771

IMPACT OF NEW YORK CITY'S ECONOMIC CRISIS ON THE NATIONAL ECONOMY

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-FOURTH CONGRESS

FIRST SESSION

THIRTIETH ANNIVERSARY SERIES

NOVEMBER 10, 1975

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

70-058 WASHINGTON : 1976

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price $2.30

CONTENTS

WITNESSES AND STATEMENTS

Monday, November 10, 1975

AFTERNOON SESSION

SUBMISSIONS FOR THE RECORD

Monday, November 10, 1975

IMPACT OF NEW YORK CITY'S ECONOMIC CRISIS ON THE NATIONAL ECONOMY

MONDAY, NOVEMBER 10, 1975

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

The committee met, pursuant to notice, at 9:15 a.m., in room 305, 26 Federal Plaza, New York, N.Y., Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Javits, and Taft; and Representative Moorhead.

Also present: Lucy A. Falcone, Jerry J. Jasinowski, and Ralph L. Schlosstein, professional staff members; Michael J. Runde, administrative assistant; and George D. Krumbhaar, Jr., minority counsel.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. We understand of course that there have been some electrical problems this morning just to add to our other problems. But we are pleased that our friends of the media now have remedied the situation and we are prepared to open the meeting today.

Governor Carey, there will be brief statements by those of us here of the committee, then we shall look forward to hearing your statement.

Permit me to open this hearing of the Joint Economic Committee of the U.S. Congress. The Joint Economic Committee is holding hearings throughout the country. We are doing this to determine why the mechanism or the engine of our economy, in the Midwest, the South, the East, the Far West, indeed across the country, is not working as it should.

Why do we seem to sputter along year after year with 8 to 10 million of our people unemployed, with a very large number of our people underemployed, with over 24 million of our fellow citizens living in proverty, and with inflation in recent months ranging at 9 to 10 percent a year and our factories—and this is the most shocking figure of all—our factories only producing at approximately 70 percent of capacity?

Why is this Nation adrift economically, wasting vast resources and capital resources? The central focus in all of the committee's regional hearings, as I have indicated, will cover all parts of the Nation, and is to seek an answer to this question or these questions and to develop new economic policies that can put America back to work.

Because it is only in putting this nation back to work, under the standards established by the Employment Act of 1946, of maximum employment, maximum income, and maximum production, that we can halt both inflation and recession.

Here in New York City the committee must also examine the possibility of financial default and the impact of such a catastrophic development on the regional and national economy.

And I emphasize that the problems of New York City are not parochial or limited to the boundaries of this city. They have a direct impact upon the entire economy and possibly upon the international economy.

I would emphasize also the committee's fundamental concern with full employment nationally, and New York City's current economic problems are closely tied, as the various sectors and regions of the economy are threads of the same fabric.

New York City faces the prospect of financial default this year. But for many years the Federal Government has defaulted on its legal obligation and commitment to full employment for the Nation and of cooperation and employment for our great cities.

The current administration has increased unemployment in a misguided effort to halt inflation. This large increase in unemployment and this major recession that has plagued this country now for several months has reduced tax revenues, Federal, State, and local. And it has increased expenditures for unemployment compensation and welfare which, together, have resulted in vastly increased deficits at the Federal Government level, serious cutbacks at State government levels, and most difficult problems of financing at local levels.

In the last year alone the national recession, and I doubt that many people in America realize this, but in the last year alone the national recession has increased New York City's unemployment by about 70 percent. So it can be said that much of the problem of this city is but a dramatic reflection of the problems that beseige a nation.

To force New York City into bankruptcy or into default will help no one and will only increase our nation's problems.

One of our purposes today, therefore, is to examine in greater detail the economic and social costs of bankruptcy or default by New York City.

We have here a study that has been made available to those that are interested in it, entitled "New York City's Financial Crisis, an Evaluation of its Economic Impact and of Proposed Policy Solutions."

This study was prepared at my direction and that of the committee by the professional staff of the Joint Economic Committee. It was released last week.

In that study it was observed that a New York City default would mean a loss of 100,000 jobs in this metropolitan area in the next 2 years. And a nationwide loss of a possible 300,000 jobs in the next year alone.

It is clear to anyone that if these developments took place, and they most likely would, that this would seriously impede economic recovery and increase our Federal Government deficit by about $4 billion. Now, that is the national cost in dollars and jobs of a default.

I think it is an illusion to believe that the impact of default will be contained within the New York City boundaries, as I have indicated earlier. A default will lead to higher interest rates for other States and local governments across the country, many of which are already experiencing financial difficulties. And just the prospect of default has already slowed down the municipal bond market, for many States and localities have either withdrawn their proposed issues of securities or bonds or the voters have voted them down.

In fact, the reality we face in this country is that the basic forces pushing New York City toward bankruptcy or default are also at work in other large American cities.

Working people and their jobs have been leaving the central cities at a rapid rate; while, at the same time, as you know, Governor, there has been an inflow of the poor and the unskilled to the cities. Between 1960 and 1970 about 1 million working-class residents left New York City, while the same number of very low-income people entered the city. The result has been a growing economic and racial gap between the cities and the suburbs, in Northeast America, the Midwest, Southern cities, and across many other areas of the country.

In the instance of New York City, the city's median family income is about half that of the family income in the suburbs.

Now these trends confirm the prediction of the Kerner commission, the Commission of Civil Disorders, some 8 years ago, that our Nation regretably is moving toward two societies, one nonwhite and poor, living in our central cities; the other white, nonpoor, and living in the suburbs. Two societies, separate to be sure, but unequal.

So what is going on in New York City then, in my view, is not just the possibility of the bankruptcy of a great city, but the beginnings of a political and moral bankruptcy of a nation that is unable to provide jobs for its people that want to work, unable to properly govern its cities and to unify its citizens into the task of solving our common problems.

We cannot afford such a political, moral, and economic bankruptcy, because the cities are the very core of our society. They are where three-quarters of our people live, they are where our culture has developed, they are where our commerce has flourished in the past and must in the future.

The cities are this country's greatest national asset, requiring investment and care, not abandonment and indifference.

These hearings, will, in addition to examining the problems and the question of default in a great municipality, address the fundamental long-term problems of our urban areas.

All of us on the committee have some ideas about what should be done.

Congressman Moorhead, who is to my left and your right, comes from Pittsburgh, of the 14th Congressional District, an old colleague of yours, Governor Carey, and has given a great deal of attention, may I say, to the study of our cities. We look upon him as one of our most informed members in this area.

And my colleague in the U.S. Senate, the distinguished senior senator from New York, Mr. Javits, has spent many, many years of his life working tirelessly and effectively to be of help to the Nation and particularly to our Nation's cities. He is one of our great national leaders.

We are here today to listen and hopefully to discuss. We make no bones about it. We need the ideas of people across this country. What is going to be a crucial national debate—I think that what has happened to New York City may very well compel this Nation to really examine what is going on in our cities before it is too late. And I might add the hour is already very late.

Senator Javits, I know you have a statement.

Opening Statement of Senator Javits

Senator Javits. Thank you, Mr. Chairman.

Mr. Chairman, if you will allow me to speak with some pride of the mettlesomeness of our Governor in this terrible crisis, how he stood up to it, and the extraordinary feeling he has given, the passion for our city, and the determination that it should be saved, not just by legal means, but also by moral means, unusually hard work and sacrifice.

Governor, our hearings here, and we thank the Chairman so much for bringing them here, serves to focus on our problem. I speak very briefly only for two reasons. There are two things we are really considering in these hearings, one, the faith of older regions in this country like this one, economically, and what we can do to arrest what is an extremely damaging trend.

In modern concepts, Governor, we are sliding downhill very fast. I think the Governor has noted, as we all have, that in November of 1974 our national economy fell off a precipice, one of the most extraordinary declines in terms of rapidity and steep rate that our economy has probably ever known. And we see the same thing in New York. It is very, very—it makes one tremble to consider the consequences to 8½ million New Yorkers, that a precipitous decline in the economy should occur so quickly.

Secondly, Senator Humphrey and I have offered a bill for monetary planning, in voluntary terms, but in a very precise way.

In my judgment, Governor, it is absolutely indispensible. It is one thing to try to blacken the name of a planning bill by calling it planning, with all of its reminiscence to communism aside, it is another thing to save America, and that is exactly what I think we feel our Chairman and I will be trying to do in terms of getting this down to the business of knowing where we are going instead of wandering blind on an uncharted road.

About New York City, the fact is, in our analyses, you have two now before you—one, the Labor-Management Conference in Buffalo just the other day, represented by the Governor's Task Force working in cooperation with Commissioner Levine, who is sitting next to you; and the New York State's School of Industrial Labor Relations at Cornell, under Donald Gordian, has a remarkable set of facts and figures showing this very, very serious demographic trend against us; and, second, the very fine study of our staff which the Chairman has already mentioned to you.

So we look to you, Governor, realizing that we are dropping off, that industrial States generally are dropping off, 23.4 percent of a period of industrial employment, factory employment, in New York, 10½ percent in Pennsylvania, 8½ percent in Connecticut, 2.3 percent in New Jersey, looking toward a shift to other parts of the country with North Carolina, for example, on the southside, as it were, up almost three-quarters in its own manufacturing employment.

Now showing where we are going. The reasons, the higher taxes, the availability of factory space and the nature of labor relations must make us all very thoughtful, Governor, including you as the Governor of our State, and the labor leaders, which is critically important.

And we hope our colleagues in the Congress, and we hope our people running for election, because I think our voters are sophisticated enough to read the trends and have an opinion.

And finally, Governor, the terrible condition of our city and State when you strip away all the alleged cheating and welfare and all of the profligacy and all of the gimmickry, you still come down to the hard fact that this city lost 400,000 jobs, over 10 percent of its employment, in a period of probably not more than a decade.

Now that's catastrophic. If the United States wishes to sustain this enormous tax-paying ability and these enormous centers of finance, communications, et cetera, it's got to come to their aid. And it is greatly to the interest of the people of the country. Because no other center of the country, whether it is Houston-Fort Worth, Miami, or Los Angeles, can come abreast to what this country gets from us for at least 20 or 30 years.

So we are fighting a battle for America, not just for New York. I hope in the testimony from this sophisticated city, we may get these ideas developed and what to do with them, not only governmental, but private as well. We insist that it is suicide for the Federal Government not to see this for what it is, to wit, a vast national trend which, unless corrected, will throw the whole nation into a deep depression and lead the world into it, too, and very quickly. Thank you very much.

Chairman HUMPHREY. Congressman Moorhead.

OPENING STATEMENT OF REPRESENTATIVE MOORHEAD

Representative MOORHEAD. Thank you, Mr. Chairman. I just wanted to take this opportunity to welcome a former colleague, a former member of this Committee here today. The only thing I don't understand is why you gave up the active life of being a Member of Congress for the contemplative life of being Governor of New York.

Mr. CAREY. Relative security.

Representative MOORHEAD. I believe these hearings not only give us an opportunity to focus on New York's unique financial crisis, but also the perspective that this city, like many other urban centers, is confronted with a rapidly declining tax base and rising service demands, which place a great strain on the city's budgets.

Some of this strain probably did result from past gimmick errors, but a large portion, as Chairman Humphrey said, results from Federal policy failures that have affected all urban areas.

I support your efforts to cut the budget and bring it into balance and the reduction in services. But I do believe that eight million American people should not be asked to endure unnecessary cuts in the quality of life that the President's program implies.

From my opinion also, the Nation simply can't afford the cost and potential shocks that would result from a New York City default. The uncertainties are just too great and the risk of damage to the American economy too severe.

For this reason, I have strongly supported the loan guarantee legislation that has recently been reported by the House Banking, Currency and Housing Committee on which I serve. It is a good bill, but it is a tough bill. It will provide Federal guarantees of enough New York City bonds to assist the city in averting default.

It will provide a guarantee for city borrowings that will be used to maintain the city services until New York can borrow on its own again. And it will guarantee the necessary reform of the city's management and budgeting practices.

In essence, the bill provides a safe bridge that will allow the city to walk a chasm of default, a chasm that is just too wide for this city to jump alone or even with the State's help.

If the House bill is adopted, a tough and demanding patrol board will be established to facilitate these reforms.

Under these circumstances and with these controls, the city should not and cannot be sentenced to death by bankruptcy. That, in my opinion, would be the ultimate miscarriage of justice. Thank you, sir.

Chairman HUMPHREY. Governor Carey, we welcome you. May I say that one of the purposes of this hearing is the program of what I call national information.

You will be pleased to note that all of your remarks and the remarks of others, will be carried across this country by the electronic media and particularly by the national public radio. And it is listened to by hundreds of thousands of people. So the story of your city and your State and of our Nation can be brought to the American public.

Governor Carey, we welcome you.

STATEMENT OF HON. HUGH L. CAREY, GOVERNOR OF THE STATE OF NEW YORK

Mr. CAREY. Thank you very much, Mr. Chairman, and members of the committee. It is indeed a privilege and honor to be back with you again, not as a colleague, but as a witness.

Let me say, Mr. Chairman, that you have well stated, you as Chairman, Senator Javits, and Representative Moorhead, the precise nature of our problem. To dramatize it in realistic terms, let me tell this Committee that what the State of New York wants to do among the 50 States of this Nation is to work, to work with the Federal Government, to work with our Government, to work with the Congress, to develop solutions to the problems that you have talked about.

In saying that the State wants to work, let me indicate that if you wanted a half a million people before this Committee today surrounding this Federal building, all you would need to do to get that half million people outside this building looking for an opportunity would be to hang out a sign "Help Wanted, Help Wanted, a Job."

Can I prove that? Yes. Because that's the number of people of the unemployed who are seeking jobs in the city right now.

Do they want to work? Recently apprenticeship openings were indicated in the County of Queens.

So you can learn to become a tradesman, electrician, plumber, something of that kind, to work with your hands, to get a job.

Thousands of people—not hundreds—thousands, men and women, black and white, skilled and unskilled, went out and slept around-the-clock, over the night, and through the severity of the weather to be on line to get a job, an apprentice job.

Further, when the sanitation list opened up for some hundreds of positions in the Civil Service to clean the streets, to operate equipment in sanitation, 13,000 applicants filed for that kind of work. I say that this State and the people within it want to work.

Now what are we offered? We are offered in the words of Congressman Moorhead, a sentence to capital punishment, a bankruptcy, that we would say to New York City, the best thing that can happen to you is to go broke. We will then have someone provide you with essential services.

The only parallel I can draw for that, Mr. Chairman, is to say that the Federal policy of bankruptcy is one that would put New York City, and indeed, eventually New York State, on a Federal welfare program that you would be doling out the money of the taxpayers around this country who are working for those in a State who would be thrown out of work, added to the half million people. I spoke about, and worsen the condition.

Yes, indeed. The so-called debit certificates that have been described by the President and Secretary Simon, would be in the nature of a great flat subsistence program. I don't know what the nature of that is. I don't know who would accept it.

I do know it's the closest thing I can think of to taking an entire society and putting that society on a flat welfare program called bankruptcy.

What is bankruptcy? It fits a case where an individual has run out of his resources or a corporation has mismanaged its affairs and no longer has a market for its product, or something of that kind.

Then it says to the courts, I can go no further, I cannot cope with my condition. Take my assets and do with them what you will.

Can you fit the term "bankruptcy" to the City of New York? Can you say, "Tie my assets and do what you will with the City of New York"?

Look around you. Look at the people. Those are assets. Look at the immigrants who are here seeking opportunity, exiles, those are assets. Look at the half million people who want to work, who want to be productive and pay taxes. Those are assets. That is what we don't want to waste. Bankruptcy is waste, disaster and failure.

I want to point to the fact that all that needs to be known, Mr. Chairman, all that needs to be known on the realistic side of this question has been generated by this Committee. Your reports, your careful evaluations of the impact of bankruptcy and default shows that while the Secretary of the Treasury may say that the impact of default has been discounted by money markets, what is more important, the money markets or the outlook of our people? What is the outlook for the people?

It is that by the very cuts that we have had to make in the budget and by the prospect of further reduction of services, we generate more unemployment. We generate the loss of business opportunity for small merchants.

Default and bankruptcy, in other words, will worsen the condition of unemployment and the economy which we are trying to resurrect in this State.

The losses in revenues and payments mean more layoffs. And there are corporations, strong corporations, such as the New York Telephone Company, for instance, which would lose 30 to 40 thousand employees in the course of its operations. It's private sector unemployment impacted by this.

You well mentioned the fact that over the last 10 years, Senator Javits, we have lost 400,000 private sector jobs. There was an accompanying increase of public sector employment of nearly the same amount between State and local governments.

We shifted the burden to the taxpayer. That cannot continue. What we have done is to freeze employment at the State level, make reductions in the cities and counties.

But we need the accompanying lift in the private sector. How are we going to get it? Because I believe this Committee wants answers. You want to look around and see what could be done if we had a constructive policy working in the Nation and State.

First, if you cannot borrow, you cannot build. No one in this country, Croesus and Midas together, could build without putting cash up front. You must borrow.

When we are denied capital markets, we can't go on with our projects. And that is the condition. In the city alone we cut $830,000,000 out of the capital budget. That means we had to shut down the very facilities that were being built with jobs for people, and we had to shut down, for instance, a new container port that would mechanize and help us handle cargoes.

We could have made 4,000 jobs. We couldn't do it.

Therefore, what do you need? A national credit resource that will guarantee that these projects produce revenue.

That is what we are seeking. This is the eve of Veteran's Day. How did we work our way out of World War II and convert that economy, a good war machine? The GI Bill, trained people to go back to work.

Harry Truman, whom we can call the Father of this Committee, passed the Full Employment Act. And this Committee owes its origin to that act, because you are the monitors to see how we get to full employment.

When we did that and said full employment working with a conversion economy, we put America back to work after a great war.

Where is the parallel program today? Show me any program on the books in the Federal Government that is addressed to getting credit to construction, to letting cities and States work together to help themselves. There isn't any such program.

But you have the seeds of one, the Humphrey-Javits bill, which would get us into the planning of what to do with our resources, is precisely what we need.

As Governor, I initiated early on in my administration an economic development board and planning program. It's that very program that Senator Javits addressed in terms of what went on in Buffalo this weekend. Labor and management coming together to respond to the challenge to do something for yourselves.

With your planning bill, with our Economic Development Board, we don't intend to confine ourselves. We want to work with the region, that great region you described. We want to put that back to work. Look what we have here. The huge ports, the communications network, the railroads.

We don't intend to return to a life of ease and riches at the expense of rural or suburban America. No. We want to use our purchasing power coming from jobs to attract to us the products of our farms, of our factories. We are a great market for the world. And the world knows that. That is why the world today is watching to see what is going to happen in this great international city. To have it sink into the oblivion of bankruptcy is to say that America has taken the road of failure as well as one of challenge.

I speak for the State. If the city goes into default, I must put this committee and the Congress on notice that on the heels of that default and bankruptcy, there will be major State agencies, agencies that build our hospitals, our housing public service units for the mentally retarded, all kinds of worthwhile products that have solid streams of revenue once they are complete.

But if we are forced out of the borrowing markets as late as this Friday, the Housing Finance Agency, the Dormitory Authority that builds schools and classrooms, that will be closed down.

The Environmental Facilities Corporation which helps us to cope with the environmental impact upon our lives of the tragedy and neglect to our environment will no longer be able to exist. All of these will be forced out of the borrowing markets and collapse. Heretofore they have had a sound record of management. They are aimed at solid revenue production. But they will be shut down as well. While the loss in value of the projects partially completed alone is enough to say that this should not happen. It's akin to having the entire defense structure with the long lead weapons and the research and development and the production of the units we need to defend ourselves suddenly collapse.

We wouldn't allow that to happen as a matter of external security, mutual security for the free world. We wouldn't allow that to happen. We would step in and run those plants or something. But what about the core of revenue that produces the defense budgets and all of the other agencies? It comes from the taxpayers and private businesses of this country. It has been going into a dwindling collapse for years. We have seen the exodus of jobs from the city. We want to see that arrested, turned around.

How can we do it? I suggest, Mr. Chairman, that the best way in which we can do it is to plan together to cut through the red tape, to stop passing or implementing programs that won't work—

for instance, section 8 of the producing program." Why they are trying to peddle section 8 all over this country to pump money out. But it won't work in this country. They are trying desperately to use the money in some way to build little units for Government, and maybe a better scale for a county here of some kind, but because of the incapacity of the bureaucrats to make it merge with the needs we have, the program doesn't work.

I can name you others that we have great difficulty with, particularly the Federal welfare program that mandates us to do certain things. Yes, nationalize welfare. But let's work together, State, local and Federal, in some fashion, so that indeed we can cut inelibility.

The plan was before the Congress. The Senator from New York and myself worked very hard for the assistance plan, to have a normal standard of welfare across this country, to indicate that only those persons who possessed an eligibility card could be on the program.

We could get rid of the cheats and all of that. But the greatest cheat of all is to have a program that costs so much money and doesn't work. And that is the present Federal welfare program.

Can we fix that up? Yes, we can. You know very well if you can train a mother and child to a day care system, you know she is free to go to work to a good sound job that produces revenue. But she has been forced out of that program.

Therefore, I say that the program of child development is the GI bill of the future for the young children of America. And where is that? We are told by the President we can't afford that kind of a program. I say we can. We cannot afford to be without that kind of a program, because untrained people coming out of our schools are not available for any kind of employment, if the jobs were there.

I indeed say to you, as well, that we have been placed in severe, severely adverse condition in state programs because of the imminence and prospect of default. We cannot borrow for State agencies, businesses are contracting because they are not certain where New York will be tomorrow.

There are technical things happening as well. It's well known by the Secretary of the Treasury what is happening. He calls it an accommodation of some sort, a discounting of the impact. All these terms mean this: The people are afraid to invest in New York, to leave their money here, because they are already taking shelter elsewhere. Is it a national program to restrict wealth by having New York go so far down that the exodus will be complete? Is that a program? If so, let the Secretary say that.

The program is to condemn New York, as Mr. Moorhead has said with that sentence. You can't do that in this country. Even the Supreme Court doesn't allow cruel and inhuman treatment on a person, let alone a city.

This committee coming here at this time could not be more opportune, because I feel that we see across America clearly and precisely what is going on. It's that while we are striving to put America back to work, while we want to plan to put people in jobs, while we want to say America wants to work, we have leadership that says, the best thing is to quietly go into a comfortable situation called bankruptcy in which you will write off your debts, in which you will be provided with essential services from the taxpayers of the rest of the country so that, indeed, you will have subsistence, some kind of fire protection, some kind of security in the streets, nurses in your emergency rooms.

We don't know what is going to happen to your city university. Let me tell you what will happen to that city university. The talents that will come out of that university—there is one of them sitting next to you, Senator Javits—are the kind that helped us discover the Salk and Sabin vaccines, wouldn't be there. The jobs will be given to people who can come forth well prepared with a degree, will not be there; 260,000 persons in that university system will be out on the streets and quickly qualifying for welfare, because they can't qualify for unemployment. That is what is going to happen.

When we start talking about the effect on people of this default, it has to be unacceptable. Therefore, at this time, I would ask that you look at something that I think is fundamental to this question, not a New York study, not a study that has been prepared by this State government or by the committee of the Congress, but one by the Municipal Finance Officers Association across the country, those that have to worry about paying the bills of our localities.

They have examined the default of this city. I offer their study for the committee. It shows the cost of borrowing across the country has gone up by $3 million. That means more taxes for the entire country and we don't need more taxes and we don't want more taxes. As well, you indicated that issues have come to market in over $1½ billion, issues of borrowing to build needed projects. And either the interest rate was too high or no market rate was there at all for those issues. That is a billion and a half dollars, larger than any new Federal program, any program for jobs. And that is a job production program which was shut down because it couldn't borrow.

Further, as we looked at it, and you mentioned in your opening statement, Senator, around this country, the kind of contraction of credit that took place before the 1929 depression is taking place in the midst of this recession, and I call it a depression. Around the country in Ohio and in New Jersey, recovery programs generated by the States through borrowing were vetoed by the voters. Why? Because they said veto must be the way to do things, the President is doing that, so we are going to veto, too. It was a lack of confidence generated by the uncertainty of the New York condition.

How much more evidence do we need that the way to arrest whatever recovery is to anticipate, is to let this thing called default and bankruptcy happen? I hope in your work in the Congress in the days ahead, before we have Thanksgiving, before the President goes to China, please look at the United States and look at New York.

It's crystal clear that what happens in New York today can happen anywhere else in the country tomorrow. A bankruptcy here will make that a fashionable kind of way for states, indeed, localities, to evade their debt. We don't want to do that in New York. We want to carry our burden. We have lost a lot. We have lost the tremendous sinews of defense that have gone elsewhere. We have lost the private sector jobs, as Senator Javits has pointed out, to more attractive labor markets.

We are prepared to cope with that by rebuilding our economy and all we need for that is planning and capital resources and guarantees and credit of the kind that have been talked about in the Congress.

We will need the lifting of restrictions and the inflexible bureaucratic kind of interference with local government which has been manifest in the past. There were certain things done that make programs unworkable for New York.

That is why we need your planning bill so we can talk regionally. If we didn't need heat and depend on fossil fuel for power in this region, we would leap forward tomorrow. But when a political judgment is made to lay a tariff on fossil fuel, you sink New York as if you fired a shot into Times Square. That is what you do economically with these kinds of decisions. A regional kind of planning would offset that. It has the same impact upon us as an unworkable wheat deal has upon the farmer.

I can dwell some time today with my favorite farmer from the State of Minnesota on the impact of our farm economy in New York. The milk pricing, the importers of milk products, the adverse conditions of farm and feed caused by the lack of natural gas. Would you believe it that the farmer in New York is hurt because we can't get gas to generate fertilizer, and therefore, he is leaving the farm? It's all tied together. Therefore, we need the plan.

As I close this testimony today, I ask you to recognize the efforts being made by New Yorkers to stay alive. We didn't have civil disorders in our streets this summer. Those militant public employment unions who are looked upon as the villains that caused this crisis did what? They contributed their pension funds to keep the city alive. They accepted wage freezes, rollbacks of compensated benefits. Those villainous banks as well. They have stretched their debt, rolled over their obligations, are trying to work with us at this very moment in some fashion to help share the burden of debt that accumulated unwisely.

But the main thing is what the people have done. The people of New York have united. They have shown it in adversity. They are not turning on the country ferociously and in terms of any kind of militant counter-revolution. No, they are saying to the United States, look at New York for what we are. Unique? Yes, because we have different kinds of voices, we come from many different parts of the world. Many of our Norwegians, for instance, are very proud to live in New York, Senator. The way in which we pulled together can be a lesson for the country.

Now we can pull together again. With your planning bill, tied into the kind of economic development program originated in New York State, we can provide the plan for tomorrow that will give us the hope of something more than bankruptcy and national dole and living on subsistence from the national taxpayers. Thank you very much.

[The prepared statement and press releases of Governor Carey follow:]

PREPARED STATEMENT OF HON. HUGH L. CAREY

We meet today to discuss what government can do to achieve full employment in America. We realize that the right to find employment, to live in dignity and security has been denied to millions of Americans by economic policies of the Federal government over the last decade.

But before we can address that subject, we must face the national economic emergency which emanates from New York City. For unless the government of the United States acts to prevent the default and bankruptcy of New York City, there will be a vast and unnecessary addition to the already devastating numbers of unemployed in this city, this state, and the entire nation.

In protecting this nation from the consequences of default, the Federal government will be protecting the right of people to work—the right of teachers, firemen, nurses, laborers, policemen and workers in every part of the private sector.

Unless we obtain the guarantee of New York securities we seek—a guarantee which I must say again and again will not cost the taxpayers of this nation a cent—New York City will default and be in bankruptcy.

Nationally respected economists estimate that the private sector in New York City will lose at least 15,000 and perhaps as many as 60,000 jobs as a result of the financial cuts and loss of public employment necessary to put New York City's finances in order.

Default and bankruptcy will cause countless thousands of private sector jobs elsewhere in the nation to disappear.

Jobs will be lost as businesses which depend on New York City cannot collect their bills. For example the New York Telephone Company estimates that it will lose from $40 million to $60 million in one year if the city defaults. Such losses in revenues and profits ultimately mean layoffs.

Then other corporations like New York Telephone in at least 22 states which do business with New York City.

Jobs will be lost as businesses which hold New York City paper for collateral on their loans are forced into foreclosure.

Jobs will be lost as businesses not willing to exist under federal occupancy leave the city.

We have to keep in mind that unemployment as a result of Federal policies is already nearly 12 percent in New York City—the city has lost 370,000 jobs since 1969 and 100,000 jobs in the last year alone.

If the Federal government were to begin honoring its obligations to this nation as enunciated in the Full Employment Act of 1946—if as a result, New York City's unemployment was cut only in half—to a mere 6 percent—200,000 more people would have jobs, the city's economy would get a $1.3 billion shot in the arm and $350 million would be generated in additional city, state and federal taxes.

We have heard financial experts from coast to coast—including the Chairman of the Federal Reserve—tell us that default will harm our present economic recovery.

Respected economists, including staff members of this Committee have developed an estimate that defult will reduce the growth rate of the Gross National Product by one per cent.

That means this nation will lose $14 billion dollars of new business, $4.5 billion in new taxes and a half million jobs which would have been created.

A recent report by the Municipal Finance Officers Association shows us how the fear of default alone has already harmed the nations economy.

That report states that 107 municipal bond offerings from areas all across the nation either received no bids, were postponed or completely withdrawn from the market.

Those offerings totaled nearly $1.5 billion. That means that schools and hospitals and homes for the aged all across this nation have not been built. It means citizens all across this nation have been deprived of the services of those planned facilities. And it means that we have lost thousands and thousands of jobs.

Default is despair: It is disaster: It will mean devastation to the right of Americans to work and provide food and shelter to their families.

As the specter of default hangs over New York State we find nearly every determined effort we have made to initiate and retain jobs this year in a state of paralysis.

Because we cannot borrow, we cannot build. The most urgent problem is the severe danger of default by four major state agencies—The Housing Finance Agency, The Medical Care Facilities Financing Agency—The Dormitory Authority and the Environmental Facilities Corporation.

Those agencies' financial situations are sound. They have the unquestionable ability to pay their debt service. But because their securities bear the name "New York," there is no market for them.

Unless we can obtain the loan from the Federal Reserve, which we officially asked for last week, those agencies will default.

The first will be the Housing Finance Agency which has financed more than 800 propects worth more than 5.8 billion dollars over the past 15 years.

That may occur as early as this week if we do not obtain federal assistance.

70-058—76——2

These state agencies are stricken with the contagion, the crisis in financial confidence caused by New York City's problems. If they default, our state will stand dotted with $2.5 billion dollars worth of half-built classrooms, public and private hospitals, nursing homes, and housing for low-income families.

And more than 50,000 additional jobs will be lost.

Because local governments and the state of New York cannot borrow, the future of our $2.7 billion accelerated environmental public works program which will create 141,000 jobs in 50 counties is in jeopardy.

Because we cannot borrow, we cannot rebuild our railroads at this point. We cannot create the 7,500 jobs and $675 million in economic activity mandated by the passage of the Rail Preservation Bond Act which I signed this June.

I am here today to tell you that the difficulty Congress is having in passing measures to save New York City and this nation from financial disaster, the difficulty the President is having coming to grips with are real issues involved —these difficulties are symptoms of how New York and other major industrial cities and centers of the urban industrial belt are exposed to economic hardship by poorly planned federal policies.

Federal subsidies spurred the mechanization of agriculture in the South after World War II and recharged the greatest migration in the history of the world—the migration of poor rural farmers to the big cities.

But it became the cities responsibility to educate and reemploy the American migrants.

The Federal Government in its policies of tax deductions on home mortgage interests and in the billions of dollars poured into the federal highway network has benefited suburbia while ignoring urban renewal and urban mass transit.

When we examine exactly where the federal tax dollars collected from our nation's industrial center sgo, we find they go most heavily to finance industrial development in the South and West.

In the last reported years, we find that the federal government extracted $7.4 billion more from New York State than it spent here for all purposes.

By contrast, California received $2 billion a year more than it paid to the federal government.

Virginia netted $1.3 billion and Texas received $1 billion more than it paid each year. The civilian industrial centers of the Northeast and Midwest have been financing the growth of the military bases and military industry elsewhere for more than 20 years.

In the past 10 years, New York State has lost 18,000 military personnel and 26,000 federal civilian jobs. While federal civilian employees increased by half a million between 1969 and 1974, New York State suffered a net decrease of 11,000 federal civilian jobs.

In 1958, New York State received only 8.2 per cent of federal employment. Today it receives about 6 per cent.

When we examine what New York State has received from the Economic Development Administration since 1965, the picture becomes more clear.

We received 3.1 per cent of their economic development grants and loans; 2.7 per cent of their public works money; 4.4 per cent of their business development loans; 5.6 per cent of their technical assistance grants and only 2.8 per cent of their regional planning grants.

New York City and New York State share this common problem with many other cities and centers of America in the older industrial centers of the Northeast, Mid-Atlantic and Midwest.

New York City's population remained fairly constant from 1960 to 1973. But hundreds of thousands of middle class white and blue collar workers moved to the suburbs and hundreds of thousands of the less fortunate moved in.

From 1960 to 1973 Pittsburgh lost more than 20 per cent of its population; Boston more than 11 percent; Chicago more than 10 per cent; Cleveland more than 22 per cent. The list goes on and on.

Yet cities in the south and west gained population. Jacksonville's population increased more than 159 per cent; Houston's more than 40 per cent and Phoenix's population grew 45 per cent and Los Angeles grew by nearly 11 per cent.

By contrast, in the northeast region, job opportunities in the 1960's grew 40 per cent more slowly than the national average. And by the 1970's, job opportunities in the northeast were growing 70 per cent more slowly than the national average.

These facts underline my overwhelming concern, not only for New York, but for its neighbors as well. The problems of our city and state today will be the problems of countless others tomorrow.

Today, New York City cannot borrow and it cannot rebuild itself. Because credit may be denied to many other American cities tomorrow, they will not be able to build.

We need to do more than prevent default of New York City. We need—as Senator Humphrey has said so often—we need a Marshall Plan for the cities of America—we need more than a survival plan—we need a plan to rebuild our cities—to rebuild their physical structures and their inner character.

Every day the industrial cities of America decay. Every day, people of means move out and people without means move in.

Every day business moves away. Every day industrial and commercial sites decline in value. The problems of the cities long ago emerged as the most pressing problems within this nation. They have been ignored too long by this Federal Government. We can no longer accept urban blight as a matter of course. We no longer can simply count our poor and unemployed. We can no longer simply quote studies and statistics about our dying cities. We must develop a national recovery program for our cities.

We must, on a national level, give our cities the breath of life they so desperately need. We don't expect more for our cities than for our suburbs and rural areas. We just want to be treated fairly and equally.

A Federal Economic Development Board committed to long range economic planning as proposed by Senators Hubert Humphrey and Jacob Javits this year could be one effective instrument to begin correcting the built-in economic injustices in urban industrial America.

That proposed national economic planning board is similar to the Economic Development Board I set up in New York State this year.

It is composed of talented individuals from labor and management from every area of the state, and staffed by a top calibre professional team.

The purpose of our Economic Development Board is to bring government, management and labor together to plan for our own economic rebuilding; to help business cut through unnecessary government red tape and to evaluate the economic impact of government programs in every region of our state.

Last weekend top officials of labor and management from every area of this state including members of the state's Economic Development Board held a conference in Buffalo to study the short range and long range prospects for rebuilding the economy of New York State.

Labor and management agreed that the federal government should completely take over the welfare system, an arbitrary and unmanageable burden on the states. And they expressed equal concern about New York State taxes which are already the highest in the nation.

We have learned from our past that increased taxes drive business from our state.

Between 1965 and 1972, state taxes in New York increased 135.3 per cent—increased from 4.7 of the personal income in the state to 7.2 per cent.

During the same time more than 300,000 manufacturing jobs and more than a million people left our state.

But, this year there is a new and determined spirit of cooperation and understanding between business and government and labor in our state.

What this nation needs is for business and labor and government to come together—as they are in New York State—in the common purpose of making the right to a job a reality to every able and willing American.

In the Employment Act of 1946 and in the Universal Declaration of Human Rights in the United Nations in 1948, this nation set forth our principles of social and economic justice.

It is the law of the United States of America that every man and woman in this nation who is willing and able to work has a right to a job.

Yet, who is upholding that law? When it was passed, even two per cent unemployment was unacceptable.

In the past seven years, instead of designing programs to create jobs, the national administration of this nation has simply changed the definition of what it considers "acceptable" unemployment.

Eight per cent unemployment may be "acceptable" to President Ford, but it is certainly not acceptable to the eight million Americans who are out of work.

In the last seven years we have seen wheat deals and an increasing dependency on foreign oil; we have seen the tariff on energy and the one shot tax cut.

But we have not seen a commitment or a desire or a plan by this national administration to make full employment more than just a phrase in a speech.

We have a policy of welfare in this country instead of a policy of employment.

Unemployment in New York State is nearly 11 per cent. If we had federal policies and programs to reduce it to a mere 5 per cent, half a million more New Yorkers would have jobs; our state's economy would receive a $3.2 billion shot in the arm and $800 million in new state local and federal taxes would be generated.

We ended the great depression in this nation by innovative experimentation. We were not afraid to try programs and policies designed to put people to work. The lesson of the 1930's needs to be put into practice in the 1970's.

And, if the Federal Government remains unwilling to use all of its resources and energy to put the people of America back to work, then give the states the funds and the flexibility to try new and creative programs as well as old and proven programs of employment.

I recognize that achieving full employment while reckoning with inflation will not be easy. But just because it is a complex problem, that does not relieve the Federal Government from its responsibility to solve it.

Full employment is the best cure this nation can prescribe to its ailing cities.

Full employment is the best cure the Federal Government can prescribe for the recession of its economy and the depression of its people's confidence.

When our nation was founded, we called it the United States of America.

The test before Congress: the test before our national government in the last quarter of the 20th century is more than a test of economic responsibility.

It is a test of whether or not we will once again be a nation united in spirit, united in purpose and united in the related convictions that every American has a right to a job and our cities and industrial centers of this nation have the right to survive and thrive.

That challenge is to pass legislation to put the people of America back to work; that challenge is to standardize and nationalize our welfare program for people who cannot work; the challenge is to rebuild our cities, physically and spiritually; the challenge is to live up to all this nation ever hoped to be on its 200th anniversary.

PRESS RELEASE OF THE NEW YORK STATE DEPARTMENT OF LABOR, OCTOBER 30, 1975

Albany—Industrial Commissioner Louis L. Levine, head of the State Labor Department, said today that total employment in New York State in September was 6,838,800 as compared with 6,953,100 in August and 7,096,400 in September 1974.

Total employment in New York City was 2,779,700 in September as compared with 2,854,800 in August and 2,910,000 in September 1974.

The State unemployment rate for September was 10.2 per cent, one-tenth of a percentage point lower than the August rate. In September 1974, the unemployment rate for New York State was 6.1 per cent.

Total unemployment in New York State in September was 778,900, a decrease of 21,800 from the August total. In September 1974, total unemployment was 459,100.

Total unemployment in New York City for September was 376,600, a decrease of 9,300 from the August total. In September 1974, total unemployment was 228,600.*

The unemployment rate for New York City in September was 11.9, the same as it was in August. In September 1974, the unemployment rate was 7.3 per cent.

Following are the unemployment totals and unemployment rates for the State's major industrial areas:

Albany-Schenectady-Troy (includes Albany, Montgomery, Rensselaer, Saratoga and Schenectady counties): 26,800 (7.6 per cent of the work force) compared with 16,700 (4.7 per cent) in September 1974, and 27,200 (7.7. per cent) cent) in August 1975.

Binghamton (covers Broome, Tioga and Susquehanna (Pa.) countries: 9,900 (7.9 percent) compared with 5,500 (4.3 per cent) in September 1974, and 9,800 (7.9 per cent) in August 1975.

Buffalo (covers Erie and Niagara counties): 67,700 (12.7 per cent) compared with 37,600 (7.1 per cent) in September 1974, and 71,000 (13.2 per cent) in August 1975.

Elmira (covers Chemung County): 3,700 (8.6 per cent) compared with 2,500 (5.9 per cent) in September 1974, and 3,900 (9.2 per cent) in August 1975.

New York Combined Area (covers New York City, and Nassau, Suffolk, Westchester, Putnam and Rockland counties): 512,600 (10.9 per cent) compared with 309,800 (6.6 per cent) in September 1974, and 524,800 (10.9 per cent(in August 1975.

New York City: 376,600 (11.9 per cent) compared with 228,600 (7.3 per cent) in September 1974, and 385,900 (11.9 per cent) in August 1975.

Nassau-Suffolk: 92,600 (8.3 per cent) compared with 55,000 (5.0 per cent) in September 1974, and 94,600 (8.4 per cent) in August 1975.

Nassau: 49,500 (7.6 per cent) compared with 29,400 (4.6 per cent) in September 1974, and 50,600 (7.6 per cent) in August 1975.

Suffolk: 43,100 (9.4 per cent) compared with 25,600 (5.7 per cent) in September 1974, and 44,000 (9.5 per cent) in August 1975.

Westchester: 34,300 (9.8 per cent) compared with 20,800 (5.9 per cent) in September 1974, and 35,100 (9.8 per cent) in August 1975.

Rockland: 7,200 (9.2 per cent) compared with 4,400 (5.6 per cent) in September 1974, and 7,400 (9.2 per cent) in August 1975.

Putnam: 1,800 (9.7 per cent) compared with 1,100 (5.9 per cent) in September 1974, and 1,900 (9.7 per cent) in August 1975.

Poughkeepsie (covers Dutchess County): 6,400 (6.5 per cent) compared with 3,200 (3.3 per cent) in September 1974, and 6,000 (6.1 per cent) in August 1975.

Greater Rochester (covers Monroe, Livingston, Ontario, Orleans, and Wayne counties): 34,300 (7.6 per cent) compared with 15,500 (3.5 per cent) in September 1974, and 34,900 (7.7 per cent) in August 1975.

Rochester (covers Monroe County): 22,600 (6.7 per cent) compared with 10,200 (3.2 per cent) in September 1974, and 23,000 (6.7 per cent) in August 1975.

Syracuse (covers Madison, Omondaga and Oswego counties): 25,600 (9.1 per cent) compared with 13,900 (4.9 per cent) in September 1974, and 27,000 (9.6 per cent) in August 1975.

Utica (covers Herkimer and Oneida counties): 12,900 (9.8 per cent) compared with 7,200 (5.6 per cent) in September 1974, and 13,000 (9.8 per cent) in August 1975.

Press Release of the Municipal Finance Officers Association, November 7, 1975

Washington, Nov. 7—A major new study examining the impact of impending default by New York City on municipal bond markets across the country shows bond interest rates have already increased from $8.2 million in Pennsylvania to $25,000 in North Dakota.

The study says borrowing costs have risen for all governments since July, and suggests if market conditions of the past three months continue, the annual interest costs for long-term state and local debts will be between $130 and $180 million a year.

The report for the first time documents the impact of the New York fiscal crisis on the municipal bond market, putting to rest much of the recent debate about whether or not the entire municipal bond market has been adversely affected by the resulting erosion in credit confidence.

Since bonds being sold now will be outstanding for many years, the long-term impact of higher interest rates outside of New York is estimated to be between $800 million and $1.5 billion, the report states. The addition of MAC borrowing increases the lifetime costs by approximately $335 million.

The 40-page report was undertaken by Ronald W. Forbes, associate professor of finance at the State University of New York at Albany and by John E. Petersen, Washington director of the Municipal Finance Officers Association. Both Forbes and Petersen are economists and experts in municipal financing.

The study points out that the erosion of confidence in the municipal bond market has been linked to the financial collapse of the New York State Urban Development Corporation and the ensuing fiscal crisis faced by New York City and New York State.

The research indicates that the cost of short-term borrowing has also risen since July of this year. The increases, the report says, are most dramatic in the lower grades of municipal securities and are concentrated in the Northeastern United States. These increases have further inflated annual borrowing costs by $200 to $300 million.

In addition, the report documents that over $1.2 billion in state and local long-term borrowing has been cancelled or postponed since May of this year.

The report included data from 2,524 tax-exempt bonds issued between January and October of this year and says that the risk of municipal bonds has changed significantly since July of this year when the New York fiscal crisis surfaced as a major national problem.

In addition, the report contains a breakdown of what has happened to the municipal bond market in each state during 1975, assuming borrowing costs were at the level of 1974. It should be noted, however, that the volume of borrowing has increased by nearly 30 percent this year but the additional volume was not included in the study.

For example, the report shows the increase to the municipal bond market in Pennsylvania is $99.3 million while Montana and North Dakota increases are calculated at $300,000 each.

Attachment.

Costs of Credit Erosion in the Municipal Bond Market

(By Ronald W. Forbes[1] and John E. Petersen[1])

MAJOR FINDINGS

1. Recent erosion of credit confidence in State and local government bonds are increased borrowing costs on average for all State and local governmental borrowers. For State and local long-term debt sold the first 9 months of this year, credit concerns have added an additional $100 million a year in interest costs. This will accumulate to about $1 billion added interest cost over the life of these bonds that have been already sold.

2. Looking ahead for the year period starting in the third quarter of 1975 and noting the present deteriorated condition of investor confidence, it is estimated that annual interest costs on State and local bonds will be increased by $80 to $130 million for borrowers *other* than the New York Municipal Assistance Corporation. If MAC is included, the total annual increase would swell to between $130 and $180 million. Furthermore, it is estimated that the increased lifetime debt costs for borrowers other than New York State and MAC will amount to between $800 million and $1.5 billion. Addition of the MAC borrowings increases these lifetime costs to a total of $1.1 to $1.8 billion.

3. Borrowing costs have risen for all governments, but not uniformly throughout the nation. Since July, the estimated added cost due to credit concerns have increased municipal bond interest rates from a relatively small .08 percentage points in North Central states to .55 in the Middle Atlantic region. Based on recent borrowing levels, the resulting average increase in annual interest payments by states range from $8.2 million Pennsylvania to $25 thousand in North Dakota.

4. Other research results indicate that the cost of short-term borrowing has also risen since July of 1975. These increases, most dramatic in the lower grades of municipal securities and concentrated in the Northeastern United States, have further inflated annual borrowing costs by $200 to $300 million. This is in addition to the increases in bond interest costs reported above. In addition, over $1.2 billion in State and local long-term borrowing has been cancelled or postponed since May of this year.

INTRODUCTION

An erosion of confidence in the municipal market has been linked to the financial collapse of the New York State Urban Development Corporation and

---

[1] Ronald W. Forbes is Associate Professor of Finance at the State University of New York at Albany and John E. Petersen is the Washington Director and Economist of the Municipal Officers Association. The authors wish to acknowledge the generous assistance of Dr. George Kaufman, Visiting Professor, Stanford University, and the research team on the SUNYA Municipal Finance Study Group. They also thank the Securities Industry Association for data resources and the National Science Foundation for its assistance in their research of the municipal bond market. The views expressed herein are solely those of the authors.

the ensuing fiscal crisis faced by New York City and New York State.[2] Regardless of whether these events are viewed in themselves as causal factors or as symptoms of more fundamental forces at work, it is clear that the well-advertised crises have increased the uncertainty in the financial markets. Specifically, investors' perceptions of increased risk appear to be reflected in securities that share a set of risk characteristics similar to the New York credits. These similarities may be associated with a particular bond's rating category, size, location, type of security or, even, the fact that it is also a municipal bond.

Market uncertainty and investor risk perceptions cannot be observed directly; however, the effects of these factors can be observed in the risk premium or additional costs that are attached to municipal borrowing costs. This study detects and measures those costs.

Two methods are used to determine both the national and regional effects of the erosion in credit confidence and the assocated increase in State and local borrowing costs.

(1) A time series study is done of the relationship of municipal bond yields by rating category in order to detect the effect of changes in the risk premiums being charged to State and local bond issuers.

(2) A combination time series and cross-section study is made of the borrowing costs of a large sample of State and local government bond sales in order to discover the State and regional cost effects of changing risk premiums.

Both studies use different methodologies and data to test the hypothesis if the underlying rate structure of the municipal bond market has been influenced by the events of 1975, especially during the just completed third quarter. This is the period during which New York City and State have been unsuccessful in consummating the Municipal Assistance Corporation's financing plan for the city's debt and during which their financing problems have received great national attention.

In addition, brief analyses are made of increases in short-term borrowing costs and of borrowings not completed because of turbulent market conditions. The concepts, methodology, and results of these examinations are described below in detail.

Behavior of interest rates by credit risk category

The first relationship to be explained is the spread between highgrade and lower grade securities. Generally, highest quality securities represent the rate of interest that is virtually free of credit risk; that is, there is no risk of default or of some other payments difficulty. There are other investment risks, of course, that are unrelated to default risk, such as changes in interest levels, changing price levels, and for tax exempts, possible changes in tax treatment. These will be *imbedded* in the highest grade interest rate, along with a pure time value of money, or the real rate of interest. These other risks and the time value are also present in lower grade securities and, therefore, also shape the overall cost of borrowing, regardless of quality. Accordingly, one would expect to find the interest rate for any particular quality bond to be a function of (1) the level of tax-exempt interest rates for highest quality issues and (2) the credit risk factors associated with the lower quality.

To measure the risk premium associated with a particular credit quality of municipal bond, we will want to examine the ratio of the spread between the rates on highest and lower grade securities to the level of highest grade (zero credit risk) municipals. We use the rates published for new issues of municipal bonds by Moody's Investor Service.[3] Looking at the lowest grade class of bonds, Baa, we subtract the Aaa rate and form the following ratio:

$$\frac{\text{Baa}-\text{Aaa}}{\text{Aaa}}$$

This gives us the relative risk premium measured as the spread between highest and lowest grade issues (Aaa and Baa) as a percentage of the rate

[2] The term "municipal" as used in this context of the financial markets is a generic term of all State and local government debt. (Other footnotes will be found at the back of the paper.)

[3] The series for municipal bond new issue yields are the Moody's long-term (20-year) average yields on General Obligation bonds by Moody's rating. They are "constructed from a broad sampling of general market names selling in the new-issue market." Other market averages are available but Moody's gives the best breakdown by grade and is available for a long period (since 1937). Most interest rate averages over an interval of time, allowing for quality differences, have agreed closely. However, given the volatility of recent months, other series might show different results.

of interest on highest grade issues. If costs and risks other than those associated with credit quality were to determine in equal proportion the interest rates on all grades of bonds, we would expect this ratio to remain constant.[4]

However, the ratio has declined over time. There has been a well documented secular trend leading to a reduction in the spread between Baa-Aaa rates of interest. (See Table 1). This has been attributed primarily to the lack of defaults or declining credit risk in the lower grades over the past 40 years.[5] When combined with the generally rising levels of interest rates, including the Aaa rate, this means that until recently the relative risk premium has been declining over time.

Moving against this decline through time, however, have been intervals when credit risk might appear to be more of a concern (during times of fiscal stringencies caused by economic downturns) or when there have been impacts on the spread between grades relating to credit market conditions. The latter changes might reflect certain investor group preferences among grades and their differing needs for liquidity, current income, and tax shelter (as, for example, when commercial bank demand is heavy and their preference, for institutional reasons, is for higher grade securities at some sacrifice in yield).

Whatever the historical causes of fluctuating risk premiums, the recent concerns of the market over default and an avoidance of questionable credits should be evidenced in changes in rates of interest demanded to hold bonds of varying quality. To the extent such damages are extraordinary, we might say that they are due to the extraordinary dimensions of the present worries over credit quality.

To explain the behavior of the relative risk premium, several specifications of regression equations were reviewed; but, a straightforward relationship similar to models used by others to explain risk spreads rendered acceptable results.[6] It relates monthly observations of the relative risk premium, 1955 through 1975, to the unemployment level, the rate of change in unemployment, and time trend. (See Table 2)

TABLE 1.—NEW ISSUE MARKET YIELDS ON Aaa AND Baa RATED GENERAL OBLIGATION BONDS

[Annual averages]

Year	Aaa	Baa	Baa-Aaa
1955	2.10	3.06	0.96
1956	2.51	3.50	.99
1957	3.10	4.20	1.10
1958	2.92	3.95	1.03
1959	3.35	4.24	.89
1960	3.26	4.22	.96
1961	3.27	4.01	.74
1962	3.03	3.67	.64
1963	3.06	3.58	.52
1964	3.09	3.54	.45
1965	3.16	3.57	.41
1966	3.67	4.21	.54
1967	3.74	4.30	.56
1968	4.20	4.88	.68
1969	5.42	6.07	.65
1970	6.12	6.75	.63
1971	5.22	5.89	.67
1972	5.04	5.60	.56
1973	4.99	5.49	.50
1974	5.89	6.53	.64
1975 (9 mo)	6.36	7.49	1.13

Source: Moody's Investor Service.

[4] This says that all risk factors impact the particular rate of interest on a class of bonds in proportion to the level of the credit risk-free "Aaa" rate; i.e. the general level of rates is a scaler or multiplier of all credit risk factors in the determination of the risk spread (i.e., Baa-Aaa).

[5] See John Petersen, *The Rating Game*, pp. 39–50; George Hemple, *The Postwar Quality of State and Local Credit*, pp. 138–140; James Van Horne, *Function and Analysis of Capital Market Rates*, pp. 112–113.

[6] Van Horne, *Function and Analysis*, pp. 111–112. The reliance on the unemployment variables to gather the effects of cyclical conditions in the economy does not preclude their also registering changing financial conditions that are usually associated with downturns. Time did not permit a more thorough exploration of such possibilities, but it appeared in alternative formulations that increasing levels of unemployment were closely associated with an easing of credit that would reinforce a widening of spreads. One explanation is that banks put temporary excess loanable funds in liquid and higher grade municipals, pushing down Aaa rates relative to Baa rates.

TABLE 2

Variable Number	Variable Name	Regression coefficients	Standard error of regression coefficients	T-value with 245 degrees of freedom	Standardized regression coefficients	Partial correlations with dependable variable
0	Constant	30.7462	1.5280	20.1223		
1	Unemployment	1.2059	.2823	4.2713	0.1345	0.2633
2	Percent change in unemployment	.1108	.0812	1.3640	.0427	.0868
3	Time	−.1315	.0046	−28.2922	−.8833	−.8750

Notes

Coefficient of determination=0.7659.
Multiple correlation coefficients=0.8752.
Standard error of regression=5.2181.

ANALYSIS OF VARIANCE SUMMARY TABLE

Source of variation	Sum of squares	Degrees of freedom	Mean squares
Due to regression	21825.4802	3	7275.1600
Residuals	6670.8789	245	27.2281
Total	28496.3591	248	

Note.—F-ratio=267.1933 with 3 and 245 degrees of freedom.

To summarize the results, the estimated equation showed the relative risk ratio increased with the unemployment level and with the rate of change in unemployment. This would be consistent with periods of growing problems of confidence in the credit market or with increased liquidity concerns and bank investment preferences that typically have been associated with economic downturns.[7] There is also a powerful negative time trend in the risk premium ratio, reflecting over time the lessening investor concerns about credit risk in municipal bonds. Starting with a ratio of .31 in January 1955 (the table gives the ratio x 100), the annual downtrend was equal to an estimated shrinkage of .015 in the risk premium ratio throughout the period. Were it not for unemployment levels, the strong trend implies the risk premium would disappear for all practical purposes.

Inspection of the residuals of the above equation (the actual values of the risk ratios minus the estimated values) showed that, while the simple model did well in explaining the 20-year period, it seriously and systematically underestimated the risk premium value for 1975. These underestimates—the actual credit risk effects unexplained by the relationship—are shown in Table 3. While some attempts were made to explain these, their pattern, especially the surge in risk premiums in mid-1975, suggested that they were produced by a novel and rapid erosion in the perceived quality in lower grade municipals.[8]

To estimate, thus, the impacts of the 1975 credit erosion as reflected in the large and otherwise explained positive increases in the risk premium, the average values of the unexplained residuals themselves were used. As is shown on Table 4, the credit erosion impact on the relative risk premium was estimated to be .079 or 45 percent of the observed total value of .177 of the average Baa-Aaa risk premium ratio observed for the first 9 months of 1975. For purposes of comparison and later use, that table also shows the actual relative risk forces for 1974 and 1975 (first 9 months) for the other two major quality grades of municipal bonds. As may be seen, all the premiums obviously jumped sharply between 1974 and 1975.

---

[7] Commercial bank investment in municipals has tended to be countercyclical but both this effect and their secular buying interest have weakened, most notably in the current recession. See Robert Heffner, *Taxable Alternatives to Municipal Bonds*, pp. 154–167.

[8] The introduction of a dummy variable for 1975 in the reported equation to pickup the average linear effect gave a high impact of .14 for the relative risk ratio. While this might form an outside estimate for the credit erosion effect for 1975, we felt the value was also pick up some structural changes not essentially related to quality concerns and proxying, in part, the surge in unemployment. At .143 the calculated increase in Baa rates due to the "1975 shift" would be (.143 × 6.36) or 90 basis points. If treated as a purely quality-erosion effect, it would infer that 80 percent of the observed risk premium ratio was due to that cause. We elected to use the more conservative approach of average residuals from the equation given in Table 2 as shown in Table 3.

TABLE 3.—STATE UNIVERSITY OF NEW YORK AT ALBANY—MULTIPLE REGRESSION PROGRAM, CRISIS REGRESSIONS: MUNICIPAL, INDUSTRY SPREADS RUN 3 TUESDAY

[Observed and computed values of dependable variables and residuals]

Observed No.	Y-observed	Y-computed	Residual	Percent residual	Residual/se(y)
226	11.5546	6.1225	5.4321	47.0127	1.0410
227	8.5487	7.1757	1.3730	16.0612	.2631
228	10.8163	6.9139	3.9024	36.0792	.7479
229	9.1451	7.5918	1.5534	16.9858	.2977
230	8.7129	6.7819	1.9310	22.1624	.3701
231	9.8077	6.3168	3.4909	35.5939	.6690
232	11.1927	6.0605	5.1321	45.8526	.9835
233	7.1307	6.8308	.3000	4.2068	.0575
234	7.7311	6.2561	1.4750	19.0791	.2827
235	11.9874	6.4583	5.5291	46.1242	1.0596
236	11.2853	6.4434	4.8419	42.9043	.9279
237	10.6317	7.4060	3.2257	30.3404	.6182
238	12.5604	7.0771	5.4833	43.6558	1.0508
239	15.6766	8.3951	7.2815	46.4480	1.3954
240	12.7820	8.8864	3.8955	30.4766	.7465
241	16.5884	10.4925	6.0959	36.7478	1.1682
242	17.9530	8.8221	9.1309	50.8602	1.7499
243	15.4459	9.9692	5.4766	35.4570	1.0496
244	15.0155	9.6580	5.3575	35.6797	1.0267
245	16.5109	10.0071	6.5038	39.3910	1.2464
246	19.2675	8.0559	11.2116	58.1890	2.1486
247	18.9358	8.1483	10.7876	56.9690	2.0674
248	20.4687	8.2745	12.1942	59.5749	2.3369
249	18.8060	7.8890	10.9170	58.0507	2.0922

Durbin-Watson statistic of serial correlation=0.1647.
Residual sum of squares=6670.7695.
All processing completed.
6433 msec. ready.
Send.

Although the statistical results and their calculated residuals only apply specifically to the Baa–Aaa relative risk premium, inspection of the trends in rates by rating category confirmed that it is logical to infer risk premium impacts as having taken place on Aa and A interest rate levels. If we assume that the risk premiums for these two grades have been increased proportionally in the 1975 actual levels as occurred in the Baa–Aaa relationship (45 per cent of the observed ratio is due to credit erosion effects), we can derive interest rate impacts for each of the three quality classes arising from the shift in investor perceptions of relative credit quality.

As is shown in Table 4, we have calculated the estimated average increases in interest rates on Aa and A bonds for the first 9 months of 1975 on the basis of the increased risk premium associated with the credit erosion effect. This generates estimates of increases in 20-year borrowing reoffering yields (which may be taken as a good proxy for average borrowing costs) of .15, .38, and .51 percentage points for Aa, A and Baa bonds, respectively.

TABLE 4.—RELATIVE RISK PREMIUMS AND CREDIT EROSION EFFECTS, 1974-75

Moody's rating	Interest rate	(Rate—Aaa)	Risk premium ratio [1]	1975 credit effect [2]
1974:				
Aaa	5.89			
Aaa	6.04	0.15	0.025	
A	6.27	.38	.064	
Baaa	6.53	.64	.108	
1975 (9 mo average):				
Aaaa	6.36			
Aa	6.69	.33	.051	.15
A	7.21	.85	.133	.38
Baa	7.49	1.13	.177	.51
(Rate—Aaa)/Aaa rate.				

[1] (Rate—Aaa)/Aaa rate.
[2] The ratio of unexplained residual averages to actual values of Baa–Aaa risk premium ratio (0.079/0.177=0.45). The 0.45 ratio is also applied to actual risk premium ratios fro Aa and A rates. This value of the credit effect on the ratio is then multiplied by the average Aaa rate for 1975 to estimate the incremental rate effect.

Next, interest rate increase estimates can be applied to the dollar volume of bonds issued the first three quarters to estimate the incremental borrowing cost caused by the credit erosion that has occurred so far this year. This is done in Table 5. The effects sum up to $55 million in added first-year costs, excluding the MAC borrowings. These total $105 million in added borrowing costs so far in 1975 if the MAC's are included.[9] When multiplied by the average maturity or life of bonds, this implies a total lifetime borrowing cost increment of approximately $1 billion for all the 1975 issuances to date.

TABLE 5.—BORROWING COST INCREMENT DUE TO CREDIT EROSION EFFECT: 1ST-YEAR COSTS INCURRED SO FAR IN 1975

Rating class	Credit effect on rates	Borrowing [1] (billions of dollars)	Added cost [2] (millions of dollars)
Aaa		3.63	
Aa	0.15	5.07	8
A	.38	8.43	32
Baa [3]	.51	1.22	6
Unrated	.51	1.79	9
Subtotal		20.14	55
MAC borrowings [4]	2.00	2.38	48
Total		22.52	103

[1] Dollar volume of borrowing for 1st 9 mo of 1975 ("Daily Bond Buyer" data) with estimates of borrowing volume by rating category derived from 1st 7 mo actual distribution as tabulated by the Securities Industry Association "Municipal Market Developments," October 1975.

[2] Volume multiplied by credit effect value (percentage points), If New York MAC borrowings are included, total effect would be approximately $25,000,000 higher.

[3] The unrated bond risk permium and associated credit effects are assumed to be the same as those in the Baa category. No series exists for the unrated bonds, but prior research has shown that on averaae, the interest costs are quite similar to those on Baa securities. See J. Petersen, "The Rating Game", pp. 49–50 and G. Hempel, "The Quality of Postwar State and Local Debt", pp. 140–142.

[4] The Municipal Assistance Corporation borrowings of $2.38 billion have been substracted from the "A" rating class. The premium above-market rates is assumed to be 200 basis points for MAC.

Note.—To calculate the added cost over the life of issues due to credit effects take (averaae life of bond) × (annual added cost). For all bonds, except MAC, this is assumed to be 12 yr. For MAC bonds it is 7½ yr. This gives $660+$336,000,000, a total of $996,000,000 for bonds sold the 1st 9 mo of 1975.

TABLE 6.—RELATIVE RISK PREMIUMS AND CREDIT EROSION EFFECTS: 3d QUARTER, 1975

Moody's rating	Interest rate	(Rate—Aaa)	Risk premium ratio [1]	Credit effect [2] cost
Aaa	6.50			
Aa	6.90	0.40	0.06	0.23
A	7.62	1.12	.172	.64
Baa	7.75	1.25	.192	.73

[1] (Rate—Aaa)/Aaa rate.

[2] Unexplained residual for Baa, 3d quarter 1975, and ratio of unexplained to observed risk premium for Baa applied to observed risk premiums for Aaa and Aa (0.112/0.192=.058). The credit effect × Aaa rate equals interest cost increment due to credit concerns not explained by the equation.

What of the coming year period? Municipal bond risk premiums have grown through the year 1975 and as of the third quarter (July, August, September) they stood at considerably higher levels than the 9-month average used above. Again using the same basic procedure described above, it appears that 58 per cent of the third-quarter relative risk premiums could be explained by credit concerns. (See Table 6). Looking forward and positing a $30 billion annual rate of bond sales over the next year, we can then set a range of incremental cost effects due to credit erosion. The range is provided by the market quality discounts as estimated for the entire nine months of 1975 and by the higher rate effects observed in the most recent quarter of 1975. As shown in Table 7, estimates of increased first-year borrowing costs, *excluding* the MAC borrowings, range from $89 to $127 million. The lifetime added costs for bonds sold over the coming 12-month period, if either market conditions were to *improve* to the 1975 average or were to remain at the third quarter average, would

[9] Although the added rate impacts are calculated for 20-year bond yields as opposed to net interest cost (on the typically shorter average life), they probably serve as a good proxy for increases in net interest cost. This is because even though the average reoffering yield at 10 to 15 years is somewhat lower than the 20-year rate, once you add in the gross margin (the underwriting spread) the 20-year rate is usually quite close to the average effective interest cost paid by the borrower.

be $1.1 billion or $1.5 billion, respectively. With MAC included, these figures increase by an additional $335 million, for a high-side total of over $1.8 billion.

It is important to note that these credit erosion effects rest on the assumption that the Aaa "riskless" rate has not itself been influenced by the turmoil in the municipal bond market, but rather that all cost impacts are attributable only to the above calculated shares of the upward movements in the risk premiums on lower graded bonds. Although no statistical estimates have been made of the relationship between Aaa tax-exempt yields versus those on taxable Aaa securities, partial evidence indicates that the Aaa rate itself has shown upward pressure. This, however, may be related to overall market pressure associated with a large supply and lessened bank demand rather than to an erosion in credit confidence *per se*. In any event, there surely is no evidence that for the year, Aaa rates have improved in any absolute sense or in relation to taxable yields because of the flight to quality from lower grade tax-exempt bonds.

Last, it is necessary to consider another important component of state and local borrowing that has increased sharply in cost for lower grade issuers, that of short-term note financings. Comparison of a series of "AAA" and "A" grade short-term rates plus other reports indicates that the risk premium on these investments have risen sharply this year, especially in the third quarter.[10] There is evidence that the increasing of short-term rates, most likely attributable to credit concerns, probably accounts for an additional $200 to $300 million in annal borrowing costs. The vast bulk of this is absorbed by units in New York State and others located in the Northeast and Middle Atlantic region. These interest costs also will be increased yearly so long as the present risk premiums remain in effect.

TABLE 7.—RANGE OF CREDIT EFFECTS FOR FULL-YEAR BORROWING AT CURRENT ANNUAL RATE OF $30,000,000,000 1st-YEAR COSTS

Rating class	Borrowing (billions of dollars) [1]	Credit effect on rates [2]	Added cost (millions of dollars)
Aaa	3.99		
Aa	6.66	0.14–0.23	9–15
A	10.88	.38– .64	41–70
Baa	3.66	.51– .73	19–27
Unrated	2.43	.51– .73	13–18
Subtotal	27.62		82–130
MAC borrowings	2.38	2.00	48–48
Total	30.00		130–178

[1] Annual rate observed in 1975 for 1st 9 mo distributed by average distribution of sales by rating grade for 1973–74 (data from "Municipal Market Developments" February 1975).
[2] Rate effects due to credit erosion as derived in tables 4 and 6.

[10] 1975 short-term (1-year) tax-exempt note rates:

Month	Aaa	A	Difference	Average
January	3.70	5.00	1.30	
February	3.55	4.40	.85	
March	3.70	5.00	1.30	
April	3.90	5.75	1.85	1.43
May	3.70	5.50	1.80	
June	4.00	5.50	1.50	
July	4.20	6.00	1.80	
August	4.30	6.50	2.20	2.35
September	5.20	6.50	2.30	
October	3.40	6.50	3.10	

The above series of 1-year note yields (tabulated by The First National Bank of Boston's *Representative Money Yield*, end of month figures) shows a steep increment of approximately .30 basis points between Aaa and A (the Bank's own rating system) notes, between the first six months and July through October of 1975. There are two problems in developing sector estimates: (1) there is no series for the volume of notes outstanding by grade and (2) much intrayear borrowing is highly local and perhaps unreported. Nonetheless, looking at the estimated $12 billion in non-federally guaranteed notes and recognizing that perhaps half are issued by New York State jurisdictions where 1-year rates are at a 2.00 or 4.00% yield premium, it seems reasonable to estimate that short-term borrowing costs have gone up by $200 to $300 million at an annual rate, with the bulk of the effect being felt in the eastern United States. Approximately two-thirds of the State and local short-term debt outsanding have been issued by the nine states in the Middle Atlantic and Northeast regions.

Credit erosion effects by location and other characteristics of borrowers

The significantly higher costs of borrowing for New York State, New York localities, certain large cities, and various state agencies in particular have been cited as examples of the erosion in credit quality associated with the Urban Development Corporation, City of New York [11] and various other New York entities' credit crises.

At the same time, other examples have been advanced as evidence that the erosion in credit quality and confidence has not affected *all* state and local borrowers to the same degree. It may even be asserted that some borrowing units, of the highest quality, may have benefited by the flight of funds from lower-grade credits of "suspect" borrowers.

The following analysis seeks to evaluate the incremental costs of borrowing for governmental units in different regions and states as it may be associated with the recent erosion in credit quality. For this purpose, we have collected data on a sample of 2,524 tax-exempt bond issues over the period January 1974-October 10, 1975.[12]

For the period of the sample, net interest costs (NIC) generally rose through the period January 1974-September 1974. They remained high the winter of 1974 and declined, on balance, thereafter into February-March 1975. Following a volatile and uncertain rise in rates from March through June 1975, the upward trend in net interest costs accelerate through the third quarter.

These general movements in borrowing costs reflect several forces operating on the tax-exempt market (and, indeed, all capital markets) over the eighteen-month period. These include the credit crunch and the associated bank liquidity crisis which peaked during the third quarter of 1974; the rapid deterioration of the economy in late 1974; and the emerging fiscal pressures on state and local governments in 1974 and 1975.

Such conditions make it difficult to identify a specific date signalling a distinct erosion in market confidence about municipal credit quality. However, from the present perspective, it appears appropriate to identify the first offering of Municipal Assistance Corporation bonds at the beginning of July, as a pivotal event. After a very temporary spate of optimism, the municipal market quickly acknowledged that its capacity to absorb future offerings of "MAC" securities had been virtually exhausted in digesting the premiere offering of $1 billion dollars. Thus, the period beginning July, 1975, will be identified as the period during which significant incremental costs of tax-exempt debt can be associated with a general erosion in the market's perception of credit quality.

The analysis that follows separates variations in the net interest cost on the bonds in our sample into two general classes: effects that were evident in individual issues throughout the period and added effects that were associated specifically with those issues offered during the third quarter 1975.

To do this, we use the statistical technique of multiple linear regression to associate the variations in NIC on the sample bond issues with variations in the characteristics of the issuers; the characteristics of the issues; and with general market developments, including the credit erosion after July 1, 1975. The regression results are reported in Appendix Tables A-1 and A-2.

The first regression analysis attempts to measure any average increase in overall net interest costs after July 1. As noted in Appendix Table A-1, this regression analysis indicates that the average NIC was twenty-one basis points higher during the third quarter, even after all other effects related to differences in credit ratings average maturity; the level of market rates generally; and the type and size of issue have been taken into account.

This market *average* of twenty-one basis points does mask, however, the fact that the effects of the erosion in credit quality may vary substantially between issues. Therefore, a second analysis has been conducted to determine whether (1) there exist significant regional differences in borrowing costs; and (2)

---

[11] For example, see recent issues of *The Daily Bond Buyer*, August 26, 1975 p. 1; October 8, 1975, p. 20; October 15, 1975, p. 1; and October 23, 1975 p. 22.

[12] These data were supplied by the Securities Industry Association for the period January 1974–June 1975. Data on 428 bond issues sold from July 1, 1975 to October 10, 1975 were compiled from individual issues of *The Daily Bond Buyer*. Insofar as possible, the sample was constructed by identifying all reported new issues during the period for which complete data were available. In order to focus on rate effects other than those so highly visible in the MAC sales, the massive new issues of MAC bonds were omitted from this analysis. (Moreover there were no bond issues sold by New York State or New York City after July, 1975.)

such regional differences have become more marked during the recent market decline.[13]

The results of this analysis (reported in Table A-2) can be summarized as follows:

1. Regional differences in borrowing costs have occurred over the entire sample period, with municipalities in New York, other middle Atlantic states (including Puerto Rico), and Northeastern states showing significantly higher borrowing costs than, in particular, governmental borrowers in states in the North Central and South Central region.

2. On balance, the best estimates of the average costs of borrowing have increased for all regions since July. But, this incremental cost has varied considerably, from a relatively small 8.4 basis points for states in the North Central region to the markedly high level of 54.8 basis points in the Middle Atlantic States (excluding New York). These incremental borrowing costs are summarized by region in Table 8.[14] The regional grouping of states is identified in the Note to Table 8.

Thus, these two analyses clearly indicate that the underlying risk structure of municipal yields has changed significantly since July of this year.

The results of these analyses can be used to derive estimates of the added dollar costs of interest payments similar in scope to those derived in the time series study reported above.

As one measure of these added costs, Table 9 applies the 1975 (3rd quarter) regional effects to the 1974 yearly volume of new issues, by state.

As suggested by the estimates in Table 9, the overall costs of borrowing could increase on average for every state if the turbulent conditions created by credit concerns persist. More dramatically, the combination of markedly different regional impacts on interest rates and similar variations in volume create a wide range of incremental borrowing costs. Under current conditions, for example, Pennsylvania borrowers could end up paying an added $99.3 million in interest assuming an annual new issue volume of $1.5 billion in bonds. North Dakota and Montana, on the other hand, have been largely spared from the general market erosion. This, coupled with their very small volume of new issues evidently would lead to added borrowing costs of less than $500 thousand for a year's borrowing of $20 to $30 million.

Table 9 also compiles these regional effects and provides an estimate of the overall increased interest payments that could result if the current upward shift in rates continued for a year. If the annual volume of new issues over the next year period were equal to last year's volume of $23.4 billion, the added interest payments could amount to $99 million first-year costs or upwards to $1 billion over the life of this debt. If the rate of municipal bond sales stays at the current annual level of $30 billion, the lifetime costs would verge on $1.3 billion. These estimates agree closely with those derived in the first section of this paper.

Other effects of credit concerns

These may prove to be conservative estimates of the overall costs of the recent credit deterioration. As noted, short-term borrowing costs also have risen as a result of credit concerns. Furthermore, many issues scheduled for sale have already been rationed out of the market as a result of this credit crisis.[15]

A survey of reported displacements, furnished in Appendix Table A-3 and A-4 indicates that $1.2 billion in new issues withdrew from the market be-

---

[13] Previous studies of municipal bond rates have found these interest rates to be significantly different by region for otherwise similar bonds and borrowers. See Joseph Horton. "Statistical Classification of Municipal Bonds." *Journal of Bank Research*, Autumn 1970: Daniel Rubinfeld "Credit Ratings and the Market for General Obligation Bonds," *National Tax Journal*, March 1973.

