes family housing.

Senator TAFT. As a member of the Armed Services Committee, I have been extremely concerned with the continued increase in the percentage of manpower costs. These are alarming me, not because of the numbers of people involved because we have been cutting back, and I think we can afford to cut back some more in the manpower aspects of our defense budget; but rather because they cut into, I think, the effectiveness of our weapons and of our research and development in these areas in a rather alarming way. And I would just cite from one of these tables that out of the Department of Defense budgeted outlays that the manpower costs are now up in excess of 50 percent of the budget as compared to far, far lower figures in past years.

Also, as you pointed out, Mr. Gilligan, as a part of the discretionary portion of the budget, the military expenditures are a large part of that discretionary part of that budget. But that, in my mind, is a false way of looking at the thing. Because it seems to me, as has been pointed out by Mr. Yntema and is obvious to anyone in the Congress, that the military expenditures, if we are to have a satisfactory and stable national defense picture as well as international picture, are really perhaps the most indispensible of all of our expenditures. We almost have to start with that as a basis. If we do away with that, we put ourselves into a position to be threatened by others with a very serious threat to our economy, not merely to our military security. So I just wanted to express this point. I don't want to ask any questions, but I would be happy to have you comment on the remarks I made. But I am very alarmed by the concept that I think perhaps is somewhat due to a postwar, post-Vietnam war reaction—and I recognize that reaction—but it is presenting us with a real danger here that I hope in future budget planning, we will at least view with a great deal of care.

Would you care to comment?

Mr. GILLIGAN. Senator, I would respond that what has been initiated here is a discussion on priorities. You have just stated, if I have understood you correctly, that the first priority is national defense.

Senator TAFT. I don't say it is the first priority, but it is certainly an indispensable element of any national budgeting picture.

Mr. GILLIGAN. I certainly wouldn't disagree with that position.

It now get down to the judgment to be made by the Congress as to which threats are greater, are of greater significance and of greater importance to the American way of life, and how we are to use what resources we have available in a judicious fashion to meet those various threats. I would respond further in terms of the figures you just cited about the proportion of the budget being used for civilian purposes or human services programs as opposed to the military programs——

Senator TAFT. Well, those figures I was using referred to military military manpower as well as civilian manpower.

Mr. GILLIGAN. Right. Well, I would simply say what your distinguished Chairman said a few moments ago. I think we have to be very careful about the comparison of apples and oranges, and if stripped out of those figures were the portions of the budget in the human services field attributable to social security, which in one sense is an ongoing, incapsulated operation that could really be stripped out of the budget, then we get a totally different look at the proportions in income and expenditures that are available for discretionary use.

Senator TAFT. Of course, if you take the military, and civilian and military employees out of that, you have to make a similar judgment.

Mr. GILLIGAN. I would agree with that.

Senator TAFT. In your prepared statement, you mentioned a number of program recommendations. Do you have any dollar figures, say, for fiscal year 1977 that could be put on those or for fiscal 1978 really?

Mr. GILLIGAN. Senator, the Council submitted to the Budget Committees of both the House and the Senate in somewhat greater detail these recommendations, spelled out with numbers and objectives and so forth. And so that was explicitly handled. I would be more than happy to see that the committee receives copies of those statements made to the Budget Committees. I think in those you will find the answers you are looking for.

Senator TAFT. I would request that at least that portion of the material be included in the record.

Chairman HUMPHREY. Fine.

[The material referred to follows:]

EXCERPT FROM HOUSE BUDGET COMMITTEE TESTIMONY, OCT. 1, 1975

To battle effectively the crisis of unemployment and recession, the government must adopt a strong and balanced package of counter-cyclical programs. As we all know, the government has a number of options—both direct and indirect—which in combination can result in an effective economic strategy.

We believe that approximately $25 billion in additional expenditures should be allocated to job-creating public service and public works programs, as well as to increased counter-cyclical expenditures for cities, for housing, education and employment programs. We also urge the Budget Committee to include sufficient funds in the second resolution for the extension of the 1975 Tax Reduction Act.