[14] The estimates in Table 1 for local governments in New York State are somewhat surprising at first glance, in that the third quarter increment in average NIC (45.5 basis points) is less than the incremental cost for other states in the Middle Atlantic states. However. his may be explained by the fact that many issuers in New York may have been displaced from the market or otherwise deferred their borrowings in the light of the market uncertainties. Some evidence on displacements is provided in the next section of this report.

[15] Previous studies of municipal bond market cancellations and postponements of bond sales and reductions in capital outlays have shown theme to be very sensitive to bond market conditions. See John Petersen "Response of State and Local Governments to Varying Credit Conditions" *Federal Reserve Bulletin* (March, 1971).

tween April 1, 1975 and October 14, 1975, for reasons other than impending litigation. While some of these issues may have subsequently returned to the market in some manner, these reported figures do not include those bond issues that were withdrawn or postponed prior to public notice of sale. Thus, actual displacements could exceed $2 billion.[16]

Furthermore, the evidence suggests that the continued erosion of credit quality could result in a prolonged withholding of capital from those segments of the municipal market that are perceived to be the most risky. Postponements and "no bids received" can both bear silent witness to a complete rationing out of borrows whose riskiness is perceived as being beyond the acceptable risk calculations of the private market.

TABLE 8.—ESTIMATES OF THE EFFECTS OF 1975 (3D QUARTER) CREDIT EROSION ON STATE AND LOCAL BOND SALES, BY REGION

Region [1]	Estimated increment in net interest costs (in basis points) [2]	Region [1]	Estimated increment in net interest costs (in basis points) [2]
New York State [3]	45.5	South Central	17.5
Other Middle Atlantic	54.8	Pacific	21.4
Northeast	41.6	Mountain	13.4
North Central	8.4	South Atlantic	16.7

[1] See note to table 8 for listing of States in each region.
[2] A basis point equals 1/100th of a percentage point (i.e., 0.01 pct.).
[3] New York was considered a separate entity for purposes of the regression analysis.

Note to table 8—regional groupings of States

Pacific:
- Hawaii
- Alaska
- California
- Oregon
- Washington

Mountain:
- Idaho
- Montana
- Wyoming
- Nevada
- Utah
- Colorado
- Arizona
- New Mexico

Middle Atlantic:
- Pennsylvania
- New Jersey
- Puerto Rico
- New York [1]

North Central:
- North Dakota
- South Dakota
- Minnesota
- Iowa
- Nebraska
- Kansas
- Missouri
- Wisconsin
- Illinois
- Indiana
- Michigan
- Ohio

South Central:
- Oklahoma
- Arkansas
- Louisiana
- Texas
- Kentucky
- Tennessee
- Mississippi
- Alabama

South Atlantic:
- Florida
- Georgia
- South Carolina
- North Carolina
- Virginia
- West Virginia
- Maryland
- Delaware

Northeast:
- Maine
- Vermont
- New Hampshire
- Massachusetts
- Connecticut
- Rhode Island

[1] New York was considered a separate entity for purposes of the regression analysis.

[16] Bond sale displacements reported in the financial press have been found in the past to reflect less than 50 per cent of the actual dollar volume of delays and cancellations. See John Petersen "Impacts of Monetary Policy on State and Local Finance", Paper delivered in New Orleans to System Research Committee (April, 1969).

TABLE 9.—ESTIMATE OF EFFECTS OF 1975 CREDIT EROSION ON BORROWING COSTS BY STATE[1]

State	1974 bond sales ($million)	Added 1st yr interest costs ($thousand)	Added interest costs over life of issues ($million)
Alabama	$425	$743.8	$8.9
Alaska	161	344.5	4.1
Arizona	524	702.2	8.4
Arkansas	47	82.3	1.0
California	1,555	3,327.7	39.9
Colorado	387	518.6	6.2
Connecticut	557	2,317.1	27.8
Delaware	39	65.1	.8
Florida	789	1,317.6	15.8
Georgia	229	382.4	4.6
Hawaii	105	224.7	2.7
Idaho	54	72.4	.9
Illinois	1,086	912.0	10.9
Indiana	341	286.0	3.4
Iowa	143	120.0	1.4
Kansas	164	137.8	1.7
Kentucky	287	562.2	6.1
Louisiana	454	704.5	9.5
Maine	114	474.2	5.7
Maryland	570	997.5	11.9
Massachusetts	756	3,144.9	37.7
Michigan	708	594.7	7.1
Minnesota	694	582.9	7.0
Mississippi	131	229.3	2.8
Missouri	224	188.2	2.3
Montana	22	29.5	.3
Nebraska	133	111.7	1.3
Nevada	98	131.3	1.6
New Hampshire	85	353.6	4.2
New Jersey	943	5,167.6	62.0
New Mexico	215	288.1	3.5
New York[2]	600	2,730.0	32.8
North Carolina	254	424.2	5.1
North Dakota	30	25.2	.3
Ohio	939	788.8	9.5
Oklahoma	194	339.5	4.1
Oregon	403	862.4	10.4
Pennsylvania	1,510	8,274.8	99.3
Puerto Rico	840	4,603.2	55.2
Rhode Island	180	748.8	8.9
South Carolina	254	424.2	5.1
South Dakota	69	58.0	.6
Tennessee	283	495.3	5.9
Texas	1,450	2,537.5	30.5
Utah	64	85.8	1.0
Vermont	15	62.4	.7
Virginia	352	587.8	7.1
Washington	843	1,840.0	21.6
West Virginia	224	257.9	3.1
Wyoming	114	152.8	1.8
Total	20,980	50,871.2	625.7
New York City (MAC) plus New York State[3]	2,397	47,940.0	335.6
Total	23,377	98,721.2	961.3
With proportionate increase in annual volume of 28.3 percent	30,000	131.9	1,284.3

[1] This table applies the regional 1975 credit erosion coefficients to the 1974 volume of bond sales by States. These annual volume data are used to demonstrate the (implied) added permanent costs of financing over a "normal" year of bond sales, if the credit erosion effect noti ed since July was permanent. The average maturity of these issues is assumed to be 12 yrs.

[2] This is an estimate of annual volume excluding New York City and associated State financings.

[3] This estimate is based on actual bond financing (July–September 1975) at a premium of 200 basis points.

APPENDIX A.—BRIEF DEFINITION AND PRESENTATION OF REGRESSION RESULTS

A. Definition of variables

Studies of the variations in the net interest costs on municipal bond issues consistently have identified characteristics of the issue (*general obligation* v. *revenue;* average maturity); the issuer (particularly the credit-worthiness); and general market conditions. Accordingly, we have used the following independent variables in explaining net interest costs on the sample of 2,524 bonds sold from January 1974 to October 10, 1975:

Issue characteristics

Symbolic code:	*Definition*
AVEMAT	Average maturity, in years.
REVDUM	This variable is set equal to 1 if the issue is a revenue bond (0 otherwise). The coefficient of this variable is interpreted as the incremental cost in NIC relative to a general obligation bond.
Size	Amount of issue, in millions of dollars.

Issues characteristics

Ratings (Moody's):

AAA DUM=1 if issue is rated AAA, 0 otherwise.
AA-DUM=1 if issue is rated AA, 0 otherwise.
A-1—DUM=1 if issue is rated A-1, 0 otherwise.
A-DUM=1 if issue is rated A, 0 otherwise.
BA-1 DUM=1 if issue is rated BAA-1, 0 otherwise.
Unrate=1 if issue is unrated by Moody's.

NOTE.—These variables are specified to capture the effect of differences in Moody's ratings (used as surrogates of credit risk) on NIC. The omitted class is the BAA rating. Thus, the coefficients of each of these variables represents the increment in NIC for bonds of a given rating (say, AA) *relative to* BAA-rated bonds.

Regional variables:

NYDUMY=1 if issue is from New York State, 0 otherwise.
PACDUM=1 if issue is from Pacific region, 0 otherwise.
MTNDUM=1 if issue is from mountain region, 0 otherwise.
SCTDUM=1 if issue is from south central region, 0 otherwise.
SA-DUM=1 if issue is from south Atlantic region, 0 otherwise.
MA-DUM=1 if issue is from middle Atlantic region, 0 otherwise.
NE-DUM=1 if issue is from northeast region, 0 otherwise.

NOTE.—These variables are specified to capture regional differences in borrowing costs. The omitted region is the north central. Thus, the coefficients of these variables represent the increment in borrowing costs for the given region relative to the north central region.

Market characteristics

USG-B1=U.S. Treasury Bond Index, defined as the simple average of the yield on 5- and 20-yr Treasury bonds, weekly average for the week of each bond issue as reported in Salomon Brothers, *Bond Market Roundup*. This variable is specified to remove the effects of general market changes in the level of rates and the slope of the yield curve.

Third-quarter 1975 effects

M-6/75=Defined, for each issue as follows:=1 if issued during the 3d quarter 1975; 0 if issued prior to July 1, 1975.
NY6/75=1 if issue is New York issue during 3d quarter, 0 otherwise.
PAC6/75=1 if issue from Pacific region during 3d quarter, 0 otherwise.
MTN6/75=1 if issue is from mountain region during 3d quarter, 0 otherwise.
SCT 6/75=1 if issue is from south central region during 3d quarter, 0 otherwise.
MSA 6/75=1 if issue is from south Atlantic region during 3d quarter, 0 otherwise.
NE 6/75=1 if issue is from northeast region during 3d quarter, 0 otherwise.

NOTE.—The coefficients of each independent variable and the relevant regression statistics are reported in tables A-1 and A-2. While these reported results will be easily interpreted by anyone generally familiar with the methodology, some interpretation of the "3d quarter effects" variables is probably in order.

In table A–1, the regional effects are omitted completely from the analysis, and only (M–6/75) is specified as a shift variable for the last 3 mo. The coefficient of this variable is interpreted as the "average" shift in borrowing costs for all issues sold during the quarter (in our sample) relative to the prior 18 mo. This is a "net" effect after, for example, removing the effects associated with changes in all other independent variables (in table A–1) during this period.

Table A–2 attempts to allocate the overall average 3d quarter effect by region. Since Kaufman, among others, has identified regional effects in a prior period, we have entered 2 sets of regional variables. The first set (e.g., NYDUMY) measures the regional differences in borrowing costs for January 1974 to June 1975 relative to the North Central States (the omitted class). The 2d set of regional variables (e.g., NY6/75) measures the regional 3d quarter effect. In this regression, (M–6/75) is now interpreted as the 3d quarter effect for the North Central States relative to January 1974 to June 1975. Thus, for all other regions, the 3d quarter effects are the sum of the coefficients of M–6/75 and the region (e.g., 0.084+0.371=0.455 or 45.5 basis points for New York issues).[1]

TABLE A–1

Variable Number	Variable Name	Regression coefficients	Standard error of regression coefficients	1-value with 2512 degrees of freedom	Standardized regression coefficients	Partial correlations with dependable variable
0	Constant	−0.0006	0.3341	−0.0019		
2	AVEMAT	.0685	.0027	24.9381	0.4097	0.4455
5	AADUM	−.7570	.0803	−9.4319	−.2076	−.1849
6	AA-DUM	−.6213	.0663	−9.3719	−.2826	−.1838
7	A1-DUM	−.3981	.0662	−6.0129	−.1793	−.1191
8	A—DUM	−.2803	.0638	−4.1972	−.1450	−.0874
9	BA1DUM	−.0760	.0783	−.9694	−.0209	−.0193
10	UNRATE	−.1914	.0744	−2.5715	−.0596	−.0512
11	REVDUM	.4297	.0340	12.6342	.2079	.2444
20	USG-B1	.7257	.0414	17.5351	.2790	.1302
22	M-6/75	.2087	.0408	5.1172	.0814	.1016
31	Size	.0018	.0006	3.2170	.0487	.0641

Notes

Coefficient of determination=0.4672
Multiple correlation coefficients=0.6835
Standard error of regression=0.6576

ANALYSIS OF VARIANCE SUMMARY TABLE

Source of variation	Sum of squares	Degrees of freedom	Mean squares
Due to regression	952.4579	11	86.5871
Residuals	1086.2276	2512	.4324
Total	2038.6855	2523	

Note.—F-Ratio=206 2405 with 11 and 2512 degrees of freedom.

[1] For an example of this technique, see Michael Hopewell and George Kaufman, "Commercial Bank Bidding on Municipal Revenue Bonds: New Evidence," forthcoming on the *Journal of Finance*. For a study of regional effects see George Kaufman, "State and Regional Effects on the Interest Cost of Municipal Bonds", unpublished memo, June 1975.

TABLE A-2

Variable Number	Variable Name	Regression coefficients	Standard error of regression coefficients	T-value with 2498 degrees of freedom	Standarized regression coefficients	Partial correlations with dependable variable
0	Constant	0.0040	0.3319	0.0121		
2	AVEMAT	0.705	.0028	25.2236	0.4220	0.4505
5	AAADUM	—.7535	.0800	—9.4150	—.2066	—.1851
6	AA-DUM	—.6193	.0659	—9.3931	—.2816	—.1847
7	A1-DUM	—.4029	.0658	—6.1188	—.1814	—.1215
8	A—DUM	—.2885	.0634	—4.5523	—.1493	—.0907
9	BA1DUM	—.0691	.0779	—.8870	—.0191	—.0177
10	UNRATE	—.1601	.0741	—2.1621	—.0498	—.0432
11	REVDUM	.4394	.0338	12.9962	.2126	.2517
12	NYDUMY	.1784	.0750	2.3805	.0395	.0476
13	PACDUM	.0299	.0463	.6472	.0110	.0129
14	MINDUM	.0775	.0554	1.4007	.0229	.0280
15	SCTDUM	—.1323	.0417	—3.1737	—.0548	—.0634
16	SA-DUM	—.0679	.0546	—1.2426	—.0213	—.0249
17	MA-DUM	.1332	.0638	2.0866	.0347	.0417
18	NE-DUM	.0947	.0603	1.5713	.0266	.0314
20	USG-B1	.7215	.0411	17.5725	.2774	.3317
22	M-6/75	.0843	.0655	1.2877	.0329	.0258
24	NY6/75	.3713	.1885	1.9696	.0328	.0394
25	PAC675	.1302	.1224	1.0637	.0192	.0213
26	MIN675	.0509	.1536	.3314	.0056	.0066
27	SCT675	.0917	.1145	.8014	.0148	.0160
28	MSA675	.0834	.1270	.6564	.0121	.0131
29	MAS675	.4632	.1546	2.9952	.0520	.0598
30	NE5675	.3312	.1426	2.3229	.0412	.0464
31	Size	.0014	.0006	2.5017	.0385	.0500

Notes

Coefficient of determination=0.4815.
Multiple correlation coefficients=0.6939.
Standard error of regression=0.6505.

ANALYSIS OF VARIANCE SUMMARY TABLE

Source of variation	Sum of squares	Degrees of freedom	Mean squares
Due to regression	981.6318	25	39.2653
Residuals	1057.0537	2498.	.4232
Total	2038.6855	2523	

Note.—F-Ratio=92.7906 with 25 and 2498 degrees of freedom.

TABLE A-3.—LIST OF DISPLACEMENTS REPORTED IN "THE DAILY BOND BUYER"

Issuer	Amount	Purpose	Date, 1975	Reason for displacement	Rating
1. Pinellas County, Fla (Cleawater)	$10,800,000	Water revenue	Apr. 1	No bids received	A-1, A+.
2. Gulfport, Miss	9,465,000	Water, sewere revenue	do	do	Baa, BBB.
3. Harris Company Municipal Untilities District, Tex	1,930,000	Water, sewer	do	do	NR, NR.
4. Holiday Island, Ark	1,000,000	Improve limited tax	do	Only bid rejected	NR, NR.
5. Johnson County Water District, Kans	995,000	Water revenue	do	No bids received	NR NR.
6. Maryville, Tenn	1,750,000	Water, sewer revenue	do	All bids rejected	A-1, A.
7. Okaloosa County, Fla	2,100,000	Courthouse annex limited tax	Apr 8	No bids received	NR (MBIA AAA).
8. Boston, Mass	59,980,000	VP ULT	do	Present market conditions	A, A.
9. Pittsburgh, Pa	13,310,000	G.O	do	All bids rejected	A-1,
10. Los Fresnos CISD, Tex	2,550,000	Schoolhouse	Apr 7	do	Baa-1.
11. Rothschild, Hatley, Schofield School District, Wis	1,240,000	School building	Apr 8	Postponed	NR, NR.
12. Clintondale Community School District, Mich	8,000,000	do	do	All bids rejected	Baa-1, AA.
13. Pennington County, Minn	1,690,000	VP	do	Only bid rejected	Baa-1.
14. Toms River School District, N.J	5,465,000	School building	do	All bids rejected	A, NR.
15. Cincinnati, Ohio	2,200,000	Recreational facility	Apr 9	No bids received	
16. Terrebonne Parish, La	3,500,000	Drainage	do	do	A-1, A.
17. Rockland, Mass	2,645,000	School	Apr. 8	All bids rejected	A, NR.
18. Closter, N.J	6,000,000	Sewer	Apr 9	do	A-1, A.
19. Hanover Park District, Ill	3,300,000	Recreational facility refunding	Apr 15	No bids received	NR, NR.
20. Harrison County, Miss	3,996,504	County courthouse	do	Rescheduled for Apr. 29, 1975	A, NR.
21. S. F. Redevelopment Agency	210,000,000	Loose revenue	Apr. 16	Postponed-litigation	
22. Beechwood City School, Ohio	3,460,000	Various school improvement	Apr 15	All bids rejected	Aa.
23. Eufaula, Ala	3,000,000	School building limited tax warrants	do	do	Baa-1.
24. Nyssa School District, Oreg	2,354,000	School	Apr 14	do	A, NR.
25. Maywood School District, Ill	3,300,000	do	Apr 17	do	A, NR.
26. Forest Lake, Minn	400,000	Improvement	Apr. 7	No bids received	
27. Oklahoma City, Okla	2,100,000	Airport hazard	Apr 21	No bids received rescheduled May 6, 1975.	
28. Johnson County, Kans	836,458.18	Sewer	Apr 22	No bids received	Aa.
29. Bay Village City School, Ohio	950,000	Construction bonds	do	Canceled	Aa.
30. Giles County, Tenn	3,500,000	Hospital	do	All bids rejected	A, NR.
31. Memphis, Tenn	32,000,000	VP	do	Postponed	Aa, AA.
32. Jackson Electric Authority, Fla	40,000,000	Electric revenue certificate	Apr. 23	No bids received	NR, AA.
33. Topeka, Kans	7,500,000	Highway	do	do	A-1, AA.
34. Alvarado Independent School District, Tex	1,250,000	School building	Apr. 24	do	Baa-1.
35. Carson Redevelopment Agency, Calif	15,000,000	Redevelopment project	Apr. 29	do	BBB.
36. Chatham Township School, N.J	3,550,000	School building	May 5	Postponed	Aa.
37. Hempstead, Tex	350,000	Utility revenue	Apr. 29	All bids rejected	
38. Cleveland-Cuyahoga County Port Authority, Ohio	2,525,000	TAN	May 9	do	NR, NR.
39. Harris County Municipal Utilities District, Tex	1,400,000	Sewer ULT and revenue	May 14	No bids received	NR, NR.
40. NYC BAN'S	280,000,000	Couldn't negotiate			
41. NYC Housing Authority	24,610,000	Temporary loan notes	May 20	No bids received	

42. New Richland, Minn	725,000	Refunding	May 13	Postponed	
43. Excelsior Springs, Mo	3,375,000	Hospital revenue	May 19	No bids received	BBB.
44. Northgate Utility District, Tex	6,500,000	Water, sewer	do	Postponed	NR, NR.
45. ABC, USD, Calif (La)	2,090,000	School	May 20	No bids received	NR, NR.
46. Dade County, Fla	25,000,000	Aviation BAN's	May 21	do	MIG 2.
47. Franklin County, Tenn	1,500,000	School	do	do	A, NR,
48. Saddleback Valley, USD, Calif	5,340,000	do	May 27	do	NR, NR.
49. Country Club Hills, Ill	3,450,000	Water sewer	May 28	do	NR, NR.
50. Alabama Public School and College Authority	30,000,000	Various	June 4	Excessive interest costs	AA.
51. Hammond Sanitary District, Ind	2,200,000	Water, sewer	do	No bids	Applied for.
52. Forest Lake Independent School District No. 831, Minn	5,670,000	School	June 10	do	Baa-1 not requested.
53. Educational Facilities Authority, N.J	5,710,000	College revenue	June 11	do	A/A.
54. Newark, N.J	11,000,000	Various	June 18	All bids rejected	Baa, BBB.
55. Franklin County, Tenn	1,500,000	School	do	None	A[1] not requested.
56. Sandwich, Mass	11,200,000	do	June 19	Postponed	A-1, NR.
57. Higher Educational Faculty Authority, Pa	15,095,000	College revenue	do	No bids	Baa-1, A.
58. Troy, N.Y	4,045,000	Various	June 20	Rejected	Baai
59. Riviera Beach, Fla	1,000,000	Water, sewer revenue	June 25	Canceled	
60. Inglewood, Calif	5,000,000	1972 water revenue	June 26	Rejected	Baa-1, BBB+.
61. Wayne Township, N.J.	6,495,000	General improvement	June 27	do	A-1, NR.
62. Marlboro township, N.J	1,031,000	do	June 30	do	Provis. Rat/NR.
63. Canton, Minn	45,000	Building and fire hall	July 9	No bids	
64. Bulter County, Ohio	300,000	Garage and refuse disposal	July. 16	Rejected	
65. University of S.C	5,500,000	Student facility revenue	do	do	A, A+.
66. North Dakota State Lab Commission	1,100,000	Lab fee revenue bonds	July. 17	do	A, NR.
67. Fort Lee School District, N.J	4,140,000	School	July. 18	do	A-1, AAA.
68. Harris County Municipal Utility District, Tex	2,370,000	Water, sewer	May. 29	No bids received	NR, NR.
69. Sommerville, Mass	6,189,000	VP	Aug. 13	Postponed	
70. Alto Independence School District, Tex	950,000	School building	Aug. 19	do	NR, NRS.
71. Arlington, Tex	4,000,000	Various, limited tax bonds	do	Only bid rejected	A, A.
72. Solano County, Calif	2,000,000	Lease rental revenue	Aug. 21	Postponed	NR (MBIA, AAA).
73. Minnesota-St. Paul Metropoliton Area, Minn	52 400,000	Refunding	Aug. 18 to 22	do	
74. Troy City School, N.Y	5,500,000	School Building	Aug. 21	All bids rejected	A, AA.
75. Minnesota Higher Educational Coordination Commission	16,000,000		Aug. 25	do	A, AA.
76. Lake LBJ, Tex	500,000	Utility district	Aug. 21	No qualified bids	
77. Pasadena Redevelopment Agency, Calif	3,500,000		Aug. –	Canceled due to technicality	
78. Mendota Heights, Minn	600,000	Improvement	Sept. 2	Bids returned unopened	
79. Erwin, Tenn	625,000	Hospital	Aug. 27	All bids rejected	
80. Ankeny Community School District, Iowa	750,000	School	Sept. 8	Postponed	A, NR.
81. Port of Seattle, Wash	16,000,000	VP	Sept. 9	No bids received litigation	Aa, AA.
82. Winter, Conderay and Radison School, Wis	1,700,000	School building	Sept. 8	Postponed	Baa-1.
83. Tracy School District, Calif	600,000	School	Aug. 26	No bids received	
84. Green Isle, Minn	45,000	Municipal building	Sept. 8	Postponed	
85. River Falls, Wis	950,000	Prommisory notes	Sept. 9	Bids returned unopened	NR, NR.
86. Columbiana County Junior Vocational School, Ohio	245,000	TAN	Aug. 28	No bids-litigation	
87. North Bergen Township, N.J	3,776,000	General improvement	Sept. 25	Only bid rejected	Baa-1, BBB+.
88. Marta Special Improvement District, Mont	306,000		Sept. 22	No bids received	
89. Atlanta, Ga	7,500,000	Water, sewer	Sept. 30	do	A-1.

"TABLE A-3.—LIST OF DISPLACEMEMTS REPORTED IN "THE DAILY LAND BUYER"—Continued

Issuer	Amount	Purpose	Date, 1975	Reason for displacement	Rating
90. Mount Olive Township, N.J	422,000	School	Sept. 22	All bids rejected	
91. Virginia Public School Authority, Va	11,530,000	School finance	Sept. 30	do	Aa, AA.
92. Tallahassee, Fla	30,000,000	Power revenue	Oct. 1	No bids conforming with notice of sale	A-1, AA.
93. Erwin, Tenn	625,000	Hospital	July 22	No bids received	
94. Unicoi County, Tenn	625,000	Hospital	do	do	
95. Erie County, N.Y	33,800,000		July 29	Postponed	
96. Buffalo Sewer Authority, N.Y	35,000,000	Sewer	do	No bids received (no investor interest for bonds).	Baa-1, A.
97. Wm. Floyd School District, N.Y	5,000,000	BAN renewal	July 28	All bids rejected	
98. Wisconsin	7,265,000	FFC Go's	July 29	do	Aaa, AAA.
99. Park Ten Municipal Utility District, Tex	50,000	BAN	Oct. 14	do	
100. Buffalo, N.Y	17,501,000	BAN	Oct.1	No bids received (portion sold)	
101. (Santa Fe) N. Mex	3,000,000	College student loan revenue	Oct.7	No bids received	NR, AA.
102. College of Charleston, S.C	1,800,000	Student and faculty house revenue	Oct. 8	Only bid rejected	A, BBB+.
103. N.Y. State Job Development	10,000,000		July 22	All bids rejected	Aa, AA.
104. Oregon (Portland)	1,600,000	State board of higher education facilities.	do	Only bid rejected	Aaa, AA.
105. Union County, N.J	3,591,000	Public improvement	July 24	All bids rejected	Aa, AA.
106. Ventor City, N.J	2,038,000	VP	do	do	Baa-1.

TABLE A-4.—SUMMARY DATA ON REPORTED DISPLACEMENTS

	Total displacements (bonds and notes)	Dollar amount of total displacements (bonds and notes)	New York displacements (bonds and notes)	Dollar volume of New York displacements (bonds and notes)	Regional [1] displacements (bonds and notes)	Dollar [1] volume of regional displacements (bonds and notes)
Total (including litigation).	107	$1,404,455,962	9	$415,456,000	27	$577,093,000
Percentage	100	100	8.4	29.6	25.2	41.1
Total (excluding Litigation.	104	$1,178,200,962	9	$415,456,000	27	$577,093,000
Percentage	100	100	8.7	35.3	26.0	49.0

[1] Regional includes New York, Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, Pennsylvania, and New Jersey.

	Total number of displacements	Total number as a percentage	Total dollar volume of displacements	Total dollar volume as a percentage
All bids rejected	43	40.2	$233,207,000	16.6
No bids received	41	38.3	562,213,458	40.0
Postponed and other	23	21.5	609,025,504	43.4
Total	107	100.0	1,404,445,962	100.0

	Total number of displacements	Dollar volume of displacements
Moody's rating:		
Aaa, Aa	14	$320,782,458
A-1, A	27	221,295,504
Baa-1, and below	15	110,734,000
Not rated	21	103,560,000
Not available	30	648,074,000
Total	107	1,404,445,962

Chairman HUMPHREY. Thank you, Governor. Thank you very much. That was very powerful testimony and the Nation needed to hear it. I am very pleased that there will be literally hundreds of thousands, I believe millions of people today that will have heard your voice and what you have had to say.

Many of the answers to problems of New York rest in public understanding. And it's my judgment that that public understanding is growing by the hour, because the American people are beginning to sense exactly what you have told them in this testimony. I might add that one of the most reassuring signs of today is the grit and determination of the people of this State and this city to not permit default or to go under, even though they have an adverse response from the administration.

They are determined to see it through. And depending hopefully upon the Congress to be of some help. You know of the problems we face there in the Congress, with the potential of a filibuster, with the lack of leadership at the executive level on this. As we are here this morning, Senator Mansfield, along with other members of the Congress, of the Senate in particular, are meeting with the President in the hopes to change his mind.

We desparately need a presidential leadership role in this rather than a presidential premature veto. We need encouragement, because with that encouragement, all these pieces that you have outlined can be put together into a very constructive program.

Mr. CAREY. Senator, I wish you were there, but I am very glad you are here. If you have one word to say to the President, please get this message across to him. If unemployment in New York City alone were reduced by half, to an acceptable level of 6 percent, do you realize we would generate in terms of revenues on the present base over $800,000,000 for the city, State and Federal coffers?

We would be producing the money through the paycheck that is needed to cut the city budget deficit, to handle the State and to help with the Federal deficit. We want to help the United States. We don't want help from the United States. We can only do that if you don't get work.

Chairman HUMPHREY. And, of course, you are speaking only in terms of 1 year. If you get $800,000,000 of additional revenues this year, it improves each year.

Mr. CAREY. When you were a presidential candidate, we had unemployment at lower than 4 percent, and a growth rate that was going along at 8 percent, and an inflation rate of 3 percent. You know the factors. They were in the fact that we provided programs that were available to the States in every sector, from transportation to health to housing. Those weren't giveaway programs. We used them. We would like to use them again, but they are not on the books now. They have been repealed.

Chairman HUMPHREY. Governor, I tried to emphasize in my opening statement that the default on the policy of full employment has precipitated in many parts of our country a major disaster. You mentioned the unemployment rate here in New York City.

Mr. CAREY. Eleven percent across the State.

Chairman HUMPHREY. And we can go into areas like Detroit, Phoenix, Arizona, the Los Angeles-San Francisco area, and we find incredibly large numbers of unemployed people who are anxious to go to work. You and I both know, having been in government as long as we have, that there is undoubtedly waste, which is our constant problem. As government grows larger, that waste sometimes becomes more unmanageable.

Therefore, the necessity for better planning, better use of the tools of management is paramount. But after you have checked out all the waste, and we must do that, the simple fact is the greatest waste of all is the waste of the productive capacity of this country, the waste of individual skills, of individual productive labor, the waste of unemployment.

And I think your testimony that we include, not only as you have given it orally, but also your prepared statement, documents this beyond question of doubt. If this country were back to even a 6 percent unemployment level, as you have indicated, not only New York, but if we could reduce unemployment by 2 percent, we could reduce the budget deficit by approximately $20, $30 and $40 billion.

If we could reduce unemployment at a flat level by 2 percent, we woud reduce the Federal deficit between $30 and $40 billion. I think it would be closer to $40 billion, and get this economy of ours into manageable proportions.

But the simple fact is that here in New York, and I noticed your documentation, that here in the City of New York, unless something is done, there is going to be a rapid deterioration that will result in almost catastrophic proportions of unemployment, welfare, and ultimate Government cost. The question isn't whether the Federal Government will help. It's when and how.

Mr. CAREY. Correct.

Chairman HUMPHREY. And what we have is two choices. The humiliation, the disgrace, and the shame and the punishment of bankruptcy on the one hand, which solves problems only by dissolving people and their hopes; or whether or not we are willing to do for our own city and our own states what we have done for about 75 nations around the world.

Now this Government saw fit at one time to help our Western European neighbors in the greatest plan and program of economic recovery the world has even known, called the "Marshall plan." We put on the line in those days, and that's back in the '40's and early '50's, a commitment of anywhere from $15 to $20 billion, which translated into today's figures, I imagine we could say would be approximately $100 billion. We committed it. And they knew what they had to work with. And out of ashes and rubble and disaster and poverty and disease and the residue of war, within less than a generation, within less than 20 years they rebuilt a whole society. I just can't understand, for the life of me, why we can't learn from that precept and example.

Now you have things to do, Governor. I am so impressed with your testimony that I can only say that this committee is proud of the fact that it initiated, when others were afraid to move, we initiated the first hearings on the problems of the city of New York. That is the duty of this committee. We have a responsibility to monitor this economy. Senator Javits is deeply concerned about his State and his city, asking this committee to work and to look into the problems and see what we can do.

Mr. CAREY. May I make this comment, Mr. Chairman? You said that you question not whether the Federal Government is going to act, but how and when. That is precisely the answer. And what we see now is this: The question as to whether we have default, bankruptcy, and then the intervention of the Federal Government with guarantees or whether we have it in order to prevent the loss of value and the disgrace of a default and bankruptcy. So it's a question of when.

Because the guarantee, obviously to anyone who studies this on an impartial basis, would be needed regardless of whatever program ensued after the bankruptcy. So it's a question as simple as this. Is the ounce of prevention called a guarantee less costly than the pound of cure which would have to come to this city and State of New York after bankruptcy?

My answer is, obviously, the guarantee which we paid off and indeed, produced revenue for the Federal Government of a live city is much better than trying to push Federal dollars into a city in collapse. It's that simple, in my estimation.

Chairman HUMPHREY. And I think the public needs to know there is no bailout. The Federal loan or bond guarantee doesn't cost the taxpayer one nickel.

Mr. CAREY. Bankruptcy is the bailout.

Chairman HUMPHREY. And that is the cost.

Mr. CAREY. When the city has no resources to meet its needs, it can only turn to one place, the Federal Government. We in the State of New York have stretched ourselves to the limit of our resources and beyond. We have put nearly a billion and a half dollars of State money forward, in terms of advances of welfare payments, advances of all kinds, and $750 million of that in terms of loans to MAC which supports the city, the State agency. But we can go no further.

And our State credit is indeed now contaminated, to a degree, because of the stretchout we properly made to the city. So we have no cash to put into the city. Inevitably, then, the cost of bankruptcy must be borne by the Federal taxpayers. Let them not be deluded about that.

Chairman HUMPHREY. Senator Javits.

Senator JAVITS. Thank you, Mr. Chairman. I will take only 5 minutes, because we know the Governor has to get on his way.

You said the cost of bankruptcy, Mr. Governor, will be borne by the United States. You also state, in the course of your testimony here in the last few minutes, that the city and State governments will have to look to the Federal Government if we go bankrupt, for essential services.

Isn't it a fact, Governor, that what you mean is the 8 million people of the City and the 18½ million people of the State who are citizens of the United States—forget about the local and State governments, let's indict them in any way we want to in the White House for anything they please.

The fact is that you cannot fail to take care of the 8 million in New York and the 18½ million in the State and that they, through me, I am their Senator, will turn to the Federal Government and say, "You didn't want to be the mayor of New York, and you certainly don't want to be Governor of New York, but you have got it now, you have got to be, or you will have such turmoil in this city and State as will turn the country on its ear." Do you agree with that?

Mr. CAREY. Thank you, senator. Because the people have endured so far and done very well. But in the certain fact of bankruptcy, there is no way in which we can go and get money to provide services. Only the Federal Government can put that money up. And we are trying to avoid that point.

Senator JAVITS. One other point which seems to me incredible. It's incredible to American ears to hear the President and the Secretary of the Treasury talk about punishing eight million people.

Therefore, I ask you this question: It is said we are to be taught a lesson which is to be burned into the consciousness of the people of all the big cities in this country.

Isn't it a fact that what is being done is to teach a lesson to the people of the United States that the crisis of the cities has gone to such an extent that if New York goes, must they follow just like tenpins, because the same problems, and I have just read them, from Pennsylvania, Connecticut, New Jersey, the same problems that we are failing, that are causing us to topple are exactly the problems which will cause them to topple next year or the year after or 10 years from now.

But if you put New York into bankruptcy, that it does it now, right now, they will all go, one after the other. And the United States will have to take it over in bankruptcy, not just New York, but in city after city in this country. And it's the people of our country who will be taught that terrible lesson, that the ultimate responsibility is the Federal Government. If it doesn't do it providently, then it's going to do it wastefully, improvidently, and destructively.

Do you agree with that?

Mr. Carey. I not only agree with you, I point out to you that the ripple effect has taken place and at this very moment the Comptroller of New York, Mr. Levitt, is currently on work in the city of Yonkers in Westchester County.

Westchester has a Triple A credit rating. Yonkers will default in December on $17 million. And it will spread. Because who would invest, indeed, in money credit anywhere in this country if you knew that there is a new form of Bankruptcy Law under which the burden of the credit can be quickly slipped off the shoulders of the public officials responsible and transferred to a Federal receiver?

Who would buy knowing that we have changed the statutes of the United States to make bankruptcy more fashionable, indeed, more of an accommodation, for communities who don't want to pay on their full faith and credit notes. That is the big point.

This isn't a moral obligation here or a corporate offering or some kind of equity that will be failing. It would be the full faith and credit, and it's good, it's sound. The difficulty is, that with the impact of the economy, of inflation, of unemployment, the city was spending to try to cope with that condition, and borrowed beyond its means.

It still generates $11 billion a year in terms of purchasing power, as a city. It still can generate that and make a contribution, as it has made, of $12 billion a year to the Federal Treasury in taxes. But not when it's flat on its back.

Senator Javits. My final question is a very delicate one, and you may refuse to answer, if you should. But it relates to the credit of our State.

The President can say all he wants to about communities having gone. But nothing approaching New York City has ever happened to our country, in the worst of the depression.

But isn't it a fact, that it's unheard of for a State to go and that our State will be perilously close to that point? And the Federal Government must say, "No matter what it costs," we all know that and the President knows it, too, if New York City goes into bankruptcy.

Mr. Carey. If the city goes into bankruptcy, immediately there will be the collapse of the agencies, the moral obligation of the agencies that I spoke of.

Their needs through the end of the fiscal year, ending July 1—that is the city's fiscal year—but through that year, are approximately $2.6 billion, which normally they could borrow in the capital market.

But they will be unable to do so if New York City defaults. That means the default of those State agencies, those are not full faith and credit agencies of the State.

I want to respond to your question because it's a sensitive one. We must distinguish those agencies from the State itself. We can make that distinction. But the discerning bond buyer, no matter how exquisite his examination, will not make the distinction between New York State agencies and New York State.

I conferred with bankers yesterday, Sunday, convened them in my office. I asked them the question, if there is a default of New York State, if that is followed by the default of the State agencies, what is the outlook for the heavy State borrowing we normally take to market in April and March of this coming year, 1976, for the school budgets of the State, the contributions we make to the localities? What is the outlook?

The answer was there would be no market perhaps—and you can stripe the "perhaps"—under those conditions, no one could point to a market that would exist for the securities of the State of New York. The best securities in terms of full faith and credit in the United States, we have a balanced budget, as a matter of State and city law. It will be a balanced budget every year that we are a State. When a State with full faith and credit and a balanced budget cannot borrow, indeed, what are the consequences? I don't know. And I fear most, the unknown. And we are plunging into the unknown by letting bankruptcy happen.

Because the public at large and investors across this country would say, "What is the difference between the full faith and credit of New York City and the full faith and credit of New York State?" I know there is a difference, but would the public who invests? My answer would have to be the State will be severely impaired, and we cannot rule out the bankruptcy of the State of New York.

Chairman HUMPHREY. Congressman Moorhead?

Representative MOORHEAD. Governor, have you and your advisors had a chance to study the legislation that is now going through the Congress, particularly, H.R. 10481, that was reported by the House Banking Currency and Housing Committee?

Mr. CAREY. I have had an opportunity to look at the bill, and we have had the staff studying it. There are some changes we would like to see in the bill. But given the alternative, yes, we support the bill.

Representative MOORHEAD. Maybe for the record, or if you want to do it now, tell me what are the unacceptable provisions of the bill that you want to change.

Mr. CAREY. The composition of the Board is such that the Federal officials involved have the determination on the acceptibility of the plan that would be originated by the City and, indeed, by the State.

We would like to see some way in which the Emergency Financial Control Board, which we now have in place by State law, which has taken over the affairs of the city of New York, would be able to work on a Federal plan to be advanced and to be ratified by that Board and have more action and activity by the State in the preparation of the plan and, indeed, not have, however, the capacity in that Board to perhaps distort, by a lack of information, the impact of the plan.

The composition of the Board on the House side, I believe, includes the HUD Secretary and the HEW Secretary. And you have EEOO—you do not include the Secretary of Labor, I believe.

Representative MOORHEAD. That's correct.

Mr. CAREY. We would like to see the Secretary of Labor there. Because, frankly, the plan should incorporate those kinds of activities which will help people get back to work.

Representative MOORHEAD. I think that is an excellent suggestion. I will talk it over with other members of the committee. I think you have said this before, but I think it bears repeating. President Ford said last week that the City and the State do have sufficient resources to avert a default.

In your opinion, is that or is it not true?

Mr. CAREY. Congressman Moorhead, I never misled a member of that body in my life when I was with you. I have to say on an oath, that we do not have the resources to avert a default in New York State and New York City.

We have done everything possible. We have tried to mandate the Pension Funds of the State employees, and our highest court in the State ruled against that. We don't have those resources available. Further, we can't borrow. The way we are currently conducting the affairs of this State is that the State Controller is actually carrying on interior borrowings by using funds he has on hand to stay out of the capital market.

But the capital markets are closed. They certainly would be ironclad closed, shut and padlocked in the event of bankruptcy. We don't have the resources to avert a bankruptcy. All we need, though, is that loan guarantee to say that because New York is committing its own resources, it can avert bankruptcy.

We will add taxes in order to balance the State budget and in order to close the gap in the city budget each month. But you can't select taxes in advance. Therefore, we need the time for those revenues to be accumulated. That is why we need time and the guarantee. Let me talk about the unreal world, though, for a moment, in Washington.

Representative MOORHEAD. That is exactly the question I was going to ask. There are rumors going around that there is in the works some sort of a complicated emergency financial program that New York State and city are working on so that Federal legislation will not be necessary. You know Washington, you know the way rumors go around. It's an unreal world. But we have to deal and dispose of it. Is there such a complex financial program feasibly legal, workable?

Mr. CAREY. What we are trying to do is to put into formation the very matters that are in that bill, so that having taken those steps, as a State you might not have to impose them as a Federal Government. We are trying to correspond to the preliminary features of the House bill. That means we have to cope with our pension funding program. That means we have to know where to get the resources if we had a guarantee.

So we are looking, indeed, at the possibility of potential investment of pension funds and guarantee. We are looking, as well, to amendments of the financial plan that would close the gap even further.

Over this weekend I worked with leadership on a potential tax package. We certainly don't need and can't stand a higher tax over the long period, in New York State. But we would even go that far as to accept emergency tax burdens in order to close the gap and qualify for the guarantee. That has been prepared over this weekend, at my insistence, with access to the banks, the union leaders, the elective leaders, all that is going on.

But it rests on one essential: That the missing piece, the return to the capital market, can only come if the Federal Government helps us open the door.

Representative MOORHEAD. Governor, you are doing a great job for the State of New York, and your former colleagues are very proud of you.

Chairman HUMPHREY. Governor, I think I should just note for this part of the record, because I know you must be running, that our staff study brings to the attention of the public that in the event of default there may be serious legal constraints on the market entries.

State laws in 34 States of this Republic instruct banks, insurance companies, fiduciaries, and other businesses about the types of securities that are permissible investments. These laws often preclude issuance of securities of an issuer that have been in default. Some of these laws prohibit investment for up to 10 years.

In case of a default, California law would prohibit California banks from purchasing New York securities for a period of 10 years after default. So if you force default upon a city, it's like a continuing disease. What this city needed was a friendly doctor with a good prescription and what it got was a cold-eyed mortician, in the hopes of resurrection.

Mr. CAREY. Senator, I concur thoroughly. As the Governor of New York State, I don't want to lead a beggar to Washington. We want to be a builder in the United States, that we have been for our entire history. We ask for the opportunity to rebuild the economy of New York.

Senator JAVITS. Mr. Chairman, I just want to add a fact to my question. There were no defaults by States during the Great Depression, and at least one State, and maybe others, Arkansas, was obliged to take over the debt of its own communities of $53 million. But there were no defaults by States. This would break the whole Federal concept, the union concept, if New York State defaults.

Chairman HUMPHREY. Thank you very, very much, Governor Carey. If we can be of help, we want you to know that.

Mr. CAREY. Thank you very much.

[Applause.]

Chairman HUMPHREY. Governor, I would like to speak to you. Why don't we recess the hearing for about 5 minutes?

[Whereupon, a brief recess was taken.]

Chairman HUMPHREY. Mayor Beame, as you know, we have just listened to the excellent testimony of the Governor, Governor Carey. The three of us here on this committee have had an opportunity to visit with you and the Governor on matters relating to difficulties in the Congress.

We welcome your presence here. We know this is a very severe ordeal through which you are going and we extend to you our good wishes and our hopes for success in your determined efforts. With that, we would like to have you proceed with your statement. We shall limit our questioning, because we know you have other things to do and we have a number of other witnesses. Please proceed.

STATEMENT OF HON. ABRAHAM D. BEAME, MAYOR OF THE CITY OF NEW YORK

Mr. BEAME. Thank you very much, gentlemen.

First I would like to express my thanks not only for myself, but for the 8 million New Yorkers who I know have not only sympathy, but much more important, your support in trying to help any catastrophe which this city might be faced with after December 1.

I particularly want to thank you for inviting me to testify on the problem of unemployment. Especially as it exists in New York City.

This is a particularly important forum for the city, because it cuts away much of the superficial speculation regarding the immediate financial crisis confronting us and focuses on the root causes of the urban dilemma. I speak of the poor performance of the national economy since 1969.

National economic policies in the past 6 years can be summed up as an abdication by the central Government of its responsibilities to all the people. Those policies discriminate unjustly against some segments of our society. Moreover, they foolishly jeopardize the wellbeing of the whole country.

This administration apparently pursues an anti-New York, antilarge city policy. It publicly defends a local assistance policy which aggravates the fiscal problems of local governments. It drags its heels on a housing policy which will be 10 times as massive and aggressive if our Nation's slums are to be eliminated.

And most unwise of all, it consciously fostered an increase of unemployment as a way to combat inflation. It deliberately intensified the recession in a vain attempt to reduce prices. It methodically kept interest rates high and sent the construction industry in many parts of the country into a depression.

This is an administration which experimented with the lives of millions of people, only to prove the correctness of an economical model, a theory that prosperity would come to some if it took a small docs of recession and hard times, that is, if all of us took a small dose of recession.

It turned out to be a runaway experiment, whose bad effects were mostly felt in the Nation's largest cities. The national effort to increase unemployment, intensify recessionary trends and keep interest rates high, especially hurt New York City, which is now highly vulnerable to national business cycles.

Yet when we sought relief from the Federal Government from a condition which was greatly generated by national policies and actions, we were scolded publicly and made political targets.

We are witnessing the acting out of an incredible national policy of hostility toward the nation's urban centers. Cutting back assistance to urban centers is myopic because it means local communities have to take up an increased tax burden or drop in services. In either case, it means a drop in the economic base and acceleration of unemployment.

Day after day the cities of our nation are reaping the bitter fruits of a national housing policy which is failing miserably to stem the tides of housing slums and housing abandonments. This unaggressive housing policy you will recall was preceded by a 2-year moratorium on Federal housing and subsidies imposed during the Nixon administration.

That was a policy which seriously depressed the construction industries and aggravated conditions for millions of our residents in the cities.

We are also the unwilling victims of stubborn Federal policy. That was devastating. It was the knockout blow to the construction industry and added to the burden of hard pressed local governments by driving up the cost of borrowing for local projects.

It's interesting to note that Federal officials are easing up on the money supply. There is speculation that the reason for such action is not because low interest rates are noted for employment, but only because they will blunt the impact of a possible New York City default on the economic condition. Implicitly, the Federal administration is acknowledging that the default which they find is desirable will have national repercussions.

Finally, the whole Nation is suffering from the Federal failure to cope with the national recession. More than 13 months ago when the newly inaugurated President was limiting his receptivity to ideas on how to whip inflation, my position was that Federal action was needed not only to check inflation, but also to check the recessionary trends which were quite obvious in our cities.

Herein lies the basic injustice against our cities in general and New York City in particular. The national economy in terms of real growth and employment reached a peak in 1969. From that year to 1972, the economy was characterized by an underperformance whose effects were largely felt in the cities. In 1972, a Presidential election year, there was a slight surge. Since then, it's been all downhill for the Nation, which experienced the worst economic setback the Nation has seen since the Great Depression.

Let me tell you first what this has meant to New York City's government, and then to the labor force in both the private and the public sectors.

The long national slide from 1969 on meant that sharper declining local economy in terms of tax receipts related to fiscal potention. We have estimated that the tax levy lost to New York City since 1969, because of the recession, has been over $1.2 billion.

In the last fiscal year alone, that loss is estimated at $400 million. Those estimates are based upon a comparison of the tax levy growth rate between 1969 and 1975, with a corresponding growth rate which was relatively even between 1961 and 1969.

On the expenditure side we estimate by the same method that the recession alone forced the city to increase its welfare contributions without medicaid by $310 million since 1969, and of that sum, $40 million occurred in the last fiscal year alone.

The recession also forced the city to increase its medicaid payments by $336 million since 1969, of which $46 million occurred in the last fiscal year. All those figures show primarily the effects of the recession and do not include the impact of certain inflationary trends since 1969.

Therefore, in the face of mandated increases in costs caused by recession, inflation, and unemployment, the budget cuts which I have been forced to make were in such remaining vital services as police, fire, sanitation, and education.

During that 7-year period, the city attempted to keep pace with the deepening recession by raising taxes. Despite that, we were swamped by increased shortfalls of revenues and added expenditures required to deal with the effects of the recession.

It's estimated that the cumulative revenue shortfalls and the added expenditure burdens between 1969 and 1975 attributed to the recession totaled nearly $2 billion, more than $500 million of which occurred during this last fiscal year.

This accumulated $2 billion caused by the recession is a big chunk of our accumulated deficit over the years. And I am convinced that if we did not have a business recession with its rising unemployment, New York City would be in a relatively good financial state today.

What does this mean to the labor force in our city? Since January of this year, I have reduced the payroll of the city government by some 31,000 full-time positions. This alone represented an increase in the city's unemployment rate of more than a full percentage point.

When you consider that the spending of those families has been reduced and that the city has also had to reduce its purchases from vendors and contractors, there is a multiplier effect working here that has hurt the entire city economy.

In September of this year, the unemployment rate was 11.9 percent. Some 376,000 men and women, willing and able to work, and looking for work, were unemployed. In September of 1974, last year, the rate was 7.3 percent, or 228,600 persons out of work. So in 1 year's time, the number of unemployed men and women in New York City increased by 65 percent.

This is not a case of jobs leaving the city for the suburbs. The whole New York City area, which includes several New York suburban counties has been affected. The area's unemployment rate is 10.9 percent, compared with 6.6 percent a year ago.

And similar statistics prevail in the consolidated New York area, which include several northeastern New Jersey counties. The unemployment rate for that area was 7.6 percent compared to 6.3 percent of the previous year.

What this means for the entire area is that 721,000 men and women are unemployed in the New York metropolitan region. What is significant about these statistics is that the unemployment rate has been a double digit rate since January, since there doesn't seem to be an end in sight, and there doesn't seem to be an end in sight to the increase in unemployment.

The State economic development board recently reported that New York City's 11.9 unemployment rate would increase to 16 percent in the next 12 to 18 months. That report said the number of newly unemployed persons would be between 145,000 and 165,000 in government, and 7 other fields, the apparel, printing, construction, transportation, utilities, wholesale and retail trades and finance, insurance and real estate areas.

Consider just the construction field alone, which is in a real state of shock and depression. In New York City jobs in the construction field dropped from 107,673 to 82,000 in 1975. These, incidentally, are all September figures for the year cited.

In Westchester construction jobs dropped from 18,573 to 13,275. In Nassau and Suffolk, they dropped from 48,073 to 34,075. These are passive drops. I hate to say that the city government's fiscal problems will aggragate this condition even more. The State equalization board recently came out with new equalization rates which forced me to rescind hundreds of millions of dollars of capital projects.

Recently, too, I was forced to eliminate another $390 million out of the capital budget as part of the emergency financial control board fiscal plan. The shock of these cuts in capital projects to the construction industry must be measured in light of the fact that the city has been providing roughly half of the construction work available in this city with private business supplying the other half.

As a result of the city cutbacks, we have estimated that another 8,000 construction workers will be out of work, bringing construction employment down in the city to 74,000 jobs, a drop of 33,000 from 1973. Over the long haul, between 1969 and 1975, total jobs in New York City declined by 510,000 and virtually all of them can be attributed to the recession.

New York City is not alone in suffering from the Ford administration's refusal to face the facts of recession. The Detroit and Boston areas have unemployment rates of 13 percent or more; the Newark and Philadelphia areas are at 11 percent; Atlanta, San Francisco, Los Angeles, and Seattle areas have nearly 10 percent of their workers unemployed. Those are area figures including the suburbs. And the employment rates in the central cities are obviously higher. And in the ghetto areas they are much higher.

Unemployment probably has more socially corrosive effects than any other condition in our lives. Long time unemployment can demoralize a working man or woman, destroy the human spirit, loosen the bonds which keep a family together, and reduce that family to a state of dependency and humiliation which usually doesn't exist in other tragedies.

I cannot understand Federal officials who insist on pursuing policies which can only continue and increase the unemployment which now exists in our country. One is moved to anger that the present national administration has virtually engineered this recession in order to vindicate its misguided position of fighting inflation.

The need for full employment is imperative now. We must implement the social policy of full employment first stated in the Unemployment Act of 1946. We supported the bills introduced by you, Senator Humphrey, and cosponsored by other Senators, that would establish a national machinery for guaranteeing full employment for any and all Americans able and willing to work.

Further, we cannot let local governments, and especially New York City, fall into bankruptcy, which will further aggravate the unemployment problem in this country.

A study prepared for the use of this Joint Economic Committee notes that a New York City default would result in further contraction of construction activity throughout the country, a loss of 100,000 jobs in New York City, and a loss of 300,000 jobs throughout the country.

In order to prevent all that, we must avoid default. In order to do that, we need Federal guarantees backing our bonds and notes. This is the first order of business if we are to keep unemployment throughout the country from rising. I know I can count on the support of the chairman and several members of this Joint Economic Committee to see that New York will get the loan guarantees it is seeking.

On a long term basis, we need the implementation of full employment in this country. We need an easier money policy and lower interest rates. We need countercyclical revenue sharing for local governments in time of recession.

We need aggressive Federal housing programs to stimulate employment and rebuild our country. We need a massive Federal public works program and we need the Federal Government's assumption of all local welfare and medicaid costs in order to relieve the local governments and local taxpayers of a burden which rightfully belongs to the Federal Government.

The people of the city of New York are becoming united behind these programs. What we need is to convince the people in the rest of the country that it's to their benefit to prevent New York City from collapsing. It's to their benefit to seek full employment, and it's to their benefit to push for a change in the national attitude toward the urban centers of our country.

Thank you very much.

Chairman HUMPHREY. Mayor Beame, we thank you. May I take note of the fact that Senator Robert Taft, Jr. has come in to join us. He is a member of the Joint Economic Committee, and we are very grateful for his presence today. He has been a very active member of this committee and I am sure will want to participate in the questioning.

Mayor Beame, you have addressed yourself not only to the programs of the city of New York, but to the much more pervasive problem of unemployment as a national problem and a national difficulty.

I believe that we need to keep in mind that the problem at home of unemployment in this country is one that has plagued us over a considerable period time, and that for some peculiar reason, the American Governmental policy is willing to condone higher rates of unemployment calling them acceptable or using such terms at times as being unacceptable; but failing to move with the kind of dramatic and effective policies as are required.

I noticed this morning in the New York Times that Belgium has taken a very drastic measure. For example, it has adopted a program or is adopting a program that will provide for earlier retirement of workers and for the hiring of younger workers, and that the bill will be paid by those companies and corporations that have had higher incomes or profits than on the base period, and then they have a period of time called a base period.

Now, Belgium is not known particularly as a revolutionary country and it believes very strongly in its private enterprise and capitalistic system. But I have traveled in European countries, and I find that when the French have an unemployment rate of 5 percent, they declare it a national emergency. The President of France declared a national emergency. When the Swedish Government saw an unemployment rate of 4.9, they started to take emergency measures. The Federal Republic of Germany has an unemployment rate of slightly over 5 percent, and it, too, is undertaking national emergency powers to deal with it.

One of the matters which I see to deal with in this committee on an advisory and consultative basis with the rest of the Congress, is what do we do that will bring about the employment of willing workers, of workers who are willing, able to perform gainful and meaningful employment.

The employment act is flagrantly violated. I am sorry that I don't have the law to read here today. But of all the Federal statutes that have been ignored by public officials at a time when we are investigating the abuse of power by Government in the Central Intelligence Agency, the IRS, and the FBI, all of that fades into insignificance, almost meaningless insignificance, as compared to the flagrant avoidance of responsibility and the violation of the spirit and the intent and the letter of the law in the Employment Act of 1946.

The Employment Act of 1946 is not an exhortation. It's a command. And yet the responsible officials of Government have looked at it as if somehow or another it was just an afterthought in a lost weekend.

This committee can't produce the horrendous crimes in its investigations, I suppose, that you can in the CIA Investigating Committee. But for every attempt that the Central Intelligence Agency has made to do whatever it has done to violate privacy, to contemplate assassinations, more Americans have suffered because of the lack of an adequate policy in the employment field and the economy than anybody at home or abroad has ever suffered from the Central Intelligence Agency.

Cops-and-robber stories make big news. But the pathetic poverty and being told that you are not needed when you stand as an unemployed worker with a poverty ridden family, has become so customary in parts of our country that it seldom makes a headline—unless they demonstrate. Then it becomes big news.

But you have been telling us here, and in my few minutes, I just want to conclude that the rate of unemployment here in this city will go up from 11 to 16 percent. That is a national catastrophe. That is much more serious than any abuse of power by the FBI, or the Central Intelligence Agency. By far, many more people are injured.

You have been telling us that there is approximately 500,000 people that have lost their jobs so to speak. I looked at the figures in the metropolitan area that you gave to us, which are staggering.

These figures, by the way, Mr. Mayor, where do you get them?

Mr. BEAME. They, to a great degree, come from the Bureau of Labor Statistics. Where it involves a loss of revenue, it's from our Budget and Finance Administration.

It generally comes from documented material from the Federal Government.

Chairman HUMPHREY. Do you consider these reliable statistics?

Mr. BEAME. Yes. I presume they would be if they come from there. Certainly they are the only statistics we can deal with.

Chairman HUMPHREY. When you say the State Economic Development Board recently reported that New York City's 11.9 percent unemployment rate would increase to 16 percent in the next 12 months——

Mr. BEAME. Yes. That came from their data.

Chairman HUMPHREY. That means your welfare load goes up, that means an increase in the Federal deficit, that means that your income base eroded?

Mr. BEAME. Exactly.

Chairman HUMPHREY. So the problems you face today will be aggravated and maximized in the coming year by an increase of unemployment of approximately 4 to 5 percent?

Mr. BEAME. Exactly. You stated it very pointedly.

I do want to say, if I might, at this point, that it's unfortunate that in the greatest democracy in the world, we find less attention, and less concern, for the people of our country than we find in some of the countries you have mentioned, who are looking out for their people. when they are suffering.

This also spills over to the statement that I made in my talk about default, and the attitude of the administration, to just let us sink into it. I wonder whether Russia would ever abandon Moscow, or Paris would be abandoned by France, or London be abandoned by Great Britain.

Chairman HUMPHREY. Have you ever met with and talked with any unemployed people?

Mr. BEAME. Oh, yes. As a matter of fact, one of the most disheartening things happened to me the other day. There was a ceremony at city hall where we were awarding medals for bravery and for acts of heroism to Housing Authority police. As we called the names, one young man came up dressed in civilian clothes. I said to him, "Are you off today?" He says, "No, I have been laid off." It was a very hard thing for me to contain myself pinning a medal on his lapel at a time when I know that that young man is out of a job.

Chairman HUMPHREY. Mr. Mayor, I heard yesterday the President was asked a question as to whether he had talked with any unemployed people. And he had trouble for a moment. He thought he had—a few at least. I don't remember the exact words, but I want to say this: I think that what is needed in this country—and I know you have talked to them, and I have surely talked to them, because I have gone right into the employment office of my city and State, right into the welfare offices where I send my staff to take a look at what goes on—every single public official of this country ought to have to go sit in that employment office and in these welfare offices, and see what happens—and then talk to them individually and listen to what has happened to them.

They are not bums—those people that come to those employment offices want jobs. When they come to tell you that they can't meet their car payment, they can't meet their house payment, they tell you that they have had to wait 6, 7, or 8 weeks for food stamps and don't even want the food stamps.

Out my way, I have many people tell me, "Senator, I don't want to have to go around asking for these things." I think one of the reason we are in some of this mess is because people in high places have not been able to associate themselves with the miseries of others.

I speak with emotion and with fact, that until we get down to the point where we begin to sense what happens to a person who has been unemployed—by the way, the unemployment statistics show a large body that have had long-term unemployment, not just 3 months. But when you get into the many, many weeks and months of unemployment—I have forgotten the exact statistics we have here—but up to 8.6 percent when we are talking recovery, the wholesale price, and the last three points is at an annual rate of 13 percent. All of that has to be fixed into your budget; doesn't it, Mr. Mayor?

Mr. BEAME. Yes. Automatically because it's not controllable by us.

Chairman HUMPHREY. Mr. Javits?

Senator JAVITS. Thank you.

Mr. Mayor, we went into the very serious problems of our city with the Governor. You have gone into this time and time again and I would like to concentrate on the unemployment issue. There are a great many words spoken about the profligacy of New York City, about the welfare cheats, and about the gimickry in our budgets, et cetera.

Taking all of it together and resolving every doubt in favor of those who have criticized us, what would you estimate the percentage to be of the total burden of the unemployment—the lame, the blind, welfare, medicaid, medicare—what percentage of that at the most extreme, could you attribute to all of these faults, deficiencies, and profligacies in New York? 10 percent? 9 percent?

Mr. BEAME. I doubt whether it would even be that high. Bearing in mind that it's recognized by the Federal Government as well that there is a certain amount of error which is common in these areas. That is, paying for things which shouldn't be paid for, or where, as you indicated, you might have some cheats. So really, you have to begin with that figure and compare it to what we have.

I might say parenthetically, when I became mayor, there was an 18 percent negligible rate discovered in the welfare rolls. We had at my suggestion, there was set up a team of State and city people. That was cut in half.

It's recently been up a percent or two, and much of the reason for it was the fact that we had to lay off employees. We didn't have adequate employees to check on some of these. So we are caught in a bind on it.

Senator JAVITS. Mr. Mayor, therefore, is it fair to say that at the very minimum, if city services collapse, it will affect directly in deprivation, 90 percent at the minimum of those who must have some form of government support to live?

Mr. BEAME. I think that is a fair statement, yes, Senator.

Senator JAVITS. Now the President talks about essential services for New York, Mr. Mayor. Have you made a definition of essential services, and are you ready to give it to us, and how much they cost?

Mr. BEAME. Let me first say that I have set up what is known as a contingency committee of outside people, outside of Government, and some in Government, to develop plans in connection with the application of whatever limited funds may be available should we default.

The President in his talk spoke of essential services as police, fire, and nurses. But there are many, many more essential services. For example, our water supply system. Even if controlled by a water supply inspector, if they were ever turned off, it would be much more devastating than anything else that can happen in this city. So it isn't so simple as to say, "Well, now, let's just consider the police and fire."

I consider a lot of services essential. Police, fire, public health, and other such life-support services, food and shelter for those who haven't got it, food on the table. A hospital and emergency offices services, our schools. These are—in addition, we have vendors whom we have to pay. Otherwise we won't get the food that we need to supply these people.

So it isn't so simple as to just say, "Well, now, we can take care of police, fire and that's the essential services." Sure, they are important. Sure they are part of our life-support services. But that is only a narrow part of the problem.

Senator JAVITS. How many children go to public schools in New York City?

Mr. BEAME. More than a million.

Senator JAVITS. How many teachers?

Mr. BEAME. They have cut a great deal recently. I would make a guess there might be 60,000 or so.

Senator JAVITS. Suppose we had to close our schools. according to the President's definition, he excluded our schools. What would be the condition of public order if over a million young children were let loose upon the streets of New York?

Mr. BEAME. That worries me a great deal. And I want to say that I feel somewhat heartened by the fact that despite the tremendous cuts we have had to make up to now, which has involved the reduction of very vital services and a reduction of garbage collection. a reduction of our police and fire protection, closing of firehouses, despite that, I am very pleased at the amount of cooperation and understanding we are getting from the public. But, if we go any further, it's going to be exactly what you indicated. I am afraid of disorder in the city.

Senator JAVITS. That includes very specifically, the schools; does it not?

Mr. BEAME. Yes, surely.

Senator JAVITS. And therefore, must not the schools be included in any definition of essential services for New York City?

Mr. BEAME. Yes; I have, as I indicated earlier to you. stated that it's one of the essential services. When you have a limited amount of money, you just don't know what to do first.

Senator JAVITS. Isn't it a fact, Mr. Mayor, that it's simply physically impossible if New York went into bankruptcy or did anything else, for it to maintain essential services without help from somebody in an appreciable way, at least between December 1, and March 31, 1976?

Mr. BEAME. Yes, absolutely; as a matter of fact, I don't recall the President indicating, and therefore I don't know specifically what kind of bill is going to come out of Congress even if it does—I say I don't recall him indicating that if there were a bankruptcy situation, what they are going to do about it.

What are they going to do to help New York City? The indication I got was that they are not going to do anything.

Senator JAVITS. It's not a matter of help, Mr. Mayor, it's a matter of putting out a fire in New York City.

Mr. BEAME. Exactly.

Senator JAVITS. We are citizens of New York State yet, I hope.

Mr. BEAME. So do I. You wouldn't think so, however, by some of the treatment we are getting.

I might say, if we had a bankruptcy situation, there is no assurance that we are even going to be able to borrow money, even with the court, unless the borrowing was guaranteed by the Federal Government, and if they were going to guarantee under those circumstances, then what's wrong in guaranteeing and having those circumstances not occur?

Chairman HUMPHREY. Congressman Moorhead.

Representative MOORHEAD. Thank you, Mr. Chairman.

Following up Senator Javits' discussion with you, Mr. Mayor, if there is a default and there was need for asssitance on essential services, this would be cash dollars out of the U.S. Treasury, would it not?

Mr. BEAME. Absolutely.

Representative MOORHEAD. Whereas, if there were a guarantee before default, we would hope there would be no Federal taxpayers' dollars involved?

Mr. BEAME. I can assure you there wouldn't be. Because New York City has never defaulted so long as it has had the access to the markets. It has never in the history of the city defaulted.

As you indicated, your own committee report has indicated that there is going to be a $4 billion increase in the cost of the Federal budget comprising not only an increase in the deficit, but also increase in cost as a result of food stamps and other services which would have to be given out by the Federal Government.

So that, to me, is a very short sighted policy. Actually, we are not asking for 1 penny of the Federal Government. We are merely asking for the same thing that they are doing for private corporations.

It may interest you to know, and I cut this out of the papers only the other day, here is an ad, Tombstone ad, in the Wall Street Journal, I believe. $27½ million, U.S. Government guaranteed, 6½ percent, ship financing notes, issued by the Eon Shipping Corp. and the Northwest Shipping Corp.

Guaranteed by the Federal Government, where they think more of corporations than people. And they wouldn't guarantee a debt, which there is no doubt in my mind, will be paid.

In addition to which, failure of the Federal Government to guarantee will cost the Federal Government money.

Representative MOORHEAD. I think that's the point to get across to the country, because, as you say, in your statement, what we need is to convince the people in the rest of the country that it's to their benefit to prevent New York City from collapsing. I think you have probably seen the recent Harris poll that I think said 70 percent of the American people opposed default by New York City.

Mr. BEAME. Yes.

Representative MOORHEAD. So I think you are getting the message across.

Mr. BEAME. I hope so. We are asking all New Yorkers to contact any friends or relatives in other States and let them get in touch with their Congressmen, their Senators, and write to the President, pointing up the importance of what New York City, a collapse of New York City, would mean in the Federal picture. Because New York City is the United States in the mind of a lot of people outside of New York City. Not Grand Rapids. New York City.

Representative MOORHEAD. Mr. Mayor, have you and your advisers had an opportunity to study the legislation that is proceeding through Congress, particularly H.R. 10481, which was reported by the House Banking Currency and Housing Committee?

Mr. BEAME. Yes; we have people in Washington who have been in discussion almost on a daily basis and we have hired a special law firm to work with them, to make sure that what legislation is going to be adopted, will create the least impact on the city's economic condition.

Representative MOORHEAD. In general, are you satisfied with this legislation or are there any parts of it which you find unacceptable?

Mr. BEAME. I will take legislation which comes out of the House and the Senate and goes to the President which is going to help me give services to the people. I don't care what they do to my powers. I think that is secondary.

I think the important thing we have to think about is that if New York City collapses, the whole country is going to be hurt. And that isn't my opinion, that is he opinion of the entire U.S. Conference of Mayors, the National Conference of Cities, the National Conference of Acting Executives, and of foreign countries, foreign experts who are concerned about the effect internationally of any kind of a default or collapse of the city of New York.

Representative MOORHEAD. I supported that bill, Mr. Mayor, and I think your eloquent words today will help us get that bill passed.

Mr. BEAME. Thank you.

Representative MOORHEAD. Thank you, Mr. Chairman.

Chairman HUMPHREY. Senator Taft, thank you for joining us. We know you do this at some sacrifice.

Senator TAFT. I apologize for my late arrival.

Mr. Mayor, you stated that you expected that there would be a loss of 100,000 jobs in New York City in the event of a default in the construction industry. You estimated also a loss of 300,000 jobs throughout the country, presumably also in the construction industry. What is the basis on which that extrapolation occurs?

Mr. BEAME. I think that it isn't stated exactly that way, Senator. I think I said that a default would result in a further contraction of construction activity throughout the country. A loss of 100,000 jobs in New York City—and that doesn't mean the construction industry alone.

That is total—and a loss of 300,000 jobs throughout the country. And I might say that the latter data came directly from this committee. And I am quoting this committee.

Senator TAFT. Mr. Mayor, do you know how much is due and unpaid in back taxes and interest from the railroads in reorganization to the city of New York?

Mr. BEAME. Right offhand, I don't; I don't know the amount. Penn Central, I know, owes us some money.

Senator TAFT. And the Erie Lackawanna, I am sure, and some of the others?

Mr. BEAME. The exact amount I don't know.

Senator TAFT. I raised this question because I have introduced a bill into Congress to have the Federal Government take over those liabilities from various governmental units throughout the country.

It seems to me it's primarily our responsibility and I see no reason why we shouldn't step in taking over any liens and rights that the cities might have under those circumstances. Senator Javits has reminded me he is a cosponsor of my bill.

Mr. BEAME. Senator Javits has been extremely helpful for the city of New York.

Senator JAVITS. Can you give us any idea of the amount of the pension funds of New York City that has habitually been invested in U.S. Treasury securities?

Mr. BEAME. Not off the top of my head. The bulk of the money is invested, as you know, in corporate securities and stocks. There is about $800 million or thereabout, close to $1 billion in New York City and MAC securities.

Senator TAFT. Mr. Mayor, included in part of your testimony, you suggest that the Federal Government should assume all local welfare and medicaid costs in order to relieve local governments and local taxpayers of a burden which rightfully belongs to the Federal Government.

It may well be that the welfare reform measures should move in that direction. Indeed, I have indicated support of that approach toward welfare reform.

However, is it not true that a great majority of the States throughout the Nation have in recent years at least, turned to taking over the entire matching share that is required from local and State governments in the various welfare programs and that New York State has not done so? It's left half of that burden on the city of New York? New York?

Mr. BEAME. On the other hand, I think it would be fair to say that New York State has received a lot less than many States throughout the country of the proportion of welfare assistance. For example, in Mississippi up to 78 or 80 percent of Federal aid and many other cities above 50 percent. New York State has received 50 percent.

We are pressing, of course, for having the Federal Government assume the cost. But the State is today in a very precarious position, as you quite well know. If anything happens to the city, the State is going to be affected, very quickly. But if the State had the money, sure they should do it.

New York City, by the way, other than Denver, is the only city in the United States that pays for welfare costs. And it's an interesting thing, an interesting bit of information. Our budget is $12,300 million; $4 billion for that represents welfare costs, both city, State, and Federal.

In other words, if we did not have this cost in our budget, we would be down to an $8 billion budget. But it seems everybody is saying, "Well, now, look at the welfare costs here in our city." But if they were not in our budget, as they aren't in the budget of most every city in this country, we would have a much more reasonable relationship and budget with other cities in our country.

Senator TAFT. Under the current status of the Federal welfare and legislation, the States have picked up that burden.

I might say that I can certainly sympathize with your feelings about your share and proportion of the Federal welfare programs. I think statistics would show that one of the States that gets even less of a percentage of welfare per capita or any other standards really, is the State of Ohio. I frequently find myself with the senior Senator from New York screaming about that. When the subject comes up on the floor of the Senate.

Chairman HUMPHREY. You can include Minnesota in that. We get skimpy treatment on that.

Senator TAFT. I must say in all candor, to be fair to my constituents, and to the rest of the United States, you are on a rather hard sell. The points that are raised to me continuously by my constituents, perhaps you would like to make some comment.

First, the per capita expenditure by New York City in excess of $1.200 per capita as opposed to around the $300 figure for other cities. The fact that you have a free university here, whereas most every State university or municipal university in the country has a sizable tuition. You have a pension plan for employees which does not have a contributory factor to it, which most pension plans of that sort do. Then finally, of course, the fact that the State doesn't come in on the welfare contributions which you have already covered.

Mr. BEAME. May I answer those? Just repeat the first one.

Senator TAFT. Per capital expenditure.

Mr. BEAME. Oh, yes. I don't know, Senator, whether you had an opportunity to read the Congressional Budget Office report which dealt with the New York City problem, but also dealt with the very point you are making.

They have indicated in that report that if you were to allocate the normal common services which are rendered by all the cities, primary, secondary education, police, fire, sanitation, parks, recreation, water supply, and so on, that if you are to compare that, New York City ranks behind several cities in this country in per capita cost.

One of the points I made a moment ago emphasizes that. For example, when the comparison is made of our budget of $12.3 billion divided by 8 million people, and you get $1,500, that isn't accurate, when you compare that with Chicago, for example, which doesn't pay for welfare.

So the common items ought to be pulled out to get a proper comparison. We rate in the area of 400-and-some-odd dollars per capita, and there are several cities compared to us and I am sorry I don't have it handy.

But the Federal Budget Office points that out. Out of our one tax buck, we pay for education, yet in Chicago and other cities, they have separate school taxes. They don't count that in.

That amounts to $2.7 billion. If you took the $4 billion welfare and the $2.7 billion out, we have a $5.5 billion budget on a comparable basis, divided by our population.

Second: With respect to the municipal colleges, I am a product of free tuition. I couldn't be mayor of the city if I didn't have that advantage, and maybe that is something somebody has some feelings about.

But the point I want to make is that there is a misunderstanding. Approximately 100,000 students pay full tuition in the city. All the students in the city colleges pay fees which amount to at least $100 or more to every one of them.

Now, I, despite my feelings with the colleges, and I have a very warm feeling for them—and I have to remember the free tuition policy has given us some of the greatest men in America, men like Jonas Salk and others, who have made tremendous contributions to the welfare of our country—despite that, I cut the budget of the colleges by $32 million, which represents what the imposition of tuition would mean in terms of city money. And they are going to find it a tough job to accomplish with that.

Third: I might say that the colleges are independent in the sense that they have their own board and, of course, I cannot dictate their educational policy.

Now, as to the pension plans, I must correct you in saying that it's a noncontributory system. That is absolutely inaccurate. Some pay as high as 13½ percent toward their pension contributions, based on the plan they may be in.

Fourth: And I think one of the very important things to remember, is changes in a pension system are not voted locally. We do not have that power. They are voted by a State legislature, and have to be approved by a State government. They have in the last 16 years been voted by a Republican legislature, signed by a Republican Governor, and, at times, frequently, against the wishes of a Democratic mayor.

So there is a misunderstanding that we in New York City just get our city council together and make pension changes. That is not so.

Now, it's true that there have been provisions for pension increases in some negotiating collective bargaining agreements during the last administration. Nothing could have been done unless the State legislature and the Governor approved that.

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

Chairman HUMPHREY. Mr. Mayor, I am going to place in the record of this testimony, table VI on page 27 of the Joint Economic Committee study, which compares the number of full-time equivalent local government employees to number of residents, for all other residents serving counties of 24 large eastern cities. This is the table with 1974 data, and I believe it's the one that the committee developed.

Your city compares very favorably. I won't take the time to read all the figures. I do note there are other cities, however, that have a larger number of employees per 10,000 than the city of New York, both in terms of basic services, which include education, highways, police, fire, sanitation, recreation, laborers, financial administration, and general control.

We will place that in the record.

Mr. BEAME. Yes.

[The table referred to follows:]

TABLE VI.—NUMBER OF FULL-TIME EQUIVALENT LOCAL GOVERNMENT EMPLOYEES PER 10,000 RESIDENTS FOR ALL LOCAL GOVERNMENTS SERVING CENTRAL COUNTY OF 24 LARGEST CITIES (1974)

Area	All functions	Basic city services[1]
Northeast:		
Baltimore	434.1	324.8
Boston	465.0	259.7
New York	528.2	300.8
Philadelphia	414.5	305.9
Pittsburgh	316.1	247.9
Washington	752.0	418.4
Midwest:		
Chicago	352.5	269.9
Cleveland	383.2	278.6
Columbus	294.4	240.0
Detroit	354.3	266.1
Indianapolis	337.3	250.4
Milwaukee	381.7	287.3
St. Louis	424.6	286.3
South:		
Dallas	343.7	267.3
Houston	306.9	258.3
Jacksonville	409.8	301.9
Memphis	416.0	275.1
New Orleans	357.7	274.3
San Antonio	359.5	256.1
West:		
Los Angeles	401.1	274.8
Phoenix	356.0	275.5
San Diego	333.2	255.2
San Francisco	488.3	265.2
Seattle	360.2	272.3

[1] Basic city services includes education, highways, police, fire, sanitation, recreation, libraries, financial administration, and general control.

Source: Bureau of the Census.

Chairman HUMPHREY. As I see it here, Mr. Mayor, and we have gone over it so there is no need to elucidate further, very severe budgetary controls have already been put into place; is that correct?

Mr. BEAME. Very severe. We are limiting our growth in the budget in the next 3 years to 2 percent of the controllable items. That almost amounts to only about $70 million a year. I don't know how we are going to do it, but we are going to work it out.

Chairman HUMPHREY. That despite the fact that you may be facing a rate of inflation of anywhere from 8 to 10 percent?

Mr. BEAME. Yes; exactly.

Chairman HUMPHREY. You have also laid off a substantial number of employees.

Mr. BEAME. Yes.

Chairman HUMPHREY. And will be laying off more?

Mr. BEAME. I am afraid so.

Chairman HUMPHREY. You have also indicated that the proposed legislation that Congressman Moorhead brought to your attention would be acceptable, even though it may have very severe constraints upon your control as the mayor of this city?

Mr. BEAME. Yes; I am operating under those constraints today and I know I could have had that law beaten. But I didn't want to do that, because I thought it was too important for the people of our city. I am talking about the State law.

Chairman HUMPHREY. I understand. I noted that the President in his message relating to the city of New York, when he proclaimed the amendment of the bankruptcy law as his way of dealing with this situation, spent a considerable amount of time discussing the Federal system and that the action of the Congress to provide Federal bond guarantees with the Federal board, whatever board it was, having to pass upon the type of fiscal controls that would be required, that this would violate this important Federal structure that we have, the relationship between the central government, the national government, and the State and local governments. He made quit a point of it.

I just would like to point out that there is no greater violation of the Federal structure than having an appointed Federal judge in bankruptcy who is neither elected nor held accountable to have full and complete control over the destiny of the city.

Mr. BEAME. And the Federal Government, Senator, shows no hesitation, for example, in interfering in local government in the area of the environmental protection, even though it may hurt the economic conditions of a city. So where the Federal Government believes that they ought to get involved, they do. It isn't that they just stood on the sidelines and have indicated they don't want to get involved at any time with local policies.

Chairman HUMPHREY. Mr. Mayor, you know all of my public life I have supported what we call foreign assistance programs.

Mr. BEAME. I know that.

Chairman HUMPHREY. I believe it is in the national interest or I wouldn't do it, even though I consider it unpopular, just as it was considered unpopular to be in favor of aid to the city of New York. I am happy to tell you that the recent public opinion surveys no longer indicate that. The people of my State understand, a majority from the recent analysis that was made, that there is a need for help here.

But until we were to apply the same conditions of assistance to other countries as we are asking to be applied to New York City, our foreign assistance budget would be zilch, zero. Absolutely zero.

I understand the importance of our Government helping nations. Senator Javits and myself and others here have worked hard to pass foreign aid programs because we think they are in our national security interest and in the interest of humanity.

We provided $1,600 million of food assistance last year that the American taxpayers paid for because we said people were hungry. We just passed a bill that has $1,600 million authorization because we know that people are sick, illiterate, hungry, and also that they need help.

There is a request for a substantial amount of assistance to, for example, Egypt, that doesn't have its books in balance. The State of Israel has imposed severe taxation upon its people, restricted its budget, the highest taxation in the world, so we have supplied them with help, primarily military assistance—very little elsewhere.

But we are contemplating assistance programs for other countries who have never had their books in balance and whose public officials frequently get into power by a coup d'etat, some kind of shenanigans of shooting their way in, or conspiracy. And here we are with our citizens.

We are not just talking about New York City as a governmental jurisdiction. I can't imagine what is going to happen to this city if a million children are out on the streets. I hope the people of this city, every public official, and every responsible citizen are telling the President what is going to happen to the city when you turn loose, the junior and senior high schools of this city on to the streets, with approximately 10 or 11 percent of the adults already unemployed.

If somebody can't see what is going to happen here, then they are blind, deaf, and dumb. It is incredible that this could happen.

Actually, New York City has kind of gotten on an enemies list and I, frankly, think it is intolerable. I am going to make my plea—regardless of people's attitudes as to how we proceed—to get something done before it is too late. It does little good to bring in the blood plasma that you need after the patient is practically dead.

In this instance, the city of New York needs timely assistance. I might add that even the Congress itself in this matter is very derelict. We have let this thing go along too long and as Senator Javits and Congressman Moorhead said to you privately—let me say it publicly—that the possibilities of prompt assistance in the Congress is not very encouraging, unless the public speaks up. The American people can make it clear.

I will tell you what the American people understand. They understand that we ought to start taking care of ourselves and our families; a lot of the people that live here in New York City came from other parts of the country, and they have relatives back there in Ohio, Pennsylvania, and in other States.

While they feel—and it's true they do feel this—Senator Taft has pointed out that there has been waste, errors of judgment, too much looseness in administration. That's of the past. We should not define punishment to fit the crime; we have to find a remedy that fits the need.

This is not a court justice where we are trying to find out whether someone has been a criminal. What we are trying to find out is what needs to be done.

Senator Javits?

Senator JAVITS. Just 1 minute, Mr. Chairman, if I may.

Mr. Mayor, one critical factor which arises is this. The President has said, and it is unbelievable from a President, but he has said it, that he will veto any bill that comes from the Congress to help New York.

He did not say, however, and that would really be even more unheard of, that he will veto any bill that helps New York State that comes from the Congress.

In our history, no State has ever defaulted, even during the Great Depression.

Therefore, Mr. Mayor, would you believe that if you can't get the kind of bill which is going through the Congress now, the House and Senate, that you would accept for the city a bill which gave the help that was essential, in the view of New York State, to the city through the State?

Mr. BEAME. Yes; anything that's going to keep our city from collapsing would be satisfactory to me as long as the people get the services that they need and are entitled to.

Senator JAVITS. You are not drawing the line at the most Draconian conditions which should satisfy any doubter about the fact that the city knows it's got to tighten its belt?

Mr. BEAME. We are living under those conditions right now, Senator. I wish it were possible that some in Congress were able to spend a little time at city hall and see the lines of people who come down to demonstrate against our closing of fire houses, police stations, cutting out services in our health services and hospitals, all other places.

Perhaps I might add that if I were able to wear some sunglasses and had medals, maybe I would get some aid from the Federal Government.

Senator JAVITS. And, in addition, Mr. Mayor, the city, through its citizens, New York City citizens' committees, has organized itself and is organizing itself for an enormous amount of self-help and you will cooperate in that.

Mr. BEAME. Yes; and I very much appreciate your initiative in that regard. I am only sorry that Senator Buckley, your counterpart, doesn't have the view you do.

Senator JAVITS. Thank you.

Chairman HUMPHREY. Senator Taft?

Senator TAFT. I have no other questions for the mayor. I would like to include in the record at this time editorials from some papers.

[The editorials referred to follow:]

[From the Cleveland Plain Dealer, Thursday, Oct. 30, 1975]

NO RESCUE FOR NEW YORK

President Ford stands on strong ground when he refuses to bail out New York City except for providing a guarantee for police and fire protection. The city of New York has not come up with any plan that would indicate the kind of reduction in expenses necessary to put its financial house in order.

To maintain the huge benefits that New York City has given its municipal employes plus the educational, medical and welfare services to its citizens far beyond its ability to pay indicates the height of financial irresponsibility.

Unless there is a move to reduce all these expenses, which are proportionately above those of any other city, there is no way for the American taxpayers to feel they should bail out New York City and thus have to guarantee the financial stability of the other cities of the country as well.

Municipal governments, state governments and federal governments are living way beyond their means. The credit rating of New York state is being threatened by New York City's huge deficits.

In other areas of state and municipal finance The Plain Dealer carried an Associated Press story this week quoting the president of the Massachusetts Senate to the effect that his state is close to bankruptcy. In the past few weeks questions have been raised in Illinois whether that state could meet its payroll.

Unless our governments stop living beyond their means there will be bankruptcies not only in New York City but in other cities and states, with the federal government not far behind.

The Communists have always said the Western democrats will spend themselves to death. It might be a good idea to stop the excessive credit and spending before we prove the Communists right.

Somehow the dream world must come to an end. Benefits must be measured against the ability to pay. There is just not enough money in the federal government to start underwriting bad fiscal policies by cities and states.

A helping hand is one thing but the New York figures indicate the deficts have so outrun revenues that even the federal government cannot contemplate such massive aid.

As for the markets for state and municipal securities and the worry over the financial institutions of New York City, the same point can be made. If the state and municipal bond market has any soundness it must be based upon the ability of the city and the state to raise the money necessary to pay the bonds. If this situation does not exist then the municipal bond market is based upon myth.

The financial institutions of New York and elsewhere and the governmental units involved will have to work out some way of reducing benefits and promises and getting back to living within their means—something not many governments and not many people seem to have been doing these past few years.

As with all dreams, there is always a day of reckoning which has obviously arrived. The only thing unusual about it is that it took so long to come.

[From the Cleveland Press and News, Thursday, Oct. 30, 1975]

Ford on New York

President Ford has made a difficult and wise decision in rejecting any federal aid to stop New York City from defaulting on its huge debts.

In a thoughtful speech explaining his policy, Ford warned that a federal bailout of New York would be dangerous—it would merely encourage the city's leaders to continue their spending ways and avoid financial reform.

Also, he reasoned correctly, emergency help for the so-called Big Apple would set a bad precedent for the rest of the nation.

"What restraint would be left on the spending of other local and state governments once it becomes clear that there is a federal rescue squad that will always arrive in the nick of time?" he asked.

Ford's threat to veto a federal loan guarantee to aid the city effectively ends that approach. It's doubtful there is enough sentiment in Congress to pass a loan guarantee bill, let alone enough override a veto.

Thus Congress would do well to drop the various loan schemes under consideration and concentrate on the President's plan to help the city.

This is to change the law to make it easier for cities to get into federal bankruptcy courts. There they would be protected against creditors' lawsuits while they continue essential public services and work out ways of paying their debts over an extended period.

Going through bankruptcy court offers New York the best hope of putting its financial house in order. For one thing, a federal judge or refereee is likely to show more backbone in resisting the demands of selfish municipal unions that the city's reckless politicians.

70-058—76——5

Though the New York pols will cry that eight million people are being "abandoned" by Washington, Ford quite properly pledged support in case of a real crisis.

"In the event of default," he said, "the Federal Government will work with the court to assure that police, fire and other essential services for the protection of life and property in New York are maintained."

In rejecting other aid, Ford made a strong case that New York's financial sickness is largely self-induced. As evidence, he cited the city's paying the highest municipal salaries in the nation, providing free pensions and allowing any high school graduate, rich or poor, to attend a tuition-free university.

But New York's drift to financial disaster is not all its own fault, and the President was wrong to gloss over this important point.

The city is forced by federal and state laws to pay a larger part of its welfare bill itself than almost every other major city. This helped drive it into the hole.

In addition, because of New York's unpopularity in Congress, it habitually gets shortchanged of its share of funds for mass transit, housing and education for the poor and other largess from Washington.

While New York goes through the bankruptcy wringer to reach future solvency, Ford in fairness should insist that Congress cease its ill treatment of the city, a habit that has made its plight worse.

Senator TAFT. I would also like to speak to Senator Javits' comments. I think what the President said was that he expected to veto any bill that amounted to a bailout of New York City, which I think is a very different thing from saying he would veto any bill which would help New York City.

Senator JAVITS. I certainly hope you are right. But he certainly says he will veto anything that will prevent default, and that's what we are talking about.

Anyhow, Senator Taft, I pray you are right.

Mr. BEAME. I sincerely hope the President acts on his observation made last April, which I think was a great statement of American policy. Our purpose is not to point the finger of blame, but to build upon our many successes, to repair damage where we find it, to recover our balance, and to move ahead as a people. I sincerely hope he thinks of that when and if it gets to him to help New York City.

Chairman HUMPHREY. Thank you very much for your testimony. We know you are not asking for a bailout, you are not even asking for a pardon.

We have a very distinguished panel that has been waiting and we appreciate their patience, but this matter of the city of New York is of great concern here.

[Mayor Beame excused.]

Chairman HUMPHREY. We have Mr. C. Douglas Dillon, Mr. Murray Finley. Mr. Dillon is chairman of the U.S. Foreign Securities Corporation. Murray Finley is president of the Amalgamated Clothing Workers of America.

We have Mr. Albert Shanker, president of the United Federation of Teachers. Mr. Robert Lebachman, professor of economics of Leham University; Eleanor Holmes Norton, Commission on Human Rights; and, Donald Platten, chief executive officer of the Chemical Bank.

Our participant will be Mr. C. Douglas Dillon, who has served our country with distinction and great ability and faithfulness.

Senator JAVITS. I personally appealed to Mr. Platten as chief executive officer of Chemical Bank to complete our panel with a leading New York banker. I would like to express my personal appreciation. He came back from Europe in order to do this.

Chairman HUMPHREY. I gather that the staff, in informing you of the hearing, indicated that we would like to have you make a brief summary of any prepared statements you have. If you have no prepared statements, we will welcome whatever you have in oral testimony.

Mr. Dillon.

STATEMENT OF C. DOUGLAS DILLON, CHAIRMAN OF THE BOARD, U.S. & FOREIGN SECURITIES CORP.

Mr. DILLON. Thank you, Mr. Chairman, you have asked me to comment on the implications of the New York financial crisis on municipal bond markets and on credit markets generally. You have also asked for my recommendations on appropriate Federal response to the impending default.

The New York City crisis has already had a major effect on the municipal market. Because of the crisis, interest rates on municipal securities of all types have risen. Because of it various agencies of the State of New York can no longer market their securities in the normal fashion and are threatened with imminent default, even though their longer term financial situation is generally considered to be basically sound.

Because of it, less well known borrowers are already having difficulty marketing their issues. Because of the crisis, the liquidity of the secondary market in municipal securities has been lessened as dealers restrict their customary inventory positions. All of this and more has been well documented in the excellent report prepared by your staff and dated November 3.

The question that remains is would this crisis be worsened by actual default? While there can be no certain answer to this question, my opinion is that default would increase pressures in the municipal market. It could even lead to the inability of New York State to role over forthcoming maturities of its debt.

There are those who feel that, in the event of default, there will still be plentiful funds available for top-rated municipal credits. I would agree that this is likely to be true of general obligations of States with good records.

However, I do not feel that this will be the case with smaller subdivisions, in particular, city governments. It will simply be too difficult for investors to distinguish among city borrowers. And there is likely to be the tendency to shun all city issues. If this is the case, the effect on the market would be more than expected.

My instincts strongly favor action to prevent default. This step should only be taken after the city and State have done everything in their power to be sure that the situation will be rectified as promptly as possible, with New York City returning to a fully-balanced budget. It seems to me that conditions can and should be made disagreeable enough so that other cities are not tempted to repeat the procedure.

It is also possible to exact conditions for a guarantee prior to default that would be essentially the same as could be imposed following default. While recognizing that it is impossible to foretell just what default would bring with it, the basic principle should be to contain a fire in one's house as quickly as possible.

New York City and State, like it or not, are important parts of our national mansion. The fire was started and has been located. It does not appear wise for the fireman to open the windows and allow the blaze to bring down the roof before using their equipment.

Should, however, the decision be otherwise and default occur, I have one major comment that runs counter to much that is currently being heard. Apparently a strong argument in favor of default is being made by some people on the basis that this would penalize the debt-holders which, for some unexplained reason, is assumed to be a good thing. I will pass over the problems of the smaller holders of these securities who canot be thought of as financial experts and who will suffer grieviously from default.

The concern I have is with the effect on the municipal market generally, specifically with the securities of cities and towns. Should we by legislation or otherwise make it clear that bondholders are some sort of second-class creditors, we may well do untold damage to our unique system of municipal financing. Fiduciaries, who have been major purchasers of such securities, will clearly be warned against purchasing such securities of our own towns and cities. Just how the money would be supplied then is unclear. But the pressures on the Federal Government could be enormous and irresistable.

In my opinion, default for New York City has what flows from it is far more likely to involve the Federal Government deeply in the affairs of our cities and States than a properly structured guarantee that would avoid default. Thank you.

Senator JAVITS. Thank you very much, Mr. Dillon. The chairman has asked me just for the moment to call the witnesses. We would hope that the statements could be limited by the panel to 5 minutes each so we might return for questioning.

According to the list of witnesses our next witness is Murray Finley, president of the Amalgamated Clothing Workers of America.

STATEMENT OF MURRAY H. FINLEY, PRESIDENT, AMALGAMATED CLOTHING WORKERS OF AMERICA

Mr. FINLEY. Mr. Chairman, Senator Javits, members of the committee, I am pleased to be here at this time at what is a discussion of very great importance.

Mr. Chairman, I sit here with a sense of three aspects, one, as a relatively recent resident of New York—I grew up in Flint, Michigan. I moved here 3 years ago. I would say I have found this to be a great and good city. I had my education in Michigan. In fact, I had the privilege of going to higher education at the University of Michigan. At the time when I went the tuition was around $50 a year.

I assume when the President went it might have been even less. So for practical purposes the President and I are beneficiaries of free public education. I guess what's good enough for us should be good enough for those who came after.

I can also suggest it might not be bad for all people who live in Michigan, including Grand Rapids, to really live in New York for a while and get a sense of the greatness and vibrancy and vitality of this city.

I also consider any aspect as president of my union, I don't know, a union which represents 350,000 people in the apparel industry, of whom some 50,000 work and live in this city with their families.

I would like to comment for a moment on the effect of the potential default of the city of New York and our members and their families, constituting close to 250,000 people.

In the past few years as a result of mismanagement of our economy, there has already been a depression in this city of some 25 percent of the payrolls of the men's apparel industry payroll. If there is a default and the essential services are further cut, I can assure you without any hesitance that those industries remaining in the city struggling to stay alive will be forced to close and move away.

I will give you a simple example. Our people depend on public transportation. They don't drive to work. It's already costing them $2 for a round trip, because it is 50 cents for the subway and it's 50 cents that they have to pay to transfer on a bus.

They work for the first half hour or 45 minutes of a business day to pay for the privilege of getting to and from their family. Any further deterioration will be a hardship on those who cannot afford it and who do not desire to pay for this. I should point out that our workers mostly are semiskilled, women primarily. If this city is allowed to default, you wind up with hardship on those who can least afford it.

This is not merely a question of bondholders or public employees. It affects directly the private sector and directly the people I represent and I see and I talk to every day of the week.

What are the simple answers in the immediate run? The obvious one is what is good enough for Lockheed and Penn-Central should be good enough for the people of this great city, and that's a Government guarantee of the bonds of the people of New York so that New York is given the time that it needs to put its fiscal house in order. And New York can do this if it is given its time by this simple method, Mr. Chairman.

In the long run, of course, as was said by the mayor and others, that the problems here are not local but national. The problems are welfare, health, education and they don't need repeating. These are national in scope and should be borne by the U.S. Federal Government to solve national problems.

That brings us to the boarder issue of unemployment, the present figure of 8.6 percent. Last night I may point out that the Secretary of the Treasury Simon on one of the network shows talked about the healthy economy that we have. At the same time the day before unemployment went up to 8.6, some 8 million directly unemployed, at least another 3 or 4 indirectly, those who gave up looking and those who are partially unemployed.

In the long run we know the effect this has on employment, on those out of jobs, the deterioration of family life, et cetera.

Let me point out that unemployment is not just a burden for the 8.6 percent or the 11 percent or the 10 percent. It is a burden to the other 85–90 percent of the people who are working. We know no worker member of our union has security when he and she know there are so many people out of jobs, when he and she know that the plants they work at are on the verge of closing.

There is no security for those that are working when there is such a high level of unemployment. We know we cannot truly improve the conditions of life for our workers when all one has to do is put on an employment-wanted sticker on the outside and hundreds of people show up to see if jobs are available.

As a result, and the third aspect, Mr. Chairman, is as the co-chairperson with Mrs. Martin Luther King, Jr. of the largest and most responsible citizens' committees seeking to get a mandated full-employment program through the Government, the Committee for Full Employment and the Full Employment Action Council.

We are working to develop legislation, putting teeth, if you will, into the act of 1946. We are interested in the Humphrey-Hawkins bill, the Humphrey-Javits bill, and we are working with you and other members of the Congress to see if we can get a consensus for a bill that will mandate and which will finally realize the promise which was promised some 30 years ago, in 1945 and 1946, that full employment and a decent wage should be a matter of right for every American in this country of ours.

Lastly, in order to have something to help it along, I think the AFL–CIO has listed a series of programs, the accelerated public works program, housing programs, improving railbeds, expanding public service-type jobs, the kind of thing if the Federal Government would move we could put hundreds of thousands of people immediately back to work. We could come to eliminate this growing blight in our land of increasing unemployment. Thank you.

[The prepared statement of Mr. Finley follows:]

Prepared Statement of Murray H. Finley

Mr. Chairman and members of the Joint Economic Committee, I am pleased to have this opportunity to appear before you to spend a few minutes on some of the most crucial issues of our time. I speak to you from three vantage points: As a resident of New York; as president of a major trade union, and as co-chairperson of the principal citizens' organization supporting a government commitment to full employment.

I need not spend many words describing the crisis facing our city and state today. Let me just take a moment to discuss one aspect of this crisis which has been overlooked—and that is the effect of default on workers in the private sector.

There are 2.8 million men and women who work for private industry in New York City. There are about 50,000 members of the Amalgamated Clothing Workers in America in that number. Although very little thought has been given to workers in private industry, the fact is that they would be among the chief victims of default. As essential services are cut back, the incentive for private business to remain here disappears. As taxation—which is already high—climbs even higher, the costs of doing business here may make it impossible for business to remain here and compete. These factors are particularly critical in the apparel industry—the largest manufacturing industry in New

York, offering altogether more than 200,000 jobs. Most of these jobs are filled by the unskilled and semi-skilled, substantial numbers of women, members of minority groups, who need the services provided by the city the most. For example, our members do not use cars to get to work; they depend on public transportation which has already become too expensive. Further increases in fares, and reduction in services, would make life intolerable to our members. Our industry would be similarly affected. It is a labor-intensive, highly competitive industry. When taxes and other costs of doing business are raised beyond a certain point, there is no way they can adapt. The answer is bankruptcy—which only leads to more unemployment, rising costs of welfare, and a viciously descending spiral of misery.

We have already felt the effects of declining employment and bankruptcy in our industry—an industry which in the past three years has already lost 25 percent of its payroll. Ours is an industry which needs stability and progress to survive. Further economic blows could wreck it.

So when you think of default, think not only of banks and of workers in the public sector, but of all working people. All would suffer, and the weakest would suffer the most.

There is no question in my mind that there is an answer, and only one immediate answer to the problems afflicting New York, and that is a federal guarantee for our bonds, until the point is reached when we can meet the costs of running the nation's largest and most complex city. But beyond the immediate answer there is another direction we must take, and that is to assign to the federal government—our strongest and most resourceful level of government—some of the costs which are now assigned to the city, the governmental organism which has the fewest resources. Many of these costs are truly national in character. I refer, of course, to the costs of welfare, of health care and to a larger degree the costs of education. In health care alone, it is my understanding that passage of a health security bill, similar to the Kennedy-Corman bill, would save the city 900 million dollars a year, and assure our citizens of a more effective health delivery system besides.

Another answer to our problem lies in the immediate subject of this Committ's deliberations. All of us know that unemployment imposes disastrous costs on government, at all levels. Those who oppose spending money to relieve unemployment, and they include some of our highest appointed and elected officials, are guilty not only of folly and inhumanity but of waste. There can be nothing more uneconomic, nothing more wasteful of our resources, than unemployment. It costs us directly in compensation and welfare and food stamps and all the other forms of relief that make up such a large part of our budget at every level of government. It costs us indirectly in crime, in deterioration of family life, in lost hours of productive labor, and in taxes.

Some people may think that unemployment is only a burden on those without jobs, on only the 10 or 12 million Americans without work, and their families. The fact is, of course, that unemployment is a burden on everyone. All of us have to pay for the costs of unemployment, and that includes the worker who is employed. No employed worker can be secure on the job with the unemployed walking the streets looking for his job. No employed worker can hope for improvements in his working conditions when his boss has only to put a sign on the door-Jobs Available—and be overrun with applicants. There is no security, no possibility for real improvements in a worker's standard of living except when there are jobs enough for all. That always has been, and always will be, the keystone of our strength.

It is this awareness that I accepted the co-chairperson's responsibility, with Mrs. Martin Luther King, Jr., of the National Committee for Full Employment and the Full Employment Action Council. The Committee and Council are a remarkable coalition of leaders from many worlds: labor and business; religion; civil rights; the academic and government areas and others. We are bound together in a common quest for one goal: a mandate by the federal government to provide the means for a full employment economy. We will not be satisfied with the vague promise of the Employment Act of 1946. What may have been good enough 30 years ago is not good enough today. Our goal is to put the word "Full" in front of the Employment Act, and make it real by effective planning and other measures which would commit the government to a full employment economy.

Our organization is working closely with your Committee with others on Capital Hill, and with private organizations which are similarly committeed to our goal, to develop legislation which would accomplish it. Legislation which has already been introduced has made a valuable contribution to our thinking, and to advancing the issue in the public consciousness. We are hopeful that before too long a consensus can be developed around a single, all-embracing approach, which will take us to the goal we seek.

In the immediate future, I urge Congress to take action on the elements of the program proposed many months ago by the AFL–CIO, touching a wide range of steps which would put our people and our industry back to work. These elements include an accelerated public works program, including special programs for housing and our rail network; expanded public service jobs; enlisting the Federal Reserve Board in the battle to reduce interest rate; financial aid to cities and states; improvements in unemployment insurance and closing loopholes in our tax system. These are among the measures which should be considered and dealt with for immediate relief of our present sorry condition. But in the long run, our need, as I stated earlier, is a long-range and permanent commitment to a policy of full employment, and in support of this goal let me conclude with a brief quotation from a resolution passed by the AFL–CIO at its Biennial Convention in October: "The immediate adoption of a national full employment policy. The Employment Act of 1946 contained more promise than action. We need legislation which provides that the President and Congress spell out specific programs to create jobs for every American willing and able to work. At long last we must recognize that in our modern society a worker is entitled to a job as a matter of right and the total society including government, must assume this responsibility and must guarantee its fulfillment."

Chairman HUMPHREY. Thank you, Mr. Finley.

May I suggest to my friends at the right over here in this section, please, we have witnesses and it is impossible for them to be heard if you are going to keep that talk up.

Mr. Shanker.

STATEMENT OF ALBERT SHANKER, PRESIDENT, UNITED FEDERATION OF TEACHERS

Mr. SHANKER. Thank you, Senator Humphrey and members of the committee.

I am happy to have this opportunity to just spend a few minutes talking about the relationship of default to unemployment in terms of the school system of New York City and also in terms of the schools in New York State.

We were happy to hear this morning that Mayor Beame places the schools on the list of essential services. But we can report to you that so far in the budget competition, with each set of cuts which the city has been forced to impose, that when it comes to a protection of life, that obviously has to take the priority. Then when we get to schools, that takes a much lower order of priority.

The schools in New York City have already taken a cut of 20 percent in their budget, and I might say that that is an amount which is close to $300 million. It is an amount which is more than twice the total in title I aid which New York City gets. So that great program which was adopted by the Congress and signed into law by the President in just 1 day, because of the crisis in New York City, more than twice the amount of money which we receive to help our city was removed from that budget.

Now, of course, we have already felt other consequences on the State level. Every 1 of 760 school districts in the State of New York have been informed that the outfit that usually insures their bonds, the school district's, because default by New York State would possibly mean that State aid to schools would not be forthcoming and that the school districts would have to default, that the usual insurance on their bonds is no longer available, and they either have to self-insure or provide for greatly increased interest because of the much greater risk.

It is a situation of greatest irony that over all these years our problem in education was that we were dealing with problems of quantity. A huge number of youngsters were coming into the schools and we didn't have an adequate number of schoolrooms and school buildings.

Now the situation is quite different. We have large numbers of teachers, we have a declining birth rate, plenty of space, and we could institute kindergardens, early childhood education, various programs of lifelong learning and education.

However, at this particular time, instead of using these resources, there are thousands upon thousands of teachers who are waiting for employment and, even without default, we have just in the school system been subjected to 14,000 layoffs. Many teachers—practically the entire staff of guidance counselors and attendance teachers have been laid off.

We have, I think, in addition to looking at the cost here in unemployment—we ought to be looking at the cost in terms of future unemployment, as to what this does to the youngsters in school; that practically every special service, remedial service, every kind of help a child needs when he is in trouble, has been removed, is no longer there.

We have many of our high schools with 45, 50, and 55 students per class, contrasted with every other county in the State of New York, where the average class size is 25.

We have handicapped children in rooms with 34 or 35 other students.

We have other programs, programs which were designed to end unemployment or dependence on welfare. One is probably the outstanding affirmative action program in the country, and that was the employment in 1967 of 10,000 paraprofessionals in the school system of the city of New York, mainly black and Puerto Rican, mainly people who had been high school dropouts and who were on welfare. Through their employment as paraprofessionals, they not only completed high school equivalency, and over 6,000 have enrolled in our City University, and several thousand have graduated and are ready to become teachers.

Here we have 10,000 who until recently were working and who were getting ready to enter the teaching profession so that this school system will have an integrated staff. At just the moment they are going to college and being graduated from college—at just that moment there are no positions for them in the school system, and they are laid off or waiting on a long and impossible list before they can come back into the school system.

Now I want to make one final point and that is I do not believe that a mere loan guarantee, which will avoid default—and I know how difficult it is getting that—that that in itself will not be enough.

Anyone who comes before you to give you that message, that all we have to do is be able to pay back people on December 1, January 1, and February 1, and the city is going to be able to get its own fiscal house in order by itself, that is just not so.

Here I think that your own staff study on your Joint Economic Committee is an excellent study. If one reads it carefully in terms of what will happen to city services if the city budget is balanced, and that is a requirement of the State emergency fiscal control board and it's a requirement of all the legislation that's sitting there in Washington, that will mean that in adition to the cuts that have already been made, that aditional cuts will be necessary.

Here there are different estimates as to whether those cuts will be 700 million or 1 billion or 3 billion or 3.8 billion. But if you take any of those estimates, the fact is that over a period of 1½ years the city will have cut its services approximately in half.

I submit to you that a city with half of its police force, half of its fire force, half of its educational system, half of its cultural institutions, that that city is not going to be getting the tax revenues 2 years from now that it is getting today. Because that will not be a city of men and women. It will be a city unfit to live in. It will be a city faced with a massive exodus. Because anyone who can afford to move, the people who can afford to move—are the tax base of this city—will get out. And this city will become perhaps a city of 1 or 1½ or 2 million people completely dependent upon the Federal Government, not dependent upon other people in the city.

In addition to avoiding default, we have to be looking to these other programs of full employment, we have to be looking to a health security bill, we have to be looking for a federalization of welfare, that unless the city and State are relieved of some of these major burdens, it is going to be impossible to put this city back together again, even if we happen to meet the payments on these pieces of paper in the forthcoming months. Thank you.

Chairman HUMPHREY. I am going to include at this point in your testimony table IX on page 33 of the committee staff study which underscores what you had to say with reference to the amount of cuts that have to be made under the so-called financial plan in the next year and a half, about another 18.2 to 20 percent.

[The table referred to follows:]

TABLE IX.—EXPENDITURE CUTS IN THE CONTROLLABLE PORTION OF NEW YORK CITY'S FISCAL YEAR 1978 BUDGET

Item	Million
Total controllable spending in fiscal year 1976	$5,500
Controllable spending in fiscal year 1978 (projected) [1]	5,835
Budgeted controllable spending in fiscal year 1978 [2]	5,500
Cuts in real services due to inflation from fiscal years 1976 to 1978	335
Budget cuts mandated by plan	724
Total deflated cuts	1,059
Total deflated cuts in real services as a percentage of fiscal year 1978 projected controllable budget	18.2

[1] Includes 3 pct inflation factor.
[2] As it appears in the financial plan.

Source: Office of the Controller of New York City.

Chairman HUMPHREY. The next witness is Professor Lekachman We welcome you.

STATEMENT OF ROBERT LEKACHMAN, DISTINGUISHED PROFESSOR OF ECONOMICS, LEHMAN COLLEGE, CITY UNIVERSITY OF NEW YORK

Mr. LEKACHMAN. At the request of the staff I am going to address myself largely to the context of national legislation within which the city may recover. But I am moved to make two preliminary comments about the city's immediate crisis. One is that I think it is possible for worse than default to occur. I would judge worse than default to be the placement of Secretary Simon and Mr. Burns by themselves in charge of the city's affairs.

These estimable gentlemen have two of the finest 18th century minds of our period. I think default would be preferable to placing them as unelected mayors of this city.

The second preliminary point that I would like to make is this: At the risk of speaking in my own self-interest, the City University of New York, of which Lehman College is a part, is, I think, genuinely a part of any real recovery plan for New York City.

If New York City is to become once more a wholesome metropolis, it is going to have to depend upon the supply of trained men and womenpower that the City University specializes in producing.

The City University produces business managers, accountants, hospital technicians; it produces a wide variety of the specialties upon which the city's future is founded. Let me turn next to the climate, the national climate, which affects, as Mayor Beame said earlier, the city situation.

There is very little encouraging, as several have said, including the chairman, in recent numbers. Unemployment is rising again, inflation is accelerating again. These are signs of the bankruptcy of Nixon-Ford economic policy, too visible to require further comment by me.

I think the most promising initiatives are to be found in Congress. One is the Humphrey-Javits bill, Growth and Economic Planning Act of 1975, S. 1795. The other is the Equal Employment Opportunity Act of 1975.

Both of these estimable acts incorporate commitments to high employment, both of them incorporate planning mechanisms. I hope at some appropriate moment that these acts may be combined into a single guarantee of full employment which would restore the original thrust of the full employment bill of 1945, which was emasculated as the Employment Act of 1946.

If I may just take 1 or 2 additional minutes, I think that there is an additional point connected with national economic policy that is perhaps too frequently made. One of the barriers to genuine job guarantees is clearly a pervasive fear of inflation.

There is a reality to that. Without appropriate supplementary measures, providing full employment might very well shift the wage structure upward, it might further encourage large corporations, which have been raising their prices even during this minidepression, to accelerate price increases still more.

So that in brief what I think is an indispensible need of genuine commitment to full employment, what I think is a supplement to the two measures now in Congress, is a permanent incomes policy. This is probably not the occasion to do more than to say very, very generally what I think the four fundamentals of such a policy are.

The first is no controls where there are genuinely competitive industries, as in retailing and in some areas of manufacturing.

But secondly, permanent price controls over the concentrated industries, autos, oil, steel, aluminum, chemicals, pharmaceuticals, a wide range of American manufacturing where private power now presides over the market. I prefer public power.

When it comes to wages I think there is a fact that is not commonly recognized that this inflation has had almost nothing to do with union wage policy. It has been a combination of exterior shocks, OPEC, grain policies, and also the pricing policies of concentrated industry plus the health services.

I would therefore supplement mandatory price controls with voluntary wage guidelines in recognition of the more responsible behavior of unions in recent years and the erosion of real purchasing power that is taking place as prices have risen far more sharply than blue- and white-collar wages.

Finally, there are special cases like construction and health. These need to be worked on. These are far too complex for me to enter into here.

I don't think in the long run that New York City is going to recover, even if Congress rescues it from its immediate impending catastrophe, unless the economy recovers its health and its growth. There is no hope, obviously, in the present conduct of the White House.

The hope must come from Congress. And I hope that the labor of this committee and other committees will produce the kind of legislation which will restore economic health to the economy and thus to New York City. Thank you.

[The prepared statement of Mr. Lekachman follows:]

Prepared Statement of Robert Lekachman

At this desperate moment in the life of my city, it is highly appropriate that this hearing take place in Manhattan, particularly since your Committee's valuable report, *New York City's Financial Crisis*, makes clear just how much demographic, political, and social changes in the nation have contributed to New York's disaster and how absolutely certain its bankruptcy is to abort recovery, impose heavy tax burdens on other Americans, threaten the solvency of major banks, drag New York State down with the city, and disorganize international financial transactions. President Ford's dishonest and vindictive response is horrible economics. I am confident that it will prove long before next November to be equally dreadful politics.

Often accussed of the sin, New Yorkers should avoid geographical egocentricity. Accordingly I now turn to the issues involved in national planning for full employment. I favor both S. 1795, the Humphrey-Javits Balanced Growth and Economic Planning Act of 1975 and S. 50, the Equal Opportunity and Full Employment Act of 1975. I hope these two worthy measures can be so merged as to incorporate in S. 1795 the unequivocal commitment to full employment now at the heart of S. 50.

I need not tell members of this Committee that our persistent tendency to run the economy at high rates of unemployment and low percentages of factory utilization has been costing all of us hundreds of billions of dollars of lost

Gross National Product. Leon Henderson has calculated that "During 1953-1974 . . . actual total national production, measured in 1970 dollars, was more than *2.1 trillion* (emphasis added) dollars below what it would have been at sustained full employment . . ." If in the words of S. 50, Congress affirms that "all adult Americans able and wiling to work have the right to equal opportunities for useful paid employment at fair rates of compensation", not only will millions of our citizens win the chance to lead lives of dignity and individual accomplishment, but in cold dollars and cents all Americans will enjoy higher standards of life.

There is no question that the great barrier to Congressional endorsement of this new and necessary entitlement is fear of its inflationary consequences. Although the ability of the United States during the Nixon-Ford era to combine high employment and unacceptable inflation has by now convinced even most economists that the Philips trade-offs between inflation and unemployment is a harmful myth, there are two genuine inflationary threats posed by genuine job guarantees:

(1) LABOR MARKETS WILL BE RESTRUCTURED

Raising wages at the low end of the market will have reverberations in the rest of the wage srtucture. In some industries, notably construction, unions may be tempted to seek extravagant gains.

(2) PRICING IN CONCENTRATED INDUSTRIES

In health services and in much of American manufacturing where two, three, or four large firms dominates their markets, pricing practices have been irresponsibly inflationary even during the mini-depression of the last two years. In a climate of guaranteed full employment, these semi-autonomous organizations are likely to embark on still more inflationary courses of conduct.

I am convinced that the missing building block in a solid structure of planning for full employment is Congressional adoption of a permanent incomes policy and an independent public agency to administer it according to Congressional criteria. With desperate brevity, I enumerate the essential elements of such a policy:

(1) NO CONTROLS OVER COMPETITIVE SECTORS

Where markets are genuinely competitive, as in retail trade and a limited number of manufacturing industries, price controls except in emergencies are unnecessary and undesirable.

(2) PUBLIC POWER MUST REGULATE PRIVATE MARKET POWER

In concentrated industries, such as autos, oil, steel, aluminum, and chemicals, statutory price control authority is a necessity.

(3) VOLUNTARY WAGE STANDARDS

OPEC, world food shortages, American food policy, and corporate pricing policy are the causes of present inflation. During its courses, factory and office workers have suffered steady erosion of real income. Their unions, a very few exceptions aside, have bargained for very modest gains. I should recommend, at least at the outset, nothing more than a voluntary set of wage guideposts.

(4) CONSTRUCTION AND HEALTH: TWO SPECIAL CASES

Here stronger controls are required. In construction mandatory wage controls probably ought supplement mandatory price controls. Within the context of national health insurance, effective cost controls over hospital care and physicians' fees will be necessary.

In conclusion, permit me to end as I began with a word about New York. I have no doubt that New York in the company of other American cities will recoup its fortunes in a climate of full employment and continue its downward slide in a sluggish economy. President Ford's contemptible rhetoric ignores the link between his own administration's calamitous economic policies and the finances of urban America.

Chairman HUMPHREY. Thank you very much, Professor. We hoped to have the benefit of your counsel and advice later on when we open up full-scale hearings on the balanced growth and planning legislation.

Mr. LEKACHMAN. I will be more than happy to appear.

Chairman HUMPHREY. Let me just quickly say that legislation such as has been referred to, we look at as serving a purpose of a focus. We recognize that sometimes these legislative proposals have inadequacies and they have limitations. But we need to be able to focus attention.

Therefore, whatever counsel and advice we can receive in the days ahead will be most welcome, as to how we revise it, improve it, make it more effective. Because when we draw up legislation sometimes it isn't all it ought to be. And it provokes a great storm, which isn't part of its purpose. Maybe it gets people out of their intellectual lethargy.

May I say I am pleased to see in the assembly the Honorable Percy Sutton, who is the president of the borough of Manhattan. We welcome you, Mr. Sutton.

But now we have Eleanor Norton. Please proceed, Ms. Norton.

STATEMENT OF ELEANOR HOLMES NORTON, CHAIRMAN, NEW YORK CITY COMMISSION ON HUMAN RIGHTS

Ms. NORTON. Thank you, Mr. Chairman and members of the committee, you have asked me to address the question of how the city's financial crisis and especially short-term unemployment impact will have upon the minority people in this city.

To look at the city's minority population at this moment, 45 percent at the very least of the people who live in the city today are minorities, as a result of erosion of white residents from the city in the past few years.

Chairman HUMPHREY. How does that break down, Ms. Norton.

Ms. NORTON. About 25 percent of them would be black, the rest would be Puerto Rican. It does not take into account the 175,000 Chinese—we have 97 different ethnic groups in this city. Most of the people who come through our port always—we are experiencing new immigration, a wave of new immigration coming to New York and settle here in this city and we in the city bear most of the burden of this initial immigration because these are people who usually don't speak the language and need to be acclimated to the customs of this country and to find work.

I want to stress that even if we avoid default, anyone who is in the city for as little as a week knows that we face a situation where the budget stringencies that have become necessary, by themselves, assuming no default, are likely to wipe out the city for a generation.

It is hard to imagine what the city is going to look like if we continue to have schools with 50 kids in a classroom. This impact is going to be largely racial. Those who have options are going to get out of New York. Those who have options mostly are white. Those who do not have options most often are black and brown.

It is important to me to consider these effects, lest we find ourselves with the city becoming a third world country where we look more like a city in India than a city in the United States, where the slum conditions we are used to in this country are paled besides what you might see in the future.

It is tough to live in New York City. Even if you live on Park Avenue. It has been tough to live here all during the 1960's when we were experiencing a booming economy. I am particularly concerned about the schools because one of the factors, perhaps the key factor, that sends people out of New York City is the condition of the schools. That promises a greater erosion in our tax base.

First I believe much of the primitive tone in the remarks of the President and Secretary Simon and others fail inexcusably to take into account special economic facts of the city and State outside of their control, but rather in the direct control of the Federal Government. All three have racial implications.

The significance of the three is twofold. (1) They are all a result of Federal policies, and (2) Federal policies as to any one of these, (3) If Federal policies as to any one of these 3 had been given, New York City would not be in the extreme financial crisis it is in today.

One of them has been discussed at some length by the mayor, and that is the Federal welfare policies. I submit to you, gentlemen, that there is no city in the United States which could have shouldered what we shoulder annually, $1 billion from tax-levy funds on welfare expenditures, taking into account only city funds, which it seems clear would have literally ground up any other city in the United States. Only by taxing ourselves have we been able to stay alive this long. Let President Ford punish New York with his own hands and become clean on this issue.

The second issue where Federal policy has impact on the cities and marked racial implications, is with respect to the opening up of the suburbs. I am not one of those who decry the opening up of the suburbs. I see that as the post-World War II frontier in the United States.

What I do decry, however, is the impact that this was done at the expense of the cities. Because we invented policies that opened the suburbs while doing nothing to keep these from having a disparat effect upon the cities. Low mortgage rates and the building of roads had such effects.

Without such a bill such as you are planning, it's not possible to look at all of these at one time. That is why I support the planning bill.

My Commission has just begun this work under a community block grant, funds from the Federal Government, the first program in the United States to try to stem the flight from white middle income people from the city and, as it turns out, other middle income people, as well.

It says everything that this money has had to be allotted to the city commission out of a Federal grant to the city. I had a proposal at HUD since the early 1970's to do just this, and HUD loved the proposal. But only when the community block grants allowed the city of New York to in fact distribute this money, was the money given to the city commission to do this work.

Every city in this country should have been doing this type of study in the last 10 years. But no city, except New York has been doing it. The fact that it developed out of the locality, rather than at the national level says everything about the failure of Federal policies with respect to great cities.

Finally, the Bureau of Labor Statistics has not done a study of black unemployment in New York City since 1973. It perhaps reflects its own budget constrigencies. But it has figures that demonstrate that matters are getting worse, not better. Let me look only at three areas where it is predicted that we will have the greatest job loss in future years.

These happen to be areas in which minorities and women are over dependent for employment. Two of the three areas are such areas. They are operatives, such as garment workers, where there is 129,721 workers to go. The second is service workers, such as food service, household workers, elevator operators, 60,147 workers to go. These where their special impact on minorities and women will leave New York in a much sorrier state than you can imagine. Another 60,544 craftsmen, that includes many white workers, because these crafts have often been exclusionary.

The Federal Government has failed to develop any new remedies for unemployment since the New Deal. We are living on remedies of the last generation. Basically, unemployment insurance and public service jobs. I support the Humphrey bill. But we urgently need to develop some short term remedies for unemployment.

I want to allude, finally, to one such remedy. When it became clear last year that the effects of title 7 and my agency receives a Federal grant from the EEOC, we are being undermined by law of policies, I submitted a memorandum to the chairman of the EEOC, in which I requested guidance on how to implement layoff policies so they would not be discriminatory.

I submitted a legal memorandum suggesting workers would be required to lose layoff alternatives, rather than lay off any workers. Such alternatives include voluntary leaves of absence, reduction of fringe benefits, voluntary early retirement and work sharing. Work sharing, for example, could cause a reduction in hours, 4-day week for all workers, rather than laying off any. I am working to get a small change in the New York State Unemployment Compensation Law, that would compensate the fifth day for the worker at home on unemployment insurance, and give incentive to employees to work.

New York City, as you know, has already used several layoff alternatives, some at the instigation of its own municipal unions. I will leave a study for the record, detailing those alternatives.

Private employers and unions left to their own devices are already engaged in a wide variety of layoff alternatives to lay off the fewest possible employees with the greatest possible impact on reduction of expenditures.

We attended a meeting of, and cooperated with a coalition of employers, unions, and scholars, where we learned much about the recently released report—you may have copies by now, I gave them to your staff—entitled, "Alternatives to Layoffs," which received favorable editorial support in the New York Times last month and has become something of a best seller.

The report looks at experiences of companies. For example, the New York Telephone Co. and its union, the Telephone Operators' Union, devised a program which would spread the burden of cutting back on expenses by having each of the operators take a small cut in working time and, therefore, a reduction in pay rather than having 400 telephone operators, almost all of them black women, lose their jobs. This is not company-wide. I think it is just for the workers with the least seniority. But it is a good beginning.

The garment unions have used work-sharing and rotating layoffs for over 50 years.

The Teamsters, the Newspaper Guild of America, the Rochester Building Trades Council, the Communications Workers, as well as the Washington Star News, the Ford Foundation, et cetera, et cetera, Hewlett Packard and Pan American Industries.

The AFL-CIO does not object to the use of layoff alternatives when a union in the process of collective bargaining has agreed to the use of such alternatives. I am sure the AFL-CIO would agree that if we could get some unemployment insurance supplement, this alternative would be even more viable.

I do not, by any means, mean to suggest that layoff alternatives, such as work-sharing, are anything but emergency, temporary measures. They are not a solution to the current unemployment situation because they do not affect those already out of work, such as those who were let go prior to the institution of layoff alternatives. And equal opportunity cannot be realized as long as unemployment is tolerated.

It is not enough to say to people that they are victims of the times and must be sacrificed in order to restore economic order, or that they must accept reduced earnings through work-sharing or other temporary measures to reduce expenditures, or that they must wait until we have full employment economy to obtain job security.

Six generations of last hired, first fired, are too many. The urgency of a short-term remedy to layoffs is dramatized by the statistics from the 1970 recession.

Whites actually increased their participation in the labor market during the recession of 1970. All of the recession linked job shrinkage was ultimately absorbed by nonwhite workers. Minority workers. This is intolerable. More than anything else, a change in the State and Federal unemployment insurance laws could open the way to this new remedy. It is time we used unemployment insurance to supplement employment, in addition to its traditional role to bridge unemployment.

Let me close with these recommendations:

(1) That there be Federal action to enunciate uniform national rules for unemployment insurance eligibility, including coverage for wages lost to work-sharing.

(2) A special proposition should be sought where Federal money be used to supplement the fifth day of work concept, so people can work 4 days a week and spend 1 day on unemployment, instead of relying on the public service job remedy which does not attack the fundamental casual relationship between recession and unemployment or the paradox of simultaneous inflation and recession.

70-058—76——6

(3) There should be the promulgation, by the Equal Opportunity Commission, of layoff alternative guidelines to reduce conflicts between seniority and affirmative action.

(4) There should be the development of a Comprehensive Standardized Information Service, under the Department of Labor, to document experiences of layoff alternatives to serve as a basis for a relevant evaluation in testing options.

(5) We should work to have made available free technical management and mediation assistance either as a public service or through national business and industry, supported by the Federal Government or private industry or both, which would allow businesses to experiment with alternative programs and solutions but wish to avoid the unfortunate situation of laying people off.

And, finally, (6), we should work for the reduction in corporate benefit expenses to encourage work-sharing through means such as national health insurance approaches and tax rebates for employees who voluntarily cooperate with their employers in ameliorating the employment situation. Thank you very much.

[The study referred to by Ms. Norton follows:]

ALTERNATIVES TO LAYOFFS [1]

(By Edith F. Lynton)

PREFACE

The American economy stands at one of the most critical points in the nation's history. The character of the economy itself appears to be undergoing a change that is both a function of dramatic international developments and accumulated national problems. An increasing tolerance of high unemployment is the chief-by-product in human terms.

Most troubling is the poverty of national responses, which continue to look to remedies developed largely out of the Great Depression. Devastating as that experience was and relevant as many of its remedies still are, they can hardly take us the full way out of today's more complicated economic problems.

This report is an exploration designed to provoke discussion and action beyond the more traditional remedies to unemployment. While the Commission regards a full employment policy as the only acceptable answer to unemployment policy as the only acceptable answer to unemployment in the long run, we believe the country has an obligation to seek short-term remedies for unemployment. Unemployment insurance is just such a remedy that has long been accepted as a way to cushion joblessness. But we have used unemployment insurance almost exclusively to subsidize unemployment. One of the proposals in this report, for example, calls for the use of unemployment insurance to subsidize work-sharing so that a worker on a shortened work week would be subsidized on the day he is without work, thereby putting a premium on working instead of unemployment. The Commission believes that work-sharing subsidized with unemployment insurance appears to be one of the most promising and practical alternatives to unemployment. The fact that this and other alternatives have not been more vigorously investigated or pursued is itself a comment on the state of the search for new policies to mitigate unemployment.

This document discusses this alternative and others as they were developed at a working conference on alternatives to layoffs in the spring of 1975. The conference was part of Commission efforts to develop approaches within its mandate to prevent and remedy discrimination against minorities and women. Our purpose was to explore the technical aspects and policy implications of layoff alternatives so that Commission policy would be both fair and practical It soon became apparent that this subject has ramifications well beyond dis-

[1] Based on conferences held by the New York City Commission on Human Rights, Apr. 3–4, 1975, Eleanor Holmes Norton, chairman.

crimination and Commission objectives. Because what is involved goes to overall manpower and employment policy, we are therefore making this report available to the public.

ELEANOR HOLMES NORTON,
Chairman.

September, 1975.

INTRODUCTION

As the 1974–75 recession deepened and unemployment rose to an alarming post-war high, the New York City Commission on Human Rights became increasingly concerned that the gains made during the past decade toward equalizing job opportunity for minorities and women would be nullified. Unemployment in this recission, as in all prior periods of economic decline, has been the unequal burden of minorities and women, because layoffs, whether in unionized or non-unionized settings, tend to follow seniority. Currently, disproportionate joblessness has fallen again on those least equipped to sustain it, and threatens to perpetuate the inequality of opportunity that has been an historic characteristic of the national labor market. To allow this to happen in 1975 is even more intolerable than in the past. Through arduous efforts made under affirmative action in recent years more minorities and women have only recently been included in stable full-time and better-paying jobs, and thus are for the first time a part of the labor force that offers greater security and advancement opportunity.

To date, most of the concern with this problem has focused on the legal conflict between the principles of affirmative action and of seniority. In the Commission's view, any resolution of the conflict between these two principles that takes the form of simply shifting the burden of unemployment from one group of workers to another is undesirable and inequitable. The current conflict between affirmative action and seniority, moreover, must be recognized as a transition phenomenon. When all job seekers have enjoyed equal access to work opportunities long enough, the application of seniority rules to employment decisions will no longer manifest a significant disparate effect on the basis of race or sex.

The fundamental problem, in the Commission's view, resides in the conventional assumption that unemployment is a necessary consequence of the shifts in the level of production in a free economy. The Commission rejects this assumption on the basis, among others, of the experience of other Western capitalist nations. It is time this country became as creative in exploring all possible alternatives to layoffs to maintain a higher rate of employment. The Commission conference and this document seek to provide a basis for serious exploration of cost-saving alternatives adapted to the American situation and economy. The utilization of such alternatives, the Commission believes, would not only preserve the vulnerable jobs of minorities and women in this current recession, but could have implications extending well beyond their rights and immediate national economic problems. The Commission shares the view expressed by the National Commission for Manpower Policy that American society needs to take a fresh look at its manpower policies and develop more humane and less costly ways to deal with cyclical or structural economic change. It can no longer be considered tolerable in a developed society to allow individuals to become the indiscriminate casualties of a fluctuating economy. New strategies are needed to make full employment policy a national reality.

Recognition of unemployment as a problem that demands public attention and national remedies was one of the major achievements of The New Deal. But what is surprising in a dynamic society is that the two principal developments of the 1930s designed to cushion the impact of unemployment, Unemployment Insurance and Public Works Programs, are today still the only national strategies, and both remarkably unaltered in design and application. The urgent need is to transform national policy from one of mitigation of some of the economic hardship of job loss to one of providing an assurance of continuous full employment. First priority for the nation is, of course, achieving full employment. Many Western European countries have made marked advances in this direction through a great diversity of public policies, including active labor market policies that even go as far as requiring work-sharing in lieu of layoffs.[2]

[2] Beatrice G. Reubens, *The Hard-to-Employ European Programs,* Columbia University Press, 1970.

Against this background of immediate and longer range concerns, the Commission determined to stimulate thinking about the alternatives to layoffs. The ability of the city government earlier in this recession to minimize layoffs by negotiating with municipal unions for a temporary waiver of days of paid vacation, early leaving time and other perquisites reinforces the Commission's belief that methods other than wholesale layoffs can be found, especially in areas of employment endowed with greater flexibility. To explore the relative merits of various alternatives, and their applicability to different businesses and industries, the Commission called two full days of conferences. The focus of the conferences was on voluntary action to avoid or minimize layoffs. Discussion of governmental action was confined to those actions that would stimulate voluntary experimentation with alternatives. Nevertheless, the participants recognized that alternatives to layoffs are only short-term remedies both to eliminate some of the continuing inequity based on race and sex and to diminish total unemployment.

Two carefully selected groups[3] were invited to participate, including leaders in business, industry, national labor unions, mediation and arbitration experts and legal scholars and economists. Business and labor participation ranged from representatives of industries that never have experienced layoffs to those where change in the size of work force is a long-term and chronic problem. The conference discussions included detailed analyses of actual experience, assessments of the theoretical applicability of this experience to other industries, as well as options not yet tested at all, or to any significant extent.

Discussion was informal and free-flowing, but to stimulate and focus participation, an outline of topics was prepared, and is appended to this report. The outline was intended as a comprehensive overview, and although all major topics contained were discussed in considerable depth and detail, some subtopics received less attention. Work-sharing approaches attracted the most interest as the strategy offering the greatest potential for minimizing unemployment in the current recession. Broader legal and macroeconomic implications of the proposed alternatives and their relationship to national economic policies also were assessed. Much in the transcript of the conferences merits further study, but in light of the large-scale continuing unemployment, the merits of the varying alternatives to layoffs, their applicability, and the techniques for implementation are the paramount considerations. This report, therefore, will concentrate on those aspects of discussion with particular emphasis on actual experience reported in varied situations to serve as models. The report has three parts: the first summarizes the conference discussions, the second presents six examples of the use of alternative approaches as models, and the third discusses the implications for public policy.

THE GENERAL APPLICABILITY OF ALTERNATIVES TO LAYOFFS

Underlying the discussion of alternatives to layoffs was the expressed understanding that it is incumbent on management to explore all forms of cost-saving before or concurrent with a review of labor costs. Alternatives to layoffs are not to serve as alternatives to all forms of cost-cutting, but to be considered only when a reduction in output becomes an absolute necessity because of a shrinking market, or when lower labor costs are essential to the financial health or competitive position of the company. The proposed alternatives have sharply differing applicability and, therefore, are not proposed as palliatives for all occasions of financial distress.

Although it is admittedly difficult to generalize about the totality of national business problems, in discussion and especially after careful examination of actual experience, the participants were able to formulate some principles governing the potential applicability of alternative strategies. A first consensus was that alternatives to layoffs can be used in response to some seasonal, cyclical or structural company or industry problems. More than the nature of the economic problem, it is the dimension and probable duration of financial pressure that is most likely to dictate the choice among the various alternatives and determine whether an alternative will obviate or only minimize the necessity for layoffs. For example, where business conditions require a drastic cut in work force size, layoffs probably cannot totally be precluded. Also, in an

[3] A list of participants is appended.

industry suffering long-term and apparently irreversible decline, the use of alternatives will serve only to minimize or delay the impact of layoffs. Various alternatives, alone or in combination, will be more successful when the labor cost cut demanded is short of drastic, and when the economic problem faced is likely to be resolved in the relatively near future. In relation to the choice among alternatives, if necessitated cuts in labor costs are relatively small, or of projected short duration, then attrition, voluntary furloughs, early retirement or transfers can be effective alternatives, especially in large organizations. Work-sharing approaches are useful primarily as an alternative to yet more sizable layoffs, and when the expectation is that most of the work force will again be demanded on a full-time basis in the relatively near term. Of equal significance to the nature of the financial problem may be company or industry attitudes. The employment history of a company or industry may condition management and labor attitudes toward seeking alternatives. For example, a company that has enjoyed sustained and continuous growth and financial stability, and never has been forced to consider layoffs, may tend to seek alternatives because layoffs would have a noticeable impact upon worker morale and on the company's public image. By contrast, industries characterized by chronic variations in the size of the work force may accept layoffs as the inevitable response to changing demand patterns. This was confirmed in the experience of the conference participants. It was noteworthy that companies encountering for the first time the possibility of layoffs demonstrated considerable ingenuity in avoiding or, at least, in reducing their impact to the smallest possible number.

Generalizations concerning worker preferences were difficult to make because relatively few workers have been given a choice among alternatives. Again it was believed that characteristics of the occupation or industry would affect worker attitudes. In growth industries it was thought difficult to institute labor reductions without creating considerable dissatisfaction, because employees in such companies may consider their employing organizations to be invulnerable. Workers who have experienced or witnessed periods of unemployment in the past may react differently than those whose job security never before has been threatened. Those employed in highly volatile industries are more likely to tolerate chronic periods of unemployment, and often, moreover, as in the automobile industry, the garment trades, or the construction industry, are protected by union contracts that provide for compensatory unemployment benefits, systems of work-sharing, or wage rates that take into account the instability of employment. But the models reported show that when workers are presented with an alternative to layoffs as either necessary to the survival of the organization or as a measure of greater benefit to all workers, they often will respond, even when all must share in the hardships.

Company size may also be a factor. Size alone is not an index of financial stability, but larger companies often are able to achieve substantial savings without layoffs by reducing executive salaries and perquisites, eliminating employee services such as cafeterias and recreational activities, ending the use of overtime, and by more stringent application of rules governing absence and sick leave. In smaller companies such procedures are unlikely to yield any significant reduction in overall costs. Small companies, however, may have special incentives to find ways to retain their employees. Often work is highly individualized, and the loss of even a few workers may be of greater consequence to the small company's capacity to function.

The relative cost savings of the various alternatives compared with layoffs are difficult to calculate for any individual company and even more difficult to generalize. Layoffs may cause direct costs of severance payments, often a part of collective bargaining agreements or customary in non-unionized settings, and an increased rate of contribution to unemployment insurance. The latter would have more significance to historically stable employers where the unemployment insurance rate of contribution is low. The costs to company morale and to efficiency resulting from the loss of experienced and skilled workers elude dollar calculation. The values attached to such relative intangibles obviously depend on management and personnel department judgements, as well as the amount invested in recruiting and training.

More important than comparative cost savings between layoffs and any alternative, again, may be managerial and worker attitudes. The desire to seek creative solutions to economic problems and the degree of sensitivity to the social implications of unemployment may have more influence on decisions to develop an alternative plan than the savings to be derived. When layoffs are viewed as a last resort, cost calculations will include organizational morale, community effect, and the avoidance of the trauma of unemployment even for a relatively few. This was not only explicit in the conference discussions but concretely evidenced in the actions adopted by many conferees.

Relative merits of various alternatives

No single alternative is applicable to every situation, but some have more limited utility than others. The primary difference is that some of the options discussed reduce the total labor cost without changing the numbers employed or the hours worked, while others reduce numbers or hours. By and large, this recession has caused a contraction of the markets for most private sector businesses, and therefore, attention centered on those strategies that reduce the labor force without layoffs. But the public sector and some segments of private industry are not experiencing any decline in demand; nevertheless rising costs impel consideration of options to cut labor costs without affecting numbers and hours.

The obvious and perhaps least acceptable way to reduce labor costs, without affecting work force size, is to lower wages. Some companies have drastically reduced executive and middle-management salaries and expense budgets. The savings realized sometimes are essentially symbolic, intended to induce other employees to accept the need for retrenchment. One participating company reported a voluntary pay cut taken by a highly paid group of employees, but the prevailing view was that across-the-board wage cuts were unlikely to be accepted as an alternative to dismissing some employees, especially in unionized settings. Continuing inflation militates against its acceptance, and unions would tend to resist any alteration in the wage rate. Using top management salary reductions as an inducement for lower echelon pay cuts probably will not succeed, because the residual executive salary would still appear to be comparatively generous compensation.

In some instances employees have been willing to defer or forego scheduled cost-of-living or merit raises, but not in every case reported at the conferences. Much depends on the prevailing salary level, as well as other factors. Union leaders agreed, however, that workers generally will be more amenable to changes in future earning rates than to cuts in current wages.

Reduction of benefits

In many large companies the benefit package is a sizable part of total labor costs and one where potentially large savings, in theory, could be realized. This strategy, however, is mainly applicable to public employment, or to those parts of the private sector where demand for the product or service is unaffected (voluntary hospitals, for example). A further limitation is that in large diversified organizations, benefit cust must be applied across-the-board and generally cannot be applied with the flexibility of other alternatives in response to localized or departmental overages of personnel. The fundamental problem, however, is that most benefit programs are a part of union agreements achieved only after considerable effort and construed as intrinsic to the wage package.

It is generally assumed that union leaders would resist any reduction in benefits, viewing it as a significant regression in the wage pattern, and that workers also would consider benefits non-negotiable. But it cannot be assumed that all workers will react in a monolithic manner. Union leaders among the conference participants were critical of the tendency among their counterparts to speak for membership without accurate knowledge of grassroots reaction. Recent experience of some municipal unions is indicative. When the alternatives are put to the membership their reactions may differ from those of their elected representatives. A breakdown showing the cost of benefits can be the beginning for a realistic reassessment of options.

Savings can also be realized through reduction of sick leave and paid vacations. And without actual reductions, more effective enforcement of conditions of employment including punctuality can, in large companies, contribute substantial savings. The representative of a national company reported that some potential layoffs were averted merely by eliminating costly deviations from standard work rules, achieved largely by the response of employees when they understood the nature of the company's financial problems.

The conference participants were not overly sanguine about the prospects for actualizing much of the potential savings to be achieved through reduced benefits, until national health insurance or other public provisions supplant employment-based insurance protection now so widespread. And because most participants were concerned with cutting output, other alternatives were analyzed in greater detail.

Voluntary furloughs

Voluntary furloughs, or unpaid vacations, can be effective to alleviate short-term over-staffing. Several of the participants reported using a program of voluntary furloughs alone or in combination with other strategies to relieve temporary excesses of personnel occurring in the past and during the current recession as well. Unpaid vacations or leaves of absence of varying duration are offered to personnel, and generally all terms of employment, benefits, wages and seniority are preserved. Voluntary furloughs clearly are a limited stretegy for reducing payroll costs of value only in large companies as a source of significant cost reduction. Voluntary furloughs moreover appeal chiefly to categories of workers such as the younger and not yet career-oriented employee, the older worker whose family responsibilities have diminished, and the working mother of young children. Among conference participants Avon and Pan American representatives reported successful use of voluntary furloughs. Avon has found many volunteers for extra unpaid leaves among women employed as clerical workers, and Pan American among flight crews who tend to be young and educated-minded.

The major limitation to this alternative is that the ability to recruit volunteers for unpaid leaves tends to diminish when unemployment and the cost of living increase. As the current recession deepened fewer workers volunteered, it was reported. Therefore, voluntary furloughs probably are useful mainly when the labor supply is relatively tight, or in the early stages of a recession, and particularly as a response to seasonal drops in business activity of short duration. It may be possible to stimulate use of unpaid leaves by offering extra educational or travel allowances, but this would obviously reduce the labor cost savings.

Early retirement

Early retirement programs as an approach to cutting the labor force has become similarly limited during this deep recession. In the past, the opportunity for early retirement has been a coveted provisions in union agreements, but inflation has lessened its current appeal to workers. The U.A.W. finds that retirees who opted to retire earlier on what seemed to be an adequate income level have seen inflation erode their living standard, and have discovered their successors from taking advantage of early retirement plans. The Federal Government's early retirement plan has been more successful than most because of a cost-of-living escalation clause. High bonuses or increased severance pay to those who retire before the mandatory age may also add attraction to early retirement plans, but these costly extras are likely to appeal only to those nearing retirement age, or workers employed in an occupation such as typesetting, now being phased out of existence.

On balance, early retirement plans may assist a company faced with a gradual or long-range job shrinkage, but not of major value in a recession. Unions moreover are less likely to seek early retirement plans now than in the past, because they have found the result of retirement to be a loss in the number of jobs when retirees are not replaced.

Attrition and transfer

When the labor problem a company faces is gradual or a matter of internal structural changes, then attrition or transfers coupled with training can be a useful policy. J.C. Penny, for example, reduced 400 potential layoffs to 140 through inter-departmental transfers facilitated when the problem was put directly to the workers. And the New York Telephone Company until very recently has been able to use transfers coupled with training in lieu of layoffs because of its ability to anticipate growing areas of skill need. But when a deep recession necessitates more radical reductions, then, as the New York Telephone Company experience demonstrates, the rate of attrition declines and transfer opportunities shrink. Then work-sharing may be the only remaining alternative to avert or minimize layoffs.

Work-sharing approaches

Work-sharing emerged in the conference discussions as the alternative to layoffs with the widest potential applicability to recession-based economic problems, and to almost all types of business and industry. Work-sharing may take the form of a shorter work week, or rotating and staggered shifts, or any other method by which average hours worked are reduced. Work-sharing, however, is not a panacea. Its use is limited by the necessity of providing a living wage. In instances where the necessary reduction in total hours worked would be more than 20%, the use of work-sharing for anything more than a brief period might cause too much hardship, and handicap all those affected unless such employees receive well-above-average rates of compensation. The 20% limit, of course, is only a rough guide based on average earnings. The amount of sharing that can be supported will depend on the particular wage level, with recognition given to the difference in take-home pay, rather than gross earnings. Nevertheless, at all wage levels, work-sharing probably will not suffice when a radical reduction in output becomes necessary. The automobile industry, for example, is a case in point. When it is necessary to eliminate an entire shift or halve production, work-sharing would not be a feasible. alternative. Conversely, when only minor layoffs are contemplated—for example, a reduction of some 20 employees out of a total work force of 1,000—worksharing probably is not indicated, nor is it likely to be accepted by the employees. These limitations assume that unemployment insurance or other forms of protection are not available to compensate workers for some part of wages lost through reduced hours.[4]

Within these general limits, some form of work-sharing can serve as an alternative to layoffs, not only when a reduction of output is dictated by a shrinkage in demand or by the existence of excessive inventories—although these would be the primary indications for use—but also in some instances where the high cost of operation rather than declining demand is the immediate financial problem.[5] Some form of work-sharing can be instituted, it was agreed, for piece workers, hourly workers, salaried employees, and in manufacturing, service industries, and non-profit settings, including universities and public employment. The form adopted may vary with the nature of the business. In manufacturing, a total plant shut-down for one day per week or alternate weeks may be more efficient and less costly than maintaining a five-day production schedule with fewer workers throughout. The four-day work-week may be preferable in service industries where continuous operation is essential. The potential usefulness of work-sharing is relatively wide because unlike reductions in benefits or wage cuts, work-sharing need not be applied across-the-board to all employees of a large organization, but can be confined to specific areas, functions ,or departments. as dictated by business needs.

The most difficult industries for work-sharing suggested by the conference participants were health services and the construction industry. In hospitals, those departments not engaged in direct patient services could operate on shorter hours easiest. In the construction industry, because workers generally are hired for short time periods, contractors might have difficulty in adopting a systematic work-sharing scheme. Several unions in the construction trades, however, practice a form of work-sharing, spreading the available work among the membership. Company size also does not appear to be a significant factor in the applicability of a work-sharing alternative, with the possible exception of extremely small organizations of perhaps less than ten employees. Small organizations, however, often have the close contact that generates a greater interest on the part of all workers in the company's success.

In theory, the conference participants agreed work-sharing has enormous potential, but where agreement is required, the receptivity of workers to sharing the burden of a necessary reduction in the workforce is critical Worker receptivity to work-sharing plans is contingent on several factors, but, according to the experiences related at the conferences, acceptance is not necessarily dependent on whether an individual worker is vulnerable to layoff because of low seniority status. Among Washington Star personnel, the initiative for work-sharing came from union officers and senior employees who themselves were not liable to termination, and conversely, among those who voted against

---

[4] Proposed changes in unemployment insurance are discussed later in this report.
[5] See, for example, the Washington Star model.

work-sharing were some who would have been dismissed had layoffs taken place in accordance with seniority rules. Union leaders believe that the higher-paid and senior workers may grumble after the fact, perhaps because a percentage acrors-the-board wage cut represents to them a larger dollar loss, but they also may tend to be more supportive of the sharing approach because they have a greater sense of identification with both the job and the employing company.

The severity of an employer's economic problem, especially when the company's survival seems threatened, appears to increase worker receptivity because crisis often breeds solidarity. The models presented in this report, however, include a company faced with a critical problem, but also one with only a short-term inventory problem, and another that is a part of the Bell System, one of the most stable companies in the country.

Whether or not worker attitudes toward work-sharing depend on the type of employment is unclear. Some participants believe that receptivity depends on the degree of worker attachment to an occupation or to an employer, presumably greater in skilled jobs. Pan American's experience, however, has found no significant difference in response among such disparate groups as computer programmers and jet engine repair workers.

The most significant factors appear to be good employer-employee relationships that result in a genuine community of interest;. an identification with the company as a good place to work; and an open communication system that allows for two-way discussion of business problems and possible alternatives. When workers have sufficient access to financial data to be convinced of the need for labor-cost savings or cuts in output, and a sense of involvement in the decision-making process, then the acceptance of work-sharing probably will be limited only by such questions as whether a reduced work schedule will afford a livable wage rate, and perhaps by the availability of similar jobs elsewhere. The quality of management-worker relationships and joint involvement in fundamental problem-solving are more important determinants of the feasibility of work-sharing than whether or not a company is unionized. This much is clearly evident in the models reported.

The savings accruing from work-sharing may be less than those resulting from an equivalent reduction of personnel through layoffs. The cost of benefits and of personnel administration continue for the total personnel. The cost per worker of administration and supervision may actually increase. Rescheduling may add additional burdens. These extra costs may be only partially offset by the avoidance of severance pay and a higher rate of contribution to unemployment insurance, but other compensatory factors exist—increased employee morale and productivity, the rentention of trained staff and the enhancement of the company image. With respect to productivity, experience with the four-day week in the textile and automobile industries has shown actual increases in the rate of output and decreases in absenteeism, at least in the short-run. Work-sharing plans can stimulate more efficient organization. Employee goodwill and solidarity plus the preservation of the full range of worker skills may be especially significant to the company's ability to weather a turbulent economic period.