PUBLIC SERVICE EMPLOYMENT PROGRAMS

A significantly large program of public service employment represents an eminently sensible approach to reducing unemployment. There are all kinds of work in this country that need doing and all kinds of government services which must be delivered to citizens: health care, education, police and fire protection, and various regulatory services, to name only a few.

The distressing character of the federal government's priorities is reflected in the earmarking of three times as much money for unemployment compensation as for public service employment. Moreover, the $2.6 billion that the government is now spending on public service employment is only about one-tenth as much as federal and state governments together are spending on unemployment. While it is certainly the duty of a responsible nation to provide income to the unemployed, such money is economically nonproductive. It costs as little as $8,500 to give a person a job, part of which is retrieved in taxes and in productive goods and services; yet, it costs $4,000 in welfare just to keep a person idle. Clearly the job is the better alternative.

At present levels of unemployment, it is necessary to finance at least one and one-half million additional public service jobs. One million jobs can be added through existing CETA programs. In addition, programs designed to train disadvantaged workers should be expanded. The Vocational Education Act of 1963, as amended in 1972, could be made a major vehicle for channeling $2 to $3 billion to CETA prime sponsors for the establishment of programs aimed at improving the skills and education of the hard-core and long-term unemployed. We also recommend the establishment of a *federal* public service program, to supplement CETA programs in providing immediate and worthwhile jobs. There are many desperately-needed services that can be provided practically only at the federal level. Altogether, $15–$20 billion in additional expenditures would not be an unreasonable amount for the expansion of public service employment programs. Such an expenditure would give a much needed impetus to economic recovery.

PUBLIC WORKS EMPLOYMENT PROGRAMS

Economically and environmentally sound public works employment programs are also desperately needed. Although the "bang for the buck" in terms of economic stimulation is considerably less than for public service programs, that is, fewer jobs are created for each dollar of outlay, public works projects are nevertheless valuable since they result in projects of considerable worth to the country and since they employ a different mix of skilled and unskilled employees. Moreover, the multiplier effect of public works projects may be much greater. Of course, one of the major values of public works programs is that we could begin to undertake construction projects and other improvements which are so desperately needed by the nation and which would add significantly to the nation's wealth. The rebuilding of the nation's railroads and the leveling of the railroad beds, the construction of mass transit rail systems and the production of needed city buses, the improvement of strip-mined and other exploited land and the construction of sewers, water treatment facilities and solid waste disposal plants are among the many projects which could be legitimately and usefully undertaken. All of these projects have greater value than those likely to be undertaken through the stimulation of additional private investment.

In order to achieve most effectively the goal of economic recovery, it is essential that public works projects be easily started and reasonably rapidly completed. The old story is that public works projects are slow to start and last too long. The Public Works Acceleration Act passed in 1962 had little direct impact until 1964, according to Charles Schultze of the Brooking Institution, and final expenditures were not made for the program until 1971. Yet, the deplored lag between the enactment of legislation and contract implementation is not as great as is often proclaimed, especially when compared to the customary delays encountered in other economic programs. Fiscal and monetary stimuli, for example, often affect private investment after long lag times. Moreover, it is feasible and reasonable to require that at least half the budget authority allocated to a public works program should be expended in the first year of operation.

At least one major public works authorization bill has already been passed by the House, providing $5 billion to employ directly 250,000 people. Yet, twice as much could easily be absorbed by the economy today. We therefore urge the Congress to provide $10–$12 billion for the thousands of worthwhile projects and the millions of jobs this nation needs.

COUNTERCYCLICAL FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

The present recession has had an absolutely devastating effect on state and local government budgets. Demands for services have soared while revenues have fallen far short of expectations. This combination of increased service demands and revenue shortfalls has produced a fiscal crunch of unparalleled proportions.

Because 46 of the 50 states are unable, either by statute or state constitution, to undertake meaningful deficit spending, many jurisdictions are in serious financial trouble. New York City, unable to borrow more money and refused adequate federal and state assistance, is being forced to lay off thousands of public service personnel, policemen and fire fighters.

Detroit, Cleveland and many other state and local governments have also experienced serious financial problems this year, having to cut payrolls, delay construction of capital facilities, and cut levels of services because of the effects of inflation on expenditures and the effects of the recession on revenues.