How to determine when a work-sharing program should be terminated was not fully resolved. Restoration of the former work schedule and full pay obviously depend on the resolution of the financial problem that caused the adoption of work-sharing and in unionized companies might well be subject to contract negotiation. When work-sharing is adopted in response to finite problems such as excessive inventories of materials shortages, the time for restoration of the full week can readily be determined. The time for ending work-sharing will be more difficult to specify when the reason for the cutback was an unprofitable operation or inadequate profit margin.

Some participants were concerned by the possibility that work-sharing might result in a demand for permanently shorter hours at full pay. A policy instituted only as a temporary response to a recession could possibly influence the norm for full-time employment. Whether or not this would be beneficial depends on one's frame of reference. Economists participating in the conferences who customarily focus on macroeconomic considerations saw this possibility as a positive aspect in a society in which the labor force has been increasing faster than the number of jobs. Shorter work-weeks may be the future pattern in peak production periods. An American Management study conducted in 1972 found 140 companies functioning on less than a five-day week. Management representatives on the other hand were justifiably concerned with the problem of increasing productivity sufficiently to allow them to compete in the world markets while operating on a permanently shortened week.

In the current recession, however, work-sharing as an alternative to cuts in the work force through layoffs has clear social values. It can diminish the number of jobholders whose work-lives are disrupted and who become dependent on public support, decrease anti-social behavior that always rises with unemployment, and importantly, it will preserve the gains made through affirmative action. Sharing the effects of this recession may adversely affect the earnings of more workers, but providing continuity of work experience for the greater number, especially for those who would bear the brunt of layoffs, can more than offset any temporary hardship. Work-sharing can heighten the attachment to a job, to the union, or to an employer among those segments of of the labor market that characteristically are less stable than others—the younger workers, members of minority groups and women. Frequent and involuntary periods of unemployment, coupled with the necessity for job-changing, is damaging to career orientation and to job satisfaction. Work-sharing, if it reduces the impact of unemployment on these groups, could have longer range benefits to the work ethic, productivity, and the competitive position of the American economy.

Union responses

One focus of the conference discussions was the probability of union resistance to adopting alternatives to layoffs. Representatives of unionized companies tend to view management's ability to alter employment practice as circumscribed by the terms of union agreements. Labor leaders are unsure of membership response to any proposal that would reduce workers' living standards, and are fearful of the impact of a negative response on their re-election. For both, layoffs carried out in accordance with well-defined prior agreements present fewer difficulties than may arise from reopening negotiation of controversial alternatives.

As is often the case, union resistance is more apparent when the topic is generalized, rather than in particular instances. Actual experience discussed at the conferences shows how often anticipated resistance dissolves against a specific problem. But even in the general discussion at the conferences it became clear that union agreements do not pose insurmountable obstacles, and that the union structure can be an asset in formulating and implementing new policies.

The assumption of union resistance is understandable but may not be warranted. First, only approximately one-fourth of the labor force is unionized. Second, union agreements are not identical, nor are they as prohibitive of work-sharing, for example, as it often assumed. The latter misconception arises largely because the alternatives often are perceived to be in opposition to seniority rules when in fact work-sharing, benefit reduction, or other options do not call for the waiver of normal preregatives or protections of seniority. Third, union representation provides a democratic mechanism for problem-solving, not as readily available in unorganized companies.

Union contract provisions relevant to layoffs tend to reflect the history of the business or industry. Some spell out layoff procedures in considerable detail. In the automobile and textile industries, where model changes, seasonal factors or wide cyclical swings in demand for products are characteristic, union agreements may specify the responses to downturns in business activity, prescribing precise methods for reducing hours or shifts. But such specificity is relatively rare. Management generally is free to determine the size of the work force and the hours of work. Contract provisions relevant to the application of work-sharing fall into three general groups. Most union agreements define a standard work-week only as the minimum number of hours beyond which overtime rules apply, and thus a shorter work-week could be instituted by management without union consent. Some others stipulate a guaranteed work-week as the minimum. A third type, generally found in volatile industries, allows shorter hours for specific categories of workers, usually restricted to short periods of time. Many contracts also provide for joint management-union consultation prior to layoffs to discuss possible ways to alleviate hardship, and some require consultation before changes in the work-week or sizable layoffs can be effected.

The inference from the discussion between management and labor representatives is that the feasibility of new strategies to resolve economic problems is determined less by contract provisions than by the flexibility of both management and labor representatives to respond to situations as they arise. The ability to innovate successfully depends in part on the character of union-management relationships. In the automobile industry, for example, worker input into managerial decisions was described as limited, at best. As a result, in one company, when management proposed rotating layoffs, union opposition forced a plant shut-down. This response contrasts with textile and clothing industry experience, where workers and their unions have been responsible in large measure for the industry's survival in the face of foreign and other competition. Where collective bargaining has assumed a particularly adversarial atmosphere, management will be reluctant to re-open negotiation. And where union officials feel any insecurity in their roles, following the letter of the contrast may appear to be the indicated solution. Employees who are dismissed may be hurt, but once off the payroll constitute no further problem to management or union officers. Those whose jobs are preserved are content, and except in a few industries such as construction, those discharged cannot voice their dissatisfaction because they no longer vote in union elections.

Apart from the general climate of labor relations, much also depends on the leadership quality of company executives and union officers, and the extent of their contact with all categories of employees. In the opinion of business participants, any significant change in employment policies is best handled as a joint management- employee problem. Both management and union leaders often fail to extend their contacts below the level of first-line supervision. They thus may misjudge worker attitudes and underestimate the flexibility of worker response. The conference discussions on worker preferences among the possible alternatives to layoffs discloses the gaps in the knowledge of worker reactions. Unionized companies have the advantage of a well-developed mechanism for creating two-way discussion and heightening worker involvement in business problems. The existence of representative management-labor committees and a system for elections allows for an orderly two-way consultation and an accurate appraisal of grass-roots opinion. Both, it was said, are often underutilized. Indeed, a major recommendation made at the conference was the addition to future union contracts of a clause requiring discussion of alternatives before the institution of layoffs, and the opportunity for all employees to signify their preferences by vote.

Nonunion companies

In theory, non-unionized companies have unlimited authority to determine their employment policies. But the capability for unilateral action is not as absolute as it may appear, for the impact of authoritarian decisions can be disastrous to morale and to productivity unless the decisions are understood as justified by economic necessity and equitably applied. The fundamental tenets of job security established through collective bargaining have, moreover, become the standards for much of personnel practice. Indeed, among large and prestigious employers the absence of unionization often is attributable to satisfactory working conditions and good labor relations.

In layoffs, the seniority rule generally governs, because with the exception of critical skill needs, seniority both meets the employer's preference for retaining the more experienced workers, and is least likely to cause discontent. Sophisticated employers regard seniority as the only valid basis for layoffs dictated by economic conditions and good personnel practice. Recession calls for the elimination of less productive workers through normal termination procedures rather than as layoffs. Representatives of non-union companies believe that their ability to implement alternatives to layoffs does not differ substantially from that of unionized companies; and those companies where only part of the work force is organized treat all categories of workers alike. Freedom from explicit contractual obligations does not imply that employee understanding or consent is not essential to the successful institution of any major change in benefits, hours of work, or any other basic condition of employment.

Effective channels of communication between management and personnel are valuable also because the capacity to solve all company problems is not lodged exclusively in managerial ranks. Several participants reported that eminently practical suggestions for meeting the current recessionary problems came from lower-echelon employees. In large national companies, top management often is distant in location or in function from the essential operations, and therefore would be unwise to dictate all policy. Many have developed systems of representation and referend that are analogous to typical union structures.

In the current recession, the non-unionized sector has assumed particular importance because white-collar workers, who are often unorganized, are experiencing an unprecedented rate of unemployment. White-collar jobs have acquired special desirability because of their historic security. Now that this traditional security is threatened, they may be the category of work that should be a focus of experimentation with alternatives to layoffs.

THE MODELS

The strategies for implementing alternatives are best seen in actual experience. Six models are described and all except the New York Telephone Company [6] experience were discussed at the conferences. Work-sharing in some form was adopted in each instance.

Most of the models are too recent to permit evaluation of their impact on business operations. Nevertheless, it is possible already to confirm the Commission's view that work-sharing is feasible in many situations and can substitute for or reduce the impact of layoffs. Particularly striking in these models is the leadership role played by some unions, using the required pre-layoff consultation as the impetus for exploring new solutions to critical business problems. A second finding is that disclosure of sufficient financial data by management is important. Union leaders must first be convinced that layoffs are necessary before they will undertake the task of persuading members to adopt alternatives.

The importance of good employee relations also is illustrated. Pan American, for example, has gone beyond union contract requirements to develop worker involvement in difficult decisions and benefitted as a result by voluntary pay cuts and a sense of company solidarity. Hewlett-Packard, an non-unionized company, is able to adjust work schedules when necessary because its employment policies and profit-sharing plan have given employees a genuine interest in the company's future.

It should be noted that only in a few instances was the disparate effect of layoffs on minority or female workers a factor in the decision to use layoff alternatives. When preservation of gains made through affirmative action was a factor, as for example in the case of the Washington Star, it was not the primary consideration, nor was it used as a selling point. The desire to avoid layoffs and the attendant hardships was the prime motivation, stemming from the broad social objective of securing the best for all employees.

THE WASHINGTON STAR

The business problem

For several years, the Washington Star has been operating at a loss. The company's problems antedate the 1974–75 recession, but the recession has intensified its financial difficulties. New ownership acquired the Star in the fall of 1974 with the intention of improving its economic position. A critical need was to cut all costs including labor costs without affecting the company's ability to publish a newspaper daily and Sundays. Employees were well aware of the need for cost reduction because the operating losses were a matter of public knowledge. In November 1974, rumors of imminent and sizable layoffs were rampant.

Relevant union agreement provisions

The Star is fully unionized with 13 separate unions representing different categories of employees. The Newspaper Guild, representing 550 of the total 1,750 full-time employees, ranging from editorial personnel and reporters to dispatchers, is the union with the largest membership.

The Guild's agreement with the company did not preclude a unilateral management decision to determine the size of the the work force, but governed

---

[6] Although the New York Telephone Company participated in the conference, the company decision to lay off workers was made after the Commission's conferences. Personnel officers and union officials shared their experience with Commission staff.

the hours worked. In addition to requiring that layoffs be made on the basis of seniority, the agreement stipulated a five-day 37½ hour work-week. Thus, it would have been impossible for the company to institute work-sharing without union consent. The agreement also provided for, but did not require, union-management consultation to determine how to alleviate the hardship of layoffs.

Developing a Work-Sharing Alternative

1. Determining the Necessity for Layoffs

In the face of rumored layoffs, Guild officers requested a meeting with the management to ascertain first whether layoffs actually were planned. Management acknowledged the planned dismissal of approximately 100 in Guild jurisdiction, with lists already drawn for 60 immediate dismissals and an additional 40 at a subsequent date. Second, union officers requested the right to inspect the company's earning statements and projected budgets to verify the magnitude of losses sustained and the necessity for labor cost reduction. This was granted, and company financial data together with pertinent information contained in an independent audit confirmed the critical financial position and the absolute need to reduce labor costs.

2. The Rationale for Work-Sharing as an Alternative

To preserve the quality of the publication the company requested a waiver of seniority rules, permitting the layoff of less productive and less essential workers. The waiver was denied by union officials. Convinced that labor cost reduction was essential, but fearing that layoffs of the magnitude contemplated would damage the quality of the publication and thus hasten its demise, the union sought a constructive alternative. Union leaders also were aware that layoffs in accordance with seniority would eliminate many talented staff members and especially the minority members and women only recently hired. The fundamental purpose for constructing an alternative plan, however, was to cut in a manner that would enable the Washington Star to maintain its competitive position and insure the ultimate security of all jobs.

Prior to 1974 contract negotiations, the responses to a questionnaire circulated among Guild membership to determine attitudes toward a variety of improvements in the terms of employment indicated that many workers approved of a four-day week. This response fortified union officers' belief that a shorter work-week was the answer. What followed was the development of a comprehensive and thoughtful work-sharing solution.

3. Securing Management and Worker Approval

The union proposed a four-day week as an alternative to layoffs. This reduction in hours would be roughly equal to the dismissal of 20% of Guild members. Rescheduling, it was believed, would permit the continuance of a seven-day week operation. Union leaders argued that an across-the-board cut in hours of work would preserve the diverse and specialized skills of the total staff, and therefore be preferable to layoffs. Although the labor-cost savings of reduced hours might be somewhat less than layoffs, because the high cost of benefits would continue to be incurred for the total membership, the advantages of greater efficiency and superior quality of the product would more than offset any cost-saving differential. It was also argued that layoffs would increase the Star's unemployment compensation payments. Management, although hesitant at first, soon approved the adoption of a four-day work week. The remaining task for union officers was to secure membership approval.

To gain employee support, a day-long open debate was held, followed by a secret vote by all Guild members. The primary argument presented by union officers was that a four-day week was more likely than layoffs to maintain the quality of the publication and the company's competitive position, and that it was in the union tradition to pull together and consider the needs of fellow union members. In addition, it was felt that seniority by layoffs might mean losing valuable and talented workers. The four-day week was approved by a sizable majority.

Implementing work-sharing

A supplementary agreement was signed December 22, 1974, changing the work-week to four days or 30 hours, effective until contract expiration on December 8, 1975 unless the business situation improved and permitted earlier restoration of a five-day week. A formula was developed through which the across-the-board 20% cut would give the company 7,800 man-days of work in excess of what would have resulted from laying off 100 employees. These excess hours were placed in a "man-day pool", to be drawn upon for fifth-day work assignments that would be granted on the basis of two criteria: personal hardship and operational need. The Guild monitors the awarding of fifth-days, to be rotated as much as possible among all employees. Under the terms of this agreement, all fifth-day assignments given individual employees are treated as straight time. Benefits and scheduled cost-of-living increases were not affected.

Additional terms of the supplementary agreement eliminated part-time and temporary employment, liberalized early retirement compensation, made additional work available for regular staff by assigning to them work formerly contracted to outsiders, and relaxed the rules governing the acceptance of outside free-lance work by Star employees.

A Progress Committee composed of management and union representatives was formed to monitor the progress of the four-day week operation, including assignment of fifth-day duties, any new hires in vital areas occurring because of attrition, and all other aspects of the agreement.

The possibility of terminating work-sharing is reviewed at periodic joint meetings. The supplementary agreement permits the union to initiate action for the restoration of a five-day week when warranted by its assessment of the company's financial status. Extension of a four-day week beyond the contract expiration date will be subject to new contract negotiation on December 8, 1975.

Effect on operation

The newspaper is operating its usual seven-day week and layoffs of Guild members were totally averted. Changes have been made in operating structure and in the publication format. The general feeling among staff and the community is that the Star is regaining prestige.

Following Guild action, unions that represent other Star employees have negotiated alternatives to avoid or reduce layoffs, by eliminating overtime or costly staffing rules or, in the case of the Teamsters Union local, by consolidating delivery routes.

Morale is reported to be good, and Guild membership satisfaction is evident in the re-election of the officers who proposed work-sharing. Also, absenteeism has declined and productivity has increased.

Facilitating factors

The critical financial condition of the company, confirmed by union access to pertinent financial data, and the attachment of workers to journalism and to the company, contributed to the successful adoption of work-sharing. The satisfactory wage structure and the relatively near-term expiration date of the union agreement in force, were additional facilitating factors.

HEWLETT-PACKARD

The business problem

This major manufacturer has enjoyed continuous growth since the 1930's and never again has resorted to layoffs. In the recession of 1970, and again in the fall of 1974, the company was faced with excessive inventories, a problem common to the electronics industry. It became necessary to reduce production commensurate with actual orders until excessive inventories were eliminated. To do so required an approximate 10% decrease in output.

Management-labor relations

The company is not unionized. The climate of management-labor relations has been favorable because of a strong commitment to stability of employment, maintained by refusing short-term contracts that would result in wide variations in production. In addition, a generous profit-sharing plan gives employees a significant stake in company prosperity.

The work-sharing plan

In the summer of 1970, to achieve the indicated reduction in output, the company President determined to share the existing work rather than to discharge any employees. After careful consideration of all possibilities it was determined that employees in the manufacturing division would work four days on alternative weeks, scheduled so as to give all staff two three-day weekends each month. Accordingly, during the three summer months all salaries were reduced by 10%. Again, at Christmas of 1970, and in the fall of 1974, relatively small inventory build-ups occurred, and to reduce output manufacturing operations were shut down for a few days, scheduled so as to extend the holidays.

No changes were made in benefits or merit increases, or in the profit-sharing arrangement.

Effect on operation

Through modest work-sharing arrangements, layoffs were avoided. The costs of full benefits and of the extra administrative and supervisory time required to reschedule staff, it is believed, were offset by gains in efficiency and morale. The company attributes its sensitivity to job security to a strong public image and a high level of worker job-satisfaction, a quality that distinguishes it from some manufacturers of electronic equipment that frequently make sizable layoffs.

PAN AMERICAN AIRWAYS

The business problem

The combination of a four-fold rise in fuel prices that caused increased airline fare rates, and a world-wide recession, have resulted in a drastic decline in aviation traffic. The volume of traffic may improve with an upturn in the international economy, but any anticipated improvement will be restricted by the fuel problem, one unlikely to be overcome in the near term. All executive salaries have been frozen, travel allowances cut, and services such as cafeterias and the company newspaper have been eliminated; but the decline in aviation traffic has made it impossible to entirely avoid layoffs. Pan American's total employment has decreased from 42,500 in 1968 to below 30,000 in 1975, but this reduction has not been through layoffs alone. The company has been exploring all possibilities for minimizing layoffs throughout its divisions. Some alternatives already have been adopted to share the available work among flight personnel, and the company is exploring possible alternatives for other groups of employees.

Relevant union agreement provisions

Pan American is highly organized with approximately 70 separate unions representing segments of the work force. All union agreements require layoffs in accordance with seniority. Flight crew personnel are represented by the Airline Pilots Association, the Flight Engineers International Association and the Transport Workers Union (the latter represents cabin attendants). Union agreements provide for a guaranteed minimum monthly pay, but beyond this minimum the company can set the average of monthly hours to be worked.[7] Although not required in some union agreements, it is company policy to consult with union representatives before making any significant change in the average number of hours of work for flight personnel, or before instituting any major change in the number employed, or the terms of employment.

Implementing work-sharing for flight personnel

Joint discussion was undertaken with officials of the three unions repreesnting flight crew personnel. All company financial records were opened to union officials for inspection. (The financial data of aviation companies is a matter of public record.)

The Airline Pilots Association adopted an 11% reduction in salary schedules to run until the end of 1975, and, in addition, reduced the maximum hours allowable for pilots from 85 per month to 75, to share the available flying time.

Flight engineers and cabin attendants have agreed to a pay reduction similar to the pilot's group. A majority vote on the pilots' and flight engineers' union

---

[7] For Pilots, there is also a maximum number of flying hours.

signified approval of the modification of the union contract necessary for pay reduction; the cabin attendants' union is currently negotiating this change.

The effect of work-sharing

Work-sharing for night personnel has minimized the number of layoffs. To further reduce excess capacity the company has offered inducements for early retirement and voluntary furloughs. In addition, to avoid layoffs a liberalized leave of absence program for cabin attendants has been instituted through contract language modification agreed to by management and the union.

Because of the complexity of an around-the-clock international operation, no single plan for all categories of the work force can be applied. Currently the company is experimenting with a variety of work-sharing approaches for office workers and maintenance workers and other non-flight personnel to determine the most effective strategies. Management is engaged in discussing a variety of alternatives prior to the forthcoming negotiations with several unions. Staggered shifts, for example, may better suit some aspects of company operation than shorter work-weeks.

Facilitating factors

The ability to implement work-sharing in a variety of forms was facilitated by the well-known severity of the company's current problems. Personnel understand that unless new approaches are tested, the jobs of skilled personnel with 20 or more years of service may be threatened. Management's desire to retain skilled personnel is matched by the employees' attachments to the occupation and to the company, an attachment intensified perhaps by the lack of similar jobs elsewhere.

The company policy of involving union representatives in problem-solving and in ascertaining worker preferences through voting has enabled it to institute radical changes without destroying worker morale.

WESTERN ELECTRIC INSTALLATION, A DIVISION OF THE WESTERN ELECTRIC CO.

The business problem

Western Electric Installation installs telephone equipment in central offices in the five boroughs, and in Westchester, Rockland and Nassau Counties. All work is under contract to the New York Telephone Company. Technological advances, a decline in the rate of growth in the long-term demand for telephone equipment, and the impact of the current recession have reduced the volume of new installations. Through local union initiative, supported by the International Union of Communication Workers of America, alternatives to layoffs have been used to deal with relatively small reductions in the total volume of work, actions that may be the forerunners of larger scale work-sharing in the future.

Relevant union agreement provisions

In addition to providing for layoffs on the basis of seniority, the union agreement requires joint management-union consultation to negotiate methods of circumventing layoffs and to diminish the hardship of any necessary layoffs. Local 1190 of the CWA represents the workers at Western Electric Installation.

Implementing alternatives to layoffs

Because all work is contracted well in advance, the future work-load can be projected accurately. Local 1190's leadership has handled potential layoffs in two years. When a strike in the manufacturing division of Western Electric reduced the supply of equipment, all staff worked a four-day week for a period of approximately six weeks. Second, to spread the available work more equitably, in May 1974 a new method was formulated for the treatment of overtime. Prior to this agreement, all Saturday work was compensated at time-and-a-half and Sundays at double-time. Saturday and Sunday work formerly was assigned in accordance with the requirements of the location at which installers were employed. The new agreement provides for 40 hours of work at the rate of 44 hours of pay for all workers irrespective of the days of the week worked. The total staff is divided into three rotating shifts, each with different schedules so that weekend work is staggered and equally shared.

Formerly, some workers had worked 48 to 56 hours a week. The new agreement benefits the company by reducing the cost of weekend work, but it also benefits the workers because sharing available work including weekends has increased the average rate of compensation for all workers. Most importantly as a result, this division of Western Electric has had no layoffs,[8] in contrast with other divisions in other localities. The new agreement is experimental and can be terminated on one week's notice by either party, management or the union.

In addition to local union action, the International Union in February, 1975 proposed a five-point program to A.T. & T. calling for dismissal of all part-time and temporary employees; elimination of all overtime except in emergencies; termination of contracting-out of work; provision of voluntary unpaid leaves of up to six months without loss of benefits or seniority; reassignment of vacation schedules to correspond with slack work periods. To date, A.T. & T. has not responded to this proposal.

Effect on operations

Rescheduling the work is not expected to have any effect on operations. The strategy adopted may pave the way for more comprehensive work-sharing should the work-load decline further.

THE DRESSMAKING INDUSTRY IN NEW YORK CITY

The business problem

During the 1940's and 50's, the dressmaking industry in New York City experienced phenomenal growth. However, over the past 15 years, the industry has witnessed a steady decline, attributable primarily to competition from imports and, more recently, the domestic economic condition.

It has been estimated that membership in the three employers' associations (Affiliated Dress Manufacturers, Inc., National Dress Manufacturers Association and Popular Priced Dress Manufacturers Group) has decreased from 600 to 300 members over the past ten years. Even in more settled times it has not been unusual for as many as 30% of dress manufacturers to file for reorganization or go out of business. Today, the turnover is now much greater.

Unemployment among industry workers now hovers around 30%. Today, for the fortunate employees who find work in this industry, 26–30 weeks work annually is more common than the 40 weeks worked in former years.

Relevant provisions in the union agreement and the operation of work-sharing

The dressmaking industry is highly unionized. Approximately 85–90% of all workers are members of the International Ladies Garment Workers Union. Piece-work as opposed to time-work is the predominant pattern and the basis for compensation of more than 75% of all employees. There are no seniority provisions for most workers, with the exception of the recently-organized shipping clerks who demanded a seniority system in their agreement with the employers.

While a 35-hour work week is stipulated in the contract, both labor and management have displayed great flexibility concerning the number of hours to be worked. In order to avoid increased unemployment, a 30-hour work-week has become common.

Because of the seasonal nature of the industry, a unique feature of the union agreement prevailing throughout more than 50 years of union history provides for a division of work in times of economic stress. When insufficient work exists to allow full employment, work is divided equally among all employees. Instead of laying off workers, all employees share the existing work. This may mean working alternating days, weeks or even months.

During the periods when employees are not scheduled to work, they may collect unemployment insurance until again called upon to "share the work." While this system of division of work may reduce a worker's vacation pay (vacation pay is computed as a percent of the wages earned), other union benefits remain unaffected.

When work-sharing devices no longer suffice, in order to avoid closing down, a company, with the consent of the union (the Dressmaker's Joint Council)

[8] In July 1975, this division had to layoff 291 employees.

or the approval of the industry's impartial chairman, has the right to reorganize the business "in good faith," reducing the total number of jobs. According to the collective bargaining agreement, a bona fide reorganization can take effect when necessitated by a permanent curtailment or fundamental change in the character of an employer's business. Before a reorganization is agreed upon, the employer must demonstrate that all reasonable alternatives have been explored to avoid such an action.

When such a decision is reached and a number of workers are to be laid off, the employer does not select the workers to be dismissed. In the absence of a seniority system, the decision is made by a lottery.

The role of the impartial chairman is unique to this industry. Appointed by both union and management, the chairman serves as an umpire whose decisions are binding upon both parties. Both parties are free to submit an issue to the chairman for resolution.

The union agreement provides for union inspection of employers' books and, therefore, union officers have an accurate picture of the employer's financial situation.

Facilitating factors

The number of firms ceasing operation or requesting reorganization has increased over the past few years. However, the seasonal nature of the industry and its long history of dividing available work has enabled workers to adapt to the recessionary impact of increased work-sharing. This undoubtedly has helped to cushion the effects of the 1974–1975 recession on this industry.

THE NEW YORK TELEPHONE CO., OPERATORS SERVICE DEPARTMENT

The business condition

Technological development combined with increased efficiency of operations and a marked reduction in turnover (resignations and discharges for cause have declined from an annual rate of 60% in 1970 to less than 5% in 1975) have been reducing the need for operators. Until 1975, attrition and transfers to growth divisions have enabled the company to reduce the total number of operators employed from 12,600 in 1970 to 6,600 in mid-1975 without resorting to layoffs. The 1974–1975 recessionary impact on the volume of calls has resulted in a surplus of operators and has also restricted the opportunity for transfers to other departments. The company, moreover, may not anticipate needing in the near future all operators now employed unless the economy improves markedly. Therofere, for the first time in its history the company in April, 1975, determined to consider layoffs.

Relevant provisions of the union agreement

The Operators Service Department is unionized, represented by an independent union (the Telephone Traffic Union) with six locals in the New York metropolitan area.

The union agreement requires notification of union officers 45 days prior to any proposed layoffs or part-timing. The purpose of the advance notice is to allow time to discuss methods for alleviating the hardship of layoffs. After 45 days, the company can act without union approval. All layoffs must be made in accordance with seniority.

Developing a work-sharing plan

The company estimated there were 800 operators more than needed, but because a smaller layoff was feasible, the number to be discharged was reduced to 500. The Union President was so notified on April 8, 1975. Because management-union discussions are a monthly occurrence, union officers have been aware of the possibility of layoffs.

Since the formal notification of proposed layoffs, union officers and company executives have been in almost constant consultation. Work-sharing by reducing hours for some operators was agreed upon as an alternative to layoffs. The company proposed to reduce the work-week to four days by instituting 2,500 "days off," the equivalent of 500 layoffs or 2,500 part-time employees. In the course of negotiations the number was reduced to 2,000 "days off" or 400 operators and the effective date was deferred from June 1, to July 6, 1975 to allow further time for discussion.

Union officers proposed the operators be allowed to elect to work a shorter week, believing that a sufficient number would volunteer for shorter hours. Voluntary work-sharing, the union argued, would create less hardship. This proposal thus far has not been accepted and work-sharing is to be instituted in accordance with seniority rules. Work-sharing became effective on July 6. A somewhat smaller number of operators than anticipated are working a four-day week. The precise number is determined each week in accordance with the actual volume of traffic, which in July has exceeded slightly the projected rate.

IMPLICATIONS FOR NATIONAL POLICY

When management and labor determine to exercise all available options, there clearly is considerable scope for the development of new approaches to manpowr problems that arise in a recession. This is the basic conclusion from the Commission's conferences. The participants were well aware, however, that the alternatives to layoffs discussed are only one of the paths in the direction of an improved national manpower policy. Full employment as a national policy requires a thorough overhaul of the systems of job referral and development, career planning and training, and the legal protection of workers. Re-defining upwards the acceptable rate of unemployment is not the solution.

The participants also recognized that the use of alternatives to layoffs is not without macroeconomic effect. Restricting new hiring and terminating part-time and temporary jobs are policies with negative impact on new entrants into the labor market, as well as on many women and older jobseekers who accept part-time or temporary work because they are unable to secure full-time steady employment. Furthermore, eliminating overtime or shortening the workweek will lower the living standards for many workers whose full-time earnings may be below or only slightly above poverty levels. To what extent and for how long workers will be willing to share the burden of what they perceive to be a national problem stemming from deliberate measures to curb inflation, moreover, is questionable.

Nevertheless, the necessity of preserving the recent breakthrough for minorities and women gives a legitimacy to the immediate focus on microeconomic considerations. Interest in the alternatives to layoffs is growing. A few national companies have prepared manuals outlining the alternatives for internal use by department heads and first-line supervisors. The Executive Council of the AFL–CIO is reported to be studying work-sharing. The possible options were discussed at two recent conferences in New York City—a meeting of the Conference Board and New York University's 28th Annual Conference on Labor. The emerging viewpoint is that although much can be accomplished through the action of individual companies and through the collective bargaining process, governmental action is required to stimulate exploration of alternatives, and to provide guidance to employers and unions on the apparent conflict between seniority rules and affirmative action goals. Only when there is a national commitment to avoiding layoffs will the use of alternatives become an accepted and widespread policy.

Centralized information service

Despite the newness of the concept of avoiding layoffs through alternative employment policies, there already is considerable experience around the country with some of the alternatives, but for the most part it is unrecorded and unevaluated. The Commission is two days of small conference groups, designed to provide a broad cross-section of viewpoints rather than focus exclusively on actual experience, uncovered several examples. If the experience throughout the United States and in other developed countries were comprehensively collected and centralized into an information service under the aegis of the federal Department of Labor, management or labor representatives facing possible layoffs could readily determine whether another company, similar in size and function, had tested alternative measures. Documented experience often is the best antidote to any reluctance on the part of either management or labor to experiment with new approaches.

Technical assistance

Second, experienced mediators and arbitrators are a source of valuable expertise. Those experts who participated in the Commission's conferences agreed that management often fails to use all of its available options, frequently underestimating the value of joint management-worker discussions, either as part of the collective bargaining process, or as panel discussions in non-union settings. Open communication can be productive not only of strategies to cope with the immediate problems of recession, but also can have a beneficial long-range impact on the quality of labor relations. Outside experts often can suggest methods for reducing all costs. Labor costs can sometimes be minimized by modest changes in work schedules that reduce overtime and absenteeism, or by increasing productivity through training programs which are generally tax exempt. More effective use of manpower in many cases can reduce labor costs without the disruption of layoffs. The accumulated experience gained in arbitration and mediation should be codified. Pooled experience and knowledge can transform isolated activity into systematic aid for business and labor.

The expertise of management consultants seldom is available to smaller companies or to individual union locals. Free technical assistance should be made available to companies that aim to avoid layoffs and that have limited capacity for experimentation. In the absence of public provision of technical assistance, national organizations of business and industry and labor unions can begin to compile avaiable data as a service to membership, and stimulate discussion of the alternatives. Another possible service of great potential value would be the provision of impartial chairmen, as in the garment industry, to resolve management-labor disagreements concerning alternative plans.

Benefits

The cost of maintaining benefits for the full complement of personnel can operate as a deterrent to the use of alternative strategies. The adoption of a national health insurance program would relieve employers of expensive health benefits and thus alleviate the problem, but another possibility is to provide tax relief for employers who carry full benefits for workers who work less than full-time under a work-sharing scheme.

Unemployment insurance

The principal weapons to deal with unemployment, unemployment insurance and public works programs, forged during the 1930's, if re-directed in appropriate instances to support continuous employment can be powerful remedies for the most disastrous consequences of recessions.

Unemployment insurance, enacted forty years ago, is long overdue for a major overhaul. As it now stands it fails to furnish uniform and adequate protection. The recent extension of compensation to 65 weeks is a stopgap measure made necessary by the national failure to devise ways to put people back to work or to advance our capacity to mitigate unemployment in other way.s Many workers now are excluded from coverage. Relatively modest reforms, however, would provide incentives to employers to avoid layoffs and increase worker receptivity to work-sharing. First, the rate of employer contribution should be adjusted to credit the use alternatives to layoffs. Most states now tax employers on the basis of an experience rating formula that rises with the volume and frequency of layoffs. Currently, many companies are facing the possibility of layoffs for the first time in their history. For them, the consequent rise in their rate of contribution may be a factor entering into policy determination. A contribution rate favoring work-sharing over layoffs might tip the balance. The largest number of layoffs, however, generally occur in those companies that already pay the maximum rate. Some relief from unemployment insurance contribution given to them when they adopt an alternative to layoffs could encourage voluntary action. Some conference participants who are top executives of companies that now pay the maximum rate believe that management interest in work-sharing or other alternatives would increase if a reduction of the rate of contribution were to be granted.

Economists cautioned against adjustments in contribution rates that would result in subsidizing inefficient companies, or that, in a period of recovery, would tend to restrain employers from re-hiring, especially in those categories of relatively unskilled jobs that are most vulnerable in recessions. The con-census was that the State Industrial Commissioner should be given both the authority to adjust the rating formula to encourage the adoption of alternatives to layoffs, and sufficient latitude for discretionary action to allow individualized review in each case.

Eligibility for unemployment insurance for workers who work shorter hours would increase worker receptivity to the institution of work-sharing. Compensating those who are partially "unemployed" is clearly less costly as well as less disruptive than layoffs. The added cost to unemployment insurance would be minimal, and whatever increase would be more than offset by savings in welfare costs, the gains in purchasing power, and tax revenues achieved through continuous employment. Not only would workers continue to receive near normal incomes, but there would also be an incentive to work (and consequently to pay taxes) rather than rely on tax-free unemployment benefits. Moreover, work-sharing can help to promote economic recovery itself. A proposal to qualify those who work less than full-time for compensation for a part of wages lost now is before Governor Carey, and many of the conference participants strongly endorsed its adoption.

The City Commission on Human Rights strongly supports widening unemployment insurance protection to cover those who work a shorter week, and has been engaged actively in seeking appropriate action in New York State. The amendment sought would provide partial benefits for earnings lost through work-sharing, from as short a period of time as one-half day to a maximum of total wages and partial benefits equal to one and one-half the maximum of weekly unemployment insurance benefits alone.

On June 10, 1975, Eleanor Holmes Norton, the Commission Chair, wrote Governor Hugh Carey strongly urging his support for modification of the New York State Unemployment Insurance Law. The letter reads in part:

"My interest in seeking alternatives to layoffs as a means of reducing unemployment was originally stimulated by the mandate of this Commission involving special concern for the effects of the economic crisis on the employment status of minorities and women. These groups have always suffered disproportionately when employers resorted to layoffs as a cost-cutting measure. The policy of "last hired, first fired" takes a special toll on those who have only recently gained access to employment opportunities traditionally barred to them by discrimination.

My interest in layoff alternatives, however, has expanded beyond by own jurisdictional concerns, because I believe that alternatives to layoffs, especially work-sharing, are a critical short-term remedy for unemployment in general and for all workers. Without question, the goal of equal employment opportunity is necessarily and inextricably linked to full employment. Work-sharing supplemented by unemployment insurance has been widely used in Europe as a result of trade union pressure to avoid the high levels of unemployment tolerated in this country.

"Beyond the immediate economic advantages, work-sharing that prevents unemployment will have inestimable social benefits. It is impossible to assess just how costly the interruption of employment can be, especially in large cities with a concentration of ghetto conditions. We see the devastation caused by unemployment all around us, but we can only speculate on the ultimate consequences and costs—social and economic—that the dislocation caused by unemployment can have on crime, family stability, the social development of children, drug addiction, and other social problems. We will never be able to allocate sufficient resources to deal with such problems if we do not move to ameliorate conditions that create them. A minimal investment now in maintaining the employment of workers can save this state and the nation incalculable costs in social pathology that often has its roots in high employment rates.

"Finally, work-sharing to maintain employment, instead of reducing the number of jobs through layoffs, also averts the potential for destructive competition for limited available jobs. In a retrenching labor market, no problem is more difficult than job distribution. If government does not provide the leadership to make this distribution equitable, then workers themselves may be driven to the most direct forms of competition. We need only refer to the spectacle presented by the dispute over jobs in the Detroit Police Department, where competition between white and black police officers reached the level of open confrontation."

Federal action

Federal action also is indicated. Eligibility rules vary from state to state. Workers on rotating layoffs or staggered shifts are eligible in some jurisdictions but not in others. In some states, funds already are dependent on federal financing. The logical extension of federal action is the enunciation of uniform national rules for unemployment insurance eligibility including coverage of wages lost through work-sharing. The International Union of Electrical Workers is actively sponsoring federal legislation that would provide partial compensation for the fifth day to employees working a four-day week.

In another direction, similar to federally-funded public employment programs, public funds could be used directly in support of work-sharing. Public employment programs have been constructed to serve only those workers who already have suffered the loss of a job. A more efficient, humane, and far less costly use of public funds would be to supplement the fifth day or other reduced-work situations. This would decrease the number of potential candidates for traditional costly public employment programs, and also maintain continuous work opportunity without the need to process, train and place workers. Supplementing the earnings of workers in their regular employment avoids the conflict that often arises when some workers are laid off and others are hired under special federal programs for similar work. A special appropriation, analogous to CETA funds, should be created to test a variety of alternatives to layoffs.

Guidelines

Finally, the implications of Title VII of the Civil Rights Act of 1964 with respect to alternatives to layoffs are as yet unclear. The E.E.O.C. has failed to promulgate guidelines to deal with the critical questions posed by the current recession. Judicial decisions to date and pending court cases may have some impact, but the likelihood is that such impact will be limited to questions of constructive seniority in resolving specific conflicts between seniority and affirmative action. The existence of Title VII makes it possible to question layoff policies in a new light, a light which may have consequences that extend beyond the current implications for minorities and women, and may lead toward more effective national manpower policies to deal with cyclical variations in economic activity.

Management representatives at the Commission's conferences and at other forums as well expressed a need for guidance. They are caught between the stipulations of union contracts and affirmative action agreements. Union leaders are wary of departing from their essential role of seeking improvements in all terms of employment for members, and fearful of jeopardizing their status as leaders by advocating a sharing of the hardships by all workers when the workers themselves did not construct the discriminatory systems of employment. Stanley Pottinger, Assistant Attorney General, speaking at the N.Y.U. conference stressed the need for E.E.O.C. guidelines.

Although a recession may not appear to be an auspicious period for manpower innovation, it usually has been at such times that major steps have been taken. This recession, with its hardships and with the doubts it has raised about the future of the American economy, can be a period of significant accomplishment. Until recently Americans have luxuriated in a vision of a constantly expanding economy, and until recently believed the economy was functioning better than it actually was, by ignoring those who seldom shared in the benefits. Now that many workers who considered themselves relatively invulnerable to economic vicissitudes are facing the problems that minorities and women have long endured, a reassessment is taking place. Unemployment probably will be a major political issue for some time, and, therefore, can provide the basis for the constructive measures recommended in this report. Work-sharing and other alternatives to layoffs are admittedly emergency measures and not a substitute for a genuine full employment policy. But immediate action to minimize the impact of this recession can be a first step toward providing continuous employment for those who have gained access to jobs in periods of expansion.

PARTICIPANTS

Thursday, April 3, 1975

Gerald Aksen, General Counsel, American Arbitration Association.

Dean Alfred W. Blumrosen, Rutgers Law School.

Hezekiah Brown, Commissioner, Federal Mediation and Conciliation Service.

George J. Carmichael, V. P. Personnel, N.Y. Telephone Company.

Edward K. Crothers, Jr., Vice President, Burlington Industries.

Catherine Fitzgerald, General Manager, Avon Products, Inc.

Harry Fleischman, Director of Race Relations, American Jewish Committee.

Marcia Freedman, Conservation of Human Resources Project, Columbia University.

Murray Gross, General Manager, Dress Joint Board.

Dale L. Hiestant, Professor of Business, Columbia University.

James Hyatt, Labor Reporter, Wall Street Journal.

Theodore W. Wheel, Esq., Battle, Fowler, Lidstone, Jaffin, Pierce & Kheel.

Jerome P. Vanora, Senior Attorney, N.Y. State Division of Human Rights.

John L. Neuman, Senior Associate, McKinsey & Co., Inc.

Oscar A. Ornati, Professor of Management, New York University.

Robert L. Patterson, Labor Relations Service, Stone & Webster Management Consultants, Inc.

Eduardo Pena, Jr., Director, Office of Compliance, Equal Employment Opportunity Commission.

William Pollard, Director, Civil Rights Division, AFL/CIO.

Lilliam M. Poses, Esq., Governor's Task Force on Unemployment.

W. W. McCormack, Executive Vice President, J. C. Penney Company.

Fred Schwarze, Director, Employee Relations, General Motors, Inc.

Alan R. Viani, Director of Research & Negotiations, A.F.S.C.M.E., District 37.

Charles Windsor, Sr., Vice President for Operations, N.Y.C. Health & Hospitals Corporation.

L. Vicery, General Motors.

Friday, April 4, 1975

Dean Alfred W. Blumrosen, Rutgers Law School.

Martin N. Baily, Department of Economics, Yale University.

Ivar E. Berg, Jr., George E. Warren, Professor of Business, Columbia University.

Herbert Bienstock, Regional Director, U.S. Department of Labor-Bureau of Labor Statistics.

Robert Coulson, President, American Arbitration Association.

Robert DeRespino, Vice President, H.R.H. Construction Company.

Ralph Davidson, Rockefeller Foundation.

Anthony DeLorenzo.

Eugene P. Foley, Chair, Governor's Task Force on Unemployment.

Mark Jacobson, President, Silvercup Bakers, Inc.

Phillip M. Kadis, Unit Chair, Washington Star Unit—Washington-Baltimore Newspaper Guild.

Julian Kein, Director of Industrial Relations, American Paper Institute, Inc.

James Kuhn, Professor of Business, Columbia University.

William Olson, Regional Personnel Manager, Hewlett-Packard.

A. H. Raskin, Associate Editor, New York Times.

M. Don Sanchez, Area Director, Communication Workers of America.

Bruno Stein, Professor, The Institute of Labor Relations, NYU.

Mitchell Sviridoff, Vice President, The Ford Foundation.

Martin Shugrue, Vice President-Corporate Personnel, Pan American World Airways, Inc.

Phyllis A. Wallace, Professor, Massachusetts Institute of Technology.

Harry Wellington, Professor of Law, Yale Law School.

Chairman Humphrey. We thank you for some innovative ideas, and I want to express our appreciation for a very thoughtful presentation.

Mr. Platten, we are very grateful to you for coming here with us and getting your schedule straightened out.

Senator Javits had to just step out for a minute. I hope you understand when we run in and out of here, it's not because we are uninterested. It's just that every so often we get a call like this one, "Senator Muskie wants urgently to talk to you, Senator Humphrey." I don't know what it's about. He may want to cut the budget or something. Please proceed.

STATEMENT OF DONALD C. PLATTEN, FIRST VICE PRESIDENT, CHEMICAL BANK, NEW YORK, N.Y.

Mr. Platten. I have been here most of the morning, Senator, and I have heard almost everything I could possibly say.

I want to make a few simple points. As far as the economic impact of a prospective default, your staff study has gone into figures. I must confess admiration for anybody who has been able to quantify what the default would mean on any sort of a basis. I guess you have to make some kind of assumption, and therefore, you go from that point.

I would just say that a default on the part of New York City would have a fallout impact of an immeasurable amount at this point. I guess I end up saying I don't want to find out what the exact amount would be.

Having said that, that leaves me speechless, as far as the domestic side. I don't want to default. I don't know what the impact will be, I don't want to know.

But the international side is something I think that has been touched on in other forums. The IMF, the International Monetary Fund, was down in Washington about a month ago, and I guess there were about 2,500 bankers from all over the world. And not a single one of them believed it possible for our Government to come to a position of default of the financial capital of the world.

Whether or not people believe it, New York City is perceived by the people overseas to be the financial capital of the world. What that perception leads to in the event of a default, as far as action, again I fail to be able to quantify. But I do know that it would be a shock and a measurable shock of some quantity.

I would say that the perception is something that I just had emphasized to me in the last few days, so it hasn't worn off from a month and a half ago, when the people were in Washington. I do know that it isn't going to help New York City or the United States because the United States is looked upon as having the financial capital of the world within it.

I think, also, the point has been made this morning, and I would just simply reemphasize it. We are not talking about New York City alone. We are talking about New York State. We are talking about one of the Southern States of the 50 States. The concern that every one of the other 49 states should be very pronounced. It should not be lightly tossed aside. We are talking about one of the major States of this Union.

As you said yourself, this city is not asking for a handout, it is not asking for a bailout. We are simply saying to you, our Senators and our Congressmen, that we have the financial strength and the gut, in our city, to bail ourselves out. But we do need finding time.

The form of finding time, in my opinion, should come, as Mr. Dillon has said, through a guarantee of obligations, the money to flow to the State and then through the State to the city.

I am not going to say who should be on what committee to administer the funds, but I do say, at first we have to put out this fire. From then on, we can go and find out exactly the way in which it should be administered. Let's put out the fire and get it out as quickly as possible.

There are two things that the Governor referred to, one, that I think I would like to emphasize.

One, is that I don't think we have had within this country since World War II, a grouping of business, of labor, of government officials working together in as dedicated a fashion as we have had within this city and within this State over the past 4 to 5 months. I even include some bankers. But I do really believe that you have had a group working. I think the only figure that I have heard of, as far as pay, is somebody getting $1 a year.

There has been a dedicated effort here, which I think should be something for you, Senator Taft, to take back to your constituents, really, to let them know that people of New York are truly working, are applying their intelligence, have done things, things are in motion, things will be put in motion, further, as we go along, if we have the time.

I must confess, and I have been told to speak very frankly of my own feelings to this committee, I must confess that should a default occur, God save the mark, should a default occur, I wonder whether or not that grouping could hang in together and be as dedicated as it has been up to now. I would think that it would be a terrible loss to this city and this State to have this kind of effort disappear over the horizon.

Finally, and perhaps philosophically, but even economically, I find it very distasteful to have the words full faith and credit erased from our language in this country.

I don't think that these words have ever been as much at risk as they are today. I don't care what the municipality is, what the government entity is, that puts those on the front of its obligation. From here on out, it will always be a suspect phrasing. I think this is something which in this world today, man's trust in man, has been shaken from time to time and measurable so, that we can't afford to go through another such experience.

Chairman HUMPHREY. Thank you for your very concise commentary. I, too, think it would be a major disaster to the United States, as a world power, and I speak primarily in terms of its industry and economy, to have the words full faith and credit tarnished or removed. I think that would be a terrible thing. I think it would have an appalling effect upon the total economic and fiscal and financial structure of the country.

I doubt that people have given enough attention to that fact because once this State decides, with its variety of industry, with this great city—and New York City is, as has been indicated here—known the world over as the great big American city, the financial capital of the world, the city of the big buildings, the city of the port of entry, the city of the immigrants. It's all here.

Of course, a lot of people don't like New York City. A lot of people don't like a lot of things. And there are many things about New York City, as was said here by Ms. Norton, it is sometimes a hard place to live.

But New York City does symbolize to people, not only overseas, but in other parts of America, as a very vital part of the entire Republic. When this city is in trouble, it has a way of spreading. And I am not just talking now of the monetary trouble.

But when you talk about the unemployment trouble, the social problems, the school problems—I know, Mr. Shanker, you and I have talked of these paraprofessionals. I was with you at your meeting.

I met some of the paraprofessionals, people on welfare, people that were brought into a program and were educated and had become self-respecting, self-sustaining, producing, productive citizens, to have that go out is a terrible loss.

This is the kind of default that I think is shocking. A default on the bonds, of course, precipitates the whole crisis. But the ripple effect of default is not only upon interest rates and Municipal bonds, not only on the full faith and credit, which is the language that brings about the willingness of people to invest, particularly in government securities, but the incredible default that takes place in the social conditions and in the social environment, I think, will leave this country with staggering blows.

I just can't understand. I want to ask a very direct question. Do any of you get consulted by the President or Mr. Simon or others? Because, let me lay it on the line, unless we get some help from the President and Mr. Simon and Mr. Burns and others, this city is going to come down just like that, because we in the Congress already face a filibuster, and the only way that we can bring any sense out of all of this confusion is for all the parties to give a little and to try to come to some central common purpose.

Senator Mansfield, as I indicated earlier today, took a group of members of Congress over to the White House. I don't know what happened this morning.

But the real truth is that when I can get Douglas Dillon, Donald Platten, Professor Lekachman, Albert Shanker, Murray Finley, and Eleanor Norton talking on the same wave length, it seems to me that somewhere along the line, that the Administration and people in Congress—there are differing views in Congress on this, too—that somebody ought to start to listen before it's too late. And time is running out.

We have inquired of the Governor and the Mayor, both in public as well as in private, as to what the day, the hour of decision is, so to speak.

Well, you have been postponing it a little bit each time. But it's quite obvious, isn't it, that some time around the 1st of December, that is D-day, Default Day, D-day, Decision Day. And it could be something more than that.

Senator Javits, I know you have questions that you want to ask.

Senator JAVITS. Thank you, Mr. Chairman.

Mr. Chairman, first I would like to thank the witnesses who have been very generous and very revealing and, again, to thank Mr. Platten for specially giving us this time.

Ms. Norton, we thank you very much for these alternatives. I am a ranking member of the Committee on Labor and Public Welfare. Senator Taft is a high ranking member of the minority in that Committee. We are going to take your ideas very, very seriously, and evaluate them in terms of unemployment compensation, as those measures essentially have originated with me and Senator Taft and others like us in the Congress.

Also, I would like to thank Mr. Platten and ask him just this one question. I see that according to a report—and it is published, so I don't wish to intrude on any confidentiality—your bank has 280 million dollars worth of New York City paper. Your bank, I gather, has participated and is participating in the efforts to save the city, with the other bankers, as you have described.

Mr. PLATTEN. I think I would have to disavow the figures, Senator. But let's put it in these terms. Our bank, along with other banks, have been doing our share, certainly, in trying to help the city to the fullest extent possible.

Senator JAVITS. My quote was from today's Time Magazine.

Mr. PLATTEN. I still would say the same thing.

Senator JAVITS. I wanted to be very careful about it.

If New York is permitted to go the bankruptcy route, how long do you estimate it will take New York to rehabilitate itself so it could go into credit markets again with any kind of measurable capital improvement, which is vital to a city, any city, let alone New York City, to renew itself?

Mr. PLATTEN. Senator, we would play a guessing game here. If you said give or take 10 years, why a default is a very serious thing. I think, as Senator Humphrey said—I forget who it was, excuse me—there are some 27 states that would not make it possible for any marketing to be done for a period of between three and 10 years. I know that fact.

Senator HUMPHREY. Yes. There are 34 states that have restrictive laws, yes.

Mr. PLATTEN. It would be a terribly grievous blow to any financing. Anything with the words New York on it would be a tough thing to market.

Senator JAVITS. Including New York State?

Mr. PLATTEN. Mr. Dillon?

Mr. DILLON. As I said, the situation could be such that it would affect New York State and that would at least double the calamity, as was well pointed out in your own Committee report. It certainly already has affected agencies of the State.

Senator JAVITS. We have been constantly bedeviled with the fact that Maryland sold an issue at a good rate.

Now we find, as of last July, the last time we could check it, according to Moody's Municipal Investor's Guide, that Idaho and Maryland were the only States or territories which did not have some agencies or political subdivisions with triple B ratings.

It is fair, therefore, to draw the line at Triple B rating or less, which would be very materially damaged by the investors being scared off of Municipal securities through a New York default.

Mr. DILLON. I said in my statement that I think the states, particularly states that do not need to borrow, have large significant amounts, would be able to continue in the market. That would mean someone like Maryland or Idaho.

I think the damage would be quite different when it came to cities, urban communities, where, obviously, there might be an exception or two that one could find—but generally speaking, investors, which include fiduciaries, would be so scared off, that I think they would just say, "We don't want any part of them."

Good ones and bad ones would be affected the same. That is borne out, to some extent, in what has happened to interest rates in the Municipal market, where the upward pressure had been just about as strong on triple A, the best credits, as it has been on the others.

Senator JAVITS. I think it would be fair to say, Mr. Dillon, and I hope I don't embarrass you, that you have been for years, and are one of our leading investment bankers, and you, of course, were Secretary of the Treasury.

Now, Mr. Platten, will you answer the same question that I have directed to Mr. Dillon on this question of, aside from these few top states, the effect on municipal paper and the fact that municipal paper of the triple B and less level exists in every state and territory, except Idaho and Maryland?

Mr. PLATTEN. I am not a municipal expert, Senator. I was sitting here listening to Mr. Dillon and I was nodding wisely.

Senator JAVITS. You agree with his conclusion?

Mr. PLATTEN. Yes. I would take his opinion as tops.

Senator JAVITS. Mr. Shanker, there has been a considerable amount of trouble created for us who are working for the bills in the House and Senate, over the attitude of the great federation, the AFL-CIO and your own attitude as the head of a great national union, of the teachers, and of course, our State organization.

We now find a statement made on November 8th, which allegedly tries to make some declaration of finality as to trade union policy. If I may read it to you and get your comment, because I think it's very important.

This is a statement alleged to be made by the president of the AFL-CIO, George Meany. It reads as follows:

The headline in today's New York Times, to wit, November 8, Saturday, completely distorts the position of the AFL-CIO on the need for Federal assistance to New York City. The AFL-CIO flatly supports a Federal guarantee of New York City bonds until the city is able to work its way out of its financial dilemma.

We have repeatedly made this point publicly and the New York Times knows this fact. We are opposed to the legislation presently pending in the Congress, which would unilaterally and unfairly penalize workers by destroying collective bargaining and agreements and slashing pension rights of workers already retired and those retiring in the future.

We believe New York City is entitled to the same Federal consideration that was given to Lockheed. The Government guaranteed Lockheed's loan without any restriction attached, and we supported that measure.

Obviously, New York City's financial problems are a greater danger to the national economy than was posed in the Lockheed case.

Can you give us, in your view, as to what is the tangible position of your union and, as you understand, President Meany's statement?

Mr. SHANKER. I think there is no question that our union and, also, I am aware of the fact that George Meany, when he was in New York for a dinner last week, spent a good deal of time urging that there be a loan guarantee to New York City, and that that loan guarantee should not abrogate union agreements or should not involve the unilateral reduction or modification of pension plans.

We talked a few minutes ago about the words full faith and credit. I certainly believe that everyone who bought a piece of paper at that full faith and credit, that we would have the destruction of really a major system in our country if there were default.

But there can be default against people who hold one kind of piece of paper and there also can be default against people who hold another kind.

I would say that we view our union contracts as being every bit as important, in terms of obligations on the part of the city and State of New York, and our pension systems, as the obligations of people who have lent money to the city and to the state.

I am not saying that there will not have to be some give on all sides. I think that there has been a willingness here—we have been meeting together with other unions that are involved. We realize what the situation is like. We have been meeting with people in the business community and elective leaders and government figures and bankers and everyone in these meetings is willing to make some concessions in order to help the city.

But voluntary concessions made on the basis of bargaining, that is one thing. But having the Congress of the United States enact, and the President sign something which is going to give someone the power to abrogate our agreements, that is something that is quite different and something we could not support.

Senator JAVITS. Thank you, Mr. Shanker.

Do I understand you correctly, therefore, that labor is not saying it won't negotiate, it won't talk; but that it equates itself with other indebtedness, and whatever happens to other indebtedness will happen to labor contracts, but it does not wish to be singled out for dictation as to what it will and won't do, any more than merchandized creditors and bond holders will allow themselves to be singled out in that way?

Mr. SHANKER. That is correct. We are willing to negotiate. We do not recognize either the Mayor or the Governor or anybody else who has been to Washington, as our representatives. They have their own interests. In many cases, they are the same as ours, but in other cases, they are not.

Our members elect us to represent their interests. If there are to be any modifications, then those modifications will have to be made by the elected representatives of the workers who are involved, and not by public officials.

Senator JAVITS. Thank you very much. I would like to pay tribute to you, personally, and to your union, for saving the city as recently as October 17, through an action of great patriotism. If you will allow me, I would like to immediately transmit your statement to George Meany, and ask if it's his understanding. If it is, I think that will help us immeasurably.

Congressman Moorhead.

Representative MOORHEAD. Thank you, Senator.

I want to focus, particularly, on the New York default that is impending, recognizing, however, that there are long term problems that have to be solved. I think it's very significant that the agreed upon distinguished former Secretary of the Treasury and renowned investment banker has come out in favor of action to prevent default. I think your statement will help us with this legislation.

You say, Mr. Dillon, that you think the legislation should be disagreeable enough so that other cities are not tempted to repeat the process.

We did write pretty disagreeable legislation. It has four conditions before a city can qualify. We set us a board to administer it with such sympathetic chairmanship as the present Secretary of the Treasury. I would say that is about as tought as you could get, don't you think?

Mr. DILLON. I wasn't suggesting that it had to be any tougher than what you have set up. I may not agree with all the conditions that are in there. Nevertheless, this was meant to respond to a criticism that had been offered by those who opposed default, saying if we do this, we will have every city in the country on our back asking for the same thing. I think it should be made clear that this isn't the easy way out.

Representative MOORHEAD. I wonder if Professor Lekachman thinks if this legislation does put Mr. Simon in as unelected mayor of New York, and therefore, would that legislation be unacceptable to you?

Mr. LEKACHMAN. I don't believe—it would be a very close sort of decision—it would be, as you said, an extremely unsympathetic taskmaster who would be placed in charge of the city.

The question—I am not, happily in this instance, in your position—the question, it seems to me, is that a Congressman or Senator who wishes New York well, which I dare say, doesn't characterize the entire Congress, but those that do wish New York well—the question, it would seem to me, is, Would default damage the vital services of New York, and lengthen the period before the city could return to credit markets more than the kind of Draconian administration that I would anticipate from Mr. Simon?

It's a tough choice. I, rather lean to gambling on the city's finding a sympathetic judge, simply because Mr. Simon's attitudes are well known and there is a considerable change of attitudes in the Federal judiciary.

I suppose this is a long way of saying that if we are clear that Mr. Simon had practically unlimited power for a period of years over the city. I think I would vote against such legislation and take the large risk there involved.

Representative MOORHEAD. I don't think we would give him that much power. But we had to be a little bit mean to get the votes that we think are needed.

Mr. LEKACHMAN. I wouldn't object, Congressman, if you entitled the act "The Punishment and Harassment Act of 1975," so long as the provisions under that label were reasonable.

Representative MOORHEAD. Mr. Platten, you brought up the matter of full faith and credit. One of the proposals would be to have, after a default, a change in the bankruptcy laws so the bondholders would not have first call on revenues; hence, there would be a weakening of the full faith and credit idea and concept. What are your comments on that proposal?

Mr. PLATTEN. That would be an entirely new ballpark. When you say investor, you are talking about a wide range of perceptions. The perception of a bank investment officer, the perception of a fiduciary officer, the perception of a person who is going on retirement and wants to put their money into tax-exempt securities to provide for their retirement, the perceptions range all the way from the unsophisticated to the very sophisticated.

If you go into a new arena, such as you are bringing up now, I just think you are going to have to do an awful lot of rethinking. All of the investors out there do have other alternatives as to where they put their money.

Representative MOORHEAD. I assure you I bring it up only because the President proposed it and I wanted to have it commented on by you, sir.

Mr. PLATTEN. Yes; I think it changes the ground rules.

Representative MOORHEAD. And it would make the job of raising money by selling tax-exempt bonds more difficult?

Mr. PLATTEN. I think it would; very definitely.

Mr. DILLON. One thing. I would just like to make it clear. I said I might not agree with all of these provisions. One of them I don't agree with, I don't think, based on my experience as Secretary of the Treasury, that it is appropriate for the Secretary to be designated to serve in effect as mayor of the City of New York and to really exercise that degree of control. I think it would be helpful if some other solution could be found.

Representative MOORHEAD. I would of course welcome any suggestions that you would have, Mr. Dillon. Governor Carey suggested that the Secretary of Labor should be added to the board because there is a potential labor situation. Mr. Shanker and presumably Mr. Finley are aware of and they should have someone who is at least by job title and description more sympathetic. Thank you, Senator.

Senator JAVITS. Senator Taft.

Senator TAFT. Thank you, Senator.

Let me start out, ladies and gentlemen, by thanking you, and may I say that I find myself in agreement with at least one of the things the witnesses seemed to be agreed on. That is, that I consider the board makeup of the proposed banking committee to be a monstrosity. I think it's got no business being there whatsoever, no matter what else we do.

The basic question is whether we move on the committee legislation or not and whether you gentlemen think we ought to pass an amendment to the bankruptcy laws or whether we should not.

The implications here seems to be that full faith and credit means that if we don't pass it the current state of the law is that there is a prior call on revenues. I am not sure whether that's true or not. I don't think anybody else is sure, either.

I, myself, am inclined to say that regardless of the outcome of the New York City situation, we may well have a job to do in trying to set up an orderly means for a public corporate body to reorganize itself if it gets in fiscal trouble to reorganize itself just as a private corporation can.

Also, it doesn't seem to me, although it has been implied to me, that somehow the fact that the city is capable of going into bankruptcy has been a sales point as far as municipal bonds are concerned. I question whether that is so. I think the fact that you have a rating system, that you do rate the credit of other municipal and State bodies in this way, means that there is a risk involved and that the risk doesn't give first call on revenues.

If you would like to comment on it, should we make a change in the bankruptcy laws or shouldn't we, regardless whether we go into the guarantee part of the legislation?

Mr. DILLON. I think it would be inconceivable, if there is a default, that the creditors, bondholders, should have a first call on revenues as against operating needs of the city.

Though I did comment that I feel it is important in any such provision to protect the longer time rights of the bondholders if we are going to continue to have the sort of municipal markets in this country that we prided ourselves on in the past.

In some European countries they get all the money from the Government. We could do the same thing, but we would be quite a different country. I hope we think of that in whatever we do.

Senator TAFT. Would you like to comment on that, Mr. Platten?

Mr. PLATTEN. You are asking the what-if question, I guess.

I suppose, in all honesty, I have to say that I play the what-if game in many situations and, therefore, I can't honestly say that some kind of action shouldn't be taken by the Congress. But don't ask me the details because I am not a lawyer.

Senator TAFT. Are you familiar, Mr. Platten, with the Eagleton bill?

Mr. PLATTEN. No; I am not.

Senator TAFT. What it would do is impose further requirements, further than the registration statement upon municipal and State securities.

On the basis of your experience in the past, do you feel that legislation of that type would be helpful? Would it help the banks of New York, for instance, over the years to have kept a better eye on the state of municipal finances and it would in any way have, perhaps, avoided the crisis we presently find ourselves in?

Mr. PLATTEN. I think you are talking about more disclosure. It is hard to be against disclosure, more disclosure, when things come to the surface that perhaps might better come to the surface at an earlier time. I worry about disclosure from time to time because the pendulum swing can get extreme and people can find so much disclosure that they are confused as to what is being disclosed. But I do think that probably some more disclosure is in order.

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

Chairman Humphrey. We have kept you a long time and I am just full of questions I want to ask you. But I also feel one of the basic concerns; namely, hunger. Well, I think we will conclude with an expression of profound thanks.

Senator JAVITS. We titled your testimony "General Economic Situation Panel." And also two bills were referred to to which Professor Lekachman addressed himself.

Would it be proper, Mr. Chairman, for me to ask unanimous consent that if any witness wishes to add to his testimony on both subjects, the general economic situation, and specifically on the bills which are before us on economic planning, yours and mine, and the one you are with Representative Hawkins on, that they have the permission to do that in writing and that that be incorporated in the record?

Chairman HUMPHREY. Yes; and I would like to have you take a look at those measures in terms of the general concept.

For example, Mr. Burns recently in Atlanta, Ga., came out with the concept of the Federal Government as the employer of last resort. Now, there is a lot of difference as to the wage scale and so forth, but at least the concept is there. And we would appreciate any commentary you wish to make.

I am going to ask the people in the room to turn in their name tags at the door when they leave for lunch. These are the instructions that I have received. They can pick up new tags after lunch, at the registration desk.

We will resume our hearings at about 2 o'clock, just long enough for lunch.

[Whereupon, at 1:25 p.m., the committee recessed, to reconvene at 2:15 p.m. the same day.]

AFTERNOON SESSION

Chairman HUMPHREY. We will call the panel to the witness table.

We have the following witnesses: Mr. Victor Gotbaum, the executive director of the American Federation of State, County, and Municipal Employees.

I believe you saw Mr. Welch of the international union headquarters, earlier today.

We have Mr. Michael Harrington, Democratic Socialist Organizing Committee; Mr. Bertram Gross, distinguished professor of urban affairs, and really one that helped design the original Full Employment Act, which regretfully was very appreciably altered; Mr. Rafael Torregrosa, national director of the Migration Division, Department of Labor, Commonwealth of Puerto Rico; and Mr. Daniel Roblin, president of Roblin Industries.

70-058—76——8

The five witnesses that we have at this time will proceed according to the order that I called them, starting out with Mr. Gotbaum. I am sure that you have a letter from the committee and from myself laying out certain concerns that we had. If you could summarize your testimony and any other documentation that you have, including any prepared statements, we would like to have them available for the official record transcript.

With that, we will proceed. Senator Javits will be here in a moment, but let's go right ahead.

STATEMENT OF VICTOR GOTBAUM, EXECUTIVE DIRECTOR, AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, AFL-CIO

Mr. GOTBAUM. Senator, I have a prepared statement. I also have an insert for the record in terms of the union's stand in regard to our evaluation of the situation. What I am impressed by is the documentation coming from your own committee. It pretty much substantiates and says everything that the union has been saying, will be saying now, and we hope will continue to say.

Chairman HUMPHREY. I make this gentle admonition. Just keep the mike close to you when you testify. Go right ahead now.

Mr. GOTBAUM. I submit to you that I am speaking and testifying with a sense of futility and almost a lack of comprehension in terms of the forces swirling about us in New York.

In almost every sense, from almost every direction, I really can't comprehend what is happening. The economics of the situation tell me, and I think you bear it out in your own documentation, that almost any guarantee, almost any cost of a guarantee in terms of the Federal Government, would be small in comparison to the consequences of default. There is no question about it. It will cost far more if the city goes into default than even the failure of a guarantee would cost.

So one could almost take a simple projection that it is not the economics of the situation, certainly not the lack of resources on a Federal level that would fail to resolve it or even within the State or city that would fail to make resolution of the problem. So it is not economics, but rather political. This is all that one can subject himself to, the politics of the situation.

I am terribly impressed by statistics. But, if I may, much more so the human side of those statistics.

Gentlemen, right now unemployment in New York is 11.9. That is 11.9 percent of 376,000 human beings. Our own very conservative estimate—this is indeed a very conservative estimate—is that in all probability, in all probability, default would at a minimum bring the unemployment here in New York, not even talking of a multiplier effect, to 17, 18, 19, 20 percent. And I am giving you low figures. It would up the unemployment figures to 450,000 human beings.

But the figures are almost incomprehensible, overwhelming, Senator. We in the labor movement have to deal with the day-in and day-out personal tragedy.

When a Mr. Praito comes into my office who has worked for the city for 10 years and says he can't pay his mortgage, when we have invested in the training of a doctor or a CPA or an RN, and they are fired, and their whole world is smashed, that's what the statistics mean to me.

When you say we can't reverse these tragedies, Senator, it's just incomprehensible. Because not only have they lost their jobs, it's a faceless future in a destroyed job market. They literally have no place to go. Not only have their careers been smashed, their hopes are smashed. They are waiting outside our offices, they come in by the tens and hundreds to see us, but there is nothing you can tell them. There is nothing you can say to them.

I would submit to you, Senator, the same forces that are saying to us we are going to punish New York as though these human beings haven't suffered punishment enough, are the same forces who destroyed the job market, are the same forces who keep compounding the tragedy through a twin evil of recession/depression and inflation, that now forced these human beings to face a faceless future.

Then to compound this, they compound it with a sterility in terms of programs that are literally counterproductive, that have not opened up the job market, that have not decreased inflation, that have not given people, not statistics, but people a way out.

We have one program here that you know about, Senator, and it is called SETA. And with tremendous fanfare we are told that the SETA program will make for jobs, that the SETA program is one of the solutions for alleviating the human tragedy we face.

Sirs, about 35,000 jobs have now been cut out of the public service economy, and I mean in the city of New York, and 16,000 SETA workers are back on the job or on the job. These are new workers. So it means that, in terms of total overall progress, there are now 19,000 more people unemployed in the public service sector.

So maybe you have 16,000 in there. But what makes it so difficult is that labor in the park who I mentioned, or the hospital worker, it is almost like a revolving door. They are going outside of it. They can't understand it. Other workers are coming in. This is done in the name of progress or the alleviation of the unemployment situation.

So our members are bewildered. Not only those who are driftwood on the job market, but those working can't quite comprehend what sort of policy is that that consigns some people to a junk heap and brings in 16,000 others in the name of progress, but, nevertheless, keeps the unemployment growing because the 11.1 percent figure that I mentioned to you isn't even the beginning of the end. I wish to God it were.

And with all of this—with the tragedy of inflation and unemployment and the terrible bewilderment, with all of this—Mr. Simon tells us that he wants to punish New York. And I want to say that I hear legislation is being readied which would be the ultimate punishment, and that is bringing Simon in on a trusteeship for New York.

So I think perhaps he is one of the men standing right in the middle of wish fulfillment. I would beg of you, literally beg of you, not to carry that out. If you give me the Hobson's choice of a default under a Federal judge or a trusteeship under Simon, I would like to lock myself in a toilet somewhere and wait for it to be over.

I just can see literally no difference, literally no difference. And I appreciate and applaud Mr. Meany's stand on this, because it is not just a question of naked principle, but a very practical thrust on the part of Mr. Meany that what would happen here would be decimation, an unthinking man who says he wants to punish New York would not be given trusteeship of New York.

I was given 5 minutes, so let me conclude with this. Senators, what really bugs me, what really—I keep using the word—"bewilders" me, and I think I am supposed to have a certain modicum of intelligence, is that all the resources, all the abilities are here to pull us out of a pending tragedy. The budget will be balanced. The unions have given up $700 million through human tragedies, wages, benefits, you name it. We have already given back $700 million. The unions have stated we are ready with the rest of the community, the banks, the commuters, citizens, to even sacrifice more. No problem, no question of meeting our responsibilities in regard to balancing the budget. It is in the document that we give to you.

So it is there, the tragedy and the breaking down of the bond market was not just New York's doing. So it seems to me, it seems to me that we could keep tens of thousands of people from being unemployed, we can restore fiscal solvency to New York, we can, indeed, meet our responsibilities.

I can perhaps face a laborer, a hospital worker, and aside from that, kids who are now forced to sit on windowsills; I'm sure Al Shanker told you about that, hospital patients who are going unattended—there were three deaths in the last month because of a lack of staff.

We can roll all of this back by allowing us to accept our responsibilities. But, instead, we are patronized, we are told we are children. Senators, I just don't understand it. And it is galling the hell out of me.

[The prepared statement of Mr. Gotbaum and an article from the Public Employee Press follow:]

Prepared Statement of Victor Gotbaum

I commend the Chairman and his colleagues for conducting this regional hearing to assess the relationship between New York's financial crisis and the Country's policies to achieve full employment and stable prices. It is imperative that this relationship be understood if we are to restore both New York and the Nation to healthy economies.

The high level of inflation and the recession have hit hard at state and local governments. Double digit inflation has increased the cost of government—the cost of supplies, the cost of fuel, and the cost of labor.

Property taxes—by far the most important source of local government revenues—rose by only 2 percent last year. The sales tax—the other traditional revenue source of local governments—is even more sensitive to cyclical swings in the economy. Likewise, the recession has a negative impact on the income tax—another source of revenue which New York City relies on.

Thus, the costs of government skyrocket and the revenues that pay for government decline. The result is extreme pressure on the already precarious fiscal structures of local governments. In the absence of federal assistance, the only options for these governments are to raise taxes, to reduce services, or to borrow money.

An indication of the economic consequences of the recession in an area, not to mention its human toll, is the unemployment rate. The just-released Joint Economic Committee's report on the New York City Financial Crisis shows that the New York economy probably has been more seriously affected by the recession than the economies of most other large central cities. Not only does New York's unemployment rate stand over 11 percent, the study points out that New York's rate increased 4.6 percent from June 1974 to June 1975, compared to an average increase of 3.4 percent for the other 24 largest cities.

Moreover, the simultaneous recession-inflation phenomenon has accentuated already deteriorating economic circumstances in cities. As I pointed out in my testimony before the House Subcommittee On Economic Stabilization two weeks ago, New York City epitomizes and dramatizes the problems afflicting cities. In the last five years, New York City has lost over 320,000 jobs in the private sector—while the total population has remained relatively stable numerically.

Those Americans more heavily dependent on city services make up an ever-increasing segment of our population. Our over 65 population has gone from 8 percent to 12.1 percent in the last two decades. The proportion of families with incomes below the national median now stands at 49 percent—it used to be 36 percent.

Total personal income has risen—although trailing the cost of living. But the total tax rate has risen by almost 66 percent. Personal taxes as a percentage of personal income have risen over 33 percent.

All of the above factors—the increased demand for city services, the decline in the economic base, the rise in costs spurred by inflation, the exhaustion of taxable capacity—have forced many communities into the municipal bond market. But this reliance on borrowing has come at a time when the failure of national economic policies has made this market chaotic.

During the past year, the interest rates paid on municipal bonds have risen to record levels. By mid-September 1975, the average rate on tax exempt municipal bonds had risen to 7.28 percent. And this rate understates the magnitude of the borrowing problems since it only includes those municipalities that have been able to sell their bonds.

The nation's major banks which dominate municipal finance did not complain of fiscal irresponsibility by New York City government, while they were amassing $13 billion of debt. They were concerned with making profits selling city bonds. Their recent actions to take advantage of the economic climate and raise interest rates further has resulted in a loss of investor confidence in New York City. The bankers' own actions have made it impossible to find customers for the city's bonds—and left themselves holding virtually unsaleable securities.

There is no doubt that the unions must share the blame for the City's present predicament. However, some regard our success at overcoming the longstanding deficiencies in public employment as the prime cause of today's dilemma.

Such "assessments" contribute nothing in attempts to solve the present problems. Let us look for a moment at what is referred to as the "overwhelming success" of the unions.

Alice Rivlin of the Congressional Budget Office finds in her study of the New York City fiscal crisis that:

"Considering that New York's cost of living—as measured by the Bureau of Labor Statistics' intermediate family budget—is higher than all but that of Boston, its wages are not particularly out of line."

According to the Bureau of Labor Statistics, New York City employees salaries in absolute figures rank behind those of municipal workers in Los Angeles, San Francisco, and Detroit. New York salaries drop to tenth among major cities when related to the Bureau of Labor Statistics cost of living.

Our union represents 125,000 employees of New York City. Their average wage is $9,223 annually—$177 a week. This is below what is regarded as the minimal standard of living for a family of four in the New York area.

Looking at the supposedly exorbitant New York pensions, the figures show the average pension for our retired members is only $3,924. The average retirement is between 62 and 63 years of age.

Our union has shown itself to be willing to bargain in good faith regarding possible solutions to the city's fiscal crisis. We have indicated our flexibility and have already made serious sacrifices.

Last November the municipal unions gave the city 32 million dollars from welfare benefits and every union gave up additional fringe benefits. In the M.A.C. agreement, we deferred wage increases due our members equaling $150 million and gave up additional benefits worth $35 million.

In total, from the work force of the City of New York, there has come a dollar saving of almost $700 million. Over 33,000 jobs have been removed from the payroll of New York City. Over 20,000 men and women have been fired. In fact, the elimination of 33,000 civil service jobs has itself forced up the unemployment rate in the city roughly 1 percent.

Now public officials and bankers—who reached the M.A.C. agreement with us—are threatening unilaterally to abrogate it. We will not accept this.

We are being told to accept thousands more lay-offs. This also means the residents of the City would have to suffer even a further cutback in services. The reduction in services is coming during a recessionary period when the services are most needed.

Many of these services are the same ones the City began in response to federal encouragement—health programs, education services, special aid to the aged, the poor, the young. Other reductions are in the sewers, water, police, fire, and sanitation functions. These are the common municipal functions performed by all municipalities. Despite increased needs and demands, these functions only grew from 99,716 in 1962 to 99,738 in 1973—just 22 jobs in 11 years.

Such service cuts and the increased taxes the City is being asked to exact on its citizens tend actually to be self-defeating. It will be harder to attract jobs to the City and improve the economic base if the quality of service deteriorates. Tax rises, such as in sales taxes, would further push business out of the City.

Turning to some of the consequences of default, the previous discussion points to the potential rise in the number of unemployed civil service employees and also the debilitating effects on both the quality of life and the economy of the City. If a City default does not bring about a State default, it certainly will widen the State's budget deficit further.

The present crisis has made it difficult if not impossible for other local governments to sell their bonds—even at the exorbitant interest rates. Default would bring jurisdictions closer to, if not over, the brink of disaster.

In terms of the economy as a whole, it is clear that default would generate severe uncertainties and dislocations in the credit markets. Economist Otto Eckstein states in his recent House Budget Committee testimony that the state and local sector is simply too big to ignore. In his words, any serious analysis "has to come to the conclusion that default of the City is a major disturbance, that it will slow down the recovery, and that it creates a risk of tipping the balance against recovery."

The Joint Economic Committee's study estimates that the reduction in state and local government expenditures and an increase in interest rates following a default could reduce the growth rate in real GNP by about one percentage point by the fourth quarter of 1976. This would lead to an increase in the national unemployment rate of about .3 of a percentage point above the already too high expected levels—or an increase of 300,000 persons above expected levels.

My union has stated before Congress that the Federal government must act before default by providing a federal guarantee of state and local debt. The guarantee can either be: A federal guarantee of tax exempt securities; or A federal guarantee of taxable securities, with federal subsidy of 50 percent of the interest cost.

Participation in the federal guarantee program in both cases would be strictly voluntary for state and local governments. Participating jurisdictions would be assessed an insurance fee to cover the costs of potential default. Initially the fee could be set at 1 percent of the value of the incurred debt and could be adjusted as experience warrants it.

The mechanism described here is essentially the same device that operates under both the FHA and FDIC guarantee programs. Importantly, the cost of the program would be negligible to the Treasury.

The bond guarantee bill which you have introduced, Mr. Chairman, incorporates features such as I have described. Athough the Proxmire-Stevenson bill also would provide federal gurantees, its punitive conditions and complete abolition of state and local governmental control over the operation of New York City are totally unacceptable. We call on the banks for their short-term holdings to be renegotiated to long-term. Interest rates in the process can and should be lowered. Given the sacrifices being made by the City workers and the profits made by the investors even during these years of recession for everyone else, this is the least the banks can do.

There are several intermediate and long-term measures which will have to be taken by the State and City in order to solve the fiscal problems of the City annd improve the economic well-being of the area. These include a more equitable sharing of the costs of the City. The commuters who use the City and earn their incomes there must pay a greater share than they now do for the services they use.

There will have to be a transfer of the financing of functions and some of the government reorganization may have to be undertaken. New York cannot continue to finance functions which are performed in other places by other jurisdictions and levels of government.

However, only Federal action will quickly reduce the high unemployment rates and their terrible attendent effects on the economic health of cities. Federal policies will determine whether we will be able to achieve our long-run goal of full employment. And the Federal government will have to play the decisive role if the short- and long-term fiscal problems of the Nation's cities are to be solved.

Fiscal and monetary policies must be pursued which do not permit unemployment to remain above 6% through 1979—as the present administration seems to be satisfied with. We cannot accept growth rates which only minimally reduce the present unemployment rates. Tax cuts must be continued—any tax cut proposals which do not also benefit the lower income groups must be rejected. The "trickle down" theory of economic recovery must be abandoned and replaced by expansionary fiscal and monetary policies which move us toward the goal of full employment.

There should be an immediate expansion of the Federal public service employment program. A public service jobs program can make an important contribution to the reduction of unemployment as long as it is coupled with enforcement of provisions which prevent the displacement of and infringement on the rights of regular employees. Moreover, a large portion of the expenditures for public service jobs can be recovered as a result of taxes paid by participants and lower costs for unemployment compensation and welfare benefits.

For the future, a public service employment program should be considered which is tied to any rise in unemployment rates. One such progam has been proposed by the National Planning Association. Its proposal contains three tiers—an on-going program to assist the long-term unemployed, one tier tied to the national unemployment rates, and one aimed at helping local communities and regions suffering disproportionately high rates of unemployment.

The Federal government must accept the role which national policies have played in the present fiscal crises of state and local governments. As I outlined earlier, the current economic recession has had a devastating impact on their fiscal health. As unemployment has increased, government revenues have fallen and spending responsibilities have risen. This has caused state and local governments to adopt policies which cancel out stimulative effects of Federal economic policies.

Congress must act to stabilize the budgets of state and local governments during recessions by enacting a counter-cyclical assistance program, such as that co-sponsored by you, Mr. Chairman, and passed by the Senate. which targets funds to state and local jurisdictions on the basis of need. Such emergency assistance also would augment an expanded public employment program by allowing funds to be used to create new jobs rather than replace regular government employees or pit the unemployed government worker against the private sector and long-term unemployed.

Longer-term solutions to both the fiscal problems of cities and the economic health of the country include a reform of the allocation formula under general revenue sharing. Congress should adopt an allocation formula which targets funds to jurisdictions which provide a high level of public services and contain a large number of economically disadvantaged citizens in their populations.

Congress should pass extensive federal tax reform legislation. Part of such reform should reverse the trend toward an increased reliance on regressive payroll taxes, which help erode the spending power of consumers and retard the economic growth. Also, tax loopholes to businesses which cost the Treasury about $8 billion per year in lost revenues, should be eliminated.

Just as states will have to take over the financing of some services presently provided by cities, the Federal government must assume the full responsibility for welfare and more responsibility in such areas as housing. New York City pays its own tax levy funds of over 700 million dollars in direct welfare costs to the poor. If this single burden were lifted from the city by the Federal government, New York City would not have a budget deficit.

Finally, the achievement of full employment depends on broad-scale coordinated planning. This planning is needed to promote sound and equitable economic growth. We hope that legislation now before Congress such as the Humphrey-Javits Balanced Growth and Economic Planning Bill will foster the long-overdue debate on the dificiencies of the economy and bring about the development and implementation of effective economic planning.

[From the Public Employee Press, May 23, 1975]

THE HEAVY COST OF LAYOFFS

(By Dan Persons, Assistant Director of Research)

Each month the Bureau of Labor Statistics of the U.S. Labor Department analyzes and publishes a wide range of statistics on the American labor force. These statistics show that the United States, with a total gross national product of $1.4 trillion—the most productive and affluent of all the world's economies—had for the month of April 1975 a national unemployment rate of 8.9 percent. This translates into 8.2 million Americans out of work.

In March of this year the State of New York had an unemployment rate of 10.2 percent, which means that 775,000 workers were jobless. In New York City for the same period, 11.5 percent of the workforce was unemployed, or some 372,600 were out of work. As economic activity continues to contract in the coming months these figures will go to even higher levels, and yet these figures do not include the more than one million Americans who have become discouraged over their inability to find a job, and have dropped out of the work force.

To understand the human suffering that accompanies unemployment, we must move beyond the official statistics and concentrate on human realities. To quote a recent book on the subject, *Work in America*: "To be denied work is to be denied far more than the things that paid work buys; it is to be denied the ability to define and respect one's self. All too often, we pay little attention to the personal meaning of work. Work is a powerful force in shaping a person's sense of identity."

The unemployed ask themselves constantly: "How can I tell my child that we cannot buy the bike he wants, or go to the shore for vacation?" . . . "What if there is a sudden illness; where will I get the money for doctor bills?" . . . "Is it some inadequacy on my part that cost me my job, and prevents me from getting another?"

Millions of Americans are now enduring the shock of joblessness—but they are not alone; the nation itself pays a huge price. What does it cost the country to suffer 8.2 million Americans out of work? And what will it cost New York City when thousands of public employees are added to the 372,600 now on the unemployment rolls as a "solution" to the City's budget crisis?

Representative Brock Adams of Washington. Chairman of the House Budget Committee, has pointed out that for every one percent rise in unemployment in today's economy there is a $16 billion increase in the Federal budget deficit. If unemployment were reduced to 4 percent nationally, the Federal budget would be balanced. If there were no unemployment the Federal budget would run a surplus of about $50 billion.

We must ask ourselves what the 372,600 unemployed workers in New York City cost in hard, cold cash and in lost opportunities. If we assume a conservative average salary of $10,000 per year for the unemployed when they were working, the City is losing $3.7 billion in personal income (10,000× 372,000=3.7 billion). This is $3.7 billion lost to the City's economy. Of equal importance, there are 372,000 men and women no longer employed in providing much needed goods and services to others in the City's economy. The repercussions of this lost $3.7 billion filter throughout our local economy and contribute to greater job loss and business failure. Lost also are government tax receipts: $430 million in Federal income tax revenue; $135 million in State income tax revenue; and $49 million in City income tax revenue. Lost is $300 million in New York City and New York State sales taxes. Often real estate taxes go uncollected because the unemployed can no longer pay them. The effect ripples through the economy as other government tax levies become adversely affected. With this type of income lost, governments at all levels must increase their borrowing just to maintain present levels of services.

14% JOBLESS: "FINAL SOLUTION"

If the wolves howling at Mayor Beame have their way, and more City employees are laid off, an additional 60,000 City employees will join the present unemployed. This would bring the unemployment rate for the city to almost 14 percent, and the total number of unemployed to 432,600 jobless. This is a "final solution" not unlike that of Germany in the 1940's.

It is true that unemployed workers will be able to draw unemployment compensation and will benefit from the various Federal income support programs. But, of the City's 372,600 presently unemployed, only 13 percent are beneficiaries of the New York State unemployment insurance program. The total yearly cost for these unemployed workers is $498 million.

What would happen to the already-distressed economy of New York City if the bankers and the Times and the Daily News were to get their wish, and the City were to eliminate its 1975–'76 budget gap of $641 million by laying off City workers? Using the projected figure of 60,000 employees to encompass that amount of money, the number of unemployed would rise from 372,600 to 432,600, and the percentage of unemployment from 11.5% to 14%.

One statistic alone shows the magnitude of the cost that this would entail, as against the "savings" contemplated: The cost of unemployment insurance for jobless in New York City would more than double—from the present $498 million to more than $1 billion. Other costs would of course also rise before long—through the loss to the local economy of purchasing power of these laid-off workers; the number who would have to apply for welfare; sums lost in taxes to the City, State, and Federal Government; and sales tax losses.

DANGER OF A DEPRESSION

It is a fact that the $3.6 billion loss shown in the illustration at right would increase sharply if masses of City employees are laid off, threatening to trigger a deepening Depression for the City and State—and having a strong affect on the nation as a whole.

In December 1974 the State paid $39.7 million in unemployment benefits to 51,924 claimants in the City alone. The remainder of the City's unemployed are not covered by extended benefits and receive public assistance. It must be remembered that these cash income support outlays are government money transfers and represent no productive input to the economy as a whole.

In other words, these programs are not substitute for getting the unemployed back to productive work.

Labor's April 26 March on Washington, the largest labor demonstration since the Great Depression, focused on the need for machinery to guarantee to all adult Americans able and willing to work the opportunity for useful and rewarding employment. The simple fact is that American workers must be kept on payrolls and off unemployment rolls—because unemployment costs us too much in human suffering as well as in cold cash.

Chairman HUMPHREY. Mr. Gotbaum, thank you very much. We will come back a little later on for questioning.

The next witness is Michael Harrington. We welcome your presence here and your testimony.

STATEMENT OF MICHAEL HARRINGTON, NATIONAL CHAIRMAN, DEMOCRATIC SOCIALIST ORGANIZING COMMITTEE

Mr. HARRINGTON. Senator Humphrey and gentlemen, I would like to talk about three aspects of the problem before us. First of all, a brief word or two about New York City and the unemployment crisis; second, some comments on the Humphrey-Hawkins full employment bill; third, a brief idea of perhaps an alternative approach but which would fit into the Humphrey-Hawkins bill. First of all, on New York.

Chairman HUMPHREY. May I interrupt just for a moment? I forgot to say that, of course, we will include the entire statement of each witness in the record as well as any attachments you may have to the statement, as Mr. Gotbaum had. Excuse me.

Mr. HARRINGTON. I think it is tragically appropriate that these hearings on unemployment are in this city. I am convinced that perhaps the major single reason for the problems in New York is the failure of this society to produce a full employment economy.

Between 1969 and 1974 this city lost permanently 166,800 jobs. We lost 60,000 jobs in apparel manufacturing alone, 21,000 in rail employment, 11,000 in Federal Government workers, 18,000 manufacturing jobs.

As a result of an unplanned labor market and disastrous economic priorities of the Nixon and Ford Administrations, at the same time we lost those jobs, the number of poor people in New York City increased faster than in any other city except Cleveland, Ohio.

Therefore, when the administration attacks us for being responsible for our plight, the administration should look to its own economic policies since 1969, which are much more responsible for it.

I note, for example, in the 1976 budget the Ford administration states it will pay out between $17 and $18 billion in unemployment compensation. That is $14 billion more than was paid out normally in the 1960's when you had some halfway decent full employment policies. The amount of money being wasted, in my opinion, by the Ford administration, by this unnecessary depression, $14 billion at a minimum—and I take just one aspect of it—is greater than the budget of the city of New York.

I think that it ill behooves a President, whose economic management has imposed a cost of $14 billion, to lecture a city whose entire budget is about $9 billion.

Let me improve this point by calling on my ethnicity. Mr. Ford reminds me of the British politicians who reacted to the Irish potato famine in the 1840's. Their position was it would be wrong to give relief to the starving peasants of Ireland for that would be based on the traditional cultural system. They watched serenely while a nation was depopulated by death and denigration, declaring it would be better for all people when Ireland became a huge grazing land.

The President as yet has not watched New Yorkers die, although that will happen when the hospitals are closed down. The callousness and idiocy are apparent when President Ford says that the people of New York should pay for past transgressions. He does not ask us to die. We in New York are only asked to suffer slowly.

Secondly, in terms of your own legislation, Senator Humphrey, I want to make a couple of rather critical remarks, but I want to preface that by saying that the Humphrey-Hawkins bill is the proper framework for discussion, political mobilization and amendment.

My criticism, first of all, is that I think the bill reverts on the assumption which has been underlining Keynesian economic policy in this country since World War II, that the corporate infrastructure is basically sound and if the Government allows the corporate infrastructure to allocate jobs, develop resources, that that is the best way to do it; that all Government does is let private industry decide. I would submit that that is no longer a valid assumption.

Looking at the oil industry. It has taken tens of billions of public dollars over the years in the import quota system, the oil depletion allowance, and so on, and it used those tens of billions of Government dollars not to develop alternative energy sources for the economy. It used them to do the exact opposite, to destroy the environment, to make us vulnerable to an OPEC cartel, and generally put at the mercy of the whims of foreign oil producers.

I think the same is true of the automobile. The United Automobile Workers in 1949 pointed out to the industry that it should produce a small economical car. It didn't do so because it preferred to produce more profitable big, wasteful cars.

One of the shocking revelations in the Ford Administration study is that one of the benefits of being poor is that the poor get more miles per gallon on their cars. That is basically because they drive older cars, not being able to afford newer gas guzzling models.

Therefore, from these and other examples, I don't believe that the corporate planner should believe that corporate entities are going to make the right decisions, where in the case of oil and autos and other cases, it is plain they did not.

Finally, I think we talk too much about the Government as the employer of last resort, as if Government employment or Government generated or financed employment is a second class kind of employment for the rejects who don't make it in the private sector. I think in a number of areas we should have Government employment as employment of first resort.

The U.S. Railway Association Systems study published earlier this year tells us that since the 1820's the Federal Government has given out 450 billion dollars worth of subsidies to transportation. Most of that in the last 50 years. Yet we never thought out our priorities. We gave it out to corporations and industry on the basis of a corporate competition in the corridors of power ,not on the basis of a democratically planned decision in the full light of day.

The result was that an incompetent and unscrupulous railway management didn't compete as well as the truckers did and other interests. As a result we destroyed the railroads. we threatened the environment, we isolated the central city, the Blacks, Spanish and the poor in the central city, all without a thought.

Here I think, for example, instead of following the current proposals made by Congress, which all call for the nationalization of the losing aspects of the rail industry, all say the Government should take over the losses and the private sector, who put us in this pickle we find ourselves in, will graciously take over the profitable portion.

I think we should put this into a systematic plan for transportation. I say this in part because I am a democratic socialist. But you don't have to be a democratic socialist to use common sense.

We have to plan. I agree with the auto workers' union, that a terrific boost to the full employment economy would be to have nationalized railroads to put unemployed people back to work restoring an environmentally beneficient and benign transportation system.

So I think you bill is the beginning—

Chairman HUMPHREY. You are familiar with the Humphrey-Javits bill on balanced growth and economic planning as well?

Mr. HARRINGTON. Absolutely. Except there I would make a similar related criticism. I find it too indicative, if you will, of not involving a sufficient and conscious allocation of public resources for various public purposes. I apologize for not mentioning the Humphrey-Javits bill. I think these two bills mark a possible turning point in American history where we are now going to do what I think we should have done a long time ago, but perhaps we are going to do it in a way that goes beyond the wisdom of the New Deal and enter into a new era of American life which I hope will not be corporate profit-dominated planning, but democratic planning in the light of day.

[The prepared statement of Mr. Harrington follows:]

PREPARED STATEMENT OF MICHAEL HARRINGTON

Mr. Chairman and committee members: It is tragically appropriate that the Joint Economic Committee is holding these hearings in New York. The most fundamental cause of the agonizing crisis in which we in this City find ourselves is the lack of a full employment economy and serious labor market planning. The disastrous economic policies followed by Presidents Ford and Nixon since 1969 have more to do with our plight than any action taken by New York City politicians over the past two decades.

Before turning to my specific comments and proposals with regard to full employment and national economic planning, permit me to amplify just a bit on my view of the New York City crisis. I do so in part for personal reasons: I am proud to be a citizen of this city and deeply troubled by the politically motivated callousness of the President; P.S. 3, which my son Alexander attends, has already been affected by budget cuts and could be decimated, or closed, if default occurs; and I am a professor of Political Science in the City University, an institution which has done more than any in the country to reach out to the sons and daughters of working people, and of the black and Hispanic ghettoes, and which could be shut down if Mr. Ford prevails.

But I also turn briefly to New York because it is a perfect example of the intolerable—indeed, catastrophic—consequences of the chronic unemployment we have tolerated since the passage of the Employment Act of 1946 and of the particular incompetence of Presidential economic management since 1969.

The basic reason why New York is in crisis is that manufacturing jobs have been leaving the City since the early Fifties. More recently, in 1971–72, when President Nixon heated up the economy as part of his re-election drive, payroll jobs in this City declined while they increased throughout the rest of the nation. One of the main reasons was the flight of clothing manufacturers to low-wage areas in the United States and abroad. Between 1969 and 1974, the City lost 166,800 jobs: almost 60,000 in apparel manufacturing alone, 21,000 in rail employment, 11,000 in Federal government workers, 18,000 manufacturing jobs; and so on.

At the same time, the growth in New York's poverty population, as the Committee's staff study points out, was the second most severe in the nation. To which it should be added that much of this poverty was the result of failures on the part of Washington and state and local governments outside of New York. Governor Wallace chortles over the misery of the nation's greatest City, citing it as proof of his reactionary views on welfare and race. He carefully ignores the fact that a good many of the poor people are exiles from the low-wage economy, the discrimination, high unemployment and underemployment, of his own state.

So the fundamental reasons for New York's plight are not to be found in New York, but in the workings of an unplanned labor market in which corporations maximize profits by rushing out in search of the lowest pay, even if that requires going to Singapore or South Korea, without any thought or responsibility for the ruinous social consequences their actions cause. And this situation has been exacerbated by the growth of the poverty population.

New York politicians were grievously guilty of ignoring this reality, of hiding it from the public by means of budgetary trickery which concealed a structural crisis of the City's economy. But these politicians did not invent the crisis. Gerald Ford and Richard Nixon did much, much more to subvert our City during the last seven years than John Lindsay and Abraham Beame.

Moreover, it is preposterous to charge that we spent wildly on social programs. If the Federal government were to pass three laws—a genuine full employment plan, the Federalization of the cost of poverty (or even Congresswoman Abzug's proposal that New York get the same share of Federal funding as other cities) and national health security—the crisis would not exist.

A final, personal word on the New York City aspect of the employment situation. It is inspired by my politics and my ethnicity—by the fact that I am an Irish-American democratic socialist. As a socialist, I have known some people within my own movement who had a bad case of blueprint-itis and thought that you could reorganize an entire society on the basis of a few simple principles. Most of us are not like that, but a few are. However, in all my experience I have never encountered so ideological a true believer as the President of the United States, a man totally in thrall of simplistic free market economics in the era of the multi-national corporation, the administered price and the pervasiveness of state intervention.

Mr. Ford reminds me of the British economists and politicians who reacted to the potato famine in Ireland in the Eighteen Forties. It would be wrong, they said, to give relief to the starving peasants, for that would somehow debase the land system, and it would destroy that frugality which a proper economy required. They watched serenely while a nation was depopulated by death and emigration, declaring that it would be "better for all classes when Ireland becomes a grazing land with relatively fewer people." The President, to be sure, has not yet watched New Yorkers die as he subordinates their fate to his outworn principles (though that will happen when more hospitals are closed down). The callousness and cruelty of economic ideologies has, after all, become somewhat more civilized since the Irish were required to die for them. We in New York are only asked to suffer slowly.

These few comments on New York should underline the critical importance of full employment for this region and the nation. Let me now turn to the specific proposals of how to achieve it.

I believe that the Equal Opportunity and Full Employment Act of 1975, sponsored by Congressman Hawkins and Senator Humphrey (the "Hawkins-Humphrey" bill) should be accepted by all advocates of full employment as the framework of our further efforts. It poses the right issue; it makes the proper commitment to a genuine, planned full employment economy. It has some serious flaws, both in concept and specific design, and I will address myself to them in a moment. But I want to stress at the outset that these criticisms, even those which are quite basic, are urged from a standpoint which finds the bill a point of departure for, and a major contribution to, our future work in this most critical area of American social policy.

So I hope these comments will help the Committee, and the Congress, to amend and perfect the Hawkins-Humphrey Bill. They will focus on three different points: a critique of some of the basic assumptions of Hawkins-Humphrey; consideration of some specific sections of the bill in the light of that critique; some alternative conceptions and proposals.

First of all, the basic presuppositions of the bill assert a fundamental—and to my mind, erroneous—Keynesian principle: that the private corporate infrastructure of the American economy is sound, so that the role of government is to supplement and facilitate its decisions with regard to what inestments should be made, what kinds of jobs should be created, and how the benefits of this process are to be distributed.

I should note that my rejection of this thesis is not the unique consequence of a socialist analysis, though it is undeniably shaped by such an analysis. In a just published book, *The New American Ideology*, Professor George C.

Lodge of the Harvard Business School, asserts similar criticisms of the Lockean assumptions of the American political economy, including our faith in a benign providence which somehow is thought to have created an economic universe in which private greeds interact to achieve a public good.

That faith, it should be noted, is not merely a matter of conservative orthodoxy. In May, 1967, for instance, Gardner Ackley, a leading spokesperson of the liberal point of view, said, "If one were to examine all of the thousands of decisions made daily by the managers of the modern corporations, I think he would be struck by the relatively small number in which significant questions of conflict between public and private interest arise. In the vast majority of these decisions, businessmen need not explicitly consider the 'public interest'; nor does government have reason for concern. What sources of material are cheapest, what product sells best, which production method is most efficient—these are questions to which answers that maximize private profit in most cases also maximize public welfare."

A similar, if unformulated, view underlies the Hawkins-Humphrey bill. Before turning to the specific expressions of it, some basic criticisms of this proposition are in order.

It is simply not true, certainly in terms of our recent experience, that "answers that maximize private profit in most cases also maximize public welfare." Two related, and quite momentous, cases in point, the oil and auto industries, provide persuasive evidence on this count.

For well over a generation now, the United States Government has assumed that the welfare of the giant oil companies promotes the nation's interest. That was the rationale behind the special tax treatment devised for these companies in 1950—which was really a secret, undemocratic foreign aid program for reactionary Arab oil potentates in which Washington had American corporations effectively operate as the tax collectors for foreign powers. (Senator Church's excellent hearings on the multinationals documented this point brilliantly.) It was the theory behind the oil import quota system, which kept Arab oil out of the United States when it was cheap and without political strings. It motivated percent depletion and the expensing of intangible costs; it was a subsidiary reason for the commitment of more than $70 billion for interstate highways dedicated to the glory of the private car and the destruction of mass transit. It was the explicit argument for effectively absolving the oil companies from the criminal provisions of the anti-trust laws when the Department of Justice openly abandoned their enforcement in 1953–54. I could go on citing more examples, but the basic point is plain enough: America paid tens of billions in direct and indirect public expenditures in order to support the private purposes of oil companies on the assumption that those purposes would maximize the public interest.

They did the opposite. These multinational corporations were given governmental incentives not to develop our coal reserves, not to invest in new energy technologies, not to develop refinery capacity within the United States, and so on. After more than forty years of Federal support, the oil companies had succeeded in creating a wasteful, environmentally destructive energy economy which was, and is, needlessly vulnerable to the OPEC cartel.

Similarly with the automobile. Back in 1949, the United Auto Workers union asked the car manufacturers to build a small, efficient vehicle. Detroit refused to do so for about a quarter of a century. It took advantage of the enormous, publicly financed infrastructure created for the care and feeding of the private car to build bigger and bigger, less and less efficient, more and more polluting, automobiles. It imposed the tremendous social costs of a corporate technology which maximized anti-public values upon the American people. A few years back, the Ford Foundation reported one of the incredible ironies in all of this. Poor people, it found, got more mileage to the gallon than members of other social classes, and this was the only area in which the poor had any advantage. The reason was that they drove older, and therefore somewhat more efficient, cars!

I would generalize. It is an ideological, unscientific proposition to assert that the investment decisions of the private sector, even the ones made on a much more sophisticated profit calculus than those of the robber barons, promote the common good. The technology of the giant corporations has more externalities than internalities, i.e. its social cost regularly and massively exceeds its private costs and benefits.

This, in turn, means that government must have a much more systematic and conscious method for determining its priorities—democratically, on the basis of maximizing social values—and of effecting them in the economy. Earlier this year, the U.S. Railway Association told us that Federal subsidies to transportation, from the early Nineteenth century to the present, totalled $450 billion, most of that money being spent during the last 50 years. Yet there was no plan for allocating it.

The result was that tens of billions were assigned to private corporations on the basis of an intra-industry competition held in the corridors of power. So, the victory of truckers and private cars over the railways was accomplished at the public expense and at an enormous dollar cost. It has, among other things, also helped to isolate the central city along with the poor and the minorities who live there, threatened the environment, promoted suburban sprawl, and so on. Indeed, to return to the New York City crisis for a moment, a good deal of our problem derives from the fact that Washington spent so much in cheap housing money and publicly subsidized roads to help the middle class flee the City.

So private corporate priorities cannot empirically be assumed to be social in character and government subsidy programs cannot go on in their present, chaotic way, financing revolutions in the American way of life without any democratic discussion. And a similar point applies to present Government full employment policy.

The recession which began in 1969 was initiated by the White House. This is not a Watergate secret which had to be extracted from the President. It is a fact which he himself confirmed at the time. We are going to strive for price stability by "cooling off" the economy, Mr. Nixon said. One of the reasons he was impelled to act in this fashion is that sustained full employment is a threat to private corporations. For when there is full employment, the labor market tightens up, unions become more combative, and wages tend to rise at the expense of profits. When the commanding heights of the economy are occupied by corporations which can administer prices, as is the case in America today, this results in inflation. So there was a corporate demand in 1969 to restore profitability and price stability by means of the classic remedies: deflation, or, to put it less technically, through the suffering of working people and the poor. This policy was too politically dangerous, as the 1970 elections demonstrated, and it was followed up by a pre-election heating of the economy in 1971–72, and a post-election slamming on of the brakes in early 1973, a catastrophic decision from which the nation still suffers.

There are many instructive aspects to this history but only one of them is germane to the particular theme of this analysis: that corporations feel uncomfortable with full employment. If I can go back to, and contradict, Mr. Ackley's optimistic assumption, in this rather basic case, that which maximizes public welfare, i.e. full employment, does not maximize private profit. If the priorities of the latter prevail, as they may have under the Nixon and Ford administrations, the former is impossible of achievement. We have a basic, structural conflict, not a providential harmony.

So on three counts—the anti-social tendencies of the corporate development of technology; chaotic, anti-public character of a public subsidy system subordinated to corporate priorities; the contradiction between corporate profits and full employment—the Keynesian assumptions have been subverted. My policy conclusion is that government cannot relegate itself to an ancillary role, that it must intervene actively with regard to basic investment priorities, and the best use of our human resources. This cannot be accomplished by "indicative" planning which leaves the fundamental corporate determinants in charge of the direction of the economy. It does not require totalitarian compulsion, which is economically inefficient as well as abhorrent on many, many other grounds. It demands a degree of democratic planning and socialization of the investment process which means some structural changes in the American economy.

Let me now apply these general remarks to an analysis of a few important aspects of the Hawkins-Humphrey bill. Again, I would remind the Committee that, for all my criticisms of this proposal, I regard it as the best framework for discussion, amendment and political mobilization.

In Section 3 of the bill, the President is cast in a passive role. His or her analysis of the economy is assumed to accept private investment plans as a given and to tailor Federal policy to that reality. I believe that the bill should provide for a much greater role for the public sector, as a source of jobs and as a means of planning production for social use (the specifics of how this might be done will be outined in a moment).

A related point. Section 4 of the bill emphasizes local planning councils as the prime instrumentality for identifying needs which can be met in the course of providing useful employment to people. There are two limitations to this notion. First, the macro-economic planning of basic priorities in the economy is once more slighted—or rather left to the corporations. Secondly, the experience with the planning councils under the Comprehensive Employment and Training Act of 1973 does not suggest that they have been as efficient or democratic as they should be. Let me stress one aspect of this last point. I think there should be as much local involvement, decision-making and administration as is possible. We have overwhelming evidence with regard to the political and economic costs of a totally centralized economy. But the instruments of that local participation must be much more effective than CETA Councils have been; and the possibility of serious local participation is conditioned on the success of the Federal efforts to get some kind of democratic control of the basic investment decisions of the society.

Another, and very important, related point. Section 4 of the Act refers to the CETA Councils creating "reservoirs" of useful, potential jobs. And Section 6 calls for the creation of a "standby" Job Corps. The unstated assumption of both of these proposals is that the private employment of labor is the most efficient and socially desirable, and that Federally financed work is a matter of last resort, to be found in "reservoirs" which are on "standby." I disagree, I do not think that the best use of human talent in this society is inevitably to be found in the private profit-maximizing occupations. Do we want workers to build Nevada Casinos or another generation of Florida condominiums in preference to applying their energies to erecting housing for working people and the poor?

Therefore I think that the legislation should make it clear that there are occasions when Government should be an employer of first resort. In specifying some job generating activities which I think should be undertaken here and now, these criticisms can be seen in more explicit, counterposed detail.

I believe that the Congress should consider a number of projects, valuable and urgent in themselves, which could provide work for the unemployed and a means whereby society could assert a democratic social control over at least some of the investment decisions in the economy. One introductory point needs to be stressed. I see these things within the framework of my own, democratic socialist analysis. However all of them have been proposed and supported by non- and even anti-socialists. I would be less than candid if I did not say that I hope that these ideas will become the first step toward a basic democratization of corporate power in America and the world. But liberals and reformers who disagree with my vision can share my immediate agenda.

First, we should nationalize the railroads in the United States. All of the current legislative proposals involve nationalization, but only of the losses and decrepit property of a system which the Government and greedy managements did so much to destroy. We should not have the public pay for the private cannibalization of the rail system. We should establish a national transportation plan which would determine, on the basis of social needs, how subsidies should be allocated to the private sector and which would have a public sector of sufficient weight to influence the entire industry. The public railroad corporations should be designed according to the plan devised by the rail unions right after World War I: with a board of directors composed, one third of workers' representatives, one third of public representatives, and one third of representatives of the operating managers.

The nationalization and refurbishment of the American rail system would save energy, protect the environment and, as the Auto Workers union pointed out in its energy proposals, create an enormous number of socially useful jobs.

Secondly, we should nationalize one existing major oil company and provide it with privileged access to the development of energy resources on public property. In this regard, the proposals of President Ford and Senator Jackson, for socializing the developmental costs of new energy technologies, while turning the benefits over to private corporations, should be rejected. It was Adam Smith who argued, rightly in this case, that risk takers should be decision makers and profit takers. If the people take the risks in this area—and they are so massive that the private sector refuses them—the people should make the decisions and reap the benefits. This is why the expansion of the public energy sector is so crucial.

Thirdly, we should explore Congressman Reuss' proposals for the creation of a mechanism of national credit allocation. Along similar lines, we should consider the creation of a national bank—but not one which would simply get the risky leavings from the private banks.

Fourth, we should look toward the Federal chartering of all major corporations, as Ralph Nader, George C. Lodge and others have suggested. Those charters should require public and employee representation on the board of directors as a condition for doing business in interstate commerce.

Fifth, we should learn from the enormously effective experience of the Rural Electrification law. Washington provided subsidized credit to electrification co-ops and thus helped to facilitate one of the most important gains farm people have made in recent decades. That principle can be, and should be, applied to consumer cooperatives, housing cooperatives, community development corporations and the like. It is a perfect example of how the socialization of investment decisions need not be centralized in Washington.

Finally, an obvious question arises: How does one finance these things without incurring a ruinous inflation? There are a number of ways in which this can be done, two of which are particularly relevant to my analysis.

It is, of course, necessary to resist increases in the Pentagon budget and to look for reductions which can be made in it. Any cutbacks which would require the closing of defense installations and the loss of jobs must, of course, be accompanied by an explicit plan for redeploying the people involved in work which is at least as remunerative as that which is being abolished. But beyond that point, I think the time has come to consider a suggestion made sometime ago by John Kenneth Galbraith: we should nationalize all those major defense contractors whose prime, or only, client is the Government. In those cases the private risk is a fiction and the private gain at the public expense a reality. This is one source of funds, along with other cuts in Pentagon waste.

Secondly, the Treasury this year published a list of "tax expenditures" in the Federal budget. They total around $94 billion and, we know from an analysis prepared for Senator Mondale, they discriminatorily reward the rich, e.g. the privileged character of capital gains income, or the multi-billion dollar subsidy to the housing of the wealthy and the upper middle class contained in the perverse priorities of the deduction of interest on the mortgage. There are enormous savings to be made in these areas simply by following in fact the principle we now honor in the breech: that those best able to pay should bear their share of the tax burden.

Clearly, my proposals for government action are far from exhaustive. They are, rather, illustrative of an analysis and of a trend of possible action. We cannot assume, as the Hawkins-Humphrey bill does, that full empoyment can, or should, be achieved by making the Government the subordinate of the private corporate economy. To achieve the socially useful full employment which the bill so rightly insists upon, we must be prepared to take steps to democratically plan and control some of the major investment decisions in this country. In the particular cases in which I have urged action, I think the pragmatic liberal can agree with me in seeing its necessity. I therefore do not make these proposals in terms of some distant utopia. They are necessary to the creation of full employment in this decade and in the rest of this century.

But in conclusion, let me stress my conviction that we are at one of those moments in American history when structural change is in fact on the agenda. In the 1890's, this country, and European capitalism, responded to the two-decade long crisis of the laissez-faire economy by the creation of the modern corporation, the trusts and the oligopolies. The problems of competition were ameliorated; the problems of monopoly were created. In the 1930's, the United States, the last industrial democracy to build a welfare state, backed into a system of Keynesian planning. It assumed that all the Government had to do was to establish a proper economic climate for the private economy by stimulating or restraining, aggregate demand and investment. We demonstrated—by means of the war economy of 1940-45, and then the Kennedy-Johnson tax cuts of the sixties—that we know how to put unused capacity back to work in that manner. But now we face the problem inherent in our old solutions;

70-058—76——9

inflationary pressures; the manipulation of the business cycle for political purposes, as under President Nixon; the threat to private profit in a full employment economy; and so on.

We are going to get structural change. The only question is what kind. The corporate rear-guard fulminates about socialism while the corporate avant garde proposes new RFC's to socialize investment to private purposes. Under such conditions, I believe that full employment policy is a focal point and that we must demand that it be implemented by a socialization of more and more investment on behalf of the people. We have been funding "socialism" for the rich and leaving free enterprise to the small shopkeepers, the workers and the poor. We must now continue that outrageous trend, buying full employment by further increasing the maldistribution of wealth and the corporate misuse of resources. We should, rather, achieve full employment by democratically investing in our social needs.

Chairman HUMPHREY. Thank you very much, Mr. Harrington. We appreciate your testimony and the vigor with which you presented it.

Mr. Gross, we welcome you today.

STATEMENT OF BERTRAM M. GROSS, DISTINGUISHED PROFESSOR OF URBAN AFFAIRS, HUNTER COLLEGE, AND PROFESSOR OF POLITICAL SCIENCE, CITY UNIVERSITY OF NEW YORK

Mr. GROSS. Senator Humphrey, Senator Javits, and Senator Taft, since my prepared statement will be in the record, I will just paraphrase it and take the liberty of amending it.

I first want to amend the title. I made the mistake of calling my statement "Full Employment Planning To Save New York City and Grand Rapids." I would like to add Minneapolis and Cleveland and also Pittsburgh.

But during the recess I looked under the Chairman's chair and I found out that the chair Senator Humphrey was sitting on was made in Chicago. I am afraid that unless there is more full employment planning it will not only be New York who will be in trouble, but also people who manufacture chairs in Chicago as well as Grand Rapids.

My statement starts the same way that the distinguished chair person started, by referring to presidential default, presidential breaking of the law, violation of a mandate of the Employment Act of 1946, which says at the beginning of every session of Congress he should submit a detailed program for maximum production and purchasing power and one that will provide job opportunities, including Civil Service employment, for those able, willing and seeking to work.

Now, for quite a few years this has not been done. I have been trying to figure out why it is that this has not been done. I have changed my mind on this, Senator Humphrey.

It doesn't come from ignorance or bad advice and it doesn't come from malice. I think it comes from a response to the same pressures which weakened the original Full Employment bill.

I remember when I was working with Senator Robert Wagner exactly 30 years ago when the Full Employment bill was reported to the floor of the Senate. He stated in his report and on the floor, where there is a powerful minority of big business interests in the United States who are still backward enough to believe that full employment is bad for business because it gets labor uppity, it gives trade unions a chance to raise wages, and it might reduce the rate of profit return on capital.

Senator Wagner demonstrated by quoting from witnesses before the Senate Banking and Currency Committee, from both the National Association of Manufacturers and other organizations, that quite a few members of the business community were sticking to the old view that what business needed was a reserve of unemployed people waiting to be hired.

I might say that I had the pleasure at that time of working with Senator Robert Taft of Ohio, who led the opposition to the original Full Employment bill, but led it on fiscal grounds and who accepted, when he heard Senator Wagner's explanation, the idea of full employment. Senator Taft voted for full employment when the bill passed the Senate of the United States in September of 1945.

It was only in the House that these same dinosaur business interests mobilized tremendous strength to knock out the full employment concept.

When the law was passed in weakened form, they then went to work on both the Executive Branch and the Congress and they really came into their own a few months after Senator Humphrey lost a recent election. I believe if that election had gone a little differently in 1968 that there would be no New York crisis today.

The sin of the city fathers in New York City—and it was a fiscal sin—was to try to do in a city, with some State support, what only a Federal Government can do. A city cannot handle a compensatory fiscal trauma. A city by itself cannot develop a policy for national growth in this nation of cities and in this nation of states.

So the more things went down nationally, the more credit and the fanatic finance in New York went up in an effort to remedy that default, which could not be remedied at the local level.

At the present moment I am sort of appalled by the existing situation. If a child is starving, perhaps there will be somebody by President Ford who will say, "Let's look in the other direction." But it does no good for a starving child to offer him a glass of water, even a bucket of water.

What I am saying is that in my judgment the legislation being prepared in the House and the Senate, whether it is along the lines of bankruptcy or whether it is along the lines of loan guarantees, is offering a long glass of water to its guardian child. Because all of the so-called rescue bills that are being discussed are of the kind that would contribute to the layoffs, that would reduce wages, reduce purchasing power, reduce retail bills, reduce income, the income received by State and local government, and thereby render completely absurd the present estimates made by Governor Carey and Mayor Beame concerning the possibility of balancing the city budget in 3 years' time. The city budget cannot be balanced in 3 years' time if New York City is forced by the pending legislation in the House and the Senate into helping convert recession into depression. That, I am afraid to say, is the impact of the so-called glass of water rescue measures.

You remember that in 1929 the mass depression was triggered off by a collapse of the stock market. The stock market is not as important in this society in the economy today as it was then. The municipal bond market is much more important. May I suggest to the members of this committee that a new kind of depression or the functional equivalent of a depression, of a mass depression, can be triggered off by a collapse of the municipal bond market.

So I applaud the Senators Humphrey and Javits and Congressman Hawkins for the kind of action that would remedy the default in high places.

In my prepared statement I have listed some of the requirements of that legislation. The first of these, of course, is the requirement which Senator Humphrey refers to in his letter to the Wall Street Journal, which was published this morning.

Chairman HUMPHREY. I haven't seen it yet. That is the one where they respond to my obsolete economics?

Mr. GROSS. That is right. You say, "I shall look to the Wall Street Journal"—don't look too long—"for strong support for the emergency job legislation I will soon be introducing."

In that letter you reiterate the principle in the Humphrey-Hawkins-Javits bill, the right that all Americans able to work have the right to equal opportunities for useful employment at fair rates of compensation.

I am not as pessimistic as my friend Vic Gotbaum on the New York situation. Perhaps I am more pessimistic on the national situation. I have indicated already that most of the rescue measures being proposed for New York City would be recessionary in nature.

I am for them if they will be compensated for by a remedying of the national default at the national level.

So in the last part of my statement I said emergency full employment action is needed along two lines. The first is a restructuring of New York City debt. Without going into the details there, I have made the point that the city owes over one billion dollars to its pension funds this year which can be paid in long-term notes instead of in cash, instead of being turned over to the trust departments of the banks that will then get commissions on it.

In this connection, I might say that there is no reason that I can see why the pension funds, which have many billions of dollars invested elsewhere, should uproot their current investments to lend money to New York City when New York City is now supposed to pay 1.3 billion this year.

I am informed by Mr. Nass, who is in this audience and who wrote a letter on this to the New York Times, that all that is needed to allow the current deficit to be wiped out completely is an act of the New York State Legislature which would authorize the deposit of New York City long-term bonds in the pension funds. This, of course, would circumvent the trust departments of the banks which handle this money and might mean a small reduction on their big business.

But I think this would be a small sacrifice to them compared to the huge uncertainties that would be created by default or bankruptcy.

This measure, however, would not by itself avoid the ongoing layoffs and reductions in real wages for New York City employees in the public and private sectors. That is why, in the last part of my statement, I have tried to indicate that if we had action under an emergency Full Employment bill of the type that Senator Humphrey's letter in the Wall Street Journal refers to today, that this could mean that the number of adults on relief rolls and official unemployment compensation, could be cut in half within 3 years in this City; that at least 200,000 private and public jobs could be created in the New York northeastern area.

I am not saying we could return the entire 400,000 lost from New York since Mr. Nixon won. But at least it could halfway be done through genuine productive activities. First restore jobs, not last resort jobs. More jobs in housing, urban rehabilitation and maintenance, mass transportation, waste product recycling, day care facilities, improved education, a massive expansion and upgrading of New York as the world's cultural center and the proper development of Manhattan as the 24-hour-a-day world financial center.

But all that has to be part of a program to reduce interest rates, promote private business and maintain a healthy public sector and reduce inflation.

The emergency on New York City's default I think is a shell game. If that shell game is composed and handled, it will keep it from going beyond the 12 percent attained now as one of the achievements under the Nixon-Ford policies. I believe the emergency is the larger one that deals with all parts of the country.

I only ask, in light of the good chairman's statement about D-day, what is D-day for emergency job legislation? Is it December 1, or is it January 1, or is it February 1? No legislative committee of the Senate has thus far held hearings on either of the Humphrey-Javits proposals. This, I think, is a reflection upon other parts of Washington, as well as upon the White House.

I do hope this hearing today in New York will provide a message that can be brought back to the legislative committees of the Congress to get going before D-day, whenever that might be.

[The prepared statement of Mr. Gross follows:]

Prepared Statement of Bertram M. Gross[1]

FULL EMPLOYMENT PLANNING TO SAVE NEW YORK CITY AND GRAND RAPIDS

1. Presidential default under the Employment Act of 1946 has condemned millions of employees, employers and self-employed to the agonies of a roller-coaster economy and sustained inflation.

2. This law-breaking in high office stems not from malice, ignorance or bad advice but from a remarkably powerful big business minority eager to rip-off whatever they can while the getting's good—whether through extortionate prices, extortionate interest rates, government handouts or velvet-lined tax havens.

3. New York City's leaders have tried to compensate for Federal mismanagement and big business rip-offs by expansionary people-oriented policies at the local level, an effort that resulted in *de facto* default and State receivership in June 1975. Among the many reasons for collapse have been: the hammer blows of six national recessions and of poplation shifts that have produced a massive depression among the Black and Latin population of Harlem,

[1] Distinguished Professor of Urban Affairs, Hunter College, and Professor of Political Science, City University; economic adviser to Equal Opportunity Subcommittee, House Committee on Education and Labor. Former staff aide to Senator Robert F. Wagner (N.Y.) in drafting original Full Employment Bill of 1945 and Employment Act of 1946, and Exec.-Secy., President's Council of Economic Advisers, 1946–51. Author or editor of numerous books and articles on the legislative process, management, social and economic indicators, and economic planning or development in the U.S. and other countries.

South Bronx, Brooklyn and other "bombed out" areas, the "frenzied finance" of a highly speculative, tax-subsidized boom in office building and luxury apartments, which have drained resources from more productive uses, and the imposition on New York City of extortionate interest rates by the same banking groups who have mismanaged their own REITs (Real Estate Investment Trusts).

4. *Both* of the Federal responses to the NYC crisis—the House-Senate bills for Federal guarantees as well as "Ford-Simon bankruptcy"—would contribute to deflationary tendencies throughout the country by: requiring more layoffs and wage reductions in the public sector, together with higher State or local taxes, which would lead to . . ., lower retail sales, more stringent business credit, and further erosion of State and local tax revenues, which would . . ., *make it impossible to deliver on any "promise" to balance the city's budget in three years;* thereby perpetuating the bureaucratic monstrosity of the world's financial capital being managed by a Federal referee in bankruptcy or a Simon-Burns-Dunlop Board, and fostering; a downward spiral throughout the country of wage cutting, unemployment, higher relief rolls, extension of unemployment compensation, and more business bankruptcies.

Under either (or both) of these proposals, lots of ordinary people in Grand Rapids as well as NYC will be injured.

5. The continuation of these tendencies could lead to the "functional equivalent of a mass depression" (i.e., restoring high profit expectations by squeezing out weak competitors and sharply lowering real wages and salaries) and a "friendly fascist" authoritarianism operating behind the facade of constitutional democracy. Well-intentioned proposals for national economic plans—without any mandates on personal employment rights, national priorities or anti-inflation policies—could accelerate such a glide down the primrose path to new-style serfdom.

6. The reversal of these tendencies requires Congressional action not only to force Presidential compliance with the Employment Act of 1946 but to plug the Act's loopholes (as proposed in the Hawkins-Humphrey-Javits measures, S.50, H.R. 50 and the March 20 Subcommittee Print of H.R. 50) by: establishing "that all adult Americans able and willing to work have the right to equal opportunities for useful paid employment at fair rates of compensation," with the Federal government acting as an employer of last resort, if necessary, mandating expanded "first-resort" activity, private as well as public, in such essential areas as day-care facilities, education, health, mass transportation, energy development, housing construction and rehabilitation, basic and applied sciences, culture and recreation, imposing a statutory full employment growth mandate on the Federal Reserve System, which would mean major reductions in interest rates, mandating the goal of raising paid employment from the present 87.6 million to at least 100 million in 1978 and reducing official unemployment from the present 8.3 percent to below 7 in 1976, below 5 in 1977 and 3 by 1978, placing Congressional budget-making within the broader framework of planning for economic growth without inflation.

These measures of democratic planning would diminish opportunities for rip-off prices and interest rates and windfall returns on investment. They would promote the more equitable distribution of income, wealth and power required for stable, long-term business profits (at somewhat lower rates of return) and for what John D. Rockefeller III has called "humanistic capitalism."

7. To save America from the threat to NYC and Grand Rapids, emergency full employment action is needed along *two* lines:

(a) a restructuring of NYC's huge debt by "rolling over" short-term into long-term securities, "rolling back" extortionate interest rates, abolishing the current deficit of $600-$800 million a year by paying its 1975-76 $1.3 billion contribution to pension funds in long-term 6% notes, *raising no taxes whatsoever, limiting layoffs to those required by a genuine productivity program, and meeting all obligations under existing collective bargaining agreements.*

(b) passage of the Hawkins-Humphrey-Javits bill in a streamlined version of the March 20 Subcommittee Print of H.R. 50-S. 50, under which is would be impossible to: (i) cut the number of adults on relief rolls and official unemployment in half within 3 years, (ii) by creating by 1978 at least 200,000 private and public jobs in the New York-Northeastern New Jersey area (thereby returning halfway to the 1969 level of 6.7 million jobs) through (iii) productive activities in housing, urban rehabilitation and maintenance, mass transportation, waste product recycling, day-care facilities within reach of all neighborhoods, improved education, a massive expansion and upgrading of NYC as the world's curtural center, and the proper development of Lower Manhattan's "Golden Triangle" (including downtown Brooklyn and Jersey City) as the 24-hour-a-day world financial center . . ., (iv) all as a part of a program to reduce interest rates, promote private business, maintain a healthy public sector and prevent inflation.

8. For effective action along these two lines, the rip-off minority in big business must be counterbalanced by a broad-based full employment coalition including business, labor, professionals, minorities, women and religious groups.

The effort should be made despite present noises of Presidential disapproval and speculative headcounts in the Senate and the House. If legislation along either or both of these lines fails to be enacted in proper form, then these are the kind of issues that must be vigorously brought before the voters a year from now when they vote for a President, one third of the Senate and all members of the House.

Chairman Humphrey. We will get around to commenting on that with you. Thank you.

Our next witness is Mr. Rafael Torregrosa.

STATEMENT OF RAFAEL TORREGROSA, NATIONAL DIRECTOR, MIGRATION DIVISION, DEPARTMENT OF LABOR, COMMONWEALTH OF PUERTO RICO

Mr. Torregrosa. Thank you Senators Humphrey and Javits, distinguished Congressmen, members of the committee. I would like to read my statement, since I am the only person here who is the head of a governmental agency.

My name is Rafael Torregrosa. I am National Director of the Migration Division, Department of Labor, of the Commonwealth of Puerto Rico. Our central office is at 322 West 45th Street in New York City, with field offices in eight other U.S. cities.

The Migration Division was established here in 1948. It is wholly supported by the tax revenues of the people of Puerto Rico. Its main objective is to help the Puerto Rican migrant to successfully integrate into his new social habitat. Each year, more than 60,000 people come to our offices, where we operate an employment agency and offer varied types of social services and orientation.

No single person in this room can speak for all Americans. By the same token, no individual can speak for all of the nearly 2 million Puerto Ricans on the U.S. mainland. Although there are many voices worth hearing—elected officials, leaders in business, Government, civic, cultural and educational affairs—perhaps the real experts are those not in high places. I refer to the Puerto Rican workers—in the garment industry, in factories, in offices, in restaurants and in hotels—trying to make ends meet with their modest wages. Or those who have been stripped of the dignity of work because of recent layoffs, and stay awake nights, wondering where to turn next. Or the mothers and fathers in the south Bronx, Brooklyn, the Lower East Side * * * trying to raise their children in areas that resemble the ruins of postwar Europe * * * but without the hope of a domestic Marshall plan.

I believe that they could tell you, with far more eloquence than I, about the true plight of Puerto Ricans in this city. But, at your invitation, I shall try to speak in their behalf.

I am preparing a more detailed report which I shall submit soon into the record. It will also be available to anyone who contacts me at the Migration Division. And now * * * in the few minutes allowed me * * * I shall try to summarize the current crisis.

Puerto Ricans have a great stake in the future of New York City. More than 1 million of my people live here, and comprise about one-eighth of the city's population. Nearly half of this 1 million was born here. They are native New Yorkers. The median age of those born here is only 9 years. Their lives are ahead of them. The quality of their lives depends to a great extent upon governmental policy at the city, State and national levels.

For a better idea of how Puerto Ricans are being affected by the recession, let us backtrack to slightly better times. In 1972, 6 percent of all Americans were without jobs. The official unemployment rate for Puerto Ricans at that time was double * * * 12 percent. And, if we count the discouraged workers—those who lost hope and dropped out of the labor force—the trus jobless rate would be 33 percent * * * five times higher than the national average. So, if you wonder how unemployment is affecting Puerto Ricans today. I think it safe to say that it is affecting us five times as much as the general population.

As for income, 1974 census figures show that mainland Puerto Rican families earned a median of $7,600 per year. The figure for all U.S. families was $12,800.

In other words, for every dollar that most American families have for economic survival. Puerto Ricans must make do with less than 60 cents.

Back in 1959, Puerto Rican families were earning, about 67 percent of every dollar earned by families nationwide. So—despite the well-meaning, ambitious war on poverty program of the 1960's—Puerto Ricans have fallen behind.

Today, more than 32 percent of our families live in poverty, compared with 11 percent of all U.S. families. This means we are about three times poorer than the national average. Obviously, either figure—one in three, or one in nine—is a disgrace for a nation of our wealth and resources.

Of the 320,000 mainland Puerto Rican families, about 80,000—or one in four—has been forced to depend wholly, or partially, on welfare aid. Here I might interject, however, that our people resent being stereotyped as welfare seekers. We wonder why such stereotypes persist, when three-forths of our families survive solely on the basis of their hard-earned wages, and receive not 1 penny in welfare. If more jobs were available, this proportion would be still less.

Ever since the present recession, thousands of Puerto Ricans have return-migrated to Puerto Rico, where welfare payments are far lower than those in New York. As I have said on countless occasions, jobs—not welfare—are the magnet that attracts our people here, as has been the case for millions of newcomers from all over the world.

As for the 80,000 families who receive welfare, I wish to cite a few little-known statistics.

In a typical year, their welfare aid amounts to about $190 million. However, the nearly one-quarter of a million Puerto Rican families not on welfare earn more than $2 billion in a single year. And they pay more than $300 million in taxes to Government.

In short, it can be said that the Puerto Rican community is taking care of its own poorest members. I hope we will hear no more about Puerto Ricans draining the economy of this city.

Returning to the main topic, I think that I speak for the nearly 2 million Puerto Rican and other Hispanic peoples of this city when I say that full employment is the only humane policy the Government can pursue.

If Government is content with a 5 percent jobless figure for this Nation, that translates to 10 percent official unemployment for Puerto Ricans * * * and 25 percent unemployment if we count discouraged workers outside the labor force.

Some political leaders—and their economic advisers—most of whom live in comfortable suburbs—express concern that a policy of full employment will feed the fires of inflation. Yet today we have no jobs, and high inflation anyway. I say: let us give people jobs, so that they can enjoy the comparable luxury of worrying just about inflation.

Your own committee staff has made a lucid analysis of the underlying causes of New York City's crisis. I quote from your report:

> Employment opportunities have moved to suburban areas. . . . from 1970 to 1973, a period in which total employment grew 7.4 percent nationally, New York experienced a decline in total private sector employment of 6.2 percent.[1]

The plain fact is, since 1969, about half a million jobs have left New York City. Some have disappeared, and some have shifted to other areas. This is the basic problem in New York City.

Start a massive housing program for low- and middle-income families, and the workers on these construction sites will pump tax dollars into the city.

Open new industrial parks and offer incentives to investors in manufacturing. The thousands of persons employed in these factories will—with their tax dollars—help solve the city's budget crisis.

A policy of full employment will, without doubt, inflate the size of the economic pie. However, I must caution that it will not assure Puerto Ricans a fair share of that larger pie, unless parallel policies are implemented.

Many of our unemployed adults lack skills, or possess skills for jobs that have abandoned the city. They desperately need training, or re-training, if they are to compete in a full employment economy. Current funding for job training, such as the CETA program, is far below the level of real needs. And the Puerto Rican people of New York have not received their fair share of even the limited CETA funds allocated thus far.

Puerto Ricans represent more than one-fourth of the poor people in New York City. In fiscal 1974, about one-fourth of the Federal block grants for manpower training were directed at Puerto Rican and other Hispanic target populations. In fiscal 1975, under revenue sharing and the CETA program, we have lost ground. Now, only about 20 percent of the CETA funds are set aside for our people.

[1] Joint Economic Committee, Congress of the United States. New York City's Financial Crisis. An Evaluation of its Economic Impact and of Proposed Policy Solutions. November 3, 1975, p. 13.

In reality, we are receiving even less than that. Just recently we submitted a relatively modest proposal for a $7 million manpower training program. That program has been emasculated, down to a figure of about $1 million.

Many Puerto Rican mothers are tied to their homes by young children. Yet only about 30 of the 250 day care centers in the city serve our people. Provide more day care centers, in Hispanic areas, with Spanish-speaking personnel, and thousands of women will be free to enter the labor force, and contribute to the economy of their families, and of the city.

More than 80,000 Puerto Rican children in New York schools speak poor or limited English. Without proper bilingual instruction, many of them are lost, and drop out. The economic impact on them, and the community, is disastrous. It is penny-wise and pound foolish to abandon them now, and have to later pay the high social and economic cost of a drop-out population.

Today there are more than 16,000 Puerto Ricans in the city university of New York's tuition-free college system. These 16,000 students offer a slender ray of hope for the future.

They can be our teachers, our doctors, our economists, our engineers. CUNY has been the part of upward socio-economic mobility for hundreds of thousands of New Yorkers; leaders in government, in business, in the schools, in the arts.

Today, however, when Puerto Ricans and other minorities knock at CUNY's door, we find that the concept of a tuition-free university is being questioned. CUNY managed to remain free during the worst days of the Depression. It must remain free. If not, our community will be crippled. The end result will be a serious deterioration of the quality of life for all New Yorkers.

The parents and grandparents of virtually everyone in this room came to America by way of New York. Your ancestors first saw the Statue of Liberty from the deck of a ship. So did the earliest Puerto Rican migrants. In recent years, my people have seen its beacon of hope from the window of a jet plane. Times change. But people's needs and aspirations remain the same.

As I said before, others can speak more eloquently than I of the hopes and concerns of Puerto Ricans. I invite you to visit our employment offices any weekday, starting at 8 a.m. You will find men and women, young and middle-aged, many of whom embarked on long subway rides before sunrise. Ask them why they are there. I am sure they will respond: queremos trabajar * * * we want to work.

I thank you, and will gladly answer any questions.

Chairman HUMPHREY. We thank you for an excellent statement about the Puerto Rican community. I think it has been a statement of considerable educational value and information not only to this committee, but may I happily say, on public radio to hundreds of thousands of people that maybe are unacquainted with the problems that confront our Puerto Rican fellow citizens. We thank you.

Mr. Roblin, we welcome you. I know that Senator Javits was very interested in having your appearance here before our committee. We look to your testimony.

STATEMENT OF DANIEL A. ROBLIN, JR., CHAIRMAN OF THE BOARD, ROBLIN INDUSTRIES, INC., BUFFALO, N.Y.

Mr. ROBLIN. Thank you, Senator.

It appears that I represent a different point of view, not toward what we are attempting to accomplish, but the means to achieve the end.

In my prepared statement I described the management credo which was formulated by Roblin Industries in 1967, which states basically that we believe that business must exist for the benefit of society at large. I then refer to pressures that are applied to business which today prevent business from achieving the goals of this credo.

I state in answer to the question in Senator Humphrey's letter that the only way to achieve full employment in the context of reasonable price stability is to establish a policy which will recreate the incentive for private capital to be invested in the tools of productivity.

I indicate my support for the bill that was offered by Congressman Jack Kemp, the Job Creations Act. I believe the number is H.R. 10015, which bill, in my opinion, goes a long way in the proper direction.

I then refer to the six groups whose interests we believe are inextricably interwoven with those of the businessmen. One of these is labor. I would like to focus on the unique steps that are being taken in western New York by both labor and management to solve the mutual problems that exist.

For decades American corporations and labor unions have been involved in the process of collective bargaining. With only a few exceptions, thousands of contracts, wage agreements and fringe packages are settled every year. The process has reached an impressive level of sophistication. And with all its warts, most feel it to be satisfactory.

Within recent years both labor and management have come to realize that all of their problems cannot be reduced to contract language. To this end, a new movement has come to some of the communities in western New York in places like Jamestown, Chautauqua County, and Buffalo and Erie County. Labor and management have decided to work together to save their companies, their jobs and their communities. With the help of local government, managers and union leaders have agreed to sit down together and solve their noncontractual problems.

In Jamestown in 1971 a local labor-management committee was initiated by Mayor Stanley Lundeen. This committee has made an exciting change in the entire community. Under its guidance some 20 companies have formed plant level committees which meet on a regular basis. At these meetings issues of concern to both parties are discussed and plans to resolve them are developed.

Outside assistance to the staff of the community-wide committee is available when required. As a result, entire programs of leadership education for union stewards and first line supervisors have opened new lines of in-plant communications. Workers and managers have designed and implemented skill upgrading programs to protect the level of skill in their industries.

The innovation here is in the programed quality of work experiments. Projects that speak to the way of working, redesigning jobs and changing work patterns have led to higher levels of work satisfaction and marked reduction in tardiness and absenteeism. Other work related projects have led to improved productivity and generally improved performance by both labor and management.

The Jamestown Labor-Management Committee has opened a whole new alternative to industrial cooperation between workers and managers. Chautauqua County followed Jamestown in these new areas when it formed its labor-management committee called the New Economic Process. This county-wide program is designed to assist labor and management in both the private and public sectors. Its activities in the area of Dunkirk, N.Y. extend not only to industry, but also to government workers and the local agricultural businesses, to the tax-paying community and grape farmers and processors of grape products who are exploring new ways to cooperate.

More recently in the Buffalo and Erie County area, members of labor and management have come together to begin working on the economic problems that face that community. In Buffalo we are not quite as far along as the Jamestown and Dunkirk programs. But we have established a labor-management relations committee and are in the process of hiring its staff. It will function in a manner similar to the Jamestown experience that has been so successful.

The concept has been enthusiastically received by both labor and management. As evidenced by these three places—Jamestown, Chautauqua County and Erie County—they have recognized the need to cooperate on all matters that jointly affect them. They have stretched the boundaries of traditional collective bargaining and entered a new era of cooperation. I believe that labor and management can work together for the common good. And the Jamestown experiment is applicable on a national basis.

In closing, let me reiterate full employment and economic well-being can only result from the joint efforts of all facets of our society. It cannot be achieved by depleting any one segment and certainly not by depleting the capital available for investment in productive tools or by removing the incentive of the business community to make such investment. Thank you.

[The prepared statement, with an attachment, of Mr. Roblin follows:]

PREPARED STATEMENT OF DANIEL A. ROBLIN, JR.

Gentlemen: In January 1967 the management of my company developed a management "credo". I have appended it in its entirety. In it we state that we believe the objectives of the management group to be twofold:

1. to achieve a continuing increase in the earnings of each share of the corporate stock; and
2. to distribute the resulting benefits equitably to six groups of people.

The six groups for whose eventual benefit all corporate decisions should be made are:

1. The shareholders who supply the funds for the plants, tools and other means of production the company needs to operate and who look to the company for dividends and capital appreciation;
2. The employees who provide the effort and skill to produce the company's products and who depend upon the company for their livelihood;

3. The suppliers who provide the company's raw material and who look to the company for a profitable market for their products;
4. The customers whose continuing patronage is necessary to sustain corporate life;
5. The communities which provide an environment for enterprise and for the lives of all the corporation's members;
6. The management group charged with the decisions involving all six groups.

I believe in this "credo". Today—November 1975—the businessman is buffeted on all sides by hostile forces which make it increasingly difficult for him to achieve the objectives expressed by the "credo".

Environmentalists pressure him to invest his capital in non-productive assets.

Consumerists pressure him to make unnecessary expenditures.

Minorities pressure him to create new jobs and to hire unskilled workers.

Labor unions pressure him for work rules which require him to use more people than are necessary to do the job.

The women's movement pressures him to redesign jobs so that women can fill them often at the sacrifice of efficiency.

Developing nations for cartels to pressure him to pay more for his raw materials.

Free traders pressure him to compete on equal terms with products produced in foreign countries with cheaper labor, in modern plants often built with American money and American technology. In addition, these products frequently are subsidized by these foreign governments.

As there are more environmentalists, consumers, members of minorities, workers, women and free traders who vote than businessmen, legislation is passed which puts the force of law behind these pressures.

This, in turn, adds to the cost of doing business which must either be passed on in the form of price increases for which the businessman is then villified or the result is a lack of profits to reinvest in productive equipment. Investment in productive equipment is the only means of increasing man's material well being.

Many aspects of these newly legislated programs are worthwhile and are consistent with the concept that business should exist for the benefit of society at large. However, the cost of cleaner environment, pure air and water, safer products, the training and employment of minorities, higher wages, fringe benefits and pensions for workers, women in the work force, subsidization of developing nations and free trade ultimately must be paid for by all of the people either in the form of higher taxes or thru higher prices. It has been the game plan in recent years to have business bear the cost of these benefits alone.

Consequently, we've arrived at the point in our economic life where the businessman in general either does not have the money to invest in productive equipment or is not able to raise it thru the sale of equity or cannot borrow it. In those instances when he has the money or would be able to borrow it, he is often unwilling to take the investment risk.

In order to promote an economic climate that will allow the business community to accept the positive aspects of the programs I have referred to, while at the same time achieving full employment in the context of reasonable price stability, I say "establish a policy which will recreate the incentive for private capital to be invested in the tools of production."

My Congressman, Representative Jack Kemp has authored HR 10015 entitled "The Jobs Creation Act", which goes a long way in this direction.

At the outset, I have referred to six groups whose interests are inextricably interwoven with those of the businessman. One of these is labor. Let us focus on the unique steps that are being taken in Western New York by both labor and management towards rapprochement.

For decades American corporations and labor unions have been involved in the process of collective bargaining. With only a few exceptions, thousands of contracts, wage agreements and fringe packages are settled every year. The process has reached an impressive level of sophistication and with all its warts, most feel it to be satisfactory.

Within recent years both labor and management have come to realize that all of their problems cannot be reduced to contract language. Indeed, the most recent recession has made it clear that labor and management are companions in the larger economic picture. Their goals become common goals as they struggle to survive in an unstable economy. Foreign competition, inflation, declining capital investment and burdensome taxation, all contribute to the common needs of labor and management. The loss of jobs and plant closings in many communities have also made it clear that labor and management must work together.

To these ends, a new movement has come to some of the communities of Western New York. In places like Jamestown, Chautauqua County and Buffalo and Erie County, labor and management have decided to work together to save their companies, jobs and communities. With the help of local governments, managers and union leaders have agreed to sit down together and solve their non-contractual problems.

In Jamestown, in 1971, a local labor-management committee was initiated by Mayor Stanley Lundene. This committee has made an exciting change in the entire community. Under its aegis and with its guidance some twenty companies have formed plant level committees of management and union representatives which meet on a regular basis. At these meetings issues of concern to both parties are discussed and plans to resolve them are developed. Outside assistance from the staff of the community committee is available when required. As a result entire programs of leadership education for union stewards and first line supervisors have opened new lines of in-plant communications; workers and managers have designed and implemented skill upgrading programs to protect the level of craftsmanship in their industries; union leaders and company presidents have studied, planned and programmed quality of work experiments. Projects to change the way of working, re-designing jobs and changing work patterns have led to higher levels of work satisfaction with marked reductions in tardiness and absenteeism. Other quality of work projects have led to cost reduction schemes on scrap reductions, and machine maintenance. The Jamestown Labor-Management Committee has opened whole new alternatives to industrial cooperation between workers and managers.

Chautauqua County followed Jamestown into these new areas of labor-management cooperation when it formed its labor-management committee—THE NEW ECONOMIC PROCESS—this past summer. This county-wide program is designed to assist labor and management in both the private and public sectors.

Its activities in the area of Dunkirk, New York extend not only to industry, but also to government workers and the local agricultural community. Government workers have formed committees which will work to improve the services they deliver to the taxpaying community. Grape farmers and processors of grape products are exploring new ways to cooperate.

More recently in the Buffalo and Erie County area, members of labor and management have come together to form a committee to begin working on the economic problems that face the community. We are not as far along as Jamestown and Dunkirk, but we have established a Buffalo and Erie County Labor-Management Committee and are in the process of staffing it. It will function in a manner similar to the Jamestown experience that has been so successful. The concept has been enthusiastically received by all segments of the Buffalo community.

Mr. Chairman, the labor-management community of Western New York as evidenced by these three places—Jamestown, Chautauqua County and Erie County—have recognized the need to cooperate on all matters that jointly affect them. They have stretched the boundaries of traditional bargaining and entered a new age of cooperation. Their intent is to improve productivity and thereby increase the security of labor and, in so doing, strengthen and stabilize their local communities.

Full employment and economic well being can only result from the joint effort of all facets of our society. It cannot be achieved by depressing any one segment and certainly not by depleting the capital available for the investment in productive tools nor by removing the incentive for the business community to make such investment.

Attachment.

A Management Credo

Developed by the Management of Roblin Industries, Inc.

We believe a publicly owned corporation today is the sum of the people who comprise it, who depend upon it, and who benefit from its activities. We see these people as six distinct groups linked by a common interest in the corporation, six groups for whose eventual benefit all corporate decisions should be made:

1. The shareholders who supply the funds for the plants, tools, and other means of production the company needs to operate and who look to the company for dividends and capital appreciation;

2. The employees who provide the effort and skill to produce the company's products and who depend upon the company for their livelihood;

3. The suppliers who provide the company's raw material and who look to the company for a profitable market for their products;

4. The customers whose continuing patronage is necessary to sustain corporate life;

5. The communities which provide an environment for enterprise and for the lives of all the corporation's members;

6. The management group charged with the decisions involving all six groups.

We believe the singular difference between management's responsibility today and that responsibility as it was defined in the past arises from the fact and the recognition of the fact that these six groups depend heavily on one another—they must all advance together if any one of them is to prosper.

We believe, therefore, a publicly owned corporation can achieve its fullest potential today only if management recognizes its responsibility to maintain a balance in furthering the interests of all these groups. We believe the management group resisting special pressures from any one group—including itself—must further the good of all six. At times, an action may seem to serve the greater good of one group without benefiting the others. In the long run, however, even the group which gets the temporary advantage suffers if an imbalance develops.

We believe the basic and inescapable measure of these benefits for all six is a continuing increase in the earnings of each share of the company's stock. No other result will consistently insure the company's future growth, sustain investor confidence, bring stability of employment and higher payrolls, improve the business of both suppliers and customers, permit greater community support, and reflect credit upon the management group.

We believe the objectives of the management group must therefore be twofold: 1. to achieve a continuing increase in the earnings of each share of the corporate stock, and 2. to distribute the resulting benefits equitably to all groups.

We believe the management group will best achieve these objectives by adhering to five principles for action:

1. Follow at all times a strict moral and ehtical code of business conduct.

2. Direct the day-to-day affairs of the corporation with imagination, ingenuity and inventiveness.

3. Understand and apply, in long-term planning, the basic principles of economics.

4. Be willing to take prudently calculated risks.

5. Recognize the need for flexibility in an everchanging environment; have the courage to move in new directions when the common good indicates them.

ROBLIN INDUSTRIES, INC.

JANUARY 1, 1967.

Chairman HUMPHREY. Thank you very much, Mr. Roblin. We have heard from the five witnesses and we will take a little time now for some questioning of the witnesses.

I would like to say first of all to you, Mr. Gotbaum, that we do appreciate your elucidation of some of the human tragedies that you have encountered on talking with and seeing and visiting with the unemployed and sensing just what happens to the lives of these people. Your description of CETA, on the one hand, of 16,000 jobs coming in and 35,000 jobs going out, I think is indicative of the paradox of our time. It is an ironical situation. On the one hand the Government spends millions of dollars under the CETA program, and if you have 16,000 here in the CETA program, that is a very substantial Federal Government investment. That same Government and the same policy of Government calls upon the city to lay off 35,000 people, people who were already in jobs, knew their work, were fulfilling their responsibilities, at least most of them I am sure were.

You end up with a net loss of 19.000 even though the Government says it has a program. Your description of this contradictory paradoxical situation is why we are reviewing the employment policies or the reemployment policies that the Federal Government undertakes. Because we sense these conflicts and we also sense the senselessness of some of the things that are happening.

You expressed a great concern about the Secretary of the Treasury being on any kind of a board of directors, so to speak, for averting the fault of a municipality. I can well understand why you would express that concern in light of what Mr. Simon has had to say.