A survey of the Joint Economic Committee paints a compelling picture of the financial distress of state and local governments. According to their data, gathered this spring, many states have adopted or will adopt tax increases in FY 1976; even more will cut services, or impose total or limited hiring freezes. The plight of local governments is even more serious. Altogether, state and local governments will be forced to increase taxes by $3.6 billion, cut expenditures for services by $3.3 billion and delay or cancel capital construction projects worth $1 billion, removing $8 billion from the economy.

The aggregate effect of all these actions is already undermining federal efforts to stimulate economic recovery, purchasing power returned to consumers through this year's tax cuts and rebates is lost due to concurrent increases in state and local taxes—taxes which are more regressive than the Federal income tax. Similarly, public service jobs created by the federal government are being simultaneously lost through layoffs of public employees on state and local levels. Federal efforts to stimulate the housing and construction industries are suffering too because of the cancellation of state and local construction projects.

Given the bleak financial situation of state and local governments, coupled with the growing importance of these governments in the nation's overall economy, the federal government should begin to take some responsibility for, and dramatic action to help, troubled states and cities. State and local cutbacks threaten to completely undo already inadequate federal recovery measures. Clearly, the federal government must find some method of stabilizing state and local government budgets.

The counter-cyclical assistance approved by the Senate is a big step in the direction of helping state and local governments. Yet, more needs to be done. A sensible approach to this dilemma is to provide state and local governments with federal counter-cyclical fiscal assistance of $4–5 billion. Thus, we urge the Budget Committee to include funds in the second resolution specifically for aiding states and cities. By investing federal dollars in stabilizing state and local government budgets, quick returns to the private economy will be realized. Thousands of employees will be rehired, needed programs and services will be reinstated, and all levels of government can begin working together on one consistent and coherent fiscal policy.

HOUSING ASSISTANCE

Dropping housing sales and starts, 22% unemployment in the construction trades, one of the lowest housing production rates in the last 30 years, spiraling housing costs and high interest rates have all combined in the past year to throw the housing industry into an unparalleled depression. It hardly needs saying that some kind of federal assistance is desperately needed.

As in the automotive industry, depression in housing has ripple effects throughout the whole economy. The housing industry, because of its job producing potential, is considered a key industry in the Administration's predicted economic recovery—although the President fails to describe why or how the housing sector will revive.

Notably, one million additional housing starts would generate two million jobs directly and thousands more indirectly. For this reason alone, it is imperative that significant stimulus be applied rapidly.

The most certain way to affect an upturn in the housing industry is to keep interest rates low. A housing recovery depends primarily on monetary policy, on the extent to which the Federal Reserve makes credit available and the rates at which they do so. Because of the inconsistent and erratic policies of the Federal Reserve in the past decade, conditions in the housing industry have fluctuated wildly. Congressional oversight and control of the Federal Reserve and housing agencies and programs would go far toward making mortgages fund available. Yet, still more is required. All housing subsidy programs should be funded up to their full authorization levels. In addition, an interest rate subsidy program like that contained in the Emergency Housing Bill vetoed by the President should be enacted to affect a timely and strong housing upturn, especially now that it is clear interest rates will remain high for some time to come.

UNEMPLOYMENT COMPENSATION PAYMENTS

In December and again in May, Congress took important action to expand temporarily the coverage of the unemployment compensation system, making it possible for unemployed workers to collect up to 65 weeks of state and federal unemployment payments. At the same time, the system was expanded to cover farmworkers and state and local government employees not regularly entitled to benefits.

Unfortunately, the steps taken in H.R. 6900 to improve the equity and comprehensiveness of the unemployment system are only temporary. The expanded system is meant to deactivate with predicted economic recovery hence, the June 30, 1976, termination date.

Certainly, in a time of massive unemployment and layoffs, it is the duty of a civilized nation to provide its citizens a temporary source of income. Since many workers face overwhelming difficulty in obtaining other work, especially in the middle of a recession when there are no jobs to be found, it is only fair and reasonable to provide benefits *as long as they are needed*, rather than arbitrarily terminating all benefits after 26 weeks or 39 weeks or 65 weeks. According to the Labor Department, there are now more than one million unemployed workers who have been seeking work for six months or more. Many of these people will soon be exhausting their benefits.