What would you think of a board that consisted of one person appointed by the President, exclusive of the cabinet, one appointed by the Speaker of the House of Representatives, and one by the Majority Leader of the U.S. Senate?

Mr. GOTBAUM. Mr. Chairman, I am against any board, and let me explain why I am against any board.

When the Penn Central goes down or Lockheed goes down or New York City goes down, when you ask for the guarantee of a loan you have a right—and I have no quarrel with you, Senator—to insist upon fiscal responsibility, fiscal plans and a right to audit those plans.

Incredibly, what has happened to New York is there has been a dilution of authority that is most demeaning. We have a mayor who is no longer mayor. We have an emergency finance board that nobody can define. You are now going to send from the Federal Government another board.

I would much rather you insist upon fiscal responsibility and certain standards. I have no quarrel with that. You have a right to do this and a responsibility to do this if you give us guarantees.

But our members are absolutely nonplussed by what is going on. We have contracts that are undefined. We have contracts more than a year old—Brother Shanker who was here before doesn't even know whether he has a contract, but he doesn't know with whom to consummate that contract. This city needs authority, not another panel. This city needs fiscal responsibility, and we don't argue with you.

While I am against William Simon and can make some cookie points on this, I must say to you that those of you who believe in local autonomy, and my understanding is that Republican conservatives demand that more than Democratic liberals, but those that insist on that certainly defy your ideals and now insist that you can no longer have local autonomy, and we will send "Big Brother" to watch you.

Finally, I must get a dig on Simon because I am very concerned with his priorities. You have to remember what they are. Children are not a priority. The poor are not a priority. The sick are not a priority. The hungry are not a priority.

Sir, punish me. But don't send me this man.

Chairman HUMPHREY. I wish that you could speak to the whole Congress. That is one of the unfortunate parts of these hearings. As I said to our colleague here, Senator Javits, I wish that the entire Congress could have heard what we have heard here today.

I want to get clarification of what you have in mind and I appreciate very much what you said. The imposition of standards of responsibility you feel would be right and proper, and it would be right and proper if the Federal Government were to give a loan or a guarantee. But would you like to have the responsibility placed at the local level to fulfill that responsibility?

Mr. GOTBAUM. Which is a conservative dictum with which I agree.

Chairman HUMPHREY. Yes. I had a proposal in one piece of legislation where we hold the State and local government responsible for fiscal responsibility for the fiscal arrangements and, if they didn't fulfill it, they would lose their revenue sharing. That has discipline to it, I will guarantee you, because the Federal revenue sharing is a matter of the right of Congress to share the revenues or whatever incomes the Government can get with the local and State government.

But the city is the creature of the State under the form of government that we have and under your State law, and the State ultimately has responsibility for its creations and its creatures, so to speak. It appears that if we would hold the State accountable under the standards that might be set under Federal legislation, we would not be violating what you would call the local autonomy or State and local government responsibilities. Would you agree with that?

Mr. GOTBAUM. Yes. I would agree with that.

Senator JAVITS. If the Chair would yield on exactly this point for a moment.

It seems to me that one thing has emerged at this hearing today that somehow or another has not broken through until today. That is that the mayor, the Governor, we, would be perfectly content with the fact that the relationship on the guarantee be between the United States and the State, not the city; that the State be the obligor. That seems to be satisfactory. We are a Union of States. Therefore, it seems to be very logical. That would deal with many of the problems which have been raised by you gentlemen and others testifying.

Chairman HUMPHREY. I think that is very helpful to us. I am convinced that some of the dimensions of this problem, while we have lots of testimony in Washington, the dimensions of it have not been quite as detailed and elaborate as we have heard here today.

Mr. Harrington, we are just trying to limit ourselves to time here. You have spoken of the Humphrey-Hawkins bill and some of the suggestions you made I think are very appropriate. You may be interested in knowing that, in light of the recent increase in the wholesale price index which triggered real deep concern on the part of many of us here again, that I have asked in the name of the committee that we make an intensive investigation of the administered price structure of corporate pricing. There is no reason at all, that one can point to, that the prices should be rising as rapidly as they have in these last 3 months. The annual rate of increase is about 13.8 for the last 3 months.

If you take the month of October alone, I believe it would be about 20 percent on an annual rate. But I think any one rate is not really a sound basis.

But during that period of time there were no substantial wage increases. I think it ought to be known that the United States of America is the only country in the world in which free labor movement has had wage increases that were less than the rate of inflation. That again is not known very well in the general public.

It appears to me that we need to take a good look at our bill here, this piece of legislation. As I said, it was but a beginning. I think that there are areas in which public employment is as vital as any private employment. There isn't any doubt about that at all. It ought not to be classified as employment of the last resort.

Surely school teachers are public employees. Sometimes even teachers forget that, and sometimes the public forgets it. But they are in a very real sense civil servants. They are public employees. Just as a firefighter or a policeman or a public health officer. These are public employees and they are not of the last resort. They are a vital segment of the employment situation. I can't imagine what the automobile industry would do without traffic officers.

We welcome these suggestions and I am going to ask you, in my time, to give us any further documentation that you might wish to on your evaluation of the legislation that you have talked about here in a letter or communication, or we can also have you down as a witness later on, which we will do if you wish.

Mr. Gross, you referred to the Wall Street Journal article. I remember the editorial called it obsolete economics.

Mr. GROSS. Senator Humphrey's obsolete economics.

Chairman HUMPHREY. That is right. I don't think my economics really is up to date. I will be honest with you. But I have caught up to the 1930's. I am, at least, in the 20th Century. There are some that are still scrambling out on the first year of the Centennial, not the Bicentennial.

You may note that I get the Wall Street Journal, and I read it every morning, and I consider it one of the better publications of our country. Its editorial columns are obviously open to their editors.

But I don't believe the whole problem is Senator Humphrey's obsolete economics. I think that is part of the problem. I want to be honest with you. I think most of us need to do a lot of learning. I think there is a tremendous amount that we don't know and much more that we need to understand because of the great changes that have taken place in this economy since World War II.

This economy has gone through a veritable scientific, economic, and fiscal revolution. I never heard of a multinational when I went to college. I spent 7 years in universities and a good deal in the field of economics. We never heard of multinational.

Mr. GROSS. They called it Standard Oil, sir.

Chairman HUMPHREY. That is right. The word "conglomerate" was heard of by no one.

In all honesty, the scale of economic activity, the size of it, the mergers that have taken place actually many times under the impetus of Federal tax laws as almost a Federal policy on the one hand to promote merger and monopoly, and on the other hand the Sherman Antitrust, which no one really knows whether these are the tools which we really need to face this situation.

So I confess to some obsolescence in economics because I don't think I am quite up to date. However, some people haven't even caught up with the past.

On D-day for emergency jobs legislation, I might say that Senator Javits is giving a great deal of time and attention to this matter, as I am and others are. There are many others in Congress.

Our problem, Mr. Gross, in the Congress is that there is a failure to have a sense of urgency. We are down there in Washington where we are enjoying, behind the closed doors and those walls, even though we have opened them now with sunshine laws, sort of just arguing the theoretical aspects of it, the give-and-take, as if it's all comfortable.

I still say maybe we ought to be compelled to take our legislative deliberations into an employment office.

Mr. GROSS. May I make a comment on your recent statement about a sense of urgency? I was an aide of Senator Wagner when the first attacks were made on the full employment bill. I remember him looking around and saying, "Is there anybody here who wants to speak for the people?"

I think there is a lack of sense of representation. This means that this is not a pure economic problem, Senator Humphrey. This is a political problem: Who is represented by whom?

Chairman HUMPHREY. Well, Mr. Gross, my time is up. I simply want to say this. Unless a public official goes out of his way to find the people that are the victims of what we are talking about, these misguided policies, he tends to find himself in very comfortable surroundings. That is the truth. I have been in public life a long time and committed many transgressions. But I know that the easy thing that happens to you is that you find the comfortable surroundings of your friends and you tend to find friends in your own economic and social class. This is inevitable. Not just for public officials, either.

The real tough job is to reach out, go on out there and see these people who really do need a food stamp, or who haven't had a job. This is hard to do. It is not comfortable work.

The greatest experience of my life was during the time I served as Vice President. They told me there isn't much to do, but I found enough to do. I went into every one of the ghetto areas in the country, frequently with my wife. I was told by the police in all circumstances that it was dangerous, they couldn't guarantee my safety.

I remember going into the Huff area in Cleveland on one Sunday. Mayor Stokes of that community told me that no white man had gone in there in recent months and he could not guarantee my safety. Mrs. Humphrey and I went from porch to porch and from house to house to talk to these people.

I remember going into the Lawndale section in Chicago.

I remember in 1972 going into west Philadelphia when I was advised by the police and the Secret Service not to go into Lawndale or not to go into west Philadelphia, that it would be unsafe.

And a black man came up to me and said this: "Senator, you don't need to be afraid here." He said, "We trust you."

I said, "You have done more for your people in those few words as far as I am concerned than all of the politicians and political pressure groups put together."

Because when they trust you, you have to deliver. I think this is really one of our problems. Sometimes, because we are very busy people, we don't see the full picture.

I have heard my colleague here to my right describe the conditions in New York, because I know he has been with these people. And New York is far different than St. Paul or Minneapolis or the little town of Waverly, Minn. that I live in. You would be interested to know, however, that the economic level of the community I live in is not high at all. It is much lower than some of the figures you are talking about here.

Our OEO office, where I go to take clothes and things for people just before Christmas, you would be surprised at the people that come in there that need shoes, that never had their teeth fixed, that need a pair of glasses, who never had glasses, that need a shirt, that need something for their kitchen. It is the hidden poverty of rural America. The unemployment in rural American is almost worse than the visible poverty of urban America.

Enough of this. I just thought I would let you know that we are not unaware of these problems.

Senator JAVITS. Mr. Chairman, I would like to offer for the record something which I should have done in the opening, to be included at the conclusion of the testimony of the Governor. It is a newsletter of the industrial commissioner of the State of New York, Louis Levine, who sat in with the Governor when he testified, which shows the precipitous unbelievable drop in employment and the resulting unemployment in the State with the latest figures which we have. It covers not only the city of New York, but covers also every industrial area of the State, including the area Mr. Roblin testified to.[1]

Mr. Chairman, I would like first to ask Mr. Roblin. The labor-management techniques that you have described, which are very congenial to me because I quess I enabled Mayor Beame to get started, represent the classic technique we used in World War II when we had 5,000 labor-management counselors. Isn't that so?

Mr. ROBLIN. That is right.

Senator JAVITS. Also, do you find as an employer any interference with the collective bargaining activities of your own concern and the unions or in the communities generally in which these labor-management counsels function?

Mr. ROBLIN. No. The process is strictly outside of the general collective bargaining process.

Senator JAVITS. In addition, do you find any resentment by the union members at the improvements in productivity which result from the activity?

Mr. ROBLIN. No. Because it requires the cooperation of the union leaders. I think you will find that the union leaders don't cooperate unless their members support the activity they are engaged in.

---

[1] For full text of newsletter, see p. 16.

Senator JAVITS. Mr. Torregrosa, we are very sympathetic to the problems of the Puerto Rican community.

What is your estimate of the time when the Pureto Rican community can be fully digested in a city like New York City? Bearing in mind that one of my parents came from a city in Israel in the 1880's and the other from what was then the Austro-Hungarian Empire. They had all the deficiencies of immigrants and produced a son who is a United States Senator and another son who was a very distinguished lawyer and economist, all within one generation. How do you feel about that?

Mr. TORREGROSA. First of all, Senator, I don't like the term digested.

Senator JAVITS. Ingested.

Mr. TORREGROSA. Ours is a quite different type of immigration. We are, I hope, in a more liberal framework in which—Mr. Harrington here can bear witness to this—the so-called melting pot concept is reputed right now.

The dynamics of the situation which bring so many ethnic groups which are not easily ingested I think requires that we look at the problem in a different way. I think our people came in great numbers, have settled in areas in which the process of assimilation is a lot harder to achieve.

I really wouldn't know, since I am not an anthropologist, whether eventually the full ingestion will take place. I hope some sort of an accommodation like, let's say, they have in Switzerland in which culture and backgrounds are respected and people are allowed to live quite efficiently, will be achieved here.

In a sense, life for a Puerto Rican is something like a beachhead for what is coming right now, which is the penetration of Latin America and North America. When I go through New York City, and I have only been here for a year and a half, I am amazed at the many Spanish-Americans I find, which means that New York is some sort of a gateway to our brothers from the south.

This is in the future of not only New York, but probably all of North America. I wouldn't be surprised if eventually we will have here a bilingual nation, as is usual in Europe, let's say.

Senator JAVITS. I thoroughly agree with you about the bilingual nation. I am the author, with Robert Kennedy, of the measure which gave the Puerto Rican-Spanish-speaking group the opportunity to vote, for that reason. I remain bilingual to this day.

I was not talking about assimilation at all. I was talking only of the economic aspect and I am sorry you got the impression that I was doing anything else.

But I am appalled by the proportion of those that are here on welfare. You yourself have given us the figure, 1 in 4. That is what I was talking about when asking for an estimate.

I will state to you my view. I just hope that you may have something of a parallel idea to give to us.

I believe that economically the situation is very parallel, and that we are in, at the most, in my judgment, a 10-year stretch when those who have come here, who have stretched our resources so heavily, and they include Southern Blacks, because of the need to learn skills, to get oriented to an industrial framework, et cetera. I think we are within 10 years of again having a very ardently working tax-paying population. For the long term I am very optimistic about New York, for that reason. I don't consider that our welfare load is a permanent proposition or anything like that. I think we will find a totally new vein of highly productive citizens.

Just for 2 or 3 minutes, I would like to turn to Mr. Gotbaum, if I may.

Did you happen to hear, by any chance, Mr. Gotbaum, Albert Shanker's understanding of the posture that he wanted the labor unions to have respecting any rescue legislation that was passed by the Congress in light of George Meany's statement that they were against the bills because they intepreted them as mandating some kind of readjustment in pension and perhaps other things in the labor contract. Did you happen to hear that?

Mr. GOTBAUM. We have a pretty good staff and they briefed me on it.

Senator JAVITS. The reason I asked you about it is because Senator Humphrey and I will ask George Meany whether or not the Shanker concept is the right one.

As I understand it, and please correct me if I am wrong, the unions aren't clanging the door shut on negotiations. They just want it understood that their contracts are just as inviolate as any other contract the city has with its bond holders or its merchandise creditors and they are not going to be wiped out because you happen to be the fellows they are trying to get a handle on.

Mr. GOTBAUM. You talk of peculiar paradoxes. I have never been in one as deafening as this. I agree with Brother Shanker on it.

The union has negotiated away almost $200 million in benefits. Talk to a labor leader about this. We did this on the principal that as long as you negotiate with us to save the livelihoods of our members, we were willing to make a sacrifice. We are not talking about some of the other areas. We were willing to sacrifice and willing to negotiate away as long as that democratic process of collective bargaining stays alive. I find myself in a peculiar position with regard to that.

Another peculiar position has been visited upon all of us. It is overwhelming. I love my profession. I love to bargain, I love representing people. I find myself in the crazy position of having to apologize for bringing benefits to lower economic workers. What a hell of a position. I have to apologize for raising the wages of clerks and hospital workers from $8,800 to $9,200 a year. I am sickened by this, people living in the city of New York making $8,800 to $9,200. And I find myself in front of a House subcommittee saying that this is the wages we got, they are $200 below the minimal standard of living.

I have to apologize for negotiating a contract where the worker retires at $4,100 a year on pension. What sort of a society is that that forces me to demean myself in terms of the people I represent?

Then I am here saying more and more to you that to save livelihoods and save jobs the people we represent are willing to sacrifice. When the hell am I going to hear from the banks, Senator? When are we going to get that from the rest of the community? When am I going to hear it from commuters making $28,000 a year?

I am saying this to you. Despite all, I agree with Brother Shanker. We will sit at the table to save the livelihoods, the jobs, of the people we represent, and to keep New York from chaos. But is it a rhetorical question to ask of everybody, instead of bumwording workers making $8,800, retiring at $4,100, is it a rhetorical question to ask where the hell is the rest of society?

Senator JAVITS. It is not rhetorical at all. I will respond to you.

It will be our unbounded duty to see, if there is sacrifice, that it will be proportionately equal—not equal, but proportionately equal. I assure you there are a number of Senators and they are here, in addition, who feel very strongly on that subject.

I would like to thank Michael Harrington and Mr. Gross. I may not agree with your ideology, but I value the tension it creates. It is up to us to prove our case.

Chairman HUMPHREY. Mr. Gotbaum, what is the highest wage you negotiate for your workers?

Mr. GOTBAUM. We also have in the city workers making as high as $22,000 or $23,000. In other words, these are supervisors, borough foremen.

In terms of the overall average, it is $9,200; 60,000 of them are in the $5,000 to $8,800 class of which, for a family of four, as you know, Senator, is below, I repeat, below the minimum standard of living.

Chairman HUMPHREY. We have a lot of people working in Congress in the offices and in committees that make more than $22,000. Senators make considerably more than that.

I think it is important that we get the detail you have had here. It is spread out across this country that somehow or another everybody is on the take and on the make. You have made a very good case. I don't know how many people were at that subcommittee that you spoke to, but I hope there were a lot of them.

Mr. GOTBAUM. We have those statistics, too.

Senator TAFT. Mr. Gotbaum, I would like to say that I do think it important that those figures be understood. They are not understood throughout the country. I know in my constituency they think there are inordinately high salaries being made.

Mr. GOTBAUM. It's rather fascinating, because when you come down to the human being, when you come down to the person—I was asked by NBC Television to come up with a clerical worker or hospital worker who was living on his own income. Senator, we couldn't find one. He either had two jobs or his or her spouse was working. That is how bad it is. You couldn't live on it. We couldn't find one worker who didn't have at least two jobs or the spouse was working. They couldn't make it in New York.

Senator TAFT. While you are on that subject which you prepared this morning in answer to my question, you did reply in part to the noncontributory pension plan, the problem of public opinion nationally that is raised about that. Would you comment on that? There is an opinion in the country I think that noncontributory pension plans that exist here in New York do represent something that doesn't exist in other parts of the country.

Mr. GOTBAUM. First, I am not going to apologize for it. It is a contributory pension plan. We contribute on the average of $300 million a year right now. This is out of the workers' allocation. I say with terrible sadness that how it worked out was by gyration. The lower economic worker, believe it or not, contributes a higher percentage than the higher income worker. For this I should be castigated and we should change that.

In some areas it isn't contributory. But our workers right now contribute on the basis of 2½ percent.

The reason I say I don't want to apologize for it is because there is a trade union belief, a strong trade union belief that the management takes care of the obsolescence of machinery and pays full cost for that; and when the worker retires they should take care of him.

Finally, if I may, let me conclude with a point, because the expertise in this area is terribly deficient. I told this to the House subcommittee. I hate to be caustic about it.

When we were punished by Nelson Rockefeller and our pension was refused because it was too costly, we were and still are contributing anywhere from 2½ to 6½ percent on that pension. It still exists.

State workers are not contributory. State workers. They are not here now, they don't have to apologize. It's not contributory. Under the administration of Nelson Rockefeller, the costs of their pension are higher than the costs of the pensions we have. Simple statistics.

The State pension, which is noncontributory and was noncontributory under Nelson Rockefeller, is more costly than our pension, which is contributory.

Let me finally conclude that I am not bragging about this, sir. I am ashamed of it.

Senator TAFT. Mr. Gross, I asked this question this morning of the bankers and I didn't really seem to get any answer.

Do you think we should pass a bankruptcy bill regardless of what we do so far as the guarantee bill is concerned? Should there be a bankruptcy procedure set up? What do you think it would do to financing?

Mr. GROSS. I think it would be more important, whether Mr. Simon gets another job or not out of it, to pass legislation that would set up for municipal bonds what the Congress set up many years ago for the bank deposits under the Federal Deposit Insurance Corporation, under the Federal Housing Administration, an insurance system on municipal bonds.

I am not as well versed on bankruptcy legislation as I am on some of the national economic matters. My impression is that the municipal bond market is in as much need of the thorough kind of reorganization that Michael Harrington referred to as the home mortgage market was before 1934 when the Congress enacted the Federal housing legislation and, at the same time, the Federal Deposit Insurance.

From this point of view, without indulging in personalities, which I don't like to do—and it rather regrettably happened at this hearing—I would like to say that Mr. Simon would probably be qualified to be kicked upstairs to become the staff employee of the Federal Municipal Bond Insurance Corporation, because this is where he had his experience.

Senator TAFT. I mentioned this morning, too, and I think we got into a disagreement on it. I think some additional disclosure along the lines of the Eagleton bill might be helpful, too. I think that would automatically follow from what you are suggesting.

Mr. GROSS. Are you saying that the city budgets be comprehensible?

Senator TAFT. Yes.

Mr. GROSS. I agree with you completely.

Senator TAFT. Incidentally, in that regard, you made some mention of the city of Cleveland, which I represent as a Senator from the State. Cleveland, I think, does not deserve to be castigated. Quite the other way around. From our figures, without any tax increase, they faced the crises they have faced. The mayor, who was just reelected, cut back spending by 7 percent. We have a lot of problems in Cleveland, don't think we haven't. I know what they are. I think the full employment approach to the employment situation is a disaster there, as it is here. We simply have got to do something about it.

Mr. GROSS. I was referring, Senator, to the employment situation in Cleveland as well as Minneapolis and Pittsburgh and Chicago.

Senator TAFT. I would like to make just one other comment. If the witnesses want to comment, I would be glad to have them.

Perhaps it is more in the area we were talking about this morning. The New York City University. There have been many comments that it provides great opportunity. It has done so for many who otherwise wouldn't have gotten a higher education. I certainly agree with that.

But that doesn't mean that those who are able to pay shouldn't pay. I think what it means is we should have a scholarship and a loan and grant system to enable anyone who is able to qualify for a college education to go out and get it regardless of their economic circumstances. But I don't regard that as an issue involved so far as the University is concerned.

Chairman HUMPHREY. Thank you.

I believe that we did have some information this morning on the stipends. I think we should get that. We are trying to really dissolve some of the mythology that is gathered around the New York City situation here. If we can get that information, I will ask members of the staff here to probe that a little deeper so we gain that kind of information.

Mr. Roblin, just one question that I would like to put to you. We are keeping you here a little longer than we had anticipated.

I find myself, of course, in much agreement with the concept you have with your labor-management committees as long as they do not interfere with the legitimate process of collective bargaining. We discussed this a great deal and Senator Javits mentioned it repeatedly.

Senator JAVITS. May the record show that we have just passed a bill for a productivity center and value of work I think it is called—quality of work. But the appropriation is very small. It does not accommodate a national network of labor-management productivity centers or labor-management centers. But the authority is there. We have to beef it up with more resources.

Mr. ROBLIN. I am not recommending that the Government appropriate money for this purpose. I think the encouragement of the citizens throughout the various industrial communities throughout the country should be sufficient to get the program started.

Chairman HUMPHREY. I commend the initiative that has been taken here in western New York in the areas you have mentioned, Mr. Roblin. But again, what bothers me is that there is a large number of people that just haven't any place to go. They don't have any jobs. What is happening is we are beginning to adjust ourselves to an ever-increasing higher figure on what we call acceptable unemployment. I, of course, cannot agree that there is an acceptable level of unemployment. I recognize there is a transitional unemployment, however. In a society such as ours there are times when people are changing jobs or technological changes are taking place. Obviously you don't have 150 percent employment, even though, like in the Federal Republic of Germany, they imported a million or so workers above and beyond what the work force of Germany could provide and, even so, they were able to fight inflation.

I have never been able to buy that a high unemployment rate triggered depression. Without controls, one of the most industrialized countries outside of the States, Japan, had zero unemployment, had a rate of inflation half of ours and a currency twice as strong.

So without arguing the academics of it, I don't have to, there is a prime example of hard-working people in a capitalistic country—although there is some socialism involved with it, I am sure.

How long does a country tolerate 6, 7, 8, 9, percent official unemployment and, more honestly, 9, 10, 11, 12 percent unemployment?

Mr. ROBLIN. This is the reason we are all here. I have no immediate answer for decreasing unemployment from 9 percent to what would be an acceptable level of 2 to 3 percent within the immediate future.

I am recommending a program which I feel hopefully eliminates the swinging of the pendulum and the next time we come to this cycle, which is bound to happen some time in the future again.

Chairman HUMPHREY. We are grateful for any kind of expression that helps. What I am trying to get at is I don't even believe that people are asking for an immediate answer. I think they want to know what is the hope line. If they see hope, people begin to see that this is going to come down. Then they can tolerate it longer.

If you would like me to go into the details of Congressman Kemp's Job Creation Act, I think this is a specific recommendation that, over a period of between 1 and 3 years, will generate a lot of employment.

I want to thank each and every witness. You have been helpful, frank and provocative. Thank you very much.

The next segment of our testimony is related to persons who asked to be heard if we were able to provide the time on this day. We want to hear as many as possible.

What I am going to ask is that the witnesses or the persons that are here that wish to give statements, that they give their names to us, and I believe they are listed here before me, and would they please come to that microphone. It is adjustable. I will have a member of the staff make sure that is adjusted for each witness. Any prepared statement that you have beyond a brief summary will be included in its full context in the record.

The first spokesman is Frank Riessman. He will be followed by State Senator Jeremiah Bloom of Brooklyn.

Mr. Riessman.

STATEMENT OF FRANK RIESSMAN, PROFESSOR OF EDUCATION, QUEENS COLLEGE

Mr. Riessman. I will be very brief. I have a prepared statement which you can read.

I think one of the most crucial things to recognize that we haven't given sufficient attention to is the effect of the unemployment on the mental health of our people in New York City and in the United States. There is now increasing evidence that unemployment is sharply related to suicide, homicide, impotence, depression and a whole series of mental health behaviors. I think this is a very crucial dimension which we haven't dealt with.

How can we think of bringing people out of mental institutions back into the community, which is a big trend in our society, if what they go back to is no job? How can we think of rehabilitating former drug addicts if there are no jobs for them? That is just very basic dimension.

Another dimension it seems to me ignored is that there is an enormous amount of money in society which is going into military expenditure, a 100 billion a year, which is highly inflationary and is not income-producing and is tax robbing. These are two dimensions that I think have been overlooked. I promised to be brief. Thank you very much.

[The prepared statement of Mr. Riessman follows:]

Prepared Statement of Frank Riessman and Elinor Bowles [1]

THE SOCIAL COSTS OF UNEMPLOYMENT

The costs of unemployment in both economic and human terms are enormous. They are also unnecessary.

The economic costs are relatively easy to document and are the focus of most of the public discussion. To highlight these costs, however: The largest increase in the federal budget this year was for unemployment insurance, estimated at $20 billion annually; tax cuts cost $22 billion, a total of $42 billion. Recent estimates indicate that each additional 1 percent of unemployment costs at least $50 billion of unproduced gross national product, $14 billion in uncollected taxes, and $4 billion for unemployment compensation. State and local governments are expected to lose between $20 billion and $25 billion during fiscal year 1976. In addition, a range of income extension plans are operational or have been proposed, which would add additional billions.

These economic costs will continue to mount as long as national policy initiatives focus on ways not to end unemployment but merely to soften its economic impact on the jobless. While it is absolutely necessary to ameliorate the economic hardships of the unemployed, what is most crucial (and less costly) is to take steps toward 3 percent unemployment and a full employment economy, with jobs available for everyone able and willing to work. This is particularly crucial when we consider the fact that a major cost of economic instability is

[1] Frank Riessman, Professor of Education, Queens College; Director, Queens College Mental Health B.A. Program. Elinor Bowles, Associate Director, Queens College Mental Health B.A. Program.

the loss of human resources through physical and mental illness and the deterioration of our social fabric.

Statistical reports document that there is a positive correlation between unemployment rates and admissions to mental hospitals, suicide–homicide–alcoholism–infant mortality–family breakup–child battering– juvenile delinquency–new prison incarcerations–deaths due to ulcers–decreased life expectancy at birth. (Despite an overall reduction in the death rate due to ulcers, because of improved medical treatment, there has been a recent increase for young men between 15 and 34). There has been a similar increase in the suicide rate for this age group. These increases are attributed in large part to lack of opportunities for gainful employment.

In Mental Illness and the Economy, M. Harvey Brenner states: "Economic instability is found to be one of the most pervasive and continuous sources of stress in industrialized society." He states further that these instabilities have been "the single most important source of fluctuation in mental-hospital admissions . . . [and] this relation is so consistent for certain segments of the society that virtually no major factor other than economic instability appears to influence variation in their mental hospitalization rates."

Research on the social and emotional impact of unemployment has focused primarily on chronically unemployed populations. Recently studies have begun to focus on the impact on middle-income blue-collar and white-collar workers.[2] These studies reveal that the loss of work after years of steady, gainful employment brings on depression, despair, feelings of insignificance and loss of autonomy, loss of future orientation, and a sense of alienation. The unemployed become alienated from themselves, their families and friends, and from the larger society. Some of their feelings are expressed in the following statements:[3]

A 28-year-old Post Office worker: "I'm getting into a rut and feeling depressed. I don't feel legitimate anymore."

A 45-year-old welder: "Boredom—you feel you are not going anywhere, getting older and just rotting."

A 32-year-old construction worker: "My whole life seems to be folding up. My whole image of myself and the dreams I had for the future are gone. . . . I'd like to end it all."

The unemployed suffer severe internal conflict. They blame themselves for their condition and yet, at the same time, blame the society, which they begin to perceive as callous and unfair. Their feelings of powerlessness result in an erosion of confidence both in themselves and in the American social system. Braginsky and Braginsky state: [These workers], who previously maintained and lived by traditional social values, felt suddenly confused, disillusioned and betrayed. They believed they were being discarded by the very social insituations in which they had once placed their trust.

Unemployment creates emotional stress for both men and women of all age groups.

For husbands and wives, unemployment often results in withdrawal of affection, heightened interpersonal conflict, diminution of sexual activity, and functional impotence for the husband. For their children, it means loss of emotional security caused by their parents' insecurity, tension and friction. For adolescents and young adults just entering the job market, the unavailability of jobs is in many ways probably more damaging than for older workers. Their identities which are now beginning to consolidate, become negative and distorted. Some will act out their anger and frustration through violence and crime; others will apathetically withdraw into alcoholism and drugs.

Lack of job opportunities affects education. Many young people are reluctant to pursue educational goals when they can't see opportunities for gainful employment at the end of the line. For students who must work to pay for their own education, not having a job means dropping out. Because of personnel shortages due to layoffs, institutions often are unwilling to grant employees the released time necessary to take advantage of innovational training programs that would result in improved job performance and career mobility.

The emotional and social problems that are created by a less than full employment economy are compounded by cutbacks in human services. Chronic

---

[2] See Hannah Levin, Ph.D., "Work: The Staff of Life," paper presented at the American Psychological Association Convention, Chicago, Ill., September 1975; and D. D. Braginsky and B. M. Braginsky, "Surplus People: Their Lost of Faith in Self and System," Psychology Today, August 1975.

[3] Hannah Levin, *Ibid.*

shortages in personnel and treatment facilities have been increased by recent layoffs of school guidance counselors, mental health workers, teachers, policemen, firemen, nurses and other medical staff. The lack of sufficient numbers of human services personnel exacerbates the emotional strains induced by unemployment. Help for physical emergencies often fails to arrive until it is too late. The hospitalized cannot receive adequate care when there is one nurse to every forty-five patients. Students complain about the impossibility to learn in overcrowded classrooms. Individuals who seek help for their emotional problems are either denied completely or are placed on long waiting lists while their problems grow.

The problems of rehabilitation also are exacerbated by the lack of full employment. How can we rehabilitate an ex-addict or an ex-prisoner when there is no job for him or her. What future is there for the physically and educationally handicapped without an assured place to work? How can we rehabilitate the mentally ill?

The central role of work for the individual cannot be overlooked. Through work people not only earn their living, but also derive much of their identity and feelings of self-confidence. Work provides structure, contact with reality, feelings of legitimacy, maturity. In a society founded on the work ethic, lack of work produces feelings of inadequacy and shame.

Anything less than a full employment economy ruptures America's social fabric. It turns the have's against the have'not's, the young against the old, women against men, ethnic groups against each other, as they struggle to obtain the few jobs that are available.

Some argue that full employment would produce huge Federal deficits, which in turn are inflationary. But increasingly, the inflation/unemployment tradeoff is being seriously questioned. For example, recent history shows: In 1953 we had our lowest unemployment rate and our lowest inflation rate—less than 1 per cent; in 1974 we had an inflation rate of 12.2 per cent and an unemployment rate that went over 8 per cent; and during World War II, we had full employment and no inflation, with effective price controls and rationing.

Inflation occurs when there is too much money chasing too few goods; full employment will increase the goods to be purchased. Inflation occurs when the Federal debt goes up; full employment will provide taxes and reduce unemployment insurance and welfare expenditures, thereby decreasing the Federal deficit. Inflation occurs when sales go down and monopolies raise prices in order to maintain high profits; full employment will increase purchasing power and sales. Inflation occurs when a large portion of our national budget is spent on military goods that are not put on the public market. Money earned in the military sector (in wages and bloated profits) chases purchasable non-military goods. Furthermore, military production does not employ nearly as many people (for every dollar spent) as the production of other goods and services.

The argument that full employment would create huge deficits is also to be questioned. The cost of a full-employment economy is not nearly as great as might be imagined. A recent Congressional Research Service study reports that it would be possible to reach a level of 3 per cent unemployment by the end of 1976; the net cost of this program at the end of the first year, after taking into account returns to the Government in income and Social Security taxes, as well as reduced unemployment payments, would be only $8.1 billion.

It is clear that a full employment policy is not economically costly, while an unemployment policy is enormously costly on the economic, social and human levels.

The fundamental question we must ask ourselves is: Must America be torn apart by the intrapsychic, interpersonal, intergroup, and economic chaos caused by lack of a full employment policy. We believe the answer is a resounding "No!" Full employment—jobs for everyone able and willing to work—would be the best intervention for the economic. mental, and social health of America. It would go a long way toward restoring Americans' confidence in themselves and in their nation, and would help heal the wounds of intergroup conflict.

Chairman HUMPHREY. May I say that your brevity gave us a very different insight to some problems. Thank you very much.

State Senator Bloom had to leave and we will hold the record open for any comment or statement that he wishes to make.

Mr. Morty Bahr, the Vice President of the New York Communication Workers of America. Is the representative of the CWA here? Some of these spokesmen said they might be able to attend and possibly could or could not. So again, in the instance of Mr. Bahr, we will direct a letter to him. If he wishes to have a statement included, we will make it part of the record.

Mr. Mitchell Ginsberg and I believe the Reverened Joe Sullivan of the Community Council of Greater New York are ready to make their statements.

Senator JAVITS. Mr. Ginsberg is one of our most distinguished manpower authorities. He held a very high position in this field with the City Administration. I am sorry that he had to be called in this rather quick way. But I hope he will give us the essence of his wisdom.

STATEMENT OF MITCHELL I. GINSBERG AND JOSEPH M. SULLIVAN, COMMUNITY COUNCIL OF GREATER NEW YORK

Mr. GINSBERG. Thank you. I will be very brief. I will only touch on a few points because I know you have covered a great deal.

I want to say a bit about this full employment business and its meaning. I think sometimes the statistics kind of overwhelm us and we forget the people. A 1 percent increase in unemployment means the loss of 900,000 jobs for 900,000 people. When you add to that the members of their families that are represented by that, which comes to somewhat around three, simply 1 percent of unemployment means somewhere between three and four million people that are affected by that.

I want to add something which is often overlooked, the meaning of unemployment to someone. In this country we have emphasized very strong—the reality is that most people of the country believe it, they believe in working. Having importuned them that everybody ought to work, we set up economic conditions that make it impossible to work. What this does to people, the necessity of facing your wife or husband and saying, "I haven't got a job and I can't find a job," as an impact which goes beyond that just of loss of money. That is particularly difficult.

I say this not only from experience in New York, but from elsewhere. When it is clear that one of the reasons for this unemployment is deliberate national policy. It is one thing if you are out of a job because of circumstances that nobody can do anything about. That is one thing. But when you are told you must be unemployed because we must reduce the amount of inflation, that is a different ballgame.

I do think you have to understand that there are millions of people in the United States who don't understand why they have to be expected to carry this burden.

Let me talk for a couple of minutes about the Welfare Program in its relation to that. Senator Javits raised that question. There isn't any doubt that in New York City there is a major welfare role. The reality is if you take the proportion of people on aid to families with dependent children, the biggest program and the most expensive, New York turns out to be the tenth largest city in the United States. Everybody assumes New York to be first. But statistics which are available show that there are nine cities with substantially higher portions of their population on AFDC than New York City. It simply is not true that New York City is the welfare capital of the United States.

The second factor to be kept in mind is that of the expenditures for welfare and medicaid in New York City, two-thirds of them, 65 percent, something like that, go into medicaid. That means that is money that goes to the providers of the services, not to the person who is on welfare. It is literally true today that for medical care for the poor, those on welfare and those just above, we are spending close to twice as much for that as we are to all the other things that a person gets paid for: housing, food, and all kinds of living expenses. That is where the program is and that is the overwhelming cost of this program. This is a subject, as you know, I could go on forever because it has been very close to me.

Let me just say a couple of things in addition to what everybody else has said. Obviously the direction of your legislation is the right kind of direction. But I propose we look at other things. I have argued, for instance, that we ought to make use of some of the welfare payments as job-producing funds instead of using it to pay welfare. You could begin to use those funds to produce and to pay for jobs and for meaningful jobs. It is a step that I believe is years and years overdue and is done in other parts of the world.

The same thing is true with some of the other parts of the unemployment insurance. I have been interested in this notion of 4 days' work and the fifth day on unemployment insurance. That would save money and would result in a substantial diminution in the number of jobs.

But once we make this kind of a commitment toward full employment and, from my point of view, guaranteed employment which is what I believe in, there are a variety of different approaches that go toward this and which make it—the truth is that, as bad as the welfare system is, and Senator Javits knows I have been critical of it for many years, welfare becomes the cause of the failure of other systems. It is lack of health care and discrimination and other things that cause people to end up on welfare. It wasn't welfare that created the problem in the beginning. Now, if I may, I would defer to Mr. Sullivan.

Mr. SULLIVAN. One of the things that has been going around, particularly with relation to default, is that in New York we got ourselves into trouble and we have done it independently and we have done it profligately.

Most of us who have been born in the city and have lived here realize that most of the decisions in this town have been made in the context of political pressures, in a city that has functioned almost like a political state. This is a service town. We have lost industrial jobs in this town. The only way for people to get jobs in this town was really primarily in government opportunity and also particularly in the health industry.

The health industry in New York City is the third largest employer. Hospitals alone provide something like 145,000 jobs. Those are deeply related to national policies. The OEO Program made an opportunity for many of the minorities here in the City of New York to enter into the ranks for the first time. Medicaid opened up.

When we are opening up a hospital in a ghetto neighborhood or trying to serve in a ghetto neighborhood, many of us see we are responsible to give care to the sick. The people of the community see it. It is the local factory, it is a place for a person to get a job.

In New York City, we have now with medicaid, two-thirds of the welfare in the State of New York is really providing the medicaid bill.

It seems to me that we have to look at not how New York City created its own problem, but how it is in some way trying to respond to a national problem, the problem of people looking for opportunity.

We are well over a million, a million two hundred thousand people on welfare. Approximately 50 percent of the children in the New York City public school system come from AFDC families. They are children who come from families who have been torn apart because there is no opportunity for the father of the home to have a job. So 90 percent of those children on AFDC are children from single parent families. I see these two areas deeply related, the job opportunity and the housing opportunity in the cities.

In the local areas out of Brooklyn where we serve, two major requests come to us for service. First, a job. Second, for better improved housing. That is how this town, to me, is really not serving its people, and they are basically related to national policies.

We support the direction of the framework of the Humphrey-Javits bill and the Humphrey-Hawkins bill. I believe we cannot leave to a free market economy the creation of jobs. I hope we see the day in this country that New York City will not be seen as something divided from our national interests and priorities, but that in New York City the problems are ten times more complex than have surfaced up to the present time.

We are discussing the problem on the table for New York City, and there is much more below the surface. I would suspect in the inner city areas, for families with youngsters 19 to 25 among the minorities, we have unemployment in the area of 35 to 40 percent. So that is the future of our city, the future of this town, if we cannot create a better opportunity in the job market for black and Hispanics. I don't believe this town has a future nor can I think that the United States has a future in terms of the domestic turmoil that will be created if this situation is not remedied.

I look at the chaos surrounding the New York City default situation as one beyond imagination. We have been meeting intensely every morning for the last couple of weeks to go over this problem. We are talking about, first of all, what kinds of services should be provided. Everybody said income maintenance, food on the table for the poor, and shelter. Next we were talking about institutions for the elderly frail who are dependent and have no other place to go. Then the emotionally disturbed. Then you are talking about emergency medical services. You are talking about things so basic to human dignity that go beyond what we are discussing here today.

I believe we cannot tolerate what would happen if the City defaulted. So we are saying this immediate thing is something that has to be solved, the immediate problem of default and Federal guarantees; but also I believe the long-range problem is far beyond this.

We will have a billion dollars less in service jobs and opportunity in the city by 1978. We cannot solve that just by cutting budgets. I believe that the national government has to intervene in providing more jobs for the people of this city. Thank you.

[The prepared statement of Mr. Ginsberg and Mr. Sullivan follows:]

PREPARED STATEMENT OF MITCHELL I. GINSBERG AND JOSEPH M. SULLIVAN

We are Mitchell I. Ginsberg (Dean of the Columbia University School of Social Work, former Commissioner of the New York City Department of Social Services and former Administrator of the New York City Human Resources Administration) and Reverend Joseph M. Sullivan (Director of Catholic Charities, Diocese of Brooklyn, Immediate Past President of the National Conference of Catholic Charities and currently Vice President of the Community Council of Greater New York). We appear today as representatives of the Community Council of Greater New York, where we are members of the Task Force on the New York City Crisis. The Community Council is the information, research and convening agency for the public and voluntary welfare and health agencies of New York City. The Task Force on the New York City Crisis was created by the Council's Board of Directors in September of this year for purposes of dealing with the human services implications of New York City's current critical problems.

We very much appreciate the opportunity to address your esteemed Committee today. Knowing your agenda is broader than the emergency nature of our immediate concerns, we will try in the few minutes available to us to address ourselves to these broader concerns. In doing so we will draw on current data and experience developed in an effort to anticipate and hopefully stave off the personal disaster which could befall millions of New Yorkers if the most pessimistic predictions concerning the City's difficulties prove to be accurate.

EMPLOYMENT PROBLEMS

The first point to which we would like to address ourselves is the relationship of jobs to the current crisis. In the headlong frenzy to reduce budgets of Departments of New York City government, sight seems to have been lost of the potentially catastrophic nature of these cutbacks, not alone on the service fabric of City government, but just as importantly, we believe, on the incredible number of people who may be thrown out of work at a time when alternative employment is virtually impossible to achieve in the work force. We would like to cite a few figures to establish the significance of this point. New York City planning contemplates reductions in tax levy (City-raised) expenditures of $200 million dollars in the current City Fiscal Year (ending June 30, 1976). Reductions on the order of $300 million more must be accomplished for the year ending June 30, 1977, while an additional $300 million must be pared for the year ending June 30, 1978. Thus the Fiscal Year beginning July 1, 1978 will have $800 million less of New York City-raised tax revenues than the year which began July 1, 1975. When lost matching funds are added to this total, the New York City expense budget for Fiscal 1979 could be on the order of $2 billion less than the original expense budget established for the current Fiscal Year. Our Task Force believes that as much as $1 billion of this could be in the human services (including education). The amounts cited here pertain only to the Expense Budget and do not contemplate reductions also planned in the City's Capital Budget, nor the problem of debt service.

By September 30, 1975, more than 30,000 City jobs had been lost in City government. One municipal employees union announced that 15,000 of its members have already been laid off. We believe the consequences of the grand total of the $800 million reduction on jobs in the public sector will be totally devestating. If the index of $10,000 of tax levy money per City worker is used, a cumulative total of 80,000 laid-off City employees could be receiving Unemployment Insurance, Public Assistance, or be in limbo somewhere between these programs by the end of Fiscal 1978.

70-058—76——11

To understand the impact of this increasing unemployment population, one must look at the present unemployment picture in New York City. While the national unemployment rate dropped from 9.1% in June of this year to 8.2% in August and 8.1% in September,[1] New York City's unemployment has been on the rise during the same period, reaching a high of 12.0 in July and leveling off at 11.9 in August and September.[2] Equally as frightening is the prospect of the increasing percentage of those out of work for longer periods of time. For example, by September of this year, 34% of the unemployed in New York City had been in that condition for 26 weeks or more. This was a sharp rise from 15% in September 1974.[3]

The spectre of the additional City employees added to the unemployment rolls in the next 2 to 2½ years is frightening to consider, unless massive Federal public service and public works programs are enacted. Please note that no mention has been made of the inevitable further decline in private sector jobs that will eventuate with the massive reductions in City services. We will leave it to the economists and the Bureau of Labor Statistics to calculate the potential damage to the economy that would appear to be on the horizon.

Aside from New York City's problems, we have some other comments to offer. Today's newly unemployed are often workers who had been performing vital services for the poorest members of the community. A significant number of these unemployed were at the low end of the employment ladder, having been the last hired. Other newly unemployed are persons with many years of service in higher salary categories, who not only performed productive roles in society, but who also made contributions to the economy through sizeable tax payments. We are therefore discussing the movement of persons from being providers of government benefits and services to the category of receivers of those benefits and services.

There are two ways to meet this problem. One is the allocation of funds to persons who are not working through the provision of Unemployment Insurance and Public Assistance. The other is the provision of monies for jobs by the Federal government. (It is assumed that increased Federally-sponsored employment will trigger private employment as well.)

Obviously these problems apply not only to New York City. In the *New York Times* of Saturday, November 8, 1975, the number of unemployed in the country was announced as being just over eight million persons, with the seasonally adjusted unemployment rate increasing to 8.6% in October from 8.3% the previous month.

PROGRAMS IN OPERATION

Obviously, some steps have already been taken. Until very recently, municipal employees who were laid off received no Unemployment Insurance benefits. Through the recent enactment of emergency legislation, workers laid off by municipal governments are now provided with federally funded Special Unemployment Assistance benefits for 39 weeks. Those laid off from private industry (where the primary unemployment insurance program is financed by employer contributions) have been supplemented by Federal funding to provide unemployment benefits up to 65 weeks.

In addition, some of the newly unemployed have been returned to work in jobs provided by the Federal government under CETA (Comprehensive Employment and Training Act of 1973). However, only something like 3% of the unemployed could be hired under this limited program. It provided training monies and payment for jobs, with Federal government providing 100% of salaries up to $10,000 per year. Many unemployed workers have competed vigorously for these jobs which were often set at salaries considerably below their past earnings levels. In our opinion, an insufficient number of jobs have been provided under this program.

In a July 1975 letter to the *New York Times*, Frank Riessman, editor of *Social Policy*, wrote that annual Federal payments for Unemployment Insurance (more than $20 billion), plus the 1975 across-the-board tax reductions of $22 billion could easily provide 5 million jobs! He went on to suggest that those workers re-employed through the utilization of these funds could pay taxes, buy goods and services, and generally stimulate the economy. For every one million jobs lost, the government loses $16 billion in revenue ($2 billion in

[1] *New York Times*, Thursday, October 30, 1975.
[2] *Ibid.*
[3] *Ibid.*

Unemployment Insurance and $14 billion in taxes). These comments do not include the expenses of providing Public Assistance supplements to those persons with large families or for those persons who are forced to turn to welfare when their Unemployment Insurance benefits run out.

In this connection, an important factor to consider is that most Americans believe in the work ethic. Work for most persons in this society is both a psychological and an economic necessity.

PUBLIC ASSISTANCE PROBLEMS

The increase in the welfare population is not a product of the existing welfare program, but rather the consequence of the breakdown of a complex set of inter-related social systems. The growth of welfare is more the product of the lack of job opportunities coupled with inadequate wage levels, inflation, failure of education and training to equip people for work, inadequate housing, unavailable health services, broken families, than it is the result of an easily accessible, well financed Public Assistance system.

For these reasons, the Community Council has worked over a period of years for the reform of the welfare system. However, we have no illusions that reforms of income maintenance alone can accomplish a significant change in the number of individuals or families who will need Public Assistance.

Nationalization of the cost of public welfare is a necessity if cities and States are to continue to be viable units of government. The Federal government must assume more of the cost of providing for its citizens who cannot earn sufficient income, to maintain a decent, minimum standard of living and pay for the cost of food, clothing, housing, education and social services.

The reasons for this are perhaps more obvious in New York City than elsewhere, because of the national (and international) character of New York City's Public Assistance problems. It seems to us, however, that the argument can be made for the entire country in the same fashion that it was successfully made in the case of the Supplemental Security Income program.

We would further extend this point of view to include the problem of general assistance (known as Home Relief in New York State). In our State, this category of assistance has increased approximately 40% in the last year.[4] Current projections are that this rate of growth will continue in the immediate future.

The sense of the Community Council of Greater New York is that if the Congress does not address itself to this problem, one of our most important national resources, the American city, will continue to disintegrate.

RECOMMENDATIONS

A. Unemployment Insurance

It is recommended that Federal legislation be passed at once which provides for an additional 26 weeks of Unemployment Insurance for all categories of persons now receiving Unemployment Insurance. This would help to preserve the dignity of those long-term unemployed in all parts of the country who are now forced to apply for Public Assistance.

B. Employment

A number of bills currently before the Congress would be helpful, to varying degrees, in solving the problems discussed in this statement. The Community Council strongly recommends that the Congress think in terms of *millions* of jobs to be provided for the unemployed. Thus, we suggest that bills that merely extend existing programs will not of themselves be sufficient to make the major impact which is obviously necessary. We recommend:

1. *The expansion of the CETA program*, including authorization for the private sector to serve as "prime sponsors". *H.R. 2584* (by Congressman Daniels) will accomplish this. It will also create *new* jobs, which we believe to be important. However, unless it is considerably expanded by significant additional funding, laid off workers will continue to be competing against each other for the limited number of job opportunities it affords.

2. *Movement towards the realization of the goals of the Humphrey-Hawkins Equal Opportunity and Full Employment Act (S. 50–H.R. 50*, et al). In our

[4] The actual increase from June 1974 through June 1975 was 44.4% in the number of cases and 37.7% in the number of persons (Source: *Social Statistics*, June 1975, New York State Department of Social Services).

view, this kind of legislation is essential because it addresses itself to the twin problems of jobs for the eight million unemployed and our failure to provide adequate services for our citizens.

3. *A massive public works program,* to be set in motion as quickly as possible. It should include such projects as housing reconstruction, a variety of services to our inner cities, anti-pollution efforts in our large lakes and rivers, the extensive development of such cultural activities as theater, photography, sports and the dance, and massive job training and services to troubled, pre-delinquent and delinquent youth. In addition to the major impact this would have on unemployment, hopefully it would also re-introduce a sense of national pride and involvement in the betterment of urban, suburban and rural parts of our country.

C. Public Assistance

It is imperative that the Congress take action during this Session to alleviate the extreme pressures on States and municipalities carrying heavy Public Assistance loads. In part, this is a problem of terminating the inequality that now exists in Federal participation in AFDC payments which range from 50% to 78% across the country. We therefore recommend:

1. That the *Congress pass either the Javits-Abzug bills (S. 2476–H.R. 9652,* et al) or similar legislation achieving the end of increasing Federal participation in AFDC to 75%.

2. That, in the event the above legislation is not acceptable to the Congress for some reason, consideration be given to legislation *incorporating the "notching" or "triggering" principle* used in some Unemployment Insurance legislation. That is, once a State's unemployment load (or AFDC load) exceeds a certain index, the 75% Federal participation level would be "triggered". This could be refined by establishing several notches or levels if the Congress is so minded.

3. That *Federal participation in General Assistance be enacted at once.* There are no longer compelling arguments for this program to be maintained solely by States and municipalities. It is particularly pressing in the midst of high unemployment and inflation and the impoverishment of lower levels of government which don't have access to added revenue sources.

We urge that the Committee use its considerable influence to bring these enactments about. Failure to move on these issues could be catastrophic for large sections of the country.

Chairman HUMPHREY. I am very grateful to you and Mr. Ginsberg for giving us this testimony. We thank you very much. This was very helpful.

I understand that State Senator Jeremiah Bloom returned. Senator, I am very happy to see you. I want to welcome you on behalf of the committee. Take whatever time you feel you need to talk to us.

STATEMENT OF HON. JEREMIAH B. BLOOM, MEMBER, NEW YORK STATE SENATE

Mr. BLOOM. Thank you.

I believe that your committee has the great potential to restore our country back to the track of economic stability. There are many facets of the economy to which I could address myself, but I will limit my presentation to the economic situation of the city and State of New York and to a program which would revitalize and revive the economy.

I am the former chairman of the State Banking Committee and a ranking committee member of the State Finance Committee, and also have been a member of the city council for a number of years. So I think my background with the city and State can buttress my remarks.

The program I propose contains a formula which, if properly implemented, will bring us out of this dire situation. Many Washington critics blame the crisis in New York City on the mismanagement of its leaders and their fiscal irresponsibility. Many steps have been taken to correct that situation, and certainly more will follow which will preclude its reoccurrence.

But municipal fiscal management is not the real cause of New York City's economic woes. This is demonstrated by the fact that many other cities and municipalities in the State, and indeed in the Nation, suffer the same problems in varying degrees, notwithstanding the prudent management of their municipal monetary matters.

The real problem is a depressed national economy, accompanied by a devastating national inflation. However, these critics refuse to admit these are the real causes of the city's problems. Words come out of Washington that the economy has been improving. But improvement in the economic conditions in New York State and New York City and the rest of the Nation has not followed.

Manhattan has over 30 million open feet of commercial space which is unrented. I am submitting, in my prepared statement, a representative list of the type of needed projects in the State which have been discontinued. In addition, thousands of housing units which can be reconditioned and restored to the tax rolls are abandoned at an ever-increasing rate. These are not idle statistics. They represent the loss of jobs and impose heavy burdens on public assistance programs without further productivity.

New York City has lost over 400,000 jobs in the last 5 years and is rapidly losing its middle-income residents. No city could survive the shrinking revenue base resulting from such a continued exodus, no matter how well it ran its fiscal affairs. The loss of tax revenues, which was met with additional taxes, just accelerated the exodus.

The job loss adversely affects the Federal Government as much as it affects New York City and New York State. It is reported that for every percent rise in unemployment it costs the National Government $1 billion in direct benefits. However we see the predictions from Washington on the improved economy, the Nation can't wait. They are like a breeder reactor. They create more fuel than they exhaust every minute that they are allowed to continue. Furthermore, these statistics have no applicability to the many diverse small businesses which every municipality must have for a healthy economy.

Parenthetically, I might add that the default of any large municipality would have a crushing effect on small businesses servicing it both inside and out of the municipality. Our inner cities must be saved. The inner city is our new frontier. The people living there are our new pioneers.

This Empire State and great city has the major source of revenue for our country, and its income has been declining. In 1974 we contributed to the National Government through taxes and other revenues $43 billion, receiving only 11 percent back on our tax dollar. It is difficult for us to understand the unsympathetic attitude from those who have benefited from our largess.

Furthermore, the Federal Government is not without fault when it comes to distributing the blame for New York City's finances. The financial community, with its ability to dictate credit and interest rates, has contributed to it. Major industries and others who control the flow of commodities and basic materials with the ability to manipulate these practices have contributed greatly to the cost of municipal government.

I submit all this can be turned around. This country, 49 years ago, was plunged into a great depression. The Reconstruction Finance Corporation, headed by Jesse Jones, with aides such as Earl Schwulst and Sidney Friedman, was created to fight that depression. Under their administration they aided business, homeowners, banks, and municipalities, and pumped over $50 billion into our economy. And that was in 1932 dollars.

The RFC performed miracles and returned a profit to our National Government of over $690 million. A similar program could do the same thing in our situation.

Sidney Friedman, who worked on this committee, who was a member of the RFC, worked with my staff. I am going to submit the transcript of hearings[1] held by my committee, the Finance Committee, on this particular subject, which justifies either your committee, coming up with your bill, a form of an RFC, or, if the Federal Government doesn't want to go into the business, which is a complex business, our bill supported by the Federal Government can do it on a State-by-State basis because it is a modified RFC.

Without the reestablishment of our construction programs, capital construction programs, there is no way of getting our economy off the ground. All the platitudes and all the statements can't help it, because New York City, once the symbol of the world economy, once the financial center of the world, has had its image tarnished. If New York City goes into default, it might affect the financial centers because their image must be tarnished. If New York City goes, how can they justify their position in the world as the financial center of the world? Thank you.

[The prepared statement, with an attachment, of Mr. Bloom follows:]

Prepared Statement of Hon. Jeremiah B. Bloom

This committee has the potential to put our country back on the track to economic stability. There are many facets of the economy to which I could address my remarks, but to do so would be to err in using a shotgun where a rifle is required. Accordingly, I will limit my presentation to the economic situation in the City and State of New York and to a program which would revive and stabilize the economy there. The program I propose, however, contains a formula which, if properly implemented, will bring this country into its bi-centennial with faith in a bright future instead of despair.

Many Washington critics blame the economic crisis in New York City solely on its prior fiscal "mismanagement." I admit that there is ample room for improvement in the management of New York City's finances. Many steps have been taken in that direction and certainly more will follow which will preclude its recurrence. But municipal fiscal mismanagement is not the real cause of New York City's economic woes. This is demonstrated by the fact that most other cities and municipalities in the State—indeed, in the nation—suffer the same problems in varying degrees notwithstanding the prudent management of their municipal monetary matters. The real problem is a depressed national economy accompanied by a devastating inflation. However, these critics refuse

[1] The hearings referred to may be found in the files of the Joint Economic Committee.

to admit these are the causes of the City's problem or their impotence in providing a solution.

Word has been constantly coming out of Washington that the economy has been improving with statistics offered to support it. But, improvement in economic conditions in New York City, New York State and the rest of the nation has not followed. Manhattan has over thirty million square feet of commercial vacancies and this condition is worsening. Construction of port facilities generating plants have been abandoned. I am submitting a representative list of the type of needed projects in the State which have been discontinued. In addition thousands of housing units which could be reconditioned and restored to the tax roles are abandoned at an ever-increasing rate. These are not idle statistics. They represent the loss of jobs and impose heavy burdens on public assistance programs without further productivity. New York City has lost over four hundred thousand jobs in the last five years and almost a million middle income residents. No city could survive the shrinking revenue base resulting from such a continued exodus no matter how prudent it managed its fiscal affairs. The shrunken revenue base cost New York City more than one billion dollars in lost tax revenues which was met with additional taxes, thus accelerating the exodus.

This job loss adversely affects the federal government as much as it affects New York City and State. It is reported that for every one percent rise in unemployment it cost the national government one billion dollars in direct benefits. However rosy the predictions and statistics from Washington on the improving economy, the nation cannot wait. The continuance of these conditions feed upon themselves. They are like a fast breeder nuclear reactor in that they create more fuel than they exhaust every minute that they are allowed to continue. Furthermore, these statistics have no applicability to the many diverse small businesses which every municipality must have for a healthy economy.

Parenthetically, I may add that default of any large municipality would have a crushing effect on small businesses servicing it, both in and outside the municipality.

Our inner cities must be saved. The inner city is our new frontier. The people living there are our new pioneers.

This Empire State and great city have been the major source of revenue for our country and this income has been declining. In 1974 we contributed to the federal government—through taxes and other revenues—over 43 billion dollars, receiving only 11 percent back on our tax dollar. It is difficult for us to understand the unsympathetic attitude of some who have benefited from our largesse.

Furthermore, the federal government is not without fault when it comes to distributing blame for New York City's municipal finances. The rampant inflation over the past few years have contributed to it. The financial community with its ability to dictate credit and interest rates have contributed to it. Major industries and others who control the flow of commodities and basic materials with ability to manipulate these practices have contributed greatly to the cost of municipal government.

I submit that all this can be turned around.

Forty-nine years ago this country was plunged into a great depression. It seemed as though the situation was hopeless, but great leadership brought about the Reconstruction Finance Corporation headed by the brilliant Jesse Jones with aides such as Earl Schwulst and Sidney Friedman. Under their able administration the broad powers of this agency aided business, homeowners, farmers, banks and municipalities and pumped over 50 billion dollars into our economy and that is 1932 dollars. The construction programs stimulated the economy and provided many facilities that were essential to the well-being of our country. The R.F.C. performed miracles and returned a profit to our national government of over 690 million dollars.

A similar program could do the same thing today. Our inner cities need to be rebuilt. Such a program could make this possible. Such a massive program could also use its powers to prevent undue costs in commodities and basic materials. Such a program and the economic health it generates could put an end to the arbitrary establishment of municipal credit and interest rates. Such economic recovery would provide the potential for the flourishing of small business.

Time does not permit me to go into details of my proposal—the New York State Economic Redevelopment Authority, which is an R.F.C. on the state level.

I am taking the liberty of submitting to your honorable committee copies of the hearings conducted by Assemblyman Cincotta and myself, which I trust will buttress my plea for the reactivation of the R.F.C. or support of a state by state version such as my proposed legislation submitted to you.

Sidney Friedman, formerly of the R.F.C. and now a practicing attorney, having retired as Chairman of the Board and Chief Executive Officer of one of our nation's great banks, collaborated with my staff in preparing the New York State Economic Redevelopment Authority. If in your wisdom Congress does not see fit to reactivate the R.F.C., I am submitting to you a plan that could, with your help, revive the economy of the State of New York and set an example for other states that face economic hardships.

Please accept my sincere appreciation and gratitude for your interest in coming to our State to ascertain first hand what steps could be taken to revive the economy.

STATE-OPERATED CAMPUSES—REDUCTIONS

Project	Dollars in thousands	
	Construction	Equipment
Albany: Rehab downtown campus phase I	913	160
Ag and Tech College at Alfred: First instance library IRC and site	6,207	0
Binghamton:		
School of Advanced Technology and site	0	496
Site—cor sanitary and storm deficiencies	158	0
Sitework paving and storm drainage	118	0
Site—periphery parking phase I (525 cars)	482	0
Brockport: Site—railroad fence and walks	95	0
University at Buffalo/Amherst:		
General lib/ctr admin phase I and spine	0	2,000
E & AS2 chemical engineering	0	2,000
Joint library and sitework	0	1,000
A & S—3 (service and warehouse)	0	690
A & S—sitework planting	229	0
Planting roads D	283	0
Chilled water plant phase 2	703	0
Site-roads phase I	2,530	0
A & L—1 (music and chamber hall and sitework)	7,769	0
Lecture halls and site	3,356	0
Utilities cable and load centers IV	933	0
Site-modification for handicapped	186	0
Instr communications center and site	4,399	0
E & AS—07 (ES & NS lecture hall and site)	3,841	0
University at Buffalo/main street:		
Conversion of tower dorm, phase III	0	120
Rehabilitation of Buffalo meter building	565	200
Buffalo College:		
Sitework—improvement serv. road	1,340	0
Sitework—Rockwell Road phase II	909	0
Ag and Tech College at Canton:		
Addition to service building for boiler	105	0
Sitework/improvement of road systems	169	0
Central Administration: Interior construction D & H building	0	840
Ag and Tech College at Cobleskill: Construction of pole barn	15	0
Cortland:		
Sitework lower campus area	128	0
Dining hall Huntington Camp	60	0
Ag and Tech College at Delhi:		
Site planting	131	0
Site—additional parking	235	0
Sitework access road	667	0
Environmental Science and Forestry: Modify animal holding facility/pens and feed shed	70	0
Ag and Tech College at Farmingdale:		
Health and police science classroom building and site	0	615
Replace farm buildings and site	1,267	0
Sitework—dorms and dining stage XII/XIII	85	0
Site ventilating and lighting of steam tunnel	83	0
Fredonia: Sitework supplemental lighting—dorms	89	
Geneseo: Additional fuel storage	118	0
Experimental station at Geneva:		
Replace elect feeder cable and transformer	141	0
Tractor inpl stor replacement and site	516	0
Ag and Tech college at Morrisville:		
Site—planting	89	0
Storage building add/pole barn/classroom facility	44	0
Old Westbury:		
Campus core west and sitework	0	600
Natural science/math and sitework	5,691	0
Sitework/utilities/safety south campus	211	0
Site increase electric feeder capacity	113	0
Correct water penetration phase II	195	0
Library/theater/administration building	9,933	0

STATE-OPERATED CAMPUSES—REDUCTIONS—Continued

Project	Dollars in thousands: Construction	Equipment
Oneonta: Sitework—under drains and rehab soccer field	69	0
Oswego: Sitework—supplemental lighting	450	0
Plattsburgh: Library/classroom building	0	99
Potsdam:		
Sitework—lighting	275	0
Alterations and improvements to organ	50	0
Planting P2	251	0
Purchase:		
Theatres A, B, and C	0	1,000
Music facility and sitework	0	1,000
Visual Arts Center I	0	1,000
Housing (400 students)	0	180
Social science I and sitework	0	700
Equipment for dressing rooms	493	0
Theatre arts and site	8,619	0
Install safety glass entrance doors	69	0
Site-planting library	136	0
Stony Brook:		
Social and behavioral sciences building and site	0	1,300
Fine Arts Center phase II and sitework	0	1,000
Site—additional chiller capacity	725	0
Sitework planting	167	0
General sitework and safety	637	0
Sewage holding system	495	0
Stony Brook Health Sciences Center:		
HSC stage III basic sciences research and site	0	2,000
HSC stage II finish sitework	1,290	0
Conversion for microbiology	371	0
Site—utilities south campus	881	0
Site—access road parking garage A	292	0
Parking facility B—1,000 cars and site	2,400	0
HSC stage III dental instruction and res	3,930	0
Utica-Rome:		
Academic building II	1,437	0
Administration, lib, classroom building	0	500
Service facility and site	0	150

COMMUNITY COLLEGE—REDUCTIONS 1976-77

	Dollars in thousands: Construction	Planning	Equipment
Corning: Multipurpose facility	$1,849		$150
Dutchess:			
Service building	142	8	
Greenhouse	86	4	
Erie: New campus	10,280		1,030
Hudson Valley: Physical and health science	2,632		250
Jefferson: Construction of athletic fields	255	31	22
Mohawk Valley: Administration building	1,637		153
Nassau:			
Media and student center	10,482		1,058
Demolition	325		
South parking	2,833		
Campus graphics	675		
Selden:			
Marine science tech	158	1	39
(Eastern) fine arts, library, gym	5,005		719
(Western) new campus	14,405		1,676
	50,764	44	5,097
Total		55,905	

RANDOM LIST—NEW YORK CITY CAPITAL CONSTRUCTION PROJECTS PRESENTLY UNDER REVIEW

On October 20, 1975 the Emergency Financial Control Board approved a financial plan for New York City and its covered organizations for the fiscal years ending June 30, 1976, June 30, 1977, and June 30, 1978 which reduced the City's Capital Budget cash outlay for this three year period by over $390 million from what the mayor had recommended. For the 1977-78 City fiscal year total construction expenses must be reduced to $339.3 million from a level this financial year (1976–77) of $875.8 million. The City was left with the discretion to choose which projects will not be funded during this period and, while the actual reductions have not been announced, since the entire City Capital Budget is presently under review, a list of representative capital projects which may be affected are as follows:

Project	Total estimated value	Spent to Oct. 16, 1975
College Point Industrial Park	$57,760,688	$33,605,934
S.I. Industrial Park	15,064,662	332,115
N.E. Marine Term, Brooklyn	77,012,297	20,303,297
Red Hook Ind. Dev. Urban Ren. Area	63,453,100	5,351,600
Modernization of Yankee Sta., Bronx	59,220,500	35,974,427
Sugar Refinery, S.I	3,200,000	179,300
P.S. 290–A, Brooklyn	2,801,700	9,400
Park West H.S., Manhattan	1,197,760	83,160
P.S. & I.S. 314, Brooklyn	12,100,000	1,497,000
P.S. 397 A & B, Brooklyn	4,459,433	1,856,400
I.S. 240, Queens	13,194,030	1,454,515
P.S. 43, Queens	7,808,000	397,130
I.S. 14, Queens	11,562,000	437,265
New Dorp H.S., S.I	25,941,531	911,337
I.S. 206 "A", Bronx	3,113,178	13,178
P.S. 214, Bronx	3,300,000	0
P.S. 21, Manhattan	5,769,890	862,100
North River Pollution Plant, Brooklyn	185,146,145	99,654,697
Hamilton Ave. Sanit. Sta	13,248,782	7,360,782
City Water Tunnel #3, 1st Stage	417,500,566	152,619,619
Supplementary Corr. Housing, Rikers Is	23,500,000	10,791,385
Fire House, Eng. Co. 6, Lad. Co. 10, Man	1,200,000	0
Fire Dept. Tr. Cntr., Wards Is	11,700,000	0
Fire House, Eng. Co. 48X, Bronx	850,000	155,975
Fire House, Eng. Co. 219K, Brooklyn	658,064	305,156
Fire Dept. Repair Shop	2,500,000	0
Bellevue Hospit., Manhattan	122,832,473	110,185,457
Howard Beach Br. Lib., Queens	448,800	5,000
Spring Creek Br. Lib., Brooklyn	658,000	38,068
34th Pct. Stationhouse, Manhattan	2,514,000	0
71st Pct. Sta. House, Brooklyn	2,277,250	123,197
Flushing Bus Terminal	4,592,000	140,800
New Office Bldg., 205 Broadway, Man	20,000,000	0

Attachment.

New York State Economic Redevelopment Authority: The Case for a State R.F.C.

(Prepared by Senate Finance Minority, Jeremiah B. Bloom, Chairman)

I. THE FEDERAL R.F.C.: WHAT WAS IT?

The Reconstruction Finance Corporation (R.F.C.) was created by an act of Congress in 1932. The R.F.C. provided fifty billion dollars of critically-needed investment capital to bring the United States out of the Great Depression. The R.F.C.:

Created employment directly and indirectly for millions of citizens.

Strengthened the capital structure of 7,000 commercial banks while allocating $4 billion towards solidifying the climate for savings banks, as well.

Provided funds to over 7,500 small businesses, enabling them to continue operation and growth.

Aided in guaranteeing over 65,000 home loans which would not have been rendered otherwise.

Saved the City of Chicago from bankruptcy by lending the City funds needed to pay school teacher salaries.

Provided New York State with funds for such-self liquidating projects as: 1. Knickerbocker Village, New York City, $8,075,000; 2. Rip Van Winkle Bridge, Catskill, $3,400,000; 3. Niagara Frontier Bridges, Buffalo, $2,815,000; 4. Jones Beach State Park, Long Island, $5,050,000; 5. Saratoga Springs Spa, Saratoga, $3,200,000 6. Westchester County Bridge, $1,800,000; and 7. City of Utica waterworks system, $7,900,000.

In its total operations, not only did not lose any money but to the contrary, after just seven years of existence produced a surplus/reserve from operations totalling $219,000,000.

II. A STATE R.F.C.: WHY IS IT NECESSARY?

The current economic recession has produced many conditions which are of crisis proportions.

The unemployment rate in New York State is well over 10 percent, on the average, while unemployment among blacks and other minority groups is over 25 percent and rising.

The gross national product (and total output) have exhibited their longest and deepest declines since the Great Depression. In the first quarter of 1975 the GNP fell 10.4 percent from $804 billion to $782.3 billion.

According to the administrative office of the United States courts, in March, 1975 over 25,000 individuals and small and large businesses filed bankruptcy petitions. This is the highest number of filings in any month in the history of the United States. Estimates are that 1975 will be a record year for bankruptcy filing with over 230,000 individuals and corporations going bankrupt.

The New York State Unemployment Insurance Division has warned that with the current rate of benefit payments and the number of beneficiaries (650,000), the unemployment fund will not remain actuarily sound.

The Unemployment Insurance Division further warns that by June 30, 1975 the benefits for some 125,000 beneficiaries will terminate unless further extensions are granted. Without extended benefits, the only recourse for the beneficiaries will be welfare.

Since 1968, New York State has lost over 11 percent of its jobs in the Durable Manufacturing Sector and over 15 percent in the Nondurable Manufacturing Sector—in the past five years, in New York City alone, 420,000 jobs have been lost in the private sector.

The job loss in the private sector, experienced hardest in our urban areas, have afflicted our municipal governments with a double adversity: Manufacturing job losses have substantially diminished tax revenue growth rates within the constitutionally limited local government tax base; and resulting unemployment has substantially increased the demand for costly governmental services. All cities are being called upon to provide a greater percentage of their funds towards mandated social services programs, while educational programs and other services suffer. Increasing unemployment accounts for increases in the cost of: public assistance, medical assistance, unemployment insurance, public housing, public safety, etc., not to mention the social and psychological costs which unemployment poses on the individual.

The combination of inflation and the effects of the HURD Decision have forced all communities to begin to curtail the services they provide.

The shortage and high cost of investment capital in New York State has accounted for a growth-related increase of less than 39,000 jobs per year. This is expected to continue at this dismal rate until something is accomplished to "rejuvenate" New York State's sagging economy.

While unemployment continues to rise and the capital structure of New York State's industries declines, the amount of investment capital generated within the State is actually increasing.

Total mortgages of New York State's savings banks are over $43 billion. Only slightly more than half of these funds are invested in commercial and residential mortgages within the State. This is so even though all of the $43 billion in funds originate within New York State. A 1970 survey in Bronx County found that 4 savings and loan associations with $560 million in deposits, made only 27 mortgages totalling $390 thousand within that County.

While the taxpayers of New York State have placed over $5.7 billion into the funds of the public retirement system, and these funds are increasing by ½ billion dollars each year, over 73 percent of these funds are invested in obligations outside of the State of New York. Instead of aiding the economy in which they are generated, these funds are being used to aid the economies of competing states.

Federal funds directed towards New York State as well as short-term deposits of other public agencies are currently available for investment. These funds are invested solely for profit, ignoring their potential for increasing employment and promoting the public good within New York State.

III. THE CASE FOR A STATE R.F.C.

To solve the economic stagnation and burdensome unemployment levels within New York State, we recommend the creation of an agency similar to the Reconstruction Finance Corporation of the 1930's, which would: 1. Aid in financing business concerns, financial institutions, and municipalities located in New York State; and, 2. Channel funds into the economy of New York State for the purposes of creating employment.

This agency, to be known as the New York State Economic Redevelopment Authority (NYSERA), would:

Make loans to municipalities, small and large businesses, and financial institutions, which would create employment.

Guarantee loans to municipalities, small and large businesses, and financial institutions.

Induce existing financial institutions to make loans.

Participate with existing institutions in making loans.

Act as a receptacle and a conduit for federal funds.

Act as a depository for public funds, using all such funds for investments which create employment within New York State.

Provide aid to new or existing concerns.

Provide aid with adequate security or reasonable assurance of repayment.

Provide aid for self-liquidating public projects, such as bridges, stadiums, or municipal parking garages.