It is essential that extended unemployment benefits be available at all times, not just in the middle of a recession. An unemployed worker is no less unemployed when there is 3% unemployment than when there is 9%. Thus, provisions of H.R. 6900 should be made a permanent part of federal law.

At present, only about two-thirds of the unemployed in this nation are receiving any unemployment benefits at all, as meager as those benefits are. Approximately three million workers, despite the recent extension of the program, do not receive any unemployment benefits at all. It is eminently reasonable and rational to ensure that all unemployed receive some kind of unemployment assistance by extending the system to all workers of the country. At the same time, benefits should be increased. Public notions that the unemployed are making out handsomely, enjoying benefits so large that they have no incentive to work, could not be more untrue. The average weekly unemployment check in the whole United States in April 1975 was only $68. There are few families that can pay rent, much less food and other necessary expenses, out of such a meager allotment. Too often it is necessary for the unemployed and their families to use up all their savings and take out huge loans in order to survive.

Were it not for unemployment compensation, many observers believe that our society today would be in great turmoil. The potential for human suffering and societal conflict in our nation should more than justify the continuation and expansion of unemployment benefits.

Stop-gap emergency measures and half-hearted extensions of benefits are not enough to correct the abuses and the inequities of the present laws. What is needed is a major change in the unemployment system. Benefits should be extended to everyone, increased to life-sustaining levels and continued for each person as long as they are needed. Furthermore, benefits should be equalized from state to state through the establishment of a federal benefit standard. We urge the Budget Committees to include in the second resolution sufficient funds for such extensions of coverage and benefits and to study the feasibility and cost of making major changes in the unemployment system.

HEALTH INSURANCE FOR THE UNEMPLOYED

In addition to an increase in unemployment benefits, it would greatly help those hard hit by the present recession if health insurance were extended to the unemployed. If necessary, the federal government should pay the health premiums of the unemployed to continue private health insurance coverage which usually lapses when a worker is laid off or his employment terminates. Without federal support, many workers will have to postpone needed health care, or face astronomical hospital costs and doctors' bills.

There are now bills pending in both the House and the Senate to provide federal support on a stop-gap basis to laid off workers who are covered by employer-employee health plans—bills that do nothing for the millions of unemployed workers never covered by such plans. Even such a limited approach to the problem, however, has met insufferable delays. There is only one humane course of action: to meet the health needs of all the unemployed by providing them with health plan coverage financed from the general revenues. Estimates are that such health coverage would cost approximately $2 billion.

EDUCATION

The job-creating impact of federal outlays is greater in education than in almost any other federal program. Teachers, school aides, custodians and other educational personnel will be hired if funding is increased, while layoffs are likely to ensue if funding remains at present proposed levels. Certainly, given the bleak fiscal situation of state and local governments, the promise of help from that sector is remote.

School districts have been hard-hit in the last few years by inflation. The recent Education Appropriation Bill passed by the Congress over the President's veto does not fully compensate for inflationary increases. Thus, it seems appropriate to drastically increase federal funds for education.

Senator TAFT. I think that is all the questions I have at this point, Mr. Chairman. It does seem to me that it should be pointed out—and I think Mr. Yntema may wish to comment on this—that to handle the various programs that Governor Gilligan mentioned, some of which I certainly agree with in principle, but of course I don't know whether we would agree as to the amounts involved, that they perhaps could be funded with the least strain if we were to take the needed steps to stimulate investment and growth. But how we do that is the key that has to be focused on. Sweden, I think, has actually followed a rather successful policy along these lines in recent years. But it depends, of course, on so many other factors, as Mr. Yntema mentioned, like how we do the financing of the programs that we have and how that financing is consistent with trying to achieve the goals of various other stimulative and also humanitarian programs that——

Mr. GILLIGAN. With all respect, Senator, I would suggest that with our industrial plant presently operating at something less than 75 percent of capacity, that it doesn't seem the demand for new capital formation and new industrial plant development is the critical factor. And if we were to wait for that plant to regear itself in the hopes of providing employment for the 8 million people who are looking for jobs, we are going to wait quite awhile.

Senator TAFT. Of course you run into the other question we have been dealing with insofar as capital formation is concerned, and that is the productivity of American plants actually is something that competitively in the world isn't too good in many areas today. And perhaps some of the lack of capacity is due as much to that as anything else.

Would you care to comment on that?

Mr. YNTEMA. The expanding of plant capacity means jobs. Money spent that way creates jobs just as well as any other way. Furthermore, it will relieve the bottlenecks. And if you don't anticipate and reduce the bottlenecks, they will make serious trouble for you in inflation in the future.

Senator TAFT. Thank you.

Chairman HUMPHREY. Mr. Yntema, I just want to concur with your latter statement I think that anticipating bottlenecks is one of the great needs at the current stage, because even with the plant capacity not being fully utilized—and I am well aware of that fact—but nevertheless, some parts of the plant capacity are well utilized, almost to a point where a little more pressure on it produces bottlenecks and the intricate relationships in our economic establishment get all out of balance when a bottleneck appears at a critical point. Therefore, the importance of investment in new plants cannot be underestimated.

Your point, Mr. Yntema, about the financing of the deficit is also a very significant point. You were talking about, in other words, that if the deficits were financed from personal savings, that it does compete with the stock market, with plant expansion and with private needs in housing. However, if the deficit is financed based out of the banking system where the banks buy government securities, which is like the open market operations of the Federal Reserve Board, then that has an expansionary impact——

Mr. YNTEMA. Well, if the Federal Reserve Board buys them, the expansionary effects will go through the roof——

Chairman HUMPHREY. No, no. I am not talking about the Federal Reserve Board. I said if the banks bought the government securities, then you actually create expansionary capital.

Mr. YNTEMA. You create new money. You create additional——

Chairman HUMPHREY. Yes, new money. All right. Having said that, how fast do you think the money supply ought to expand during the next year? And I would put it to both of you because we obviously have unemployment, and it is very serious, and we have a sluggish recovery at best.

Mr. YNTEMA. That is a difficult question. Let me tell you why. If it weren't for the—and I say this based on the New Deal experience—if it weren't for the stickiness of the private economy, I would say we could have a fairly rapid increase. In the conditions prevailing in 1933 and 1934, the money supply could have and should have been expanded rapidly. Today, there are powerful groups, and each one wants to get a bigger piece of the not very rapidly growing pie.

Chairman HUMPHREY. Right.

Mr. YNTEMA. And that is why I really prefer a good consistent and not too rapid recovery. I think that would be better for everybody involved. The thing I am afraid of is that, if we move too fast, the expansionary effects will run off into inflation. That is a question of judgment of course, perhaps better left to others fully informed.

Chairman HUMPHREY, Well, I wish that were the case. You know, we never had a situation that faces us now with both the pressures of inflation on the one hand and recession and unemployment on the other hand, so as I said repeatedly to this committee, I think it is something that hasn't been facing us before, and the traditional remedies are not doing their job.

Well, let me ask another question about unemployment because I think that is a really tough question here. What should we do about the unemployment that is out there? We all know that the unemployment compensation, which by the way, is contributed to by the employee and employer, but we know there are times when unemployment compensation benefits exhaust themselves and then it comes strictly out of the general revenues or out of the deficit financing. But my question is what do we do to get to this problem of unemployment and how long can we afford to let it drag and hold us back in terms of our economic growth and hold us back in terms of the individuals who are affected having some chance to realize that some of their objectives as individuals and as families are not being fulfilled? What do you suggest, Mr. Yntema, as a remedy here? Well, not necessarily a remedy, but at least as some alleviation.

Mr. YNTEMA. First of all, there is a lack of responsiveness in the economy to expansionary fiscal and monetary actions. The one thing we do not want is to have these expansionary effects run off into inflation, if we can help it. Second, there are many people who are now being excluded from employment by the minimum wage laws. I think one of the greatest injustices we have dealt many blacks and other underprivileged persons is the minimum wage laws. I think they ought to be looked at. If the minimum wage is set so an employer doesn't get from a person services worth what he has to pay him, then he is not going to give him a job.