Have the ability to supplement existing financial institutions. This would occur where the authority would invest on a first-lien basis installed projects. The authority is provided with reasonable security, while other investors are assured an income; and employment is provided to individuals through such projects.

Have a bonding authority of eight billion dollars and a guaranteeing authority of eight billion dollars, backed by the revenues generated through sound investments.

Channel 30 percent of the assets of the funds of the retirement system back into New York State for the purpose of creating employment.

Channel an additional 20% of pension fund assets into New York State by March 31, 1978.

Maintain the actuarial soundness of pension fund assets, while providing employment which is productive and non-inflationary, and decreasing the need for social services which are non-productive and inflationary.

Receive a first instance advance of $100 million to cover start-up expenses, to be repaid to the State by March 31, 1976.

Accomplish as one agency all the objectives of the Urban Development Corporation, the Project Finance Agency, the Municipal Assistance Corporation, plus many other varied tasks, while creating employment opportunities within New York State.

In the *State of the State Economy*, published December 18, 1974, by the New York State Council of Economic Advisors, they suggested six recommendations for improving the State's economy. Three of these were:

"The urgency of developing plans for taking maximum possible advantage of impending federal programs for public job creation . . ."

The increasing importance of using all means at hand for providing job experience, as well as income and training, to undertrained or chronically unemployed members of the labor force . . ."

"In any program of encouraging industries in the State, the great importance of incentives to existing plants . . ."

NYSERA has the capacity to fulfill these suggestions while actually going beyond these suggestions to other areas of concern, such as the problems of cities and financial institutions.

NYSERA is the non-inflationary mechanism designed to aid our financially-troubled cities, as well as banks, businesses and industries providing employment to the citizens of New York State. The investments being made by NYSERA will be purely productive investments designed to stimulate the economy and eliminate the reliance upon non-productive social services. Adding to employment adds to the State's tax base, and strengthens the State's private and public economy.

By channeling funds, which are currently invested solely for profit, into projects which will provide employment, NYSERA will restore confidence in business and industry in New York State. While hastening the process of economic recovery, long-term growth and stability will be preserved.

IV. MEMORANDUM IN SUPPORT OF LEGISLATION

S. 6371–A, introduced by: Senator Bloom; A. 8346–A, Assemblyman Cincotta.
An act creating the New York State economic redevelopment authority and providing for the powers and duties, and making an appropriation thereof.

SUBJECT AND PURPOSE

This act creates the New York State Economic Redevelopment Authority, designed to aid in financing business concerns, financial institutions, and municipalities located in New York State, and provides for the channeling of funds into the economy of New York State for the purposes of creating employment or for the public good.

SUMMARY OF PROVISIONS

1. Legislative findings and statement of purpose

Employment creation is emphasized as the major purpose of N.Y.S.E.R.A., which will be a financing mechanism designed to supplement existing financial institutions.

2. Management

The Board of Directors shall manage N.Y.S.E.R.A. The Board shall consist of the State Comptroller, the Director of the Budget, the president of the Authority, and four investment directors who are experienced in the field of investments.

3. General powers and duties

The general powers and duties shall include corporate powers, the ability to act as a receptacle and a conduit for federal funds, the ability to induce existing institutions to make loans, to participate with existing institutions in making loans, and to act as a depository for public funds to be used for investment by the Authority.

4. Specific powers and duties

The Authority has the power to provide loans or to guarantee loans, to business concerns, financial institutions, and municipalities where adequate security or reasonable assurance of repayment is available. These loans can be provided to new or existing concerns.

5. Bonds and notes of the authority

The bonding capacity of the Authority shall be eight billion dollars. The bill provides for the issuance of those bonds. Bonds may be issued only with corresponding debt service reserve funds to be paid out of revenues of the authority. The bonds and notes shall be exempt from taxation.

6. Reports and audits

The Authority must report annually to the Legislature and its accounts must be audited independently each year.

7. Retirement system funds of N.Y. State

The act directs the Comptroller, as trustee of the assets of the funds of the Retirement System, to liquidate thirty percent of the assets and re-invest them in the securities of N.Y.S.E.R.A. The Comptroller is further directed to continue to invest a percentage of the Retirement Fund assets in N.Y.S.E.R.A. securities until March 31, 1978 when at least fifty percent of the assets of the Retirement Fund shall be invested in N.Y.S.E.R.A. for investment solely in New York State for the purpose of creating employment.

8. First instance appropriation

The act also provides for a first instance appropriation of one hundred million dollars to allow N.Y.S.E.R.A. to begin its operations. This appropriation is to be repaid by the end of the current fiscal year.

JUSTIFICATION

Unemployment in New York State is at its highest level since the Depression of the 1930's while municipalities, businesses, and financial institutions are facing economic chaos and potential disaster.

A mechanism is needed which can redirect funds, which are currently invested outside of New York State, into projects within the State which are credit-worthy and will provide for employment of the citizens of New York State.

Currently, the assets of the N.Y.S. Retirement System, which are invested in bonds and mortgages outside of New York State are approximately 75 percent of the total. This does not include common stock. By directing the Comptroller to invest a percentage of these assets in N.Y.S.E.R.A. bonds, the State is assured that the money it has been and will be contributing to those funds will be channeled into New York State for the purpose of creating employment and credit-worthy public projects.

The money which goes into the Retirement System is provided by the State of New York, and it is only reasonable to assume that a portion of the funds will provide benefits to New Yorkers, while a reasonable rate of return on those funds is assured. N.Y.S.E.R.A., in selecting the loans to be made, can assure such a reasonable rate of return.

N.Y.S.E.R.A., while creating employment, can, through its fund channelling and loan guarantee provision provide aid to:

Municipalities—by purchasing bonds; small and larges businesses—through direct loans, loan guarantees, and participation with other financial institutions in making loans; counties—by financing self-liquidating projects; and financial institutions—through loans and guarantees.

The ability of N.Y.S.E.R.A. to stimulate commerce and increase employment, both directly and indirectly, are immeasurable.

FISCAL IMPACT

The bill provides for a first instance appropriation of $100 million to initiate activity by the Authority. This money will be repaid the State by March 31, 1976, out of revenues of the Authority.

The fiscal implications of channelling $8 billion into New York State to create employment are endless. Employment creation and increasing aid to the commercial sector will result in strengthening the economy of the State while decreasing the pressure which is currently being placed upon the funds of the State for the purposes of public assistance, medical assistance, unemployment assistance, and others. This Authority will not only channel $8 billion of funds back into the State but will also provide guarantees for an additional $8 billion.

N.Y.S.E.R.A. will, therefore, provide a direct benefit of $16 billion to the people of the State of New York.

Effective date: Immediately.

Chairman HUMPHREY. Thank you for your helpful testimony and cooperation. You can rest assured that our staff will be analyzing your proposal and learning from it.

The next participant is Betty Harris of women's business.

STATEMENT OF ELIZABETH HARRIS, PRESIDENT, WOMEN'S BUSINESS

Ms. HARRIS. I would like just simply to say that my name is Elizabeth Harris. I am president of women's business, a nonpartisan group of accomplished New York City women banded together to speak out on matters of concern to the total community.

Today I would like to call attention to a single statistic. That is that 67 percent, or two-thirds of the population of the city, is composed of women and their children who are under 18 years of age. Any kind of cutbacks, reduction in city services and especially lowered levels of day care and school facilities will hit hardest those whose voices are most silent in determining the affairs of the city; namely, the mothers and children of the city, mostly on welfare.

The punitive measures suggested by President Ford in dealing with New York City's crisis will indeed cause difficulties for bankers and civil servants alike. But they will also literally deny life services for women and children in the city.

I would like to yield a few moments of my time to one Dorothy Pitman Hughes, director of the west side community alliance of New York City, one of the leaders in establishing day care centers for working mothers, and the creator also of an innovative alternative to the welfare plan. Thank you.

Chairman HUMPHREY. Thank you, Ms. Harris. Ms. Hughes, we welcome you.

STATEMENT OF DOROTHY PITMAN HUGHES, DIRECTOR, WEST SIDE COMMUNITY ALLIANCE, INC.

Ms. HUGHES. On Friday night Ms. Harris said to me to prepare something for your committee. I was very pleased to be able to do that.

I would like to say that I am Dorothy Pitman Hughes from west side community alliance. The west side alliance is a non-profit community based organization located in the west side of Manhattan. Under the alliance's umbrellas are two day care centers, a youth development program, a plot of land of 125 acres in Sullivan County which we use for summer intensive training programs for youths. Planned but not funded is an alternative to welfare proposal, which includes a preventative family and youth program.

We have developed ways to break the poverty cycle, including jobs for the long-time unemployed welfare persons, rights of persons and their families to choices in early childhood and experiences, sound health care in housing and helping people to control their own destinies.

The Alliance alternative to welfare proposal, if it is ever fully initiated, will be an outgrowth of the alliance plan in the early 1960's, which some of you may remember. There was a massive effort on the part of the city to move families out of neighboring hotel traps. Some were rehoused temporarily in the Alliance's church, and in the churches in the community. Some mothers were employed in newly created child care jobs and in other community jobs. And children were given medical treatment, food, and a chance to grow in a healthier environment.

The alternative to welfare proposal will demonstrate that underemployment, unemployment, home relief and AFDC persons can rejoin the labor market through newly created jobs which will serve community needs, using the dollars that are wasted now to eliminate the spirit of the people.

The current budget crisis which New York faces has already affected Alliance very directly. Our proposal, which would have created 600 jobs in the West Side, 300 under the Alliance and 300 in an elderly program, just missed being funded again when we were bumped through the bumping system.

Foundation cutbacks have further reduced the Alliance's staff and services to the community. The day care budget crisis has shrunk the number of children being served, and the staff cuts are pending.

We first had the funding cut, which allowed us to keep a few of our staff intact, and the children, but now we are told that $29 million will be cut. New changes in the Title 20: Social Services Plan, as well as the city's inability to pay, will dramatically affect the single-headed families which need free child care to keep working.

Over 2,000 children presently in day care will no longer be eligible and new families will be excluded, as will the upward mobile family, the trainee, whose ability to find a job in an ever shrinking job market, will continue to decline, will be forced to remove her child from care.

Infant care programs, made more costly by changes in the Federal guidelines, are being threatened with closing. Ways must be found to enable families needing public group day care to enjoy that service. Training moneys to help staff must be uncovered. Moneys must be removed from welfare and diverted to this program so that children's development and growth in sound safe surroundings is assured.

A new Federal Administration should call for a flat commitment to full employment, public service jobs, and a guaranteed income. In the meantime, we need to test alternative systems which will redirect public spending on a community level and which can be duplicated later.

Chairman HUMPHREY. Thank you, Ms. Hughes. Thank you very much.

Our next participant is Mr. Abraham Margolies.

STATEMENT OF ABRAHAM MARGOLIES, ASSISTANT STATE DIRECTOR, NATIONAL RETIRED TEACHERS ASSOCIATION, NEW YORK

Mr. MARGOLIES. My name is Abraham Margolies. I am here as representative of association of retired teachers of New York City, an organization of some 10,000 retired teachers, and of the national retired teachers association, which nationwide has over 9 million members. I am also a retired high school principal, and it was one of my privileges, and I still enjoy the thought of it, that on one of these occasions we presented Senator Javits with an award, a very delightful ceremony, as the man who had done most for the State of New York, just about 10 years ago. And believe me, we could very well give him a similar award to this very day for the wonderful services he has since given both to the State and to the nation.

We have submitted to the committee, Senator Humphrey, a very detailed prepared statement. I have a very brief statement which I would like to make at this time. In the next few minutes I would like to address myself to just one subject; namely, the impact of default on the teachers' pension system of New York City.

There are as of now roughly 25,000 retired teachers in New York, all of whom contributed a substantial portion of their earnings to the pension fund. Earlier in the testimony I think Senator Taft was straightened out on that matter. He was mistaken when he said we did not contribute. The total assets of the fund are about $2.3 billion.

But this is only the theoretical book value. The holocaust of a default could rapidly consume it.

In actual fact, 15 percent of the fund or $350 million has now been invested, despite the opposition of our organizations, in MAC bonds and in other city securities. No doubt, consent for the recent investment was reluctantly extracted from our pension fund trustees under great pressure, and for a laudible reason: To escape, even if temporarily, the grim spector of default. No doubt also in so doing they were forced to relax the prudent man rule by which pension fund trustees should be governed.

We are naturally apprehensive that a similar scenario may soon be reenacted and would like to voice our strong disapproval of any further efforts on the part of government agencies or individuals, State or city, to pressure the trustee into making additional investments in MAC or city securities unless these securities are backed by a Federal guarantee.

May I add parenthetically that, in answer to a question today, Al Shanker pointed out that just as we expect full faith and credit on contracts previously negotiated by unions, so we expect full faith and credit to be given to pension contracts which, indeed, are back in our constitution, a statement of which is that a pension is a contractual obligation which can neither be impaired nor diminished.

However, let's move on with our brief analysis of what default will mean to our pension system. As for the bulk of the remaining 5 percent—you see, we said 15 percent have already been invested in MAC bonds.

As for the remaining 85 percent of the pension fund which has been invested in corporate bonds and other commercial securities and some in Federal securities, is it not reasonable to expect their value to plummet in the event of default? In fact, we have had some very relevant, trenchant testimony to that effect here this morning and this afternoon.

It is inconceivable that, should the city be forced into bankruptcy, it will be able for several years to come to meet its contractual obligation to deposit the necessary money needed to keep the pension fund in a continuing state of financial help. How long after default would it be before the pension fund goes bankrupt? It would not take too long to deplete the fund if, as might well be the case in the event of default, no additional city funds were forthcoming.

Consider the heartache, the suffering and the agony which is in store for 25,000 retired teachers and their families whose many years of loyal service to our children may well be repaid by the prospect of destitution in the event of default.

The repercussions of the failure of New York to meet its financial obligations are not too difficult to envision. We can all foresee the downward domino effect on the marketability of all city and State bonds and securities throughout the country and the concomitant shattering effect on the hard-earned pensions of countless thousands of devoted teachers and other civil servants.

The NRTA and the New York City ART therefore earnestly entreat this Joint Economic Committee of Congress to recommend

70-058—76——12

legislation guaranteeing city loans and notes and the safeguarding of our pensions. We beseech your help. Thank you.

[The prepared statement of Mr. Margolies follows:]

Prepared Statement of Abraham Margolies

Mr. Chairman: I am Dr. Abraham Margolies, the Assistant State Director for the National Retired Teachers Association in the State of New York. This organization, and its affiliate the American Association of Retired Persons represent a combined membership of nearly 850,000 older persons statewide and over 8,500,000 nationwide.

I. Prevention of Default: Apparently Beyond the Ability of the City and State

It appears inevitable that the City of New York will, in the absence of federal assistance, default on its financial obligations shortly after December 1st.[1] The City has not had access to the credit markets since last March. The Municipal Assistance Corporation (MAC) is now confronted by similar problems.

In view of the difficulty the State encountered when it attempted to borrow $750 million to aid the City under the Financial Emergency Act and the record 8.7 percent interest it had to pay on its first issue under the Act, it would appear that the lack of investor confidence in City securities is about to extend to those of the State. The additional drastic short-term cuts in City expenditures necessary to match expected revenue cannot apparently be made.

II. City and State Officials and the Ford Administration: Irreconcilable Positions and Consistent Patterns

State, City, and MAC Officials have demonstrated a grim but tenacious determination to make every effort to prevent default.

When the City could not borrow, the State did and turned the proceeds over to the City as advance state welfare payments. Then it created the Municipal Assistance Corporation. When MAC began to encounter market access problems, the State responded with the Financial Emergency Act and intensified its efforts to secure federal guarantees for City bond isues. Finally it prevailed upon the City Teachers Retirement system to purchase $150 million in MAC securities to keep the temporary financial package intact.

The prospects for federal intervention still remain remote. Even if the legislation which has been approved by the Banking Committees in both Senate and House does not fall victim to sectional divisiveness and partisan politics in both chambers, or a filibuster in the Senate, it would encounter an Administration veto. The Congress is unlikely to act timely and with the decisiveness necessary to overcome Administration opposition.

The patterns here are consistent. State and City officials are apparently determined to persist in their efforts to avoid a default they consider absurd and may use any means at their disposal to achieve that end—even if that means turning to the City pension fund assets again. There has been talk of using those assets as collateral for bank loans. More recently, there has been speculation that the public employee systems will be called upon to make more "voluntary" investments in MAC securities.

The Administration, with its pro-default position, is consistent in its predisposition for policies with high economic risk even though the economic disadvantages of those policies have more than offset the advantages.

The Administration has argued that New York City, with the assistance of the State, has both the mechanisms and the resources to avoid default and that if default were to occur, the event would be primarily legal in nature, would effect the capital markets only temporarily and would damage the financial institutions little, if any.

Our past experience with the accuracy of the Administration's economic judgments does not inspire confidence. This Committee's recent study of the

[1] See Staff of Joint Economic Committee, 94th Cong., 1st Sess., New York City's Financial Crisis 10 (Comm. Print 1975) (hereinafter referred to as Joint Eco. Comm. Staff Study on NYC Financial Crisis).

City's financial crisis contradicts the Administration's first argument and projects adverse national economic consequences of more substantial magnitude then those the Administration predicts. Some may argue that a 1% reduction in gross national product (GNP), or .3 percent (300 thousand jobs) unemployment rate increase, and a bigger federal deficit over what would have otherwise obtained by 1976's fourth quarter are not intolerable consequences. But add to those the effects of such things as the Administration's long-sought energy decontrol policy, and the situation becomes serious.

III. THE NEW YORK PUBLIC EMPLOYEE SYSTEMS: PAWNS IN THE STRUGGLE

Our Associations are deeply distressed over the increasing tendency on the part of state governments to use for state purposes and programs the assets of public employee pension systems. Although the New York State Financial Emergency legislation's mandatory commitment of pension fund assets to the purchase of MAC securities was declared unconstitutional, the subsequent investments actually made were something less than "voluntary." Considering the investments that had already been made by the system prior to the emergency legislation, and the pressure that was brought to bear on the trustees of the New York City Teachers Retirement system to make investments voluntarily (if the investments have not been made, we could reasonably assume that many active teachers would have been terminated from New York City payrolls), the investments that were made did not seem to be solely the result of an exercise of trustee discretion on the basis of the investments' soundness. Both the City and MAC lack market access because of investor refusal to purchase their securities. Our Associations cannot understand how the trustees' decision to purchase securities that others would not buy, could represent a prudent judgment made solely in the interest of the system's beneficiaries.

We believe that federal legislation may have to be enacted to prevent interference with the exercise of discretion by public employee pension trustees in accordance with a prudent man standard. We call upon this Committee to investigate the consequences for the pension systems of further MAC security purchases.

IV. THE FEDERAL GOVERNMENT'S DUTY: TO WEIGH THE RISK AND ACT PRUDENTLY

In view of the Administration's consistent understatement of the adverse consequences of the policies it has pursued to deal with economic problems, the costs that those judgments have produced, and the lack of certainty concerning both the type and extent of the ramifications of a City default, we believe the pursuit of prudent public policy requires a limited federal guarantee of City-issued or State-issued securities. We do not think this is the time for high risk economic experiments.

We cannot lightly assume that the aged would not be affected by default. Obviously some of the elderly who invested in City (and perhaps State) securities as a secure source of tax-exempt retirement income will be hurt. Although it is likely that the tax-qualified private pension plans and tax-exempt public employee systems (outside New York City) do not have substantial assets committed to tax-exempt governmental securities, there is no way of knowing whether the consequences of default would be confined solely to the tax-exempt market and not spread also to the markets for taxable securities.

While the New York State Teachers Retirement system has only $25 million (½ of 1% of total assets) invested in MAC securities and appears relatively secure, the City system has about 15% of its assets invested in them. Considering this heavy investment in the securities of a single issuer in conjunction with published reports (for example, that of the New York State Commission on Pensions) questioning its actuarial soundness, default by the City of New York could seriously impair the solvency of the City system.

Because of the New York situation, cities, states, and their agencies throughout the country are finding it necessary to pay higher rates of interest on their bond and note issues. These excess interest rates are expected to cost taxpayers (especially local property taxpayers) $150 million dollars a year. This consequence can only aggravate the financial problems confronting an older person who is attempting to maintain possession of a home.

Finally, if default does occur, it seems certain that the elderly in New York City would face severe cutbacks in social services and perhaps welfare payments, and would have to tolerate along with the rest of the City population, other cutbacks in essential services. Certainly, conditions will deteriorate; the only question is one of degree.

Our Asociations reject the Administration's argument that in order to return New York City to sound fiscal management, City officials and investors must purge themselves by passing through default. While we agree that the City has been mismanaged and insist that the situation be corrected, the Administration's moralizing, while producing some dubious political advantage, ignores those who will ultimately be hurt—the people who live and work in the City and State of New York and in the country as a whole.

Default by the City seems certain to be followed by default on the part of State agencies. If these default, the State itself may not escape when it tries to enter the market to borrow heavily during the second quarter of 1976.

The current combination of high rates of inflation and unemployment have produced disproportionately adverse consequences for the poor and the aged in the last few years and have put the goals of the 1946 Employment Act far out of reach. To avoid impairment of the continuing but fragile economic recovery, default by New York City should be avoided.

V. INFLATION AND RECESSION AND THE INCOME MAINTENANCE SYSTEMS

Our concern over the City public employee systems reflects also our own concern over the impact of inflation and recession on the financial viability of the income maintenance programs such as social security upon which the aged are so dependent. With the $46 billion OASDI trust funds sufficient to continue benefit payments for only nine months in the absence of a continuing influx of payroll and self-employment tax revenues, and with social security cash benefit levels subject to automatic increases that are directly related to the cost of living, the performance of the economy is of critical importance.

Workers who are unemployed are not paying social security taxes. High rates of inflation trigger automatic benefit increases which, in turn, must be financed by contributions from a diminished number of active workers.

Any extended continuation of high rates of inflation and unemployment, coupled with a zero or negative population replacement rate, is, as the 1975 Report of the OASDI Trustees indicates, a serious threat to the financial solvency of the system.

Since the projections of the revenue needs of the social security system are based on assumptions that are dynamic with respect to demographic changes and future rates of inflation, we are concerned when we see the high rates of inflation which the Administration is contemplating over the long term, partly because of its energy program. The future of the social security system (or of any other primary retirement system) is critically dependent upon the maintenance of a reasonably low rate of inflation and a reasonably high rate of employment.

In view of the sensitivity of the system to economic performance and the number of beneficiaries who are dependent on it (OASDI pays approximately $5 billion each month to 30 million persons) we are not about to remain silent while the Administration proposes and proceeds to implement programs that will destabilize the economy and increase the problems of our constituency and the income maintenance structure on which they are dependent.

VI. THE CURRENT ECONOMIC SITUATION: INFLATION, RECESSION, AND THE BUDGET

In March, the Tax Reduction Act became law. Our Associations supported it. The $22.8 billion reduction in income taxes was designed to provide a quick but temporary stimulous for a recession economy in which the unemployment rate was 8.7 percent and rising. Although the inflation rate has moderated from 1974's double-digit level, it is still high by historical standards and may again be accelerating. By eroding purchasing power and attracting a government response of intentionally restrictive monetary policy and unintentionally restrictive fiscal policy, inflation was a major contributor to the intensifying recession.

Despite Administration claims to the contrary, the inflation which precipitated the recession was not the classic demand-pull type that results from excess public and private spending in an economy already producing at or near capacity. While there was undoubtedly some demand-pull contributory factors in selected markets, the major inflationary impetus came from foreign and domestic energy price increases, food shortages, inflationary expectations on the part of management and labor, and the power of some domestic industries to boost prices to levels unjustified on the basis of market conditions.

Although the effect on prices of this combination of factors was inflationary, the effect on incomes and consumer demand was deflationary. Despite significant wage gains made by workers in nominal earnings last year, every measure of real earnings declined. With consumer purchasing power weakening, demand for goods and services also weakened.

The double-digit inflation, coupled with a progressive income tax structure caused tax receipts to rise at accelerating rates, further eroding consumer purchasing power.[2] Higher money incomes pushed taxpayers permanently into higher tax brackets, even while real incomes were falling. The federal income tax in an economy burdened with both inflation and unemployment had a destabilizing rather than a stabilizing effect.

As we finished 1975's third quarter, there was increasing evidence that the economy had begun to recover as the result of a shift to more expansive monetary and fiscal policies, including the tax cuts of the Tax Reduction Act.

Our Associations believe that the temporary provisions of the Tax Reduction Act that are applicable to taxable year 1975 should be made permanent through additional tax legislation and that more tax relief should be provided to add an additional measure of economic stimulous and prevent an increase in federal income tax withholding. The unemployed must be put back to work; a more acceptable rate of economic growth must be achieved and maintained.

The costs of continuing recession are too great. In 1975's first quarter real GNP was only 86 percent of potential, representing a loss of goods and services of about $1000 for every American on a per capita basis.[3] The fiscal 1976 federal deficit will be in excess of $70 billion—primarily as the result of the recession. The deficit increases by $15 to $16 billion for each one percent increment in the unemployment rate.[4] As unemployment rises and consumer spending falls, personal and corporate tax payments fall; at the same time, transfer payment for unemployment insurance and welfare increase. Continued recession and inflation will mean successive and substantial federal deficits and prospects for such recurring deficits will reinforce Administration attempts to cutback on programs on which the aged are highly dependent for income support and health care protection.

Indeed, in discussing the Administration's proposal for a $28 billion cut in expenditures over the level projected for fiscal 1977, James Lynn, Director of the Office of Management and Budget, indicated, in testimony before the Senate Budget Committee, that the Administration would review certain programs in order to effect such "savings." Those cited included Medicare, Medicaid, Food Stamps, SSI and social security (cost-of-living adjustments).

Our Associations have seen this combination before. The Administration's budget for fiscal 1976 was replete with them.[5]

The Administration fails to say that much of the projected federal deficits for fiscal 1976 and 1977 are the result of both the unemployment and the recession that its own policies produced and of a type of inflation that those same policies failed to control. It also fails to say that a large portion of the increase in the numbers of persons entitled to benefits under various programs is the result of those same unemployment policies. The Administration does not say that growth in federal outlays for health care programs such as Medicare and Medicaid is the result of the Administration's unwillingness to intervene in the health care sector to deal with the factors that are contributing to a double-digit rate there.

---

[2] Not until incomes began to fall sharply at the end of 1974, largely as a result of increasing unemployment, did tax receipts begin to diminish.

[3] See Congressional Budget Office. "Inflation and Unemployment: A Report on the Economy," 17 (June 30, 1975) (hereinafter referred to as CBO Rept.).

[4] Id at 46.

[5] The Administration's fiscal 1976 budget included the following: (1) a 5% cap on automatic cost-of-living adjustments in income support programs; (2) 10% coinsurance for Part A of Medicare; (3) an increase in the monthly Medicare Part B premium from $6.50 to $7.00; (4) an increase in the Part B annual deductible from $60 to $70 with automatic excalation thereafter; (5) a limitation on the annual increase in schedules of "reasonable costs" that determine Medicare payments; (6) a reduction in federal matching payments from 50 to 40 percent for social services under Title XX of the Social Security Act; (8) a $42.4 million reduction for Older Americans Act programs and (9) increased food stamp costs for recipients.

Given the present state of the economy, our Associations believe that moderately more expansionary fiscal and monetary policies would help to bring down unemployment somewhat without appreciably increasing inflation. On the other hand, we believe that more restrictive policies will aggravate unemployment with little impact on inflation. Any inflationary surge in the near future will be more the result of what happens in the energy,[6] agricultural and concentrated industrial sectors than the result of moderate changes in fiscal and monetary policies.[7] We recognize that expansionary policies in a time of high employment would tend to generate demand-pull inflation without affecting unemployment rates significantly. However, in view of the severity of the current recession, we expect it will be a long time before we find ourselves in that situation.

While our Associations appreciate the Administration's concern over the rate of growth in federal spending, we do not believe that short-term federal expenditure reductions in vital programs are an acceptable remedy for the problem of budget controlability or for demand-pull inflation or the type of inflation we are presently experiencing.

We do not feel that the federal government's limited budget controllability over the short-term is a significant constraint on its ability to exercise countercycical policies. The federal government has the power to raise or lower taxes to restrain or stimulate the economy. We think short-term policy shifts should be made on the revenue side of the budget rather than the expenditure side.

To deal more effectively with current inflation, we believe it essential to develop an effective micro-policy to deal with administered pricing and deny to the concentrated industries the large and continuing profits they have been able to exact when these are wholly unjustified on the basis of production costs, fair rates of return and market conditions. Only by developing an instrument effective to deal with this type of inflation, will we be able to use the highly stimulative monetary and fiscal policy that is essential to ending the recession. To us, some form of controls over non-competitive markets is absolutely essential. With antitrust so ineffective and with unemployment and lost output costs arising from the use of macro-policies so extraordinary in dealing with this type of inflation, a reasonably effective micro-policy (and a mechanism to implement it) needs to be created. It should be viewed simply as another tool to stabilize the economy.

When it can be demonstrated that excess market power is preventing price declines in the fact of falling consumer demand, when it is clear that the unemployment cost required to make prices in these industries respond to these demand conditions is too high, when it is clear that antitrust action will take too long, clearly some government control is called for. To refuse to do so is to permit these industries large and continuing excess profits—profits which cannot be justified on the basis of costs and fair rates of return—at the direct expense of society, other more competitive industries and consumers alike.

VII. LONG-TERM BUDGET CONTROLLABILITY

As means for bringing the rate for budget growth under greater control over the long-term, our Associations have suggested federalization and reform of our inefficient, duplicative and wasteful patchwork of cash and in kind benefit welfare programs and legislation to coordinate the primary retirement systems with each other and with a reformed welfare structure. Moreover, by adopting the Social Security Advisory Council's proposal to decouple the indexing of social security benefits from the indexing of future retiree's earnings records, that system's earnings replacement ratio would be stabilized and future costs brought under control.

While our Associations are concerned over the growth of federal expenditures for health care programs such as Medicare and Medicaid, we are also concerned over the growth in out-of-pocket expenditures on the part of Medicare beneficiaries because of the uncontrolled inflation in the health care sector. Medicare share of the aged's health bill has dropped from a high of 44 percent in 1969 to 38 percent in 1974. Indeed, the aged are spending more out-of-pocket for health care services today than they did before the advent of

---

[6] We consider the Administration's energy program highly inflationary.

[7] In June, the CPI increased at a seasonally adjusted .8% (or at a 9.6% annual rate), doubling May's .4% rise. Higher prices for food, gasoline, used cars and home mortgage interest rates accounted for 3/4 of this increase.

Medicare. If this trend continues, increasing numbers of them will be priced out of the health care market.

Our Associations have urged repeatedly that the Administration take the initiative in seeking some kind of immediate controls over health care to restrain the rate of inflation which, since the expiration of controls in April 1974, has been 13.1 percent annually—three times the rate of increase during the period of controls and almost twice the pre-freeze rate. While such controls are in place, payment procedure reforms in Medicare should be developed to get away from cost reimbursement with respect to institutional providers. With respect to private practitioners, pre-negotiated fee schedule procedures are needed and provision to require the acceptance of the Medicare payment as payment in full. To resort to devices such as Medicare cost-sharing increases as the Administration proposed last January (and as we expect it to propose next January) as the means of restraining the rate of growth in federal outlays for health care, would be to deal with one of the effects of health care inflation while ignoring both the causes and other effects on aged beneficiaries.

VIII. CONCLUSION

Our Associations must reiterate our opposition to any futher attempts to pressure the trustees of the New York City public employee retirement systems into making additional investments in MAC or City securities.

At the same time, however, we believe, on-balance, that the federal government should assume a *limited* role as guarantor of City security issues. While there is much to be said about default as a means to achieve sound budgetary management at the state and local level, we believe that the adverse economic consequences are such that default should be avoided.

We cannot afford, at this juncture, to embrace as public policy, positions that would destabilize the economy further, aggravate the unemployment problem and prolong the recession. Our Associations feel strongly that more must be done to put the unemployed back to work (even if the federal government must assume the role of employer-of-last-resort), and simultaneously to deal with those factors that are contributing to the continuing and unacceptably high rate of inflation. Default would be an economic step backwards.

Chairman HUMPHREY. Thank you very much.

Our next participant is Judy Gallo, the labor secretary of the New York State Communist Party.

STATEMENT OF JUDY GALLO, LABOR SECRETARY, NEW YORK STATE COMMUNIST PARTY

Ms. GALLO. Good afternoon Senators. I am very happy to be here. I will be very brief.

We believe that Federal aid to New York is urgently needed if the city is to avoid default and bankruptcy and to begin to solve its financial problems. We don't agree, as many of the speakers here today do not, with President Ford that a default in the biggest city of the United States, financial capital of the Nation, would have little or no impact on the rest of the country or in the entire national sphere.

This fact is, as we all know, the impact is already being felt, whether our President chooses to recognize that or not.

Nor do we agree with President Ford when he says that the problems must be solved by New York City or the city and State alone. We do agree that some money can be gotten from the city and the State. Not, however, by laying off more workers or freezing of wages or any other measures which place the burden of our crisis on the backs of the working people.

There are big real estate owners who owe hundreds of millions of dollars in back taxes. This should be collected. There are banks and corporations housed in New York City which have billions of dollars in assets. The taxes on those assets should be greatly increased. There are other sources like these from which money can be taken at the expense of the wealthy and not at the expense of the working people.

But, in addition to all this, there is an urgent need for immediate Federal aid as well, to avoid the demise of our city. Only the Federal Government has the resources and the ability to act quickly to provide this aid. New York City contributes at least $19 billion in taxes each year to the Federal Government. But we get back only $3 billion. This unfair disproportionate burden on New Yorkers should be ended.

So the question in our view is not Federal aid or no Federal aid, but, rather, Federal aid on what terms?

We are in favor of Federal aid for New York City, with money being specifically appropriated for the needs of the people, for restoring all of the budget cuts, for rehiring all of the laid-off workers, for expanding public works and public services. New Yorkers have too few services, not too many. We need schools, teachers, low-cost housing, child care facilities, senior citizen facilities, mass transit at reduced fare and much, much more.

However, we are opposed to any proposals now in Congress for immediate aid which has attached to it stringent restrictions and hardships on the people, whether it be through increased taxes, through wage freezes, through more layoffs, through the elimination of free tuition or the abolition of present control. Because the Proxmire-Stevenson bill has some of these provisions attached to it, we are opposed to that bill. We are opposed to it further because it would give virtually dictatorship powers over collective bargaining.

We agree with the AFL–CIO, that giving such powers to the Federal agency infringes greatly on the democratic rights of working people and would seriously cripple the strength of the organized working movement. We would add that the steps from such controls to marshal law to enforce them may be short steps indeed and take us far along a path none of us would want to travel, a path which could lead to the elimination of many of the democratic rights of our people.

The needs of the people of New York City for Federal aid is great. The cuts in service and jobs have been disastrous, particularly for the black, Puerto Rican and Asian American communities, for the youth and the senior citizens.

What do we favor? The Communist Party of New York favors an immediate and sizable grant of money to the city for specific purposes of meeting the people's needs. We agree with those in Congress who have proposed an immediate cut in the military budget of 25 percent as one source for such funding. We favor also Federal loan guarantees and restructuring of the city debt converting short term notes to long term bonds at low interest rates, a maximum of perhaps 5 percent.

We believe it is not asking too much of the banks and corporations that they should give a little bit to help remedy the crisis we face. We favor the passage of a bill in Congress, finally, which would guarantee full employment for all of our people who are willing and able to work as a right. We believe that the Hawkins bill moves in that direction and, therefore, should be supported. We would add, however, that any bill that is passed must include specific and sizable appropriations of money. We would add that the amount of time allowed to achieve full employment must be shorter than any protected 5-year plan.

We would add finally that no bills should be passed, in our opinion, which would allow for the hiring of workers for public work projects at anything less than current prevailing union scale wages.

With such provisions we believe the Hawkins bill would measure up to what is needed to get the city and its people out of our present doldrums. Thank you.

Chairman HUMPHREY. Thank you for your statement.

Mr. Zoakos of the United States Labor Party.

STATEMENT OF CRITON ZOAKOS, DIRECTOR OF INTELLIGENCE, U.S. LABOR PARTY

Mr. ZOAKOS. Mr. Chairman, I will confine my remarks to four or five points. But before that, let me update you in certain advances on economic science since you last were acquainted with it in the 1930's.

The New York City crisis is occurring within the context of a worldwide crisis which, in my party's competent estimation, happens to be the worst breakdown crisis in the last four hundred years of capitalist history, i.e., the worst collapse of credit since the Spanish bankruptcy of the 16th Century. Unless bold political initiatives are outlined to match the scope of this problem, there is going to be no competent solution provided for the New York City crisis, for the New York State crisis, for the Federal Government's crises and for the international monetary crisis.

NewYork City, as my first point, happens to supply us with a paradigm of what the content of this international crisis is. The content of this crisis is the fact that major debt-holding categories have already gone bankrupt. The $60 to $80 billion of New York City debt is the underlying cause of the crisis. The debt service that must be paid to that debt is the underlying cause.

For the world economy as a whole, we have specialists who tell us that we have a $3.5 to $5 trillion dollars worth of global debt overhanging the world economy. Interest rates being what they are in 1975 and debt service payment requirements being what they are, we have reached the point at which, if we insist on paying obligations to that debt, the world economy is not going to be able to provide essential services to its working population and related support population.

This is precisely the issue in New York City as well. If we insist on paying debt service to that debt, there will be no services for the working population of the city available. Therefore, our first task is the orderly repudiation of debt. This must be pursued ruthlessly and must be implemented at the New York City level as well as at Federal and international level. This is not sufficient.

Ford, of course, is in favor of a default. But Ford's recommendation and Simon's recommendation is thoroughly incompetent. Why? Because the President insists that a New York City default is not going to have any effects on the world's capital markets. He is in error there. It will have effects. Unless we have a global solution involving a worldwide default, we are not getting anywhere.

The point is that we must have a surgical operation occur. We are not talking seriously about default unless we are talking about means by which replacement of credit is going to be infused into the economy to provide full employment.

We have the most ironic situation in world history. With the statistics you reported two days ago, Mr. Chairman, we have an annual rate of inflation of 21.6 percent. Simultaneously occurring in the last week of October 1975 we have a reduction of the nation's money supply by 36 percent. This, by ordinary standards, would have been a total absurdity. There is no economist who can explain how you can have a 21.6 percent inflation with a reduction simultaneously of the nation's money supply of 36 percent a year.

People thought stagflation was an economic paradox. We are confronted today with a much more fundamental economic paradox. There is no answer to his question unless you take into account debt and debt service payment on the economy.

Mr. Chairman, you are erroneous in pursuing a course that will give New York City debt Federal loan guarantees. As I heard your public segments yesterday, you insisted that austerity has to accompany loan guarantees. This is not the way to go about it. Austerity will mean a further reduction of the tax base of the economy and further future more aggravated fiscal and monetary crises throughout the economy.

Now, the Youth Labor Party has submitted to Congress a set of rival policy recommendations in the form of bills including the latest, the Emergency Employment Act of 1975, which, in the first week of its circulation, sold to the tune of 10,000 copies, which recommends the following:

The United States of America must be apprised of the fact that there are available solutions to the present global economic crisis. The United States of America must involve itself in treatise with the Federal Government as a whole, the underdeveloped countries of the world as a whole, Western Europe and Japan and the advanced sector of the world as a whole in a cooperative triangular deal whose immediate objective will be the total mobilization of the industrial resources of North America, Western Europe and Japan for the immediate short term objective of achieving the fastest possible rates of growth even in the zone below the Tropic of Cancer. This will immediately insure elimination of unemployment throughout the country. This will immediately insure reactivation of world commerce and trade. This will immediately insure the prevalence of world conditions that eliminate the possibility of war, which will allow reducing of military budgets.

Unless such measures are taken, we will not exit this economic crisis. It is known that measures to get out of this crisis exist. The issue that remains now is will there be the appropriate quality of political leadership to carry out such measures. This is what is at issue today. Unless it is understood that we can no longer have political representatives of this nation maintain their ties with such financial interests of New York banks as the Rockefeller family and, therefore, insist on maintaining debt service payment to the Rockefeller family and as such related financial institutions, unless we break the umbilical cord of such traditional financial relations, this country will not be able to provide the bold leadership that is needed to get the world out of this present depression. Thank you very much.

[The prepared statement, with an attachment, of Mr. Zoakos follows:]

PREPARED STATEMENT OF CRITON ZOAKOS

THE QUALITY AND MAGNITUDE OF THE PROBLEM AT HAND

New York City's financial crisis is occurring in the context of a generalized liquidity crisis and production collapse throughout what up until recently was the U.S. dollar sector of the world economy. At the bottom of this worldwide crisis one finds the same types of bankrupt debt structures that have shattered New York City's fiscal order. While New York City's indebtedness is a mere $18 billion the grand total of world-wide "dollar sector" indebtedness is estimated by specialists to be of the order of $3.5 to $5 *trillion* at this time.

Interest rates being what they are in the capital markets of 1975, any attempt to perpetuate payment of debt service and related obligations to maintain this mountain of debt will have, for the world economy the same absolutely catastrophic effect that such insistence to "honor" New York's debt is having on the economic life of this city: massive collapse of employment, services, productive capacities of the population, destruction of civilized life and total disintegration of any possible tax base as a result.

New York City's predicament is precisely of the very same quality as that of the world economy: both the city and the western economy are horrendously burdened with massive bankrupt debt structures whose payment requirements far exceed the performance of an economy pestered with mass unemployment.

My Party has repeatedly both warned and informed the public of the consequences of this accumulated mass of virtually unpayable debt. Indeed, defaults and debt moratoria are not merely at hand, necessarily and inevitable they are indeed at hand. Knowledgeable banking sources inform us that in 1975, approximately 25 per cent of all banking personnel were assigned to cases of "bad loans." Therefore, for any sensible public person with knowledge of previous such credit collapses in history and with an adult attitude toward them the only question is not how to avoid defaults, moratoria and suspension of debt payment obligation but rather how to replace the existing bankrupt debt and credit structures with those appropriate forms that will ensure immediate economic recovery and return to full employment conditions.

Before I proceed to outline what the general character of the remedy must necessarily be, I must first emphasize that this matter must be treated with utmost urgency. As I stand on the record of my Party's unbroken chain of unfortunately vindicated economic predictions over at least the last seven years, let me inform you of the kind of economic universe we are going to be inhabiting in the Winter 1975–Spring 1976 period:

Figures on price, employment, factory orders and credit trends compiled and released over the past few days by the Commerce Department, Bureau of Labor Statistics and the Federal Reserve Board respectively, are incontrovertible evidence that the world's largest national economy is sliding uncontrollably into the deepest economic crisis in modern capitalist history; the wholesale price index in October exploded in banana republic style at an annual clip of 21.6%. Price mark-ups characterized such major commodities as food, fuel, steel, and automobiles and are therefore bound to provoke a chain reaction—consumer price explosions as retailers rush to offset increased costs.

Unemployment in October reversed a four month decline and jumped by 230,000 to a near post-war record of 8.6 percent. These figures do not include the estimated two million workers who have exhausted unemployment insurance and abandoned all job hopes.

New orders for factory goods in September dropped for the first time in six months. Orders for such durable goods as steel equipment and appliances which fell by almost one percent have been the mainstay of the five month blip in industrial production. The collapse of such orders means the decimation of the capital goods sector, the core of US industry. The October rise in unemployment in the capital goods sector signals the beginning of this process.

The nation's money supply i.e. currency in circulation plus checking account deposits in the last month has plunged at an annual rate of 36 percent, a decline more precipitous than occured during the "Great Monetary Contraction" of the 1929-33 period. This is the result of a broad policy orientation pursued both by Chairman Arthur Burns and the banking system generally of pumping reserves into the banking system which are not being circulated throughout the economy in the form of productive loans and investments. New York banks are either hoarding these reserves as a cushion against the flood of expected defaults or reinvesting them in short-term governmet debt which can be liquidated on an emergency basis.

This general situation obtains throughout the "dollar sector" of the world economy. The cause for this catastrophic collapse in production levels and the accompanying monetary paradox of runaway inflation-cum-monetary contraction is the world debt situation. Major categories of debt have been pumping money away from the actual reproductive process of the economy thus increasing overall debt and debt obligations while at the same time systematically narrowing the productive base which would otherwise make the ultimate payment of debt possible. Such major categories of bankrupt debt structures are the overall Third World debt hanging over the Eurodollar markets, large categories of municipal debt throughout the Western Economy, agricultural debt generally, and significant proportions of historically accumulated debt in manufacturing, among other categories.

THE UNIQUE SOLUTION

The issue of whether or not to honor past debts is of purely tertiary importance. The actual issue is: what are the necessary measures, forms of action etc. that will lead us to full employment and accelerating rates of economic growth in the shortest period of time. Such measures and means already exist. The U.S. Labor Party has submitted a series of legislative proposals whose synthetic intent is to reverse the process of economic collapse overnight. I am submitting for the Record our most recent such proposal, *The Emergency Employment Act of 1975*, with the remark that during the first week of its publication it sold in approximately ten thousand copies among concerned layers of the electorate.

Otherwise, I shall limit myself to outlining the principle involved in the development of the solutions otherwise elaborated in the EEA.

Provided that the scientific, industrial and agricultural potentials of the nation are matched to the industrial and agricultural development needs of the developing nations, and on condition that such a United States foreign policy is undertaken in cooperation with other industrialized countries including the Comecon sector, the United States will rapidly enter a long period of economic expansion, during which the magnitude of absolute expansion annually can be caused to exceed that of any past comparable period of the nation's history.

Any effort to secure payment to illiquid debt structures must be abandoned since such efforts generally represent vicious austerity measures that weaken the nation's productive forces. One must therefore proceed from the need to finally formally recognize an already existing fact: that major categories of debt-holding within this nation are irreparably bankrupt.

Our concern therefore is primarily with providing the nation's economy with sufficient credit to facilitate the expansion of actually productive commercial and industrial activities in accordance with new international treaty obligations that will proceed from the standpoint of a political commitment to a "new world economic order".

In short, what is required is a financial reorganization procedure of the sort that follows every formal bankruptcy. But a financial reorganization of the entire interconnected world market—this is the only real scope of the problem.

Objective of this financial reorganization must be a gigantic "triangular" cooperation among North America and Western Europe the Third World countries and the Comecon sector for the fastest possible rates of development of the Third World and for the fastest possible development of advanced industries and technologies throughout the already developed sector that are indispensible for ensuring the maintainance and increase of growth rates worldwide. Simultaneously with massive coordinated effort, the nation's scientific forces must be mobilized along with those of other nations, for the early successful development of Controlled Thermonuclear Power (Fusion) production—a scientific breakthrough whose advent will signal the beginning of a new, fruitful era in the history of humanity.

It can be easily seen that of the basis of these national and international economic commitments the proposed financial reorganization procedure can be made to yield the appropriate financial institutions and practices deliberately aimed at servicing the requirements of these productive endeavors.

THE ISSUE OF POLITICAL COURAGE

There is no avoiding the fact, at this late hour, that we are in the midst of the worst capitalist crisis in four hundred years. The crisis that has hit this city and this country goes far beyond our local and national borders. It is a worldwide crisis of the profoundest historical proportions. The demands that it makes on political leadership are commensurate.

No leadership that fall short of the scope and dimension of the present crisis will be remembered for many more weeks. The issue is no longer one of merely allowing or not allowing New York to default. It is no longer even one of allowing or not the United States to default. There is no way of avoiding these defaults for long.

Those who are accusing President Ford of abandoning the City of New York are making promises and proposals of avoiding default by means of the most devastating sort of austerity, sevice cuts and layoffs. Their opponents, even though they recognize the inevitability of New York's default, mistakenly assume that this is not going to affect the nation's and the world's capital markets; they therefore fail to provide new sources for much needed liquidity while they find themselves on the same ground as their opponents on the issue of austerity.

Therefore, both President Ford's spokesmen and their congressional critics have this in common: auterity drives and absence of all concern for providing the necessary credit to restart an economic machine that is coming to a grinding halt.

At this late hour of the crisis, the only known extant solution is that of the U.S. Labor Party which proceeds from the political determination to provide the required coherent solution to the world economic crisis as a whole. This means that up until this moment only my party's leadership has displayed the intellectual resolution and daring that is demanded by world circumstances.

Having done this, the U.S. Labor Party has accomplished the following crucial political result: the politically crucial portions of the U.S. population know now that the country has before it a clear choice: either adapt the emergency measures proposed by the USLP or deliberately choose the path of the most disastrous economic catastrophe mankind has ever known.

The choices are here and when made, they will be made willfully. If this country, in the months ahead, experiences a total disintegration of its productive functions, that will have been the result of the willfull, cold-blooded decision of persons in positions of responsibility to achieve such result. And the country will be aware of this.

Attachment.

The Emergency Employment Act of 1975

Issued by Lyndon H. LaRouche, Jr. U.S. Labor Party Presidential Candidate

Sec. 1 This Act (a) supersedes the Employment Act of 1946 and (b) may be cited as the "Emergency Employment Act of 1975."

Declaration of National Economic Emergency

Sec. 2 (a) **The Congress hereby declares** a grave national economic emergency to exist, and identifies the proximate general cause for this worsening condition to be a spiralling collapse of the long-term liquidity of major categories of debt-holdings of both leading U.S. financial institutions and the international monetary system. Specifically, in the absence of immediate enactment and implementation of specific far-reaching measures of foreign and domestic policies, the presently manifest and growing tendencies for public and private economic-cannibalistic austerity measures will critically weaken and possibly even destroy the future productive potentials of the nations's agriculture, industrial capacities and labor force.

(b) Appropriate and acceptable alternative means to effect full economic recovery are known to be immediately accessible to this nation. On the condition that the scientific, industrial and agricultural potentials of the nation are matched to the industrial and agricultural development opportunities of developing nations, and on the condition that such a United States foreign policy is undertaken in cooperation with other industrialized countries including the Comecon sector, the United States will rapidly enter a long period of economic expansion, during which the magnitude of absolute expansion annually can be caused to readily exceed that of any past comparable period of the nation's history.

(c) Heretofore, the available remedies have been prevented from securing adoption because of a pervasive refusal to forsee and to accept the fact that both the international monetary system and major categories of debt-holdings within this nation are irreparably bankrupt. Now, it has become unignorably clear that a preponderance of existing international and national debt-structures could not be salvaged even by resort to hideously inhumane measures of general austerity. The Congress points to the disastrous consequences of the misconceived refinancing programs forcefully imposed upon the City of New York as appropriate illustration of a general national and international situation. The desperate and foolish effort to scavenge liquidity for masses of preponderantly "soft" loans has caused and continues to exacerbate a looting of indispensable social services and of the circulating capital of industry and agriculture.The inherent consequence of such general austerity measures in favor of illiquid debt structures is to weaken the nations's productive forces and to thus shrink the income-producing base of the economy at the same time that high-interest refinancing augments the mass of illiquid debt-holdings demanding payments at the early next point of aggravated crisis.

(d) Although the magnitude of the present international monetary crisis is without precedent, study of the national economic crises of Weimar and Nazi Germany from approximately 1928 through 1945 provides most relevant crucial evidence of the hideous folly of our nations's continued toleration of austerity policies modeled upon the precedents of Hjalmar Schacht. The relevance of that evidence is corroborated in cruel fashion by the current spread in the nation of social measures which are in direct imitation of those associated with Schachtian economic policies during the early period of the Nazi regime. Drastic reductions in real wage-incomes, an aggravated and largely deliberate erosion of working conditions, labor-intensive practices which jeopardize the health and cognitive powers of those persons subjected to such harsh measures, the use of drugs and will-destroying techniques of psychological behavioral modification as methods of political population control, plus an introduction of the Nazi regimes' industrial security system to an increasing number of plants, are all Nazi-modeled methods of wages-cost reduction offered to public and private employers as a source of offsets for the looting of investment and circulating capital and governmental incomes to meet debt-service demands. In the Nazi experience, the rapid depletion of capacities and of the German labor force by such Schachtian measures was partially offset by Nazi conquests, through which the looting of foreign industrial facilities, resources, and economic cannibalization of the conquered and other special populations by Auschwitz-type methods provided the fragile basis for maintaining the Nazi economy. Whether wittingly or not, those who propose Schachtian forms of austerity as a means for sustaining bankrupt debt structures are demanding such Nazi-modeled social measures against the populations of this and other nations.

(e) The same misconceived policy-outlooks which have been responsible for the incompetent austerity refinancing of the City of New York have been the chief obstacle to reaching such international agreements which are both available to this nation and adequate to afford the preconditions for recovery programs. Leading nations of the developing sector and of other industrialized nations have proposed to put the bankrupt international monetary system to rest and to replace it with new institutions of international credit and treaties of economic cooperation for global advances in agricultural and industrial development. Within the Executive of this nation, representatives of those proposing the Schachtian approach, notably the Secretary of State, have persistently attempted to disrupt such negotiations among other nations, and have used formal or implicit veto powers to nullify measures of international agreement which are in fact in the urgent interest of the economy and people of this nation.

(f) Despite the aggravated depletion and spreading obsolescence rampant throughout the nations's under-invested industrial and related facilities, the infrastructure of the nations's productive capacities continues to be essentially sound up to the present point of the depression-collapse. That soundness will assert itself as the dominant reality provided that the succubus of bankrupt financial structures is promptly cut away. The present trends for aggravated depletion of the productive capacities and for weakening of the labor force warn us that unless the debridement of diseased financial structures is accomplished during the immediate period, continued austerity-looting will result in early massive and long-lasting damage to even the possiblity of future economic recovery. Provided that (i) the bankrupt financial structures are cut away, and (ii) that new, alternative institutions of international and national credit are immediately established, the world market for U.S.-produced industrial and agricultural exports is sufficient to require full employment of the nation's labor force and to make possible substantial renewal and augmentation of the productive capacities.

(g) The impediments from among other nations to establishing such international agreements are minimal. Leading forces of the developing sector, of the EEC, of the Comecon sector and of other nations besides are in fact urging the United States to participate in the establishment of a "new world economic order" of the appropriate essential features. Therefore, the Congress declares it to be the foreign policy of the United States to assist in effecting the earliest possible establishment of agreements leading toward the founding of such a "new world economic order."

Emergency Short-Term Measures

Sec. 3 Given the alternatives posed by the present emergency, the responsibility of the government of the United States for appropriate emergency actions is correspondingly clear:

(a) The government shall undertake to cause and direct orderly bankruptcy measures affecting major categories of national and international debt-holdings in the context of treaty agreements establishing new institutions of international and national credit which shall supply the essential functions of the replaced, bankrupted institutions.

(b) The government shall simultaneously enact and implement legislation and supporting orders and procedures to ensure that no citizen or resident is deprived of essential levels of incomes and social services because of the bankruptcy of pension funds, insurance companies, banking institutions or other relevant public and private institutions.

(c) Since it is in the national interest that credit shall be routinely provided to essential public and private employers for payment of payrolls, for necessary purchases of materials, supplies, and services, and for capital maintenance and improvements, and since it is also essential to provide secure depositors' services for government, firms, and individual persons, the related service role of banking institutions shall be preserved under conditions of bankruptcy. Such banking services provided by the organization of bankrupted financial institutions shall be nationalized for the duration of the emergency as a means for policy direction and supervision of such service operations.

(d) For the duration of the emergency, unemployment compensation, social welfare assistance, pensions payments, and national medical services assistance shall be consolidated under an Emergency Social Security Agency of the Department of Labor. The Emergency Social Security Agency shall incorporate the persons and facilities of the existing Social Security administration system and shall draw upon qualified persons, facilities and budgetary allocations of discontinued activities of the Executive branch so that it may rapidly assume the orderly execution of its full functions. The Department of Health, Education, and Welfare is suspended for the duration of the emergency, and such functions as may be deemed essential shall be appropriately assimilated by the Emergency Social Security Agency or assigned to other Executive departments.

(e) The Emergency Social Security Agency shall have the following titles of authority, duties and responsibility, for which it shall be provided emergency funds from the general revenue as needed to competently fulfill such assigned responsibilities.

(i) The Agency shall maintain full unemployment compensation and disability and retirement pension payments to all persons previously qualified by no other criteria but circumstance of unemployment, disability or age, and shall augment the amounts of such scheduled payments to the extent required by prevailing costs of living.

(ii) For the duration of the emergency, those persons owed pension, disability and-or medical financial assistance payments by insurance companies or other public and private financial institutions, or who have depended upon private savings for equivalent forms of self-support, may discount such claims up to scheduled ceiling amounts, paid from the general revenue, through the offices of the Agency, and the Agency shall have automatic prior claim on behalf of the general revenue for compensation for such disbursements against the relevant private or public persons and institutions.

(iii) The term "prevailing cost of living" shall be defined as providing the individual and household with a material standard of daily life in a form compatible with the maintaining of the productive morale and personal dignity of the citizens and residents of the nation. The effective result of combined compensation and other measures to this effect shall be measured so as to become the "market-basket" equivalent of the weekly income of full-time regular semi-skilled operatives in the average firm representing the nation's basic industry at the time of the August 1971 dissolution of Bretton Woods agreements.

(iv) For the duration of the emergency, such standards of personal and household life need not be provided solely by disbursements of compensation of individuals from the general revenue. The Agency shall be delegated specific stand-by powers to provide income relief in the form of moratoria against previously accumulated indebtedness of persons receiving income assistance through the Agency. The Agency shall also be delegated the stand-by powers to order reductions in rental or equivalent forms of payments for the same categories of persons. The Agency shall also be delegated stand-by powers to order moratoria on payments of tax obligations for the same categories of persons. There shall be no interest penalty nor other penalty or charges incurred by the Agency or any person receiving such relief and assistance. Such measures shall continue in effect for as long as persons remain in the corresponding categories of eligiblity for Agency assistance or for the duration of the emergency, whichever date is earlier. Where such measures cease to apply to persons after such date, the suspended obligations shall be resumed as if the period of the condition for which such measures were applied had not existed in time.

(v) The Agency shall also recommend measures which effect reductions in the money-cost of living of all persons, notably those types of measures which emulate the intent and substance of the following special measure of rationalization of metropolitan and local commuter mass-transit services. The Congress directs that the practice of collecting tolls as a means of providing revenues for metropolitan and local commuter mass-transit services to be a wasteful practice, adding relatively great costs to the providing of such services in matters relating to the collection and accounting of tolls. The cost of such services to the nation and local communities will be substantially reduced, and the cost of living reduced by providing metropolitan and local commuter services free of usage charges to the user, and by providing such facilities at reduced operating and administrative costs from the general revenues of Federal, State and Local governments. The Congress also directs that priority of effort be given to capital improvements in transportation and urban development which reduce the directly incurred cost of providing and maintaining a high standard of living. The Department of Labor shall recommend such appropriate forms of legislative action and construction contracts letting for rail transport and mass-transit rehabilitation and development and for urban development as will yield such benefits to the combined public and private economy and utilize otherwise idled and wasted portions of the labor force. The Department of Labor shall be the coordinating agency for such projects in all cases in which several departments of the Executive branch are responsible for contributing direction to the formulation, programming and supervision of such programs of cost reduction in the supply of equal or improved public and private services.

(vi) For the duration of the emergency, all accredited medical institutions shall be maintained financially out of the general revenue through the Agency, with the stipulation that the maximum salaries, fees and wages payments to persons employed or retained to perform essential services in such institutions shall not exceed previously existing norms with specific exceptions. Those exceptions shall include interns and residents, nurses, technicians and para-medical and non-medical staff personnel. For those latter categories, new standards shall be established providing parity for equivalent degrees of skills in industry and public employment generally.

(vii) The principles guiding the Agency in administering the medical institutions program shall be the following. (1) It is less costly to provide services as determined by recommendation of professional medical personnel than to incur the non-essential costs of administration and wasted time of medical personnel of a fee-paid system of purchase of such institutional medical services. (2) the shortage of institutional medical facilities and services is acute, to the effect that the medical profession itself is best qualified to balance scarce resources to population needs through professional medical control of the administration, intake, discharge and other relevant practices of such institutions. It is clear that the national cost of institutionalized medical services can not exceed the total costs authorized for the institutions provided under the program. (3) This emergency program must foster augmentations of the ranks of the medical and related professions and hygiene appropriate to improved control of disease and to improved medical services to the population at a lower effective social cost achieved through better technology and better use of technology. (4) The Agency shall include programs of medical research under the title of maintenance of accredited institutions.

(viii) All Federal, State and Local public welfare assistance programs shall be maintained out of general revenue and shall be placed under the direction of the Agency. The following policies shall guide the Agency in its administration of public welfare. (1) In every case of individuals and households, it shall be policy wherever feasible to bring such individuals and households under the provisions of unemployment compensation and regular pension programs, and to aim for such appropriate measures of unemployment compensation and pension practices so as to reduce the number of cases of aid to dependent children through making the relevant household itself a viable economic entity. The object is to bring as many as possible into the mainstream of present and future skilled and semi-skilled labor force populations and out of the institutionalized lumpenization of numerous existing "social-work meliorist" practices. (2) The cancer of public welfare in the United States from approximately the 1957-1958 recession must be understood by agents of the government to be the combined direct and indirect consequence of the relative stagnation in the number of skilled and semi-skilled operatives in basic manufacturing industry, mining and construction in ratio to the entire adult population over the 1957-1975 period. In consequence of the misguided emphasis on other forms of income-yielding activities over expansion of inudstrial, mining and construction production, the inevitable resulting increase in general inflation has been aggravated by failure to assimilate potential new layers of operatives into the mainstream of regular full-time productive employment. The resulting lumpenization and semi-lumpenization of a large and growing portion of the productive labor force has fostered aggravated gheto-ization of major sections of that population most conspicuously among certain racial and second language-group minorities. The resulting loss of the family household as an economically viable unit, the looting of lumpenized strata by the ghetto area's real estate and other practices, and the creation of a demoralized climate of permanent poverty in affected communities has produced the most conspicuous features of the public welfare problem. However, although public attention has been focused upon the effects of this on racial and Hispanic minorities, the problem is generalized in fact beyond distinctions of race or national origins. In consequence, although certain appropriate remedial programs are and may be indicated, it has been demonstrated that most of the "social work"-oriented, "community"-oriented meliorist programs have either aggravated the problems or otherwise have failed because their efforts are fruitlessly directed to attacking problems without practical regard for the continuing real causes. (3) The policy of reducing present and growing public assistance rolls through unskilled, labor-intensive "public works" projects of a "make-work" character will in fact profoundly aggravate the problem. There is no lasting or fundamental remedy for this cancer of lumpenization in the nation but that correlated with the assimilation of a growing number from affected strata into the mainstream of regular, full-time skilled and semiskilled employment in manufacturing, mining, and construction.

Emergency Prices Control

Sec. 4 The Emergency Social Security Agency of the Department of Labor shall coordinate its own efforts with that of the Departments of the Treasury and Commerce to establish measures of direct prices control for the duration of the emergency. The specific intent of such price settings and roll-backs shall be to squeeze out of existing price-structures those margins which are attributable to burdens of the categories of indebtedness being cut away from the current operations of the national economy. The enforcement of such measures shall be provided by penalties of fines and imprisonment under the U.S. Code for those corporate officers and other persons responsible for violations. This shall be implemented by the simplest available procedures, by designating price-levels at dates substantially prior to the presentation of this legislation for legislative deliberation, and fixing base-price levels for price control by category of commodity in terms of the most appropriate such dates for each category.

Adjustments To Controlled Prices

Sec. 5 It is the intent of Congress that the renewal and augmentation of basic industry in manufacturing, mining, construction and transportation shall develop as a major feature of national economic recovery during the emergency period. It is the specific intent that this renewal and augmentation of productive and related capacities shall emphasize an orientation to technological advances through capital-intensive modes of increased employment of full-time operatives and to the effect of increasing the average and modal skill-levels represented by total employment. It is also the intent of Congress to foster research and development necessary to such progress. Applications for adjustments in fixed prices shall be premised upon a showing of circulating capital requirements for such appropriate contributions to the progress of the national interest as that of an industrial power, and such applications shall specify the national or international treaty interest serviced by the requested adjustments in the operating and investments progress of applicant firms.

Repeal of Employment Act of 1946

Sec. 6 Congress takes cognizance of the sweeping changes in global institutions and perspectives which have rendered obsolete and predominantly counterproductive the guiding assumptions of the "Employment Act of 1946."

(a) At the conclusion of World War II, the credit of the United States had established its political hegemony over a majority of the world's nations, an arrangement institutionalized in a central way in the international monetary agreements adopted at the Bretton Woods conference. Although the industrial power of the nation was integral to that hegemony, it was the nation's financial supremacy which was the immediate and dominant determinant of the national and international financial, economic and political institutions developed under the influence of that financial power during the war and its aftermath.

(b) Beginning during the period from November 1967 and the devaluation of the British pound sterling, through the U.S. dollar crisis of February-March 1968, dollar-dominated international and national financial institutions have been undermined by an acceleration of long-term illiquidity, a process leading through the dollar crisis of March-August 1971 into the onset of a spiral toward general collapse erupting approximately in the summer of 1973. During the period from the last quarter of 1974 through the second quarter of 1975, the downward spiral of dollar-denominated international debt-structures reached the condition at which even draconian political measures ceased to afford effective short-term stabilization of the situation. In consequence of developments of the second quarter of 1975 and the unsuccessful attempted financial roll-overs of the June through September 1975 period, during the second and third quarters of the year the long-standing global political hegemonies of the dominant financier factions proceeded to fracture and approach actual collapse in broad areas of the world.

(c) In consequence of recent monetary and political developments on a world scale, the sole sustainable viable self-interest of the United States is now exclusively premised on the nations's existing and potential role as an industrial power. The now unavoidable and imperative measures of orderly bankruptcy of major categories of illiquid debt-structures will strip away the diseased fabric of decayed, formerly politically hegemonic financial institutions, and will demand the establishment of new credit institutions whose power and essential functions are comprehensively subordinated to the purposes dictated by the nation's industrially premised self-interest. That unavoidable and imperative transformation of the active premise of national self-interest has sweeping effects for policies and institutions. Accordingly, profound changes must be appropriately reflected in legislative acts determining national policy on employment, production, purchasing power and other purposes.

(d) The nature and flaws of the Employment Act of 1946 must be made clear to the general public as well as to responsible agents of government, to the purpose and effect that the counterproductive features of that Act are clearly identified, and that the pervasive influences of that Act over more than a quarter-century not be permitted to color the interpretation and implementation of present legislation. To the layman, the Employment Act of 1946 as written and published would not apparently justify the public reputation it has enjoyed during the intervening years. Its explicit content is a single opening statement of broad purpose, followed by sections establishing three institutions: the Economic Report of the President, the Council of Economic Advisors to the President, and the Congress's Joint Committee on the Economic Report. There are no explicit practicable stipulations of a national economic policy in the same sense that this present Act includes such stipulations. The effective content of the legislation is the establishment of special institutions whose specific influence is not identified in the legislation itself, but which influence has been nonetheless both specific and enormous, to the effect of making those combined institutions almost an additional arm of government. Only the National Security Agency is comparable as such a form of gross modification of established government agencies as a whole. What the Employment Act of 1946 accomplished was the creation of a body, the Council of Economic Advisors, whose implicit special bias of outlook selectively biased the deliberations of the Executive and the Congress. The criteria specific to the establishment of such a Council were those of nominal or financier wealth, defining national economic goals by criteria at best skew to the self-interest of U.S. development as a prosperous industrial power. This arrangement appeared to serve the stated objectives of the Act's opening declaration of purpose insofar as measures enhancing financial wealth coincided with an emphasis on industrial development among financier circles. To the extent that latter coincidence diminished, the effect of the institutions created by the Employment Act of 1946 was counterproductive in respect of the long-term national interest.

(e) The recent failures of the institutions of the Employment Act of 1946 would be sufficient grounds for repeal of that Act. From approximately the period of the 1957-1958 U.S. recession, the correlation between industrial and financier objectives lessened and then tended to disappear from approximately the middle of the 1960's onward. Most recently, the institutions established by that Act have lost even the appearance of a competent perception of developing economic realities. Since at least the monstrously incompetent advice given to President Nixon at the beginning of 1974, the Economic Report of the President has cheerfully and altogether groundlessly forseen economic upswings on the verge of each new, inevitable debacle in world economic developments and has proposed chimerical remedies which could only exacerbate the disaster they profess to correct.

(f) The effect of the Act on the nation's foreign, economic and other policies toward the developing sector are sufficient to demonstrate that the Act must be repealed as a precondition to the treaty agreements essential to the nation's economic recovery from depression. Throughout the period following World War II, leading authoritative agencies in the world have known of the competence of detailed proposals for major projects of development of agriculture and industrial infrastructures within major regions of the developing sector. On the condition that opportunities for introducing industrial-technology-based methods of extensive agricultural production were introduced to key regions of that sector; this agricultural development would provide the needed context for development of the infrastructure of industrial development. The overall, accelerated development of that sector would have been and remains sufficient to create and maintain a massive and growing market for industrial exports from the United States and other developed nations. Under the guidance of institutions established by the Employment Act of 1946, the United States government followed a counterproductive economic and political policy toward the nations of that sector. The effective economic policy and its inevitable political correlatives fostered a net effective draining-away from development capital from that sector as a whole, a policy maintained in the direct interest of international debt-structures. Consequently that policy has directly contributed to the conditions responsible for the present global depression.

National Economic Security Policy

Sec. 7 Congress is not blind to the fact that the modes in which emergency actions are taken must inevitably shape the development of national institutions and general practices. The nation has the clear choice of stumbling into unforeseen consequences or knowledgeably choosing the outcome it prefers. Therefore, the relevant agencies of government must be ruled by additional stipulations of policy concerning: (1) foreign and domestic economic policies. (2) national economic development goals of government activity, and (3) the maintenance and development of the labor force insofar as this is determined by the activities of government.

70-058 O - 76 - pt.2 - 14

General Economic Policy

Sec. 8 The subject matter of economy for all purposes of policy is declared to be man's wilful control of the maintenance and development of those processes by which the human race produces the material preconditions of generally improving existence for all members of a growing world population. The analysis essential to competent policy-formulation therefore concentrates upon a study of the proportionate amount of human productive effort necessary to produce the material conditions of life required by the existing population. In that context, analysis takes into account the proportion of the total human productive effort consumed in maintaining and replenishing existing productive facilities and resources in energy, other extraction, agriculture, construction, and manufacturing. The margin of available productive effort remaining for additional uses after those two global prime costs are met is social surplus, which has the following leading significances. First, the absolute mass of social surplus supports a mass of non-productive but essential social services, and after those costs are met, the residue of social surplus provides the margin essential for expansion and development of the productive forces generally. Second, the ratio of total and net (reinvestable) social surplus determines broadly the potential rate of growth and development of the productive forces and the possible rate of improvements in the material conditions of individual life. Third, that usefulness of net social surplus is only potential by itself. Man's progress through investment of net social surplus depends upon technological innovations of the kind contermporary opinion associates with science and its by-products. The human race's ability to grow in numbers or even to continue to live on an existing scale demands overcoming apparent barriers represented by the depletion of resources as resources are defined by prevailing technologies. New kinds of resources, especially new qualities of sources for increased per capita energy consumption in production and by households are the kernel of successfully continued human existence. The overall goal of realized advances in technology is to reduce the proprotion of total human productive effort required to supply an increased absolute per capita material consumption by society, and to permit an increase of fruitful forms of leisure, while also increasing the ratio of investable social surplus to total human produtive activities. The effect is to cheapen the social cost of producing an improved standard of living by realizing advances in technology which increase the effective rate of investable social surplus from human productive activities on a global scale. This achievement depends upon an advance in the cognitive powers of the population, an advance which is indispensable to the mastery of new productive technologies and which is essential to provide the broad social basis in general knowledge for still-further advances in the discovery and assimilation of science and its technological by-products. Those advances in cognitive development of the population represent a rising cost of consumption relative to any fixed level of technology, a cost-rise which can be offset only by realizing advances in applied technology to production generally. Those are the essential conceptual criteria of national economic policy-formation.

Foreign Economic Policy

Sec. 9 To the extent that any sector of the world's population lives in relative technological backwardness of its productive development and development of its labor force, the economy of the United States is directly relatively impoverished by the high social cost of imported products at equitable prices of foreign labor, by the slower development of U.S. industries resulting for a lack of investable margins of social surplus in those sectors, and by a slower rate of development of resources of older and new types essential to the general welfare of the world's population. The foreign economic policy of the United States is governed by the principle of increasing the nations's trade in raw materials and industrial commodities, with emphasis on capital goods export, and entering into cooperation agreements with other nations, both industrialized and developing, to promote such general trade and the institutions of credit needed to facilitate it. To effect such results, the United States includes in its foreign economic policy a leading commitment to the internal and agricultural progress, using modern technology, by developing regions of the world, and pursues that policy in concert with both the developing nations and other industrialized nations. The United States subsumes under these principles a commitment to international cooperation in scientific research and applications, with emphasis on the urgent development of controlled thermonuclear fusion technologies, space exploration and biological science.

National Economic Development

Sec. 10 The broad national economic policy of the nation is its most rapid development as an industrial power, with emphasis upon the fostering of basic scientific research and its applications, the expansion of industrial power on the basis of empasis on improved technologies and capital-intensive development, and upon the development of the national infrastructure to meet those goals.

(a) The bias of government policy is to foster shifts in the composition of the labor force away from unskilled labor-intensive and redundant administration practices toward an emphasis on increased proportions of skilled operatives, engineers and scientists.

(b) The Department of Commerce is charged with the responsibility of discouraging continued use of trade practices and governmental procedures which incur avoidable clerical administrative and related costs, with fostering the development of improved clerical and other administrative procedures and practices in public and private practice which simplify routine and otherwise contribute to a higher ratio of operatives and necessary professionals in the labor force as a whole.

(c) All agencies of government will cease to foster educational practices and functions which promote values contrary to the desired shift in composition of the labor force and an industrially centered orientation toward technological advancement.

(d) The wasteful porkbarrel popularly known as "Project Independence" is ordered to be terminated. Short-term national energy supplies policies shall be developed in negotiations for an equitable development, and for raw materials pricing policy and allocation of a "new world economic order." For the inermediate- to long-term, national energy development policy shall be focused upon the development of controlled thermonuclear reactions technology in full cooperation with other nations. Within the nation itself the Energy Research and Development Administration is instructed to expand its support of research activities into the basic physics of all plasma regimes, and to aim to create around such research and applications development an informally but effectively organized aggregation of scientific task-forces among laboratories and universities which will become a pool of collaborative efforts suited to yield special task forces for scientific and applications problems which may not be directly within the province of plasma physics research. The intent of Congress is to employ promotion of a proliferation of useful basic plasma physics research as a catalyst for reinvigorating our universities and scientific community generally, in order that the nation and the world may thereby obtain the numerous benefits of such a revival of scientific activity in this nation.

Labor Force Policy

Sec. 11 The ruling principle of national policy concerning the labor force is to provide the improved opportunities and conditions of employment, leisure, and essential social services which foster a rising material standard of living in households, improved health and fruitful longevity of the individual, and substantial advances in the cognitive powers of the population both as a deliberating political body and as a labor force emphasizing high proportions of scientists, engineers, skilled industrial operatives, and including farmers who are both producers and available skilled cadres for assisting the development of agriculture in other nations.