Furthermore, something has to be done in the matter of education and training to bring such people up to a more competent level.

Chairman HUMPHREY. And in the meantime—and again, I am not arguing the point. I think there is a need for some wage supplements in some of these areas, rather than destroying what we call a reasonable minimum wage standard because there is exploitation without some minimum standards——

Mr. YNTEMA. That is right.

Chairman HUMPHREY. We ought to be ingenious enough to figure out ways of seeing that the employer that employs someone who is not sufficiently productive to justify use of the minimum wage, well, there ought to be some kind of wage supplement working through the employer. I think that could be done, or at least it could be tried. But what can be done to put people to work? Maybe I am an old-fashioned fellow about this, but as much as my heart goes out to the needs of people for income and for sustenance—and I have surely been accused of being overly generous with other people's resources and I realize that, and I take those criticisms seriously—but I think that people like myself have to ask ourselves repeatedly, Are we doing the right thing.

Now I believe in work. I see this country with so much to do, and for the life of me, I can't understand why we are locked into a position where all we know how to do is write out a check. I wish to God that we could get rid of the checking accounts, both governmental and private, so that we could get people to work. There must be something for people to do. What price should we be willing to pay for this?

I know the minute I make a statement like I am making to you, people say: "Well, what would be the cost?" Well, to me, that is not the question. The cost of people not working—in terms, first of all, first in terms of budget outlays; secondly, in lost production; thirdly, in terms of lost revenues—is incredible. And I don't think anybody really has added it all up and shown on one side of the ledger what it costs when you have a million people not working and, on the other side, what it costs to put 1 million people to do some kind of work. And when I say, "put them to work," I would like to have as many of them get into the private sector, into private industry, as possible. Therefore, I think your ideas about incentives for investment and all are well made, and I don't argue with those. I think the point is we need to do more to give impetus to investment and to people using their savings for homes and for stocks and for business enterprise and all that sort of thing. But once we do that, we still have a big backlog of unemployment. Now, shouldn't the Government find ways and means of putting them to work on projects that are of community benefit and national benefit? When I go around this country, I see—well, you know, we are going to have a railroad bill out. I read something about this bill. I took a few days off for vacation, but I couldn't keep my nose out of the newspapers, and I read something about this railroad bill and where Secretary Coleman said it was an outrage.

You know, I have a high regard for him, which makes me look at that bill very carefully. Well, no one is talking about putting anyone to work. They are just talking about giving the railroads $9 billion or something like that. And of course, you can't ride a train today. Even the one they've got going from Washington to New York is a threat to life and limb. I mean the trains are falling over on the tracks. It was not long ago that there was a situation where some of these trains loaded with grain fell right over, and they weren't even moving.

And I hope when President Ford is in China, he will take a look at those railroad tracks. I was over there. They've got marvelous railroad beds. Of course, we used to have them too, and, of course, the Chinese and Irish built them in this country. If you go to Ireland, the one thing the IRA doesn't do is blow up railroads because they built them. But in the United States, we have the damnedest railroad system you ever heard of. Some places, of course, it runs reasonably well, but, by and large, from Chicago to Washington, it takes 8 hours longer now than it took 50 years ago.

You talk about projections, pretty soon we will not be able to move at all. We will be back in Denver instead of getting to Washington.

So what would you suggest? You are a wise man, and I mean that very seriously. Governor Gilligan and I have been in the political world a good while. I am putting it right to you. What do you suggest to these people out of work? You can't just leave them loafing around.

Mr. YNTEMA. I am not all that wise, but may I make a comment on the railroads? The railroad unions are very good at tapping the public till. To finance windfall pension benefits, they have managed to tap the public till for $7 billion over the rest of this century.

Chairman HUMPHREY. Well, that is quite a tap, but the one we've got coming up here is just for next year. I am referring to the bill we've got down in the Senate.

Mr. YNTEMA. That is right. It was enacted in 1974.

Chairman HUMPHREY. The workers are peons compared to what is happening at the top. I notice Penn Central hasn't reduced one of its executives' salaries. You know, they are supposed to be bankrupt. Well, what a way to go.

[Laughter.]

Mr. YNTEMA. Let me say this other problem is an especially difficult one. You know, it is hard to get people to do certain kinds of work. Just try to get help in a house or try to get kids to clean up your yard. It is almost impossible. Many people—this is partly, I am afraid, a result of overeducation—think they are too good to do dirty jobs.

Chairman HUMPHREY. I agree with you on that. They don't want to do them. But I think there is a way to get them to do them. You've got to eat. You know, I did a lot of dirty jobs in my day. I am an old-fashioned guy. I swept out more toilets from when I was a boy than I want to remember, but I had to eat, and I had a wife and kid and somebody had to provide for them. We didn't have food stamps then.

Now, I am all for food stamps. I've got a record here for more liberal legislation than most people ought to have in a century, and I have to live with it, and I am proud of it. But on the other hand, I am fed up with people—well I won't say people—I am fed up with the Government policy that doesn't emphasize the other alternative. I think that when a young fellow walks in and gets food stamps, for example, and I am not opposed to giving them food stamps because they are not given money, and they need to eat, but when he comes back the next month, I think we ought to say: "Hey buddy, I've got a job for you. You will get no food stamps. You've got to earn it. You've got to start cleaning up the parks or building a railroad or going to do this or that." Now what is wrong with that? That is an alternative.

I know that is what I did when I was mayor of my city. I had a lot of people on welfare, and I decided there were too many of them. We had a program of rehabilitation. We educated them and put them to work. If they didn't take it, well goodbye. And you know what, we reduced our welfare load in 1 year by 42 percent.

I remember the very first year it was a rehabilitation program, and the next year, we reduced it by over 30 percent. We got it down in 2 years where we had 30 percent below what we had before.

Mr. YNTEMA. I think a great deal could be done if you look into this education matter. I comment on this in my formal testimony, that people need general skills and abilities. They need to be able to read and write——

Chairman HUMPHREY. Oh, you are going too far now.

Mr. YNTEMA. No; I don't think so.

Chairman HUMPHREY. I was just kidding. Of course you are right.

Mr. YNTEMA. But the education is not well directed to the development of these general skills and abilities. I tell you it is an outrage in college in many cases where the kids get through college and can't read or write. You know, they can't do the very simplest things they have to do. There is too much concern in the faculty with the fancy things that interest the faculty instead of the general skills and abilities that people need to live in the world today.

Chairman HUMPHREY. Are you willing to go for a job program that will put people to work? You know, I am for reading and writing, and I agree with you. And then again, it isn't just the poor kids. Let me tell, we've got middle income kids who go to these schools and then come out and can't read and spend the rest of their lives in remedial education. I know—I have three sons and a daughter. They are pretty smart. They were smart enough to not learn how to read for awhile until the old man caught up with them. But they were getting by very well. The teachers were saying they were wonderful children and gifted children. Well finally, I said to them let's do a little reading. Well, they said to me: "We haven't gotten into that yet. We are just at the point of conversation." [Laughter.]

So we started what we called remedial education with a certain amount of internal discipline which worked very well for awhile.

Now my kids are worried about their children. Here my daughter says she has to take the kids out of public schools and put them in private schools where they can get special tutoring. And I said to her: "Nancy, you are reliving it. Do you remember when Daddy did that to you with a certain amount of other discipline?" And she said, "yes," she remembered it. So I think you are right about that. I am glad you and I agree. I don't know if anybody else does. But are you willing to back a program to put somebody to work?

Mr. YNTEMA. I wish I knew more about that. My answer could depend upon the specifics of the program.

Chairman HUMPHREY. Well you think about it. Listen, I respect you very much. I have very strong views myself. I am a very prejudiced man in this business. You know, I grew up in the day when we cleaned up the forests in the civilian conservation force. You know today, the Federal Government is 15 years behind in reforestation. You can't get into a national park today. You go out to Yellowstone National Park, and you would think you were queuing up in Moscow. I mean you would think we didn't know how to build a campsite. We've got kids running around robbing stores instead of building parks.