(a) The government shall take no action which causes or fosters the employment of persons under real incomes or working conditions which are poorer than those prevailing as the best modes in the largest manufacturing, mining, transportation and other firms on or before August 31, 1971.

(b) The following Nazi-like employer practices are declared to be felonies: (i) the forced participation in any drug maintenance or related program as a condition of obtaining or continuing employment; (ii) the forced participation in any behavioral modification or "attitudinal change" psychological program as a condition of securing or continuing employment; (iii) any action by an employer or his agents which threatens an employee because of his trade-union or political party associations, or causes any agency or government to subject such an employee or members of his or her family to aversive surveillance or inquiry because of such associations; and (iv) any action by an employer or his agents to force an employee to perform daily or weekly hours of labor in excess of those prevailing in that industry during the 12 months preceding August 31, 1971, except for clear short-term emergencies of those types in which the employer does not have reasonable opportunity to employ additional persons to perform such additional labor. (v) Where an employee complains by sworn affidavit of an employer's use of specific security practices with the principal effect of creating an aversive environment in conditions of work for said or other employees, such complaints shall be duly investigated by the agents of the Department of Labor, who shall be provided with warrants of access for such investigation without delay. If the employer is found to be employing security practices in such a manner as to create an aversive, intimidating environment for an employee or employees and not predominantly and necessarily for some other good and useful purpose, the employer shall be directed to cease such practices, and be subject to charges of felonious conduct if said employer does not cease such practices or if he resumes the same practices or practices to the same effect at a later date.

(c)All employers doing business with any branch of the Federal government shall submit copies of a sworn affidavit to the agency and the Attorney-General that it has effectively prohibited its agents from permitting the offenses forbidden by Sec. 12 (b), and shall renew such assurances by sworn affidavit at six months intervals thereafter, for so long as such employer is soliciting or doing business with any agency of the Federal government or for as long as any sums may be due to that employer from such agency or the U.S. Treasury. No payments shall be disbursed to an employer in the absence of compliance and a false affidavit shall cause the prompt presecution of the perjured affiant by the Attorney-General with appropriate penalties specified.for this offense.

Emergency Employment Measures

Sec. 12 The Congress shall authorize such special projects of construction in development of urban areas, in rail transport and mass-transit as may be both a means for providing contra-cyclical employment opportunities and are shown to be of benefit to the development of the nation and its labor force in a manner consistent of the nation and its labor force in a manner consistent with the policies set forth in this Act. The Congress specifically prohibits the use of Federal revenues by agencies of the Federal government or by State and Local governments receiving Federal financial assistance for projects of a predominantly "make work" purpose and result.

Appendix

A Bill of Rights for Labor

(1) ***Labor must have the right to a secure standard of living, including adequate wage and income levels for the employed and unemployed.***

Wage levels must be maintained at pre-depression levels (pre-December 31, 1971 real wages levels) for the labor force. The concept of SUB pay (supplemental unemployment benefits) — maintaining laid-off workers at close to pre-layoff wage levels — should be extended to cover the entire labor force.

Income payments to the unemployed, to dependent children, and to retired and disabled workers should be incorporated into a remodeled social security system, eliminating the degradation of public welfare. It is in the direct interest of every member of the working class that every other member of the class be maintained at a healthy and adequate living standard.

(2) ***Labor has the right to safe, healthy, and productive working conditions.***

Speedup, and dirty, crowded, and unsafe working conditions are not only harmful to the individual worker, but necessarily have a destructive impact on the productivity of the labor force as a whole. The employer who claims to be increasing "productivity" through labor-intensive methods is actually destroying the ability of labor power to maintain and reproduce itself.

Working conditions must be restored to at least the level existing in 1971. Additionally, all speedup must be stopped; health and safety standards must be rigidly enforced.

(3) ***Labor has the right to public services maintained at adequate levels.***

Public services — health, sanitation, police and fire protection, recreational facilities — are an essential component of the living conditions of the labor force. The present deterioration of health conditions, of hospital services, of sanitation measures, threatens to engulf the entire population as increasingly serious diseases spread. Under conditions of lowered nutrition, populations become much more susceptible to disease. Health and sanitation conditions not only must be maintained but must be immediately upgraded. Where funds are presently lacking for these purposes, municipal debt moratoria must be instituted on an emergency basis.

(4) ***Labor has the right to livable, adequate housing and cheap mass transportation.***

This is a fundamental right and necessity. Working-class families have the right to safe, sanitary, and healthful homes or apartments, with sufficient space for the proper intellectual development of children — a room for each child.

Associated with adequate housing is the need for mass transit facilities, inexpensive enough so that families can travel to and from work, or for recreation, without gouging the family budget.

(5) ***Labor has the right of full access to education and scientific knowledge.***

Among the most destructive aspects of public policy over the past period has been the systematic destruction of public education, and the related cutbacks in fields of fundamental scientific research. Labor has a continuing and growing need for education, education which must incorporate the most advanced questions and findings on the frontier of scientific endeavor. For the labor force to participate in and contribute to the formulation of policy for world reconstruction and development and its implementation, an upgrading and expansion of all levels of education, including continuing adult education, is a basic prerequisite.

(6) ***Labor must have the right to organize.***

The right of workers to organize politically is today under the most severe attack that has existed in this country since the 1920s. The working class must have the right to organize, to read and distribute literature pertaining to international developments, scientific debates, and economic reconstruction free from the interference of governmental or quasi-private police agencies.

Today this means an immediate dismantling of the Central Intelligence Agency, the Federal Bureau of Investigation, and the Law Enforcement Assistance Administration, and the dissolution of all private security forces tied to the above agencies. The CIA, FBI and LEAA are the major perpetrators of crime in this country and the world today, and pose the greatest threat to civil liberties and human rights.

The labor movement must have the right to support political organizations, to endorse political candidates, and to conduct the full range of economic and political direct actions, free from the restrictions of anti-labor-legislation such as the Taft-Hartley and the Landrum-Griffin laws.

(7) ***Labor must be free from psychological coercion and terror.*** The hideous practices now carried out under the guise of "alcoholism treatment," "organizational development," or "group therapy" must be eliminated at once. Such programs, carried out by employers and often with the complicity of unions, are criminal in character and mind-destroying in content. The in-plant terror apparatus run by company security forces, often in connection with the FBI and LEAA, must be dismantled.

Workers must be free from psychological coercion both on and off the job; those responsible for such criminal practices must be brought to justice.

(8) *All of the above categories of rights are actually rights whose exercise is necessary as the means of realizing the most fundamental right:* ***Labor must be free to contribute to its own self-development on an international scale.***

The human race is at a crossroads: either we will go down the road of continued economic collapse into probable thermonuclear destruction or certain ecological holocaust, or we will embark on an era of undreamed-of international development and scientific progress. At this moment, capitalist governments have no way out of the present crisis except that provided by the forces of the international working class.

The implementation of a program of world reconstruction and development requires the fullest, active participation of the working class in its broadest sense, including scientific and medical personnel. This implies that the labor force possesses the required living standards and educational-cultural levels in order to function not only as skilled labor cadres but as active participants in the discussion and formulation of social and economic policy.

Equally important, this implies that the working class must be organized to have access to the levers of political power. The emerging system of new trade and monetary agreements opens up this possibility; but it is only potentiality, not actuality, until the working class possesses the self-organization to implement its own program of expanded trade and production.

The participation of labor in this process of developing itself is the most fundamental exercise of true human freedom.

Appendix — Drug Detoxification Act of 1975

WHEREAS the proliferation of dangerous and addictive drugs, a symptom of social decay and a product of purposeful social control through barbaric means, represents a serious threat to the present and future ability of the population to function productively in the solution of the critical problems now facing society;

WHEREAS the narcotics crisis is itself a social crisis which can only be reversed and overcome through attacking the environment which tolerates massive drugging and destruction of the population, including government and privately funded programs of official drug addiction;

WHEREAS the epidemic proportions of this crisis requires emergency measures and programs to rehabilitate the addicted portion of the population, who themselves form an extension of the drug-controlled environment, and to vigorously press investigation and prosecution of those individuals and groups which conduct, foster and protect the flow of destructive drugs, including such "low-cost introductions" to the mainline culture as marijuana, psychedelics and amphetamines;

BE IT RESOLVED by the House and Senate of the United States of America assembled that the following measures be implemented:

I. Congress shall establish a Joint Committee on Drug Addiction which alone will be empowered to report out to Congress any new legislation relating to narcotics. The Joint Committee shall have the power to subpoena all intelligence related to drugs, hold hearings, and review all existing legislation relating to drugs. The Joint Committee shall immediately commence to review all existing legislation, create new emergency legislation proportionate to the dimensions of the present crisis after examining the failures and abuses of various current programs in the treatment of narcotics addiction. The Joint Committee shall also hold public hearings and solicit scientific testimony on new and-or more effective methods of treatment, both medical, psychiatric and social which may offer success in this area where current methods have been tremendous and costly failures.

An independent Special Prosecutor's Office, under the authority of Congress, is hereby established. The Special Prosecutor shall have the power to investigate, offer indictments and conduct prosecution of persons established to be complicit and active in the propagation of drugs.

The Joint Committee and the Special Prosecutor shall in concert set forth guidelines for the investigation of drug distribution and propagation and for the enforcement of the laws relating to drugs for state and local law enforcement authorities.

II. National Policy and Guidelines

Congress, through its control of Federal Funds and appropriations, shall act to end all programs which license or perpetuate narcotics addiction as matters of social policy or through ineffective or criminal lack of enforcement of existing statutes. Specifically, all recipients of Federal Funds must act to end all programs which license or perpetuate narcotics addiction (as matters of policy), as condition of receipt of further Federal funds and appropriations. Nor shall any employer require participation in any such program as a condition of employment, nor any school require participation as a condition for education, nor any union enjoying the right to exclusive representation under the RLA or the NLRA require such participation or condition any element of fair representation upon such participation. The policy of subsidized and often mandated or coercive addiction to a dangerous and dulling narcotic is socially and medically dangerous and regressive. It has led to the burgeoning traffic and human destruction in an agent unknown prior it its introduction by government agencies. Its use is now explicitly destructive of the cognitive and moral powers of the population.

Congress shall undertake measures consonant with a social policy of detoxification of those addicted to drugs. Toward this policy of detoxification, all funds presently directed to programs of "methadone maintenance" shall be diverted into programs establishing decent detoxification facilities, under competent medical and psychiatric supervision, which will begin to implement detoxification of the population currently addicted to drugs such as heroin and methadone in the most rapid medically and socially feasible ways. Presently funded "methadone maintenance" programs must accomplish conversion, where judged desirable and feasible, within 90 days to qualify for continued Federal funding.

In furtherance of this policy, the following guidelines shall provide the effective basis for a national detoxification program:

1) Detoxification, wherever possible, shall be carried out in in-patient facilities. About 100,000 to 150,000 bed units nationally are to be set aside in existing hospital facilities and in other facilities which can quickly be converted and equipped for detoxification.

2) Medical personnel, adequately trained and supervised, shall be used with the minimal ratio of one physician per 50 hospitalized patients, one nurse per 20, and one ward person per five patients.

3) Adequate outpatient follow-up clinics and testing to give support and necessary supplementary treatment in the post-detoxification period shall be established. These can be located attached to the detoxification facilities and also located in currently existing and new clinics suitably converted from their previous purposes and staffed with competent personnel.

4) The problem of drug recidivism shall be dealt with by the subsequent detoxification of persons detoxified and later relapsing into drug use or addiction. Firm and un-remitting but humane treatment must be used to cure the disease of drug addiction.

5) Every effort shall be made to free persons undergoing detoxification and post-detoxification treatment from the destructive effects of the environment. While actually therapeutic psychoanalytical therapy should be used along with efforts to begin programs of positive education and intellectual development during and after detoxification, those so-called therapies which reduce patients' sense of positive human identity and force a fixation on the infantile and easily distorted aspects of their personality shall be prohibited.

6) Workers who have become victims of the drug epidemic

shall not lose their jobs during detoxification. Persons leaving detoxification programs shall be supplied with productive employment at decent wages or educational programs which will continue the intellectual development begun during detoxification and prepare them for productive employment.

7) In the detoxification programs, adequate basic medical services shall be provided to screen and treat the addicted population for underlying diseases such as tuberculosis, venereal diseases, hepatitis, malnutrition, heart disease, etc., many of which form public health hazards for the rest of the population.

8) An independent Commission on Drug Detoxification is hereby established under the authority of Congress to direct and review appropriations implementing the policy of Congress with regard to drug detoxification treatment and research.

9) The Congress shall appropriate no less than $2.5 billion annually for two years for salaries, facilities and research programs to eradicate the drug problem in the U.S. sector. The following funds shall be appropriated in the first year for the named purpose:

a) $600 million for salaries of necessary personnel.
b) $1 billion for hospital and clinic facilities
c) $400 million for medical supplies, laboratory and clinical equipment.
d) $500 million for appropriate research and development programs toward the goal of complete and lastingly effective drug detoxification.

III. Research

Task forces of medical personnel and officials shall be established in order to immediately begin research and testing of more effective methods of drug detoxification and treatment than presently exist. This shall include pursuit of basic research into the nature and treatment of addiction and clinical trials of newly developed methods as soon as they are judged to be safe.

A number of presently partially developed programs, such as the so-called "metabolic" treatment of drug and alcohol addiction, shall be freed from the current restraints placed on them, and appropriate laboratory and clinical trials shall be carried out to determine if these methods are as effective as early indications make them appear.

Adequate research into actually beneficial humanist methods of psychiatric treatment for drug addicted persons shall also be undertaken.

IV. International Coordination

The United States Congress also calls upon the United Nations to establish an Emergency International Commission whose duties would include the investigation of the flow of narcotics and the enforcement of internationally established regulations designed to halt the flow of narcotics.

Chairman HUMPHREY. Thank you.

I said earlier today we would have testimony today which would be interesting, exhilarating and provocative. And I think we have. That is what this committee is for. We thank each witness.

Mr. Markey—Mr. Markey is of the Socialist Workers Party.

STATEMENT OF RAY MARKEY, SOCIALIST WORKERS PARTY

Mr. MARKEY. My name is Ray Markey. I am a city employee, and I haven't heard any of them speak today. I work for the New York Public Library and my job was threatened this week. I don't know how many of you know, but this June they laid off over 200 city librarians, closed down some of the locations, reduced the hours. This week they are going to close down more and lay off more.

I think one of the fundamental causes of this crisis is that the Congress of the United States in a bipartisanship effort has appropriated over 100 billion dollars for the defense budget. This defense budget, if you just look at it, the money appropriated for the Triton Missile alone is 18.6 billion dollars, which would be enough to run the whole municipal hospital in New York City here for eighteen years.

We go into that more in our proposals, "New York City Crisis: Why Working People Should Not Pay?" Those who are listening to this in the audience can get this by writing the Socialist Workers Party. One of the things that struck me was that Senator Taft, and it is unfortunate that I don't see him still here—

Chairman HUMPHREY. He had to catch a plane to get back.

Mr. MARKEY. He was bragging about what I presume the Mayor of Cleveland had done. He said he had made seven percent cuts.

Our party is opposed to any cuts. People who go around bragging about laying off municipal workers and working people should think twice about it because they are going to pay politically. The American people don't want these cuts. Every single poll in this country has shown that.

In New York State we have the specter of the Governor of the State, the mayor of the city going around talking about all the cuts they have made and bragging about these cuts. And in this week's Amsterdam News we have a statement by Basil Patterson, who is the borough president of Manhattan, saying that he now thinks that city workers should be paid five to ten percent of their wages in the script, in funny money. That is what they are talking about. In script.

Now, it is not bad enough they have laid off over 30,000 workers and they want to lay off thirty or forty or fifty thousand more, and that they freeze our wages for three years and that they want deferred wage payments and that they want a cut in all our benefits; but now a power in the Democratic Party of New York City is actually proposing that they pay municipal workers in script.

Now, if that proposal had been made by a white southern politician, we would ask them seriously are they talking about paying us in Confederate money. This is an outrage. These attacks that are coming down on all the municipal workers—and I have focused in on the Democratic Party but Senator Buckley in his statements that

New York City should not get one penny of aid, adequately takes care of the conservatives and the Republicans--is a bipartisanship effort.

I would like to end with this: When Senator Humphrey said earlier that his political development stopped in the 1930's but he is still learning——

Chairman HUMPHREY. Let's clear that up. I said I thought I was at least that far. I feel my political development is still underway and I am listening now.

Mr. MARKEY. I believe the Senator started his political career around then. And I believe that if something isn't done in this country, he is going to end his career with another catastrophic depression on a worldwide basis.

This crisis in New York City is not just a crisis in New York City. There has been a whole number of cities mentioned, including Minneapolis, Cleveland, Boston, Seattle. The same process is taking place all across the country.

We call on all working people and those listening on this radio. If you want to end this catastrophe, the working people are going to have to form their labor party and break with the Republicans, Democrats, Liberals and Conservatives.

Thank you. I hope you will place my statement and the press release in the record.

Chairman HUMPHREY. Yes. Your prepared statement will be placed in the record. And that is true of additional witnesses.

[The press release, together with Mr. Markey's prepared statement follow:]

SOCIALIST WORKERS PARTY—JOINT ECONOMIC COMMITTEE HEARS SOCIALIST PROPOSAL TO COMBAT ECONOMIC CRISIS

STATEMENT BY RAY MARKEY, NATIONAL COMMITTEE MEMBER OF THE SOCIALIST WORKERS PARTY, TO THE HUMPHREY COMMITTEE

New York, November 10, 1975—Ray Markey, National Committee member of the Socialist Workers party presented controversial testimony today at the regional hearings of the Joint Economic Committee. The Committee, chaired by Senator Hubert H. Humphrey, is holding regional hearings in four cities across the country to make "a comprehensive investigation of what's wrong with the economy and enable us to formulate new policies to fulfill these goals."

Markey, a librarian, member of the Executive Board of local 1930 American Federation of State, County and Municipal Employees, and a delegate to district Council 37 of AFSCME sharply attacked the Democratic and Republican parties' fiscal policy as bankrupt. Markey said, "The Democrats on this Committee have the audacity to call themselves "friends of labor". If there were any true friends of labor in Congress they would introduce legislation to abolish the war budget and use that $100 billion for a massive public works program to provide jobs and social services."

Markey, a national leader of the Socialist Workers party, ripped the bills now in Congress to "rescue" New York City: "We agree 100 percent with the AFL-CIO that these bills would destroy collective bargaining and any semblance of union rights in New York. They are antilabor, union-busting bills and they should be defeated."

The full text of Markey's statement is enclosed.

PREPARED STATEMENT OF RAY MARKEY

My name is Ray Markey and I am speaking as a city employee, a unionist, and a representative of the Socialist Workers party.

I work as a librarian in the New York public library system. I am an executive board member of Local 1930, American Federation of State, County and Municipal Employees, and a delegate to AFSCME District Council 37.

The Socialist Workers party's proposals are spelled out in detail in this statement, "New York Crisis: Why working people should not pay," which I request be included in the record as part of my testimony here.

The crisis in New York has become the number one political issue in the country, and with good reason. The cutbacks, layoffs, wage cuts, and destruction of union contracts in New York are the sharpest expression of the economic catastrophe threatening the working people of the entire country.

This is not just a New York crisis. That's a lie being spread to pit the workers of other parts of the country against the workers of New York. Most of all it's a thinly veiled racist attack on the Black and Puerto Rican workers of New York.

The same cutbacks and layoffs are coming down in Detroit, in Boston, in Seattle—cities and states from coast to coast. Everywhere the politicians in office are trying to beat down working people, to convince us we have a sacrifice, to restrict our right to bargain collectively and strike. Everywhere the excuse for the cuts is the same: "No Money."

We are told that schools must be shut down, teachers fired, welfare and medical care for the poor cut. Why? "No money." That's what Mayor Beame says; its what Governor Carey says; it's what President Ford says.

All the bills now in Congress to supposedly "rescue" New York City have the same premise: "No money." These bills, written by the Democrats, would not provide one penny of federal aid to restore services or rehire workers in New York.

Instead, they would give an unelected federal panel dictatorial rule over the city. The openly stated aim of this federal panel would be to lay off more workers, end rent control, and rip up union contracts in order to cut wages and pensions. The only ones who would be "rescued" are the banks and rich individuals who are profiting from the exorbitant interest payments on New York City bonds.

We agree 100 percent with the AFL-CIO that these bills would destroy collective bargaining and any semblance of union rights in New York. They are antilabor, union-busting bills and they should be defeated.

"No money." That is what you all say, Democrats and Republicans alike. *And you are all lying!* There is plenty of money to immediately rehire every laid-off city worker, restore all the budget cuts, and provide the social services people need.

That money can and should come out of the $100 billion a year now appropriated by Congress for the Pentagon. These huge expenditures for bombs, missiles, and other instruments of war are waste—worse than waste.

They are inflationary. They are the main reason for the crushing burden of taxes. They take away the resources that should be used to meet human needs.

It has become a rather well-known fact that the New York area taxpayers send some $22 billion a year to Washington, while getting back only $3.6 billion in all forms of federal aid. But nobody stops to ask, where does all this money go? I'll tell you where it goes.

If you add up the admitted military appropriations, foreign aid, weapons research, and interest payments on loans used to finance previous wars, nearly half the federal budget goes for wars—past, present and future. That means New York area taxpayers alone are subsidizing the Pentagon to the tune of $11 billion a year.

I'd like to challenge the members of this committee to be honest for one day with the working people of New York City and the nation.

Take one day away from your speechmaking and go into one of the hospital wards where people are dying for lack of adequate care. Tell them the real reason more nurses are being laid off. Tell them the $18.6 billion you have voted for the B–1 bomber would run all the city's hospitals and health programs for *eighteen years*.

Go to Harlem, or the South Bronx, or Bedford-Stuyvesant, and tell them low-cost housing can't be built because you have decided to send arms and money to South Korea and to Zionist Israel.

Go to the City University, where plans are underway to close campuses and kick out students. Tell them the cost of just one Trident submarine—$1.8 Billion—would be enough to restore all the cuts and run the colleges for more than two years.

No, you won't tell the truth to the people of New York, but I assure you the Socialist Workers party will.

The Democrats on this committee have the audacity to call themselves "friends of labor". If there were any true friends of labor in Congress they would introduce legislation to abolish the war budget and use that $100 billion for a massive public works program to provide jobs and socal services.

There is not a single voice in Congress proposing such a program. There is not a single voice in Congress speaking out for the interests of working people. And the only way there ever will be is for the unions to break with the Democratic and Republican parties and run working people for office on an independent labor party ticket.

A recent poll found that 57% of the American people believe the Democratic and Republican parties both favor big business over the average worker. And they are right!

The workers of New York and the workers of this country will never get anywhere relying on these big-business parties. To safeguard our jobs and our standard of living, we have to rely on our own strength, mobilized independently of the capitalist parties.

That is the only way working people can stop the bipartisan attempt to make us pay for the economic crisis of capitalism. That is what the Socialist Workers party stands for.

Senator JAVITS. Mr. Nass, who is an old friend of mine, a former treasurer of Gimbel's, asked to say something.

Mr. NASS. My name is Sam Nass. I didn't come here to talk. I came here to listen.

I would like to have the privilege of writing a letter that would be included in the record, if that is all right with you. But I do want to say one thing that hasn't come up. That is on the question of full employment.

The Internal Revenue laws of this country provide incentives for corporations and businesses to employ people. They also, in many instances, provide subsidies for the employment of people.

However, the private individual who employs a person in his household, or for his own personal use, does not have that privilege, although he does use the income that he earns on which he pays taxes in order to engage people.

What I would like to suggest, if it is possible, is that any person who was employed by any other person, that the wages of that person be allowed as a deduction for Federal income purposes. I think in that way it would encourage a great many people who can't afford to hire domestic help, or gardeners, or chauffeurs, to employ such people and put them on the payroll. It would be a lot cheaper for the Federal Government than having to pay welfare for those people. Thank you for listening.

[The letter referred to and enclosures follow:]

NOVEMBER 12, 1975.

HON. ROBERT A. GERARD,
Deputy Assistant Secretary for Financial Reserves, Department of the Treasury, Washington, D.C.

DEAR MR. GERARD: I have not attempted to answer your letter of September 4th until now (copy of my telegram and your letter enclosed) because based on newspaper reports and television interviews of both President Ford and Secretary of the Treasury Simon, such efforts appeared futile.

However, at a hearing before the Joint Economic Committee of the Congress of the United States chaired by Senator Hubert H. Humphrey, held in New York City on November 10th and at which Senators Jacob K. Javits and Robert Taft, Jr. and Congressman William S. Moorhead were present, testimony was given by Governor Hugh Carey and Mayor Abraham Beame on the efforts being made at both the state and city levels to cut back on expenditures and attempt to balance budgets in the light of a national economy that makes it very difficult, particularly with the effects of such cut-backs in increasing un-employment.

At the hearing, there was also testimony by union leaders, bankers, and others which indicated clearly the consequences of default both with respect to the costs to the federal, state and city governments and the irreparable harm to the future credit of both the state and the city. It became apparent to any open minded person that the only solution to the problem was a federal guarantee of some kind that would buy a reasonable amount of time for the state and city to work out their problem which is basically one of converting short term debt into long term self-liquidating debt. In answer to my suggestion of a federal guarantee of municipal obligation you rightfully pointed out the magnitude of overseeing the 40,000 local governments in the country.

At the hearing, Senator Javits elicited from the Governor and the Mayor an understanding that the State of New York would be agreeable to become the obligor on any federally guaranteed bonds. With this in mind instead of 40,000 governmental units to deal with, the federal government could limit its guarantees to the 50 states subject to adequate budget safeguards, agreements to increase taxes when necessary, hold backs of federal funds, etc.

If the Federal Government pursued an even-handed policy of making guarantees available to all the states for a maximum of five to ten years up to a maximum of $400 per capita, this would make available to New York State approximately $7,000,000,000 of federally guaranteed obligations. The responsibility and method of solving the problems of local governments would then rest with the state where it properly belongs.

Because of the nature of the guarantee the federal government could require one of two things or both. First, it could exact a fee of ¼ of one per cent per annum on the outstanding guaranteed obligation or secondly, because they are guaranteed by the U.S. Government, there would be no tax exempt status. Also, a non tax exempt bond would not have a competitive advantage over U.S. Government bonds and notes or over tax-exempt bonds of states which have high ratings.

On November 7th, the New York Times published a letter that I wrote to the editor, a copy of which is enclosed, which brought out the fact that $1,300,000,000 a year was paid into the New York City pension funds and that of such obligation was paid in the form of 25 year 6% self-liquidating notes of the City for the next three or four years, it would enable the city in effect to fund its short term debt over a 25 year period. If you add to this New York State payments into state pensions funds which I would guess amount to about $700,000,000 a year, it would make $2,000,000,000 a year available towards repayment of the federally guaranteed bonds. You will also note in the New York Times Letter that in the New York City budget there is also additional provision for the repayment of $1,000,000,000 of debt.

It seems to me that the fiscal crisis of the City of New York and the State of New York has already had a very salutary effect on the relationship between the City and its employee unions which was forcibly brought out at the hearings by the union leaders and that the City is now in a better position to make sizeable budget cuts.

All that is now needed is a willingness on the part of the Federal administration to do the one thing that is necessary to prevent a catastrophe of immeasurable proportions to the 18,000,000 people of the City and State of New York and possibly to the entire country and that is, the adoption of the foregoing suggestion or a reasonable facsimile thereof.

With all good wishes, I am

Sincerely yours,

SAMUEL NASS.

Enclosures.

AUGUST 18, 1975.

Hon. WILLIAM SIMON,
Secretary of the Treasury,
Washington, D.C.

Suggest creation of Federal Municipal Bond Insurance Corporation along lines of Federal Deposit Insurance Corp. Annual fees of one-quarter percent of insured bonds should more than adequately cover insurance risks if adequate budget safeguards are required and insured bonds are self-liquidated over a maximum period of twenty-five years. Federally insured bonds should result in substantial interest cost reduction to municipalities and savings should also result in substantial reducion of federal grants to municipalities. Would be glad to discuss further.

SAMUEL NASS,
Harrison, N.Y.

DEPARTMENT OF THE TREASURY,
DEPUTY ASSISTANT SECRETARY,
Washington, D.C., September 4, 1975.

Mr. SAMUEL NASS,
Harrison, N.Y.

DEAR MR. NASS: Secretary Simon asked that I reply to your recent cable suggesting creation of a Municipal Bond Insurance Corporation. We have considered your proposal in detail and have concluded that it would not represent sound policy at this time.

As implied by your reference to "adequate budget safeguards," any such vehicle would, as a practical matter, require pervasive Federal involvement in the financial affairs of all of the insured entities. It is one thing to become so heavily involved in the supervision of privately-owned commercial banks, which operate under a uniform set of laws and regulations. It is quite another to involve the Federal government in a similar degree of oversight over the 40,000 local governmental units in this country. Not only would this require massive commitments of manpower and resources, but it would violate the Constitutionally imposed principle of local control. Moreover, it presupposes that Federal bureaucrats are able to make sound decisions concerning local affairs, a presupposition I do not believe is correct.

These concerns become more acute in light of the "all or nothing" aspect of the proposal. Because any non-insured issuer—no matter how financially sound—would be at a severe disadvantage in the market vis-a-vis Federally insured credits, all local governments would be forced to purchase insurance.

Finally, the proposal would drive up the cost of credit for all users of the capital markets. Any expansion of the Federal credit—whether through direct borrowing or through the issuance of guarantees—increase the Federal government's cost of money. And since our money costs in effect establish the floor from which all other credit rates are calculated, the resulting cost increases would be felt throughout the economy.

We do appreciate your concern. Please feel free to let me have your further thoughts on this or any other matter.

Sincerely yours,

ROBERT A. GERARD,
Deputy Assistant Secretary for Financial Resources Policy Coordination.

[From the New York Times, Friday, Nov. 7, 1975]

NEW YORK, OCT. 30, 1975.

To the editor: The City of New York is required for the fiscal year 1975/1976 to pay into the various pension funds a total $1.3 billion, which is substantially in excess of the budget deficit of $600 million to $800 million for the year.

Instead of paying this in cash, the city should issue its 25-year notes with interest at 6 percent and the notes to be repaid serially in equal amounts of $52 million in each of the 25 years.

In the budget for 1975/76 there is also provision for repayment of $1 billion of short-term debt which is outstanding at much higher interest rates. If the city is able to defer the cash outgo of the $1.3 billion, it would then have a cash surplus of $500 million to $700 million instead of a deficit of $600 million to $800 million. This surplus could be used to retire more short-term debt and also effect substantial savings in interest costs.

If this is done over the next three or four years, the debt of New York City would be restructured painlessly.

Sears, Roebuck & Co. was one of the earliest companies to start a pension and profit-sharing plan by exclusively contributing its common stock to the fund. This policy was in no small measure responsible for the growth and success of the company.

The ownership of city bonds in the pension plans by the same token would give the city employees a stake in seeing that the city is run efficiently and on a fiscally sound basis.

SAMUEL NASS.

Chairman HUMPHREY. Mr. Nass, we do thank you very much.

There are several other statements which have been submitted to the committee by responsible community groups. Unfortunately, time constraints do not permit us to hear these statements delivered. However, they will appear in the printed record of the hearings.

We will keep this hearing open for some days, so as to accommodate other statements that may be brought to our attention.

I think we have had an experience of learning today, which is why we came. I think we learned a great deal.

I speak for myself and for those members of the committee that attended. This record will be studied. We have been addressed with views covering the entire spectrum. I think every one of the witnesses has made a contribution. I am hopeful that, as this record is studied, we will be able to glean from it some thoughts and proposals which will lend themselves to an improvement in our economy and also in our society.

Thank you.

Senator JAVITS. Mr. Chairman, I would like to thank you for bringing the hearing to New York, for the patience, graciousness and consideration, and having an elucidation of the enormous range of opinion, which makes New York what it is, a true metropolis in terms of interest and thought for our whole country.

I hope very much the words uttered here, taken together, may be the best influence in reviving a national interest in our current economic situation.

Chairman HUMPHREY. Thank you. The hearing of the Joint Economic Committee on this day is concluded.

[Whereupon, at 5:10 p.m., the committee adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF MORTON BAHR, VICE PRESIDENT, COMMUNICATIONS WORKERS OF AMERICA, AFL–CIO

My name is Morton Bahr. I am Vice President of the Communications Workers of America, AFL–CIO for its District 1 which covers the New York, New Jersey and New England area. Our Union speaks for 600,000 members across the nation. Of these, some 80,000 are in the area covered by the District for which I am responsible.

Our basic jurisdiction is in telecommunications. We also, however, are bargaining agent for some 6,000 public employees in New York City and about 2,000 more in New Jersey. Our major private sector employers include the New York Telephone Company, the New Jersey Bell Telephone Company, the Western Electric Company, Western Union, the Rochester Telephone Company, the New England Telephone Company and International Telephone & Telegraph. Our immediate concerns therefore span the private and public sectors and our broader concern is the welfare of the communities in which we work because we know that our prosperity is intertwined with that of working people everywhere.

The 30th Anniversary of the Employment Act of 1946 is at hand. This Anniversary, however, sees little cause for celebration. It is mocked by the shades of serious long-term unemployment and a fearful inflation that erodes living standards, denies milk to children, reduces tens of thousands of our seniors to penury, imposes frightening welfare loads upon increasingly hard-pressed communities and threatens the cohesion of our nation.

Millions of American workers now spend their lives in unproductive idleness while 30 percent of the nation's industrial machine is placed in moth-balls. We suffer losses of wealth estimated at $200 billion annually—almost three times as much as the top GNP of Spain. Were the American economy moving ahead at optimum speed we would not have today the huge federal deficit used by the Ford Administration as an excuse to keep the nation in low gear.

Should idle American workers rise up in anger and vent their wrath upon idle machines, the world rightly would cry sabotage. Obviously, we do not in the slightest condone or advocate any such vengeance. But we cry, "Sabotage". Just as certain as if some mighty hand had taken a hammer and wreaked havoc against workers and machines, ill-conceived national policies have sabotaged the Employment Act of 1946 and the nation's economy.

As the dawn of the 30th Anniversary of the Employment Act of 1946 rises, America's largest city teeters in the brink of insolvency while the nation's paramount leader, its President, doles out sermons worthy of Uriah Heep. In place of the national well-being envisaged by the Congress and by the late Harry Truman, we see our cities in decay; our jobs exported by multinationals which also put up for sale the very technology that is our major advantage; our nation dependent upon a monstrous oil cartel abetted, even if without malice, by an Administration policy advanced in the name of a free market which exists only in outdated textbooks and in the minds of those who forget the free-market binge of the twenties, the crash of 1929 and the harsh reality of the thirties.

America is back to Cal Coolidge. We object vigorously to the reimposition of his philosophy. We do not think the business of America is business. We believe the business of America is the welfare of its people, and that business can truly prosper only if the people prosper. That, we believe, motivated the Employment Act of 1946.

A look at our area indicates the way the Employment Act of 1946 has been violated in spirit and in practice. The Act, of course, is supposed to commit the nation to the maximum possible employment consistent with reasonable price stability. Nationally, and especially in our area, we have neither.

First, a look at price stability as we see it. Our craft members are among America's more fortunate. Our base pay for a fully trained craft worker in New York City is about $16,000 annually. To those who shout about high welfare payments in this city or high pay for New York's municipal employees who average about $14,000 annually, we point out that the Bureau of Labor Statistics has reported that $16,000 now will barely buy a moderate living standard. On that count alone, the Employment Act of 1946 has not been realized.

Let's turn for a moment to the even more serious problem of unemployment. In New York City, we have a 12 percent unemployment rate. Given that unemployment rate and inflation, the wonder is that New York has been able to hold out as long as it has. The problem faced by New York City has its genesis in Washington. National policies have adversely hit our city far harder than any local mismanagement or alleged generosity to its employees. I doubt that the city bureaucracy is proportionately more swollen than the federal, that the city salary structure is more generous than the federal structure or that city employees overall have more generous fringe benefits. The real issue is a national policy that promotes unemployment and inflation and which denies obligation for the huge migration of the poor from other areas of America to this city.

New York City is not alone. A recent conference of our Union was addressed by Governor Byrne of New Jersey who pointed to 412,000 unemployed Americans in his state. New Jersey already is in hock $312 million to the federal unemployment compensation reserve fund. Should unemployment persist at its current rate, New Jersey could owe a cool billion to the fund by the end of next year. Since states are required to repay this money in three years, several will find themselves between a rock and a hard place not too far down the road. Some 26 states are expected to owe big money to the reserve by the end of next year.

I invite President Ford to walk with me through parts of Buffalo, or Jersey City or New Bedford, cities in which unemployment ranges from 12 to about 17 percent. The cure isn't to put these cities—large and small—through the wringer. They can't be wrung out any further.

Only last month, the New England Telephone Company laid off some 1400 skilled workers. Its reason was the lack of growth in its service area. Western Electric has laid off some 20,000 workers this year because of slackening orders from Bell System operating companies.

What's the result?

Recently, one of our Local Unions made up of Western Electric Installers went on strike and some 25,000 other members of our Union refused to cross picket lines. The Local struck because the New York Telephone Company has been contracting out work these members have performed. Some 1,100 members of that Local have lost their jobs, and the action was taken almost in desperation to protect job security.

Obviously, workers employed by the outside contractors are delighted to get the work. I'm not going to get into any discussion here of the contracting out problem which exists in good times as well as bad. I use this incident to point out that workers now are being asked to share the job scarcity at each other's expense.

The situation is ugly. It pits worker against worker; state against state; city against city in the fight for scarce jobs. It is an unhealthy situation to say the least, one that could well explode.

The Administration lies to talk about the work ethic. We in the Unions see what the recession is doing to that ethic. It is driving people in hopelessness and dependency and in the process it is destroying the American work ethic. We want the real right-to-work, the right to a job for all who seek work. That's what right-to-work should be all about, not the phony Union-busting purpose of those now debasing the slogan. We want to see the Employment Act of 1946 implemented.

There is no greater calumny than that which says the American worker is not productive. Recent figures of the Department of Commerce show that the economy rebounded by 12 percent in the second quarter. This was accompanied by a productivity rise that outstripped wages, an increase of 9.5 percent in the private sector. Give us the jobs in a well-run economy and we will hold our own in productivity with any other nation.

Unfortunately, the 12 percent rebound in the economy brought only an insignificant dip in unemployment. And, as the chairman well knows, the rebound is already proving to be tenuous. The latest figures show a decline of just under a percentage point in the leading economic indicators. We are not out of the woods and I doubt that we will be until we are able to reverse national policy.

Productivity in the communications industry is almost double the long term increase in industry as a whole. But we worry about that in this kind of economy and I would like to take the time to illustrate the reason.

The Bell System has just installed its hundredth Traffic Service Position System (TSPS), a new kind of electronic switchboard. It now employs some 90,000 long distance telephone operators across the nation. The TSPS now serves over half the nation's 115 million phones for long distance calls. But only some 25,000 of the 90,000 operators are needed for TSPS long distance calls. The remaining 65,000 serve the fewer than half of the phones not yet connected to the new system.

What bothers us is what will happen when the system is 100 percent TSPS, at which time fewer than 50,000 operators will be needed to do the work now done by 90,000. Given an economy where jobs are plentiful and where our industry expands rapidly, we wouldn't have that worry. Right now, it appears that rising productivity in our industry will undermine our job security.

Mr. William Ellinghaus, the President of the New York Telephone Company, also serves as a member of the New York State Emergency Finance Control Board. He stated recently that if New York City does go down, the Company will lose millions in revenue. That means that there will be less job security for phone workers. There is no question that the public and private sectors are in the same boat; that they live or die together. Why the White House fails to recognize this is beyond our understanding.

We note in passing that the White House wants to guarantee some $6 billion in loans to the energy conglomerates for the development of synthetic fuels. While that may be necessary, we just can't understand why the White House opposes similar loan guarantees for New York where there appears to be less risk.

We urge the Congress to move far harder into the vacuum that the Ford-Nixon policy has created in America. We are sick and tired of negative government, particularly of government that seeks to punish the cities and pit one part of America against another.

America has always been a pragmatic nation and down-to-earth pragmastism must again prevail. It is obvious that the ideology of the Nixon-Ford Administration has not halted inflation or effectively combatted recession. It is clear that the attempt of Nixon-Ford to trade off jobs for price stability has failed. The Administration has violated the Employment Act of 1946 and must be called to account by Congress on that score.

The monetary policies of Arthur Burns and his Federal Reserve have also failed this nation. They have extended the recession, caused a loss of hundreds of billions in wealth and resulted in massive needless suffering by the American people. They have not brought inflation under control and such small decline in inflation as we now are experiencing has been at far too great a cost.

The Federal Reserve was granted full independence as a means of preventing its politicalization. But it has been politicized and it is today the servant of the banking system, not its controller. Worse, it is run of the basis of ideology, not the needs of the nation.

The Federal Reserve is the only major central bank in the West that is not subject to control by the government it was designed to serve. It is time to take steps to rectify this situation. My Union has called for a regular audit of the Reserve and its policies, with the results made public. This would be a first step. Congress must devise a means of vetoing the Fed under carefully drawn rules. Until the Fed is made responsive to the real needs of the nation, the Employment Act will remain largely rhetoric.

This nation spends $20 billion for unemployment compensation each year, plus more billions to support unemployed persons driven in desperation to the welfare rolls. This policy is penny-wise. Expenditures for wealth-creating jobs will means far less expenditures for wealth-eating UC benefits and welfare. It is estimated that every one percent reduction in joblessness results in an added $16 billion in federal revenues alone. The answer to the federal deficit is not budget-cutting that will reduce employment opportunity; it is wise expenditure of federal dollars as investment in the public sector and to bolster vital private activity where needed. This will create new wealth and spur the entire economy.

We refer this Committee to the resolution on the National Economy adopted last month by the AFL–CIO in San Francisco. We do not maintain that labor it has prescribed are consistent with the Employment Act of 1946.

We maintain that the best way to achieve the objectives of the Employment Act is to restore the nation to optimum production. High levels of production matched by jobs and real purchasing power is the road to price stability as well as full employment.

There is much work to be done. We have the world's greatest store of untapped energy in our huge coal reserves and we can convert this into economic synthetic oil and gas without destroying our environment. Needed is a Project Manhattan to assure the essential break-through. We need an energy TVA as a measuring rod and to assure competition both in finding new sources of energy and in assuring fair prices.

Our railroad system has deteriorated terribly for many reasons, not the least of which has been massive mismanagement. Now, however, is the time to rebuild, not for recrimination. Our cities cry out for balanced mass transportation. We badly need new thrusts in housing, not just for the poor to assure decent homes for hard working middle and moderate income Americans.

There's work to be done. We have the manpower and resources. We lack only the will to make the intent of the Employment Act of 1946 a reality.

Statement of Amelia D. Daniel, Program Director, Sobriety Unlimited, Harlem, N.Y.

Sobriety Unlimited, Inc., provides secondary and primary prevention by way of alcohol education and counselling. The program serves an area with approximately 398,000 folks, with an estimated 36,000 Public School children in two of its school districts. The area has a very large population of blacks and hispanics. Education is taken to the community-at-large and into schools of the two Districts.

Gentlemen, a quote from your Department of Health, Education and Welfare publication, "From Program to People." "Since its unanimous congressional mandate was signed into law. . . . , on December 31, 1970, the National Institute of Alcohol Abuse and Alcoholism has worked to make the needs of individuals the paramount concern of Alcoholism services in every phase of its operation. The Institute will continue to focus its attention upon meeting these individual needs."

The Institute has said that it is about 'Human Concerns,' in making this statement. It is difficult for me to imagine the Joint Economic Committee, with no 'non-white' members being about human needs.

In sharing this observation, a brief illustrative story. (Farmer/horse.) I read your press release, in which you mentioned your concerns; 'National policies . . . , full empuloyment . . . , un-employment and related expenditures.' I know has the total answer to the pro lem, but we maintain that the kinds of actions your interests are global and you may define 'full employment' as revenue, while others may define it as leisure and for still others, it may mean working two jobs and still not be able to feed the family.

I was also ready to indict you for the fact that nowhere in your release was the word 'people' until I found the word on the next to the last line, next to the last word of the release.

Nevertheless sirs, I sincerely appreciate the opportunity to address this August body and the fact remains you wouldn't be here if the State of New York was not vital to your concerns. However, I don't apologize for being my 'super-sensitive, subjective, paranoia, black self.'

Sobriety is designed to impact alcohol abuse and alcoholism in the area. But it has to co-exist in an inter-disciplinary environment with supportive community services, for housing, habilitation, rehabilitation, prevocational training and the like. The program cannot function in a vacuum and require these ancillary services. Your National Institute of Alcohol Abuse and Alcoholism provide the $50,000 for this unique program, the city and State provides no funds for education in the community so if we have to face providing program services without the sustaining programs, the $50,000 will be worthless and you may as well take it back.

Now to be totally subjective. Everyone knows that racism exist in America. A look at the conventional institutions, and you will find that they are providing 'non-service' and are designed to meet the needs of those who designed them. An illustration, the run-of-the-mill interior decorator attempts to impose his/her will and taste on the customer. Similarly, another illustration, chines apple/ little boy.

It is just as incongruous and overwhelmingly ambitious for the conventional institutions to assume that they can meet the needs of all minorities as diverse as the cultures are. How can anyone be truly serious about serving all the people without the balancing scale of justice, without special services for the large numbers of 'non-white' populations.

This may appear as paradoxical to you gentlemen, but many of us in Harlem can only function with a slave mentality because many of our children are constantly being disenfranchised and the price we pay for rudimentary survival is the crippling of our most precious legacy.

We all know that Harlem is not a ghetto in the traditional sense. Harlem has no autonomous institutions, other than the black church. As a result we are always ostracized at the whims of the power brokers.

A paramount need gentlemen is alcohol education focused on our youths, because of their debilitated state of subjugation. Dr. Essie Lee of Hunter College, School of Social Work has documented the "emerging trends of alcohol abuse and alcoholism among urban teenagers."

Recommendation: Harlem provides a great deal of revenue gentlemen. Why not return some of that revenue back to Harlem. I'm not a betting person, but I'd wager that there is an alcohol beverage outlet on every square block of Harlem where the revenue is generated.

One final quote: "People who have every day of their lives embittered by the most intolerable reflections that evoke behavioral patterns which cripple, disable, handicap, interfere with and prevent them from achieving their potential level of satisfying, creative and productive living should be considered impaired."

Thank you.

STATEMENT OF W. FRANCES JOHNSON, EXECUTIVE DIRECTOR, HARYOU–ACT

Senator Javits, distinguished members of this important Congressional Committee, the Executive Office of HARYOU–ACT Community Corporation of Central Harlem welcomes this opportunity to share with the Committee, experiences it deems useful in constructing new public policies on such problems of jobs, unemployment, income and equal opportunity as these conditions relate to many of the poor in New York City.

Gentlemen, consistent with your request for brevity, we will simply request to put into the record the highlights of a 3-part focus on the issue of "Full Employment and Equal Opportunity".

We at HARYOU–ACT believe that the model we project, grows out of the bitter experience of the now culminating 10-year war against poverty.

The wide-scale deprivation everywhere, evident in Central Harlem today, attests to the observed truth posited here and elsewhere in American journals, that powerful myths die slowly. Equal opportunity; fair employment, are still myths in New York City.

Throughout the years of this Corporation, despite efforts which at times, reached Herculean proportions, whites still earn almost twice as much as our residents who are largely Black. In addition, among Harlem residents seeking employment opportunities, every one of the past 10 years saw 2½ to 3½ times the number of Blacks, compared to whites out of work and seeking employment, despite the national policy of full employment, explicit in the 1946 Act.

Further, we note that throughout this decade, the continuing and rapid displacement of the young from the work force because of the new technologies, racism, and the movement of factories out of the inner cities, unemployment and out-of-school youth of Central Harlem represents one of our highest social priorities.

When we reviewed your proposed stages for implementation of key strategies, we are cautioned to note that the needs of our (16–24) population are so urgent, the need for help so acute, that special attention be given to constructing processing streams which pick up immediate short-range option which can be carried and linked to the long-range planning model. Special regeneration of many of our collapsing college-bound and open admission college opportunities programs should be immediately restored and enlarged to ease the crush on the job market demand curve. For the remainder, those representing family heads of households, the younger families of Harlem, the need is one of income first and education and recreation, second.

THE UNDERLYING ISSUES

According to Herbet Hill, the NAACP's National Labor Director, gains made by Blacks and other minority groups since 1964, are being wiped out by the strict application of labor's seniority rule, written into all contracts. The consequence is certainly evident in our community where unemployment (those seeking employment) is from 3½ to 4 times that of whites.

Studies now underway in our organization, Hunger in Harlem, already indicate the effects of declining income and rising prices are causing our poorest population segments to trade-off many fundamental family needs in order to purchase food those remaining days before the next check arrives. Female heads of households with minor children represent approximately 40% of the families. These and the single heads of household, 65 and over, represent serious economic hardships where full employment policies do not hold out immediate remedies.

Gentlemen, HARYOU–ACT supports fully, the proposed Act. We are in agreement with the resolution adopted at the 43rd Annual Conference of U.S. Mayors in Boston earlier this year. That conference concluded, "A society which will condemn millions of its own to economic serfdom is not a society worthy to celebrate the Bicentennial".

Attached to this brief is our statistical supplement for your further study and analysis of hard-pressed areas of the city.

Enclosure.

"THE CUTS"—A CITY IN TROUBLE

The Executive Office of HARYOU–ACT, INC., which administers one of the larger of the city's 26 Community Corporations, is confronting a major problem. Just a few days ago, it was notified to begin developing an adjustment to its funding strategies for some 26 Delegate Agencies to absorb an anticipated budget cut of some $760,000, for the coming program year. Now, because of the pressures put upon the city to submit hard-nosed data as to its plans to reduced spending this year by $200 million, an anticipated spending cut of some 45.8% looms on the horizon instead of the original one of about 14.8%.

While all of the city's Community Corporations await a new distribution schedule of how the last dollars are to be absorbed by program priorities, it is clear that the original 4.3 million will grow to 14.4 million if another 9.1 million is to be absorbed by the antipoverty program. Since the city's goal is to balance its budget so that it can discharge its long-range debt commitments, the cuts that are being levelled against institutions of the poor of this city must be weighed within the context of all sacrifices being sought by the city. Traditional service agencies of the city are being asked to take cuts of 3% to 5% by the Beame administration. The Mayor declared on NBC NEWS Program, Sunday, October 19th, that he would not have to add to the city's unemployment if the Federal Government would take over the city's $1 billion welfare burden.

Haryou–Act, Inc., is also in the process of weighing two important dimensions of its programs. The structure of Community Corporations and Delegate Agencies is such that policy-making is posited in Boards of Directors. It is not yet clear whether the advocates for heightening community service goals will triumph over a strong "job" oriented solution to the Corporation's present dilemmas. A long ago, built-in, staff agency directorship has banded together to help deliver a strategy to give job protection highest consideration even if service delivery systems to the poor suffer as a consequence. The Executive

Office is not unmindful of the fact that the city's job infrastructure has been crumbling for more than a decade.

That fact, along with diminishing tax revenues, as a poorer population displaces a more affluent one, provides the condition out of which our fiscal struggles take their root. As jobs become scarcer, it is natural for individuals to form any kind of association to advance their interests. There is nothing new about vested interested groups lobbying at key decision-making points in our bargaining systems.

The challenge of the Executive Office of all these 26 Community Corporations is to develop choices for the policy-makers which produce a balance between the interests of service providers and client beneficiaries of services. These antipoverty institutions were, after all, created to provide a network of coordinated services to impact on an area and offer thousands of citizens, trapped in such areas, alternatives out of the social and economic web which contains them in poverty. This web is often characterized by such social injustices as racial discrimination, class exploitation in consumer purchasing in all areas of economic life and managed public service systems manned by persons indifferent to the poor and socially scarred.

To provide a clearer picture of the developing tension here in the city and in all of its neighborhoods, we need to sort out their main elements in the emerging problem—the size of the eligible population for a given community service, and the per cent of each service to be curtailed and at whose expense.

DATA ANALYSIS

According to examination of 1970 census tract data, 38,945 families were housed within defined geographic boundaries of Central Harlem. Since there are some 70,000 units of housing occupied, there are large numbers of single person households in Central Harlem. There are 2½ as many families in N.B. No. 1 as in N.B. No. 4 (10,241 to 4,072). N.B. No. 2 has one third more families than N.B. No. 3 (9,878 to 6,622). N.B. No. 5 is third largest with 8,132.

The median income of these families ranged between a high of $6,916 in N.B. No. 2 to a low of $5,223 in N.B. No. 3. Over half the population of 170,000 is below poverty levels now placed at $5,400 a year, instead of the $4,000 of the mid 1960's.

When we examine the burden placed on Harlem families, such indices as number of children under 18, those on social security, the retired over 63, and those on public assistance, are useful measures.

CHILDREN UNDER 18, CENTRAL HARLEM BY NEIGHBORHOOD BOARDS

N.B. No. 1, 13,674; N.B. No. 2, 10,230; N.B. No. 3, 9,514; N.B. No. 4, 4,498; and N.B. No. 5, 12,589.

More than 10,000 youth between 16 and 21 are out of school and out of work. Approximately 25% of our children are in families receiving public assistance compared with 7% in the city as a whole. More than 40% of our 70,000 heads of households in the area are headed by females whose earning levels are generally lower than males.

In short, Harlem was in severe economic straits in 1970, and today, our projections are that we have slipped deeper into poverty as unemployment continues its upward spiral in the city's ghettos, even as bright signs begin to surface among economic forecasting indicators assuring planners that the economic downturn has finally flattened out.

SERVICES PROFILE

Haryou-Act's cost analysis presented at Board of Estimate and City Council Hearings on proposed budget cuts, in April of this year, indicates that during program year "I" (1973–74) and program year "J" (1974–75) it had a parallel spending program provided through 26 Delegate Agencies as follows:

Program	Expenditures	Number of service units per $100
Housing	$160,501	12.7
Health	207,872	6.2
Education	487,950	2.8
Neighborhood services	715,349	9.8
Economic development	195,860	78.7
Youth development	238,677	5.7

Auxiliary programs included such services as:

Family day care	$362,623	12.9
Neighborhood youth corps	132,299	5.8
Right-to-read	50,000	9.8
Manpower	240,400	3.6
Har-computer	266,097	

THE PROGRAM OPTIONS

The funding sources are relieving Community Corporations of some of the pressures as a result of the cuts by laying out certain constraints. For example, the Council Against Poverty for the City of New York, representing top policy input has declared that for program year "K" (1975–76), Manpower, Alcoholism and Family Planning Programs may *not* be increased or decreased by Community Corporations. Other priorities sorted out by the funding sources, but whose limitations are not absolutes, include: Housing, Economic Development and Education Action Programs.

Within these limitations, the Corporation has certain dollar-gap goals to close by either firing people in significant numbers, abolishing some programs and merging some so as to cut overhead costs, or some combination of each. A quick analysis of the biggest cut between the two referred to earlier, reveals that Central Harlem's share of the new 14.4 million cutback would be about 17.7%. This would represent a dollar loss of $2,380,119 out of last years level of funding, put at $5,780,886. This would leave a funding stream for the coming year at $3,400,767.

The largest agency, Y.I.A., in Bedford-Stuyvesant, would lose $2,749,912 or 20.45% and the smallest agencies losing from less than ½ of 1% to 1%, and 1½% would reflect dollar losses of $26,894 in Staten Island out of a program of $272,671, to 1.27% loss in Bushwick with a program size of $739,702.

The Executive Office of Haryou–Act, Inc., has already received protests from Delegate Agencies against the city's use of a sliding scale which distributes dollar losses based on the sole criteria of program size. An analysis designed to show who benefits and who loses would indicate that selection of selected socio-economic indices of poverty rather than organization size might reveal that a new sense of urgency ought to be given to areas where the intensity and duration of poverty would require a sustained attack at current levels of spending.

Obviously, Bed-Stuy and Central Harlem would benefit by use of such criteria. But the distribution of political power in the city restricts this as feasible citywide policy. Everybody knows the low voting of Black communities.

If Haryou-Act is required to shave $2,380,761 from its program next year, it would probably have to cut its Central Administration by some $552,765, and that would be mostly jobs of people with probably little or no service loss to people as we strive to streamline structure and procedures to make up the slack. Obviously, a cut of the size contemplated would require sharp model changes for our social service delivery systems.

At the moment, the Executive Office is busy developing some alternatives in this regard for the Corporation's policy-makers which will provide the organizational equilibrium required to be affective and at the same time, preserve an infrastructure which can maximize service and minimize costs to the community.

STATEMENT OF JOHN R. MEYER, PRESIDENT, NATIONAL BUREAU OF ECONOMIC RESEARCH, INC., CAMBRIDGE, MASS.

It is indeed a pleasure to participate in these hearings marking the 30th anniversary of the Full Employment Act. That Act was born, of course, in the midst of the early postwar worries about the possibility of stagnation returning to the American economy. In 1945 with prospective end of large Federal outlays for defense, most economists were predicting a renewal of the widespread depression and unemployment that had characterized the 1930's. By 1945, wartime experience had strongly made the point that substantial government deficits could eliminate large-scale unemployment. Hence the motivation, via the Full Employment Act, for placing on government the responsibility to avoid a reenactment of that tragedy, The Great Depression.

This lesson, however, was not accepted without controversy. In the early postwar years, the Keynesian concepts underlying the development of effective macroeconomic policy were equated in many circles with dangerous radicalism. Subsequently, of course, almost All American presidents of the postwar era were to become "Keynesian," and quite willing to accept that label. Indeed, for the first two decades after passage of the Employment Act of 1946 economic policy in the United States was characterized by a surprisingly broad consensus, a "full employment" consensus accepted by both business and labor, and by both major political parties and their administrations.

This consensus was based on three fundamental beliefs: (1) that unemployment was *the* major domestic and economic problem of our society; (2) that economic growth was desirable in and of itself and would generate an economic dividend that could correct, or at least hold in abeyance, most of the other major problems of society; and (3) that price inflation was not too worrisome—possibly even something to be welcomed within reasonable bounds (e.g., it provided a partial correction for various economic miscalculations, such as overoptimism about investment opportunities).

The economic policies emerging from this political solidarity have served the country well. While our economy did not grow quite as rapidly as that of many European countries or of Japan, the postwar years were years of very rapid economic growth in the United States. They were also years of relatively mild recessions. The basic three premises of that earlier consensus are increasingly rejected or sharply challenged. Price inflation, to begin with, is no longer viewed quite so benignly or tolerantly. Simply put, political sensibilities and perceptions change sharply when inflation rates are at double digit or high single digit levels rather than at the earlier postwar norms of 5 percent or less. Furthermore, current inflation fears seem little calmed by evidence of the possibility, indeed high probability, that recent double digit inflation owes much to exceptional, highly irregular forces originating largely outside the industrial economies of the West.

Economic growth, too, is not always accepted today as obviously good for its own sake. An increasing concern is expressed for the quality as well as the quantity of growth. Perhaps this concern finds its most eloquent statement in environmental and demographic debates. We must clean up our air and water! Zero population growth should be society's goal! We must live within our own native or indigenous resource availability!

In short, growth is increasingly viewed as potentially harmful as well as helpful. Not only may growth mean fouler air and water, but rapid growth may make job access "too easy" and thereby reduce social discipline. Or, too much growth may attract too many workers from foreign places with strange habits and folkways. These worries, moreover, are not limited to the Swiss bourgeoisie or the Sierra Club. Much of the hue and cry about "the limits of growth" have had as their source business-sponsored activities, such as the Club of Rome.

Finally, and most importantly, growing skepticism is expressed about whether some unemployment is really all that disadvantageous under current circumstances. Politicians seem not so sure today that chances of re-election always improve with declines in unemployment rates. Rather, there is perhaps a golden mean in unemployment as in other things, so that too little unemployment, or too much, are both to be avoided if possible.

Why unemployment may not be quite the prime political issue it once was is probably explained by many considerations. To begin with, memories of the Great Depression undeniably recede with time. Today only voters over 50 years of age would have much recollection of that debacle.

Also, unemployment may not imply quite the same economic suffering today that it once did. Above all else, welfare and unemployment compensation programs reduce its impact. As one economist states the case: "A worker who has been laid off and expects to be recalled after a reasonable interval, as most laid off workers are, may enjoy nearly as high an income when unemployed as when employed. He need pay neither Social Security nor personal income taxes on his unemployment benefits, and he is spared commuting and other job-related costs. At the very least, he need not be so desperate to find another job as his counterpart was in the 1930's. He can afford to be choosy and to wait until he is either recalled or a more attractive job turns up. The result is to swell the number reported as unemployed without any corresponding increase in personal distress." [1]

[1] Milton Friedman, "Where Has the Hot Summer Gone?" *Newsweek*, August 4, 1975.

Technical reasons can also be given as to why the statistics of unemployment may not mean what they once did. The argument is increasingly made that we should not emphasize how many people are unemployed, but how many are employed. Thus, instead of saying that the unemployment rate doubled during the recent recession, rising by more than five percentage points, we should be pleased that the employment rate (defined as the percentage of the civilian working age population holding jobs) has declined "only 2.5 percentage points" (from its peak of 58.9 percent in October 1973 to a though of 56.4 percent in March of this year). This percentage of 56.4 employed, incidentally, is also higher than the lowest employment percentage during three of the five earlier postwar recessions. Accordingly, on the basis of this measure, the current recession, instead of being the most severe in the postwar period, as indeed it is by most measures, appears rather mild!

Many economists, as might be expected, look at these very same employment and unemployment statistics and do *not* reach the same conclusions. Employment and unemployment ratios can both be at a high level, as they now are, if the number of people in the working age population looking for jobs is very large. This results from labor force participation rising steadily over time in our society, mainly because of more women and teenagers actively seeking jobs. To some economists it is a matter of concern if a historically high percentage of those loking for jobs do not find them, regardless of whether the number working is also high. That the business cycle recession is generated by a decline from a higher standard of well-being does not make it any less traumatic in this view. General improvement in the standard of living and economic opportunity over time is a basic and highly desirable characteristic of the U.S. economy!

Certainly a high unemployment rate coupled with a relatively low rate of capacity utilization, such as we have experienced for the past year or so, clearly denotes a serious loss of potential output within our society. And as long as there are many important and unmet economic claims, whether for salvation of New York City, or improvement of educational opportunities, or whatever, this loss of output is understandably a matter of some concern.

As already noted, though, loss of output and growth may *not* be quite as much concern to quite as many as it once was. This leads me to speculate whether we are not entering a new phase in our political economy, one in which the emerging consensus is a consequence of widespread affluence. As I understand the affluent society, it is one in which a broadly based middle class is dominant, a middle class extending from the high-paid blue collars through the professional and managerial groups. Affluence also represents a state of being or bliss in which consumption may not be fully sated, but is at least not quite as aggressive a drive as it once was. If every middle class family has two cars and two TV's, a dishwasher, a disposal unit, etc., further material acquisitions may wane in priority. The corollary of this is that economic growth for its own sake may be increasingly sublimated by this group in favor of qualitative considerations: How we grow becomes more important relative to how much we grow.

In its implications for public policy, any emerging "political economy of affluence" clearly has many positive as well as negative aspects. The major policy conclusion apparently flowing from it is that the Western industrialized nations will run their economies a little less tautly than before. Thus, as the economies of North America, Japan, and Western Europe come out of their current recession, they are moving only very slowly back to long-run sustainable growth rates. The U.S. economy instead of growing for the next year and a half at, say, 6 to 8 percent or more, and thereby closing the so-called GNP gap between current production and potential output, seems headed toward a growth rate equal to or just above the long-term sustainable or secular rate of 4 to 5 percent. Unemployment, moreover, will remain above 6 percent, a number that only a few short years ago would have been universally rejected. This means, quite simply, that we will continue to give up somewhere in the vicinity of $200 to $250 billion worth of total output each year for the next few years. If Western Europe, Japan, and Canada, follow the same policies, they collectively could give up roughly the same amount of foregone production per year.

Slow growth out of the current world recession implies, of course, continued high unemployment rates. This, in turn, is likely to generate an increased political concern with the distribution of income. No longer will we be able to finesse distributional issues by saying that the "growth dividend" will take care of all! I hope that our natural impulse in this situation will be to make the transfer process, by which the employed and the more affluent compensate the unemployed and the less affluent, more efficient than it is now. In short, the search and pressures should increase for simple, more incentive-oriented, less administratively complex redistribution formulae, such as the family assistance plan or the negative income tax or the government serving as "employer of last resort."

International distribution issues are also likely to attract increased attention if indeed the political economy of affluence has arrived. The "have-nots," the third and fourth world peoples are likely to be increasingly restive. Nothing usually helps the rate of development in less developed countries (LDC's) quite as much as high rates of economic development or growth in the developed nations. Among other considerations, when the industrialized countries are moving along at near-full employment, their demands for raw materials are high and their willingness to accept imports of LDC's manufactured goods relatively great.

Certain fine ironies and latent financial problems also abound in the current international situation. We know today that virtually the entire increase in OPEC trade balances has been offset, not by increased deficits for the affluent, industrial nations, but by increased deficits for everyone else. Clearly, that cannot go on long without a breakdown or revision in traditional international credit arrangements.

Any change in the reigning "rules" of political economy is also likely to have important implications for the development of economics as a science. For example, we may see less interest in so-called "fine tuning" and the related art of "short-term" forecasting. If the political sensitivity or response curve actually proves to be flat between 4 percent and 9 percent unemployment, why bother? In general, a decline could occur in the importance of macroeconomics in favor of micro studies. Energy and environmental issues, for example, are intrinsically micro in character. Distribution policy involves a blend of macro and micro considerations, but with the large and unresolved issues rather more micro in character.

And within the realm of macroeconomics, a change in emphasis seems likely. For example, we shall be less concerned with the semantic issue of whether a recession does or does not exist, since we could well be in a permanent state of recession or semirecession by some measures (e.g., the GNP gap). Rather, the focus will be on understanding longer-term growth issues and parameters, which often can be done only by a greater attention to underlying micro detail. How rapidly should the various monetary aggregates grow? How do we stimulate and expedite productivity improvement in our economy? How do we best remove the shackles from stagnating overregulated sectors of our economy, such as transportation and the equity markets, so as to restore market incentives for growth and efficiency? What is the true value of investment in human capital or educational training to our society? De we really have a capital shortage so that we cannot finance necessary investments in productive equipment, environmental improvements, housing, et cetera? Or are we really in a capital "surplus" as negative real rates of return (after inflation) on many outstanding investments and the gluts in various markets (office buildings, condominiums, tankers, etc.) would suggest?

The overriding or key question lying behind all these issues is, of course, obvious: How do we ease our economy back into a sustainable, steady growth pattern that is devoid of both inflation and gross environmental abuse? Clearly, achieving this goal will require more economic knowledge than we now have. It also involves larger social and cultural issues, quite worthy of investigation and research in their own right, that go well beyond the purely or narrowly economic. I would observe, moreover, that the research needed on these basic economic, social, and cultural questions will require financial help and encouragement from government, most particularly the National Science Foundation. The resources will simply not be available otherwise.

In the meanwhile—that is, while we attempt to rectify the more glaring errors or omissions in our knowledge—certain "interim" policy actions can obviously be helpful. Above all else, our economy should be spared flagrant and unnecessary trauma. Our economic system has experienced quite enough outside shocks during the past few years—from OPEC, from the Arab oil embargo, and from Soviet grain purchases. We should avoid imposing additional shocks of our own making. Uncertainties and fears are quite substantial enough today without adding new worries by exploring new and uncharted economic terrain. Such excursions should be avoided unless they are very substantially justified by obvious benefits. A good preliminary consideration for any economic policy proposal today might well be the same as that asked about transportation during World War II: Is this trip really necessary?

In sum, the new political-economic attitudes herald neither an unmitigated disaster nor the coming of a new millennium. Any political consensus about economic policy, like its predecessors, will probably solve some problems, but will also create new ones that will require new analyses and new policies. Furthermore, no one can predict today how long any new consensus might last. Keep the unemployment rate high enough long enough, and society may not deem itself so affluent. Earlier attitudes and values could then quickly return and the Employment Act of 1946 might then serve the 1980's almost as well as it did the 1950's.

STATEMENT OF ROBERT PHILLIPOFF, ECONOMIST AND ASSOCIATE RESEARCH DIRECTOR, LABOR RESEARCH ASSOCIATION, ON BEHALF OF THE NEW YORK COALITION TO FIGHT INFLATION AND UNEMPLOYMENT

Default will be an economic disaster for New York City and other cities. A former member of the President's Council on Economic Advisers, Otto Eckstein has noted: "The credit position of the State of New York has already been impaired, and there is the possibility of runs on the borrowing ability of other municipalities."

It has been reported that if default occurs, Con Edison may go bankrupt within one month with New York Blue Cross soon to follow. Testimony before the U.S. House Subcommittee on Small Business Administration Oversight and Minority Enterprise in this very building (26 Federal Plaza, New York City) late last month has revealed that in fact there are between $5 billion and $6 billion in city and state construction where payment is in doubt throughout the country and that if these were stopped, the jobs of about 900,000 people—about 150,000 of them in the building trades and the other industries that supply them—could be lost.

Default will be especially disastrous for the Afro-Americans, Asians and Puerto Rican and other Spanish speaking Americans who are crowded into the ghettos and barrios in far greater proportions than their respective percentages of the population of the nation as a whole. Racism is involved in a default of New York City and other cities.

An immediate no strings attached emergency disaster federal grant of at least $10 billion a year to New York City is required. Its purpose not only would be to restore the massive cutbacks in jobs and city services that already have occurred (with priorities for Afro Americans and other U.S. racial minorities and Spanish speaking persons) but also to significantly eliminate unemployment and vastly expand city operations of benefit to the people. It should be administered by a special People's Control Committee elected specifically for this purpose.

In reality there need not be a problem financing this sum. There are $8 billion a year that New York City residents pay to the federal military establishment. This is extremely wasteful, certainly from an economic point of view. There are some $380 billion worth of assets owned by the financial community in New York. A mere 1% tax on these would yield $3.8 billion. New York City real estate interests, in defiance of law and order, have withheld some $600 million in unpaid back real estate taxes. In addition, the non taxed portion of real estate has been rapidly rising over the years compared with the full market value. In 1962 in New York City it was 22.5% of the full market while in 1973 (fiscal years) it rose to 42.4% with the loss to the city of $1.6 billion in taxes in that year alone (excluding taxes on small homeowners which amounted to less than 16% of the total). Use of even a partial amount of these potential revenues is more than enough to solve the immediate financial crisis.

These sums are desparately required to solve the disastrous unemployment situation in New York City. Here the officially admitted unemployment rate has been hovering around 12%, almost twice what it was a year before, with some 386,000 unemployed in August of this year (see U.S. Department of Labor, "Labor News Memorandum," October 8, p. 10). In comparison the nation's official unemployment rate rose to 8.6% in October, while the number of admitted unemployed rose to over eight million.

Support of HR–50 in the U.S. Congress, popularly known as the Hawkins full employment bill, is required. Its Job Guarantee Office would be empowered to provide "useful and rewarding employment" for almost all of the currently unemployed. Unfortunately, the bill contains defects such as setting a limit of as much as five years for full implementation. However, space does not permit an elaboration of these. Its passage would go a long way toward solving the immediate catastrophic unemployment problem in the United States.

Thank you very much.

STATEMENT OF HON. CHARLES B. RANGEL, A U.S. REPRESENTATIVE FROM THE 19TH CONGRESSIONAL DISTRICT OF THE STATE OF NEW YORK

Mr. Chairman, may I first commend both yourself and the Committee for holding these regional hearings. It is a true sign that you are more than concerned with the threatening problem of increasing unemployment. In order for the problem to be solved with the rapidity needed, we must be fully aware of the ramifications involved in allowing further unemployment. This is exactly what the Committee is doing and such a task is more than commendable.

Unemployment throughout the nation has reached critical proportions, with joblessness in April, 1975 reported at nearly 9 percent for the nation and 15 percent for minorities. If the current unemployment indices used by the Bureau of Labor Statistics (BLS) were to adequately incorporate discouraged workers—those working part-time for lack of full time work, those who have given up the search for jobs—the actual number of jobless workers would be much higher than now reported. An examination of my own district in New York City reveals levels of joblessness that range two to three times the national rate. Even if BLS figures were to go unchallenged, their report that some eight million workers are without jobs today is shocking—and it, alone, should precipitate a national call to action on the full employment issue.

It has been sadly, though truthfully stated that when the American economy catches a cold, its poor and minority communities get pneumonia. Poor and black families, in the face of our current economic crisis, have neither boots nor bootstraps. One of the highest priorities of the Congressional Black Caucus, the formal organization of all seventeen black members of the U.S. House of Representatives, is the passage of comprehensive legislation that guarantees the right to useful, meaningful employment for all Americans who are willing and able to work. While the black community has been one of the most grievous victims of the nation's current recession, the massive joblessness we now experience has struck, with varying intensity, all sectors of our population. Full employment is not simply a black concern, or a poor peoples concern. It is a national issue that raises basic questions about our economic system, our priorities, and our commitment to a decent standard of living for all citizens. On the eve of this nation's 200th birthday, the tributes to our achievements over the last two centuries must be tempered by the following realities:

1. This nation has a Gross National Product of nearly $1.6 trillion, yet our productivity is currently operating at only about 70 percent capacity. Some eight to ten million members of our workforce are without jobs.

2. The number of people living at or below poverty (an estimated 25 million people) *has not* declined appreciably within the last six years. Minorities and female-headed families remain disproportionately represented in the ranks of poverty.

3. Recent reports indicate that only families with incomes in excess of $20,000 a year can afford to buy a new or old home at current market prices. This means that 75 percent of the American families—those with incomes of $15,000 or below—are effectively priced-out of the housing market. An estimated 13 million American families are now living in substandard or overcrowded housing, or pay an excessive portion of their incomes for rent.

4. The nation may be number 1 in military spending but it is number 25 in life expectancy, number 14 in infant mortality, and number 14 in literacy. Many of the nation's largest school systems face budget cutbacks or are on the verge of bankruptcy.

5. Some 25 to 30 million Americans go hungry every month because of inadequate incomes.

6. In April, joblessness among all teenagers (16–19) was 20.4 percent, among black teenagers it was in excess of 40 percent. If current trends continue, at least one-half of all black teenagers will be without jobs over the next five years. We are rapidly approaching the creation of a permanent underclass of unemployed citizens.

The Congressional Black Caucus, recognizing the crucial importance of the jobs issue in addressing many of the above cited problems, recently co-sponsored with the Joint Center for Political Studies, a major ad hoc hearing on full employment. The hearing, held May 20th was convened to: present media decision makers and the working press with a more detailed perspective on who is really hurt by unemployment; to examine the economic, legislative and political implications of full employment; to project the issue of full employment as a viable alternative to the nation's current economic crisis.

Our hearing panelists included members of the Caucus, the President of the Joint Center for Political Studies, a number of noted newspaper publishers and editors, and other members from both the House and Senate Witnesses included: Senator Hubert Humphrey (D-Minn.); Senator