Mr. YNTEMA. Well, there are lots of jobs, public jobs, that can be done by people who are unemployed.

Chairman HUMPHREY. Yes.

Mr. YNTEMA. But often the unions keep them out.

Chairman HUMPHREY. Well, we will get at them too. They are not sacrosanct.

Mr. GILLIGAN. Mr. Chairman, on that point, I think my own experience—and I don't claim to be an expert in these matters—but it leads me to believe that because of technological improvement, because of the replacement of human labor, especially in the productive industries in this country by machinery, we have developed a structural unemployment problem of enormous dimensions. There is, as you suggested a moment ago, Mr. Chairman, more work to be done in this country than could possibly be done if we put every man, woman and child to do it 8 hours a day. We live in dirty cities. There are some of our major cities still with fire-scarred wrecks of the riots of the middle sixties.

Chairman HUMPHREY. Yes; right here in Washington.

Mr. GILLIGAN. And Cleveland, Ohio.

Chairman HUMPHREY. You know, we were making progress here in killing four-legged rats. I differentiate it. We had a rat eradication program here in the city. You know what has happened to that? That has gone. The rates have taken over. That is true. This is a health factor. You go right down these streets where these homes were burnt out, and you can still see them. It is an outrage, and we sit around here talking about an unemployment problem. Well, I don't know how you can have unemployment in Washington today anyway. I really don't. Everyplace you go, they are tearing up something. I tried to get to work this morning, and you've got a better chance of getting through the wall in Berlin than getting out of southwest Washington where I live on M Street.

Mr. GILLIGAN. Well, I think, sir, that there are enormous opportunities for useful work on the part of unemployed Americans. A lot of it has to be done in the public sector.

Chairman HUMPHREY. Right.

Mr. GILLIGAN. I don't think there is any question about that. Again, I would say there are ways of structuring the income levels and so forth, so as to encourage the movement of working people into the private sector, as the private sector gets geared up again. But I think that to simply sit and wait for the private sector to move in and create all the new jobs is something we cannot afford as a Nation to do.

I have one further point. There are experiments that have been conducted around the country in terms of public service employment. We had a few out in Ohio a couple of years ago that took men who were on welfare and made them employees of the county welfare department and took them off food stamps and took them off welfare and took them off medicaid. They become salaried municipal and county employees with Blue Cross and the other fringe benefits that go to a county employee. They were put to work doing things that no one else in the country was doing, like going to the homes of elderly people who couldn't physically keep their places up anymore and couldn't afford to hire help, and they painted the places and fixed the screens and the front porches and the plumbing and the wiring and so on. They improved their living conditions, they sustained neighborhood property values, and they helped the elderly people out by doing this useful work.

What blocked us from attempting to expand that program to a much larger basis than the pilot project that we had underway was the Federal regulations which effectively prevented us from taking welfare money and converting it into county payroll money. They said if you want to do it, that is all right, but it is out of your pocket. And what confronted us finally was the financial fact that it was easier for us to take the money from the Feds than it was to dig down into the local tax duplicate or to the State treasury to get the money to do it.

But I think that we are all the government—Federal and State and local. I think they have got to stop this game of robbing Peter to pay Paul or passing the buck on to the next level of government. I think these things are perfectly practical and perfectly reasonable, and that they can be done. I am sure that most of the Governors of the country and most of the mayors of the country would be happy to appear before this committee and second that loudly.

Chairman HUMPHREY. Well, I know about your program, Governor, and I wish to goodness that the Federal regulations would have given you the flexibility that they ought to. That is one of the things that we need to look at.

Well, the time is late. It is 5 after 1. I would just love to continue to talk to you. It would be a great opportunity to get some insights and exchange some more views. As I understand it, Governor Gilligan, you do not feel that a budget outlay of $425 billion such as was talked about this morning, and recognizing the deficit involved, is excessive.

Mr. GILLIGAN. No sir, with the qualifications outlined—that it is spent in ways primarily to stimulate employment and expansion of the income.

Chairman HUMPHREY. Well, thank you very much.

[Whereupon, at 1:05 p.m., the committee adjourned, subject to the call of the Chair.]

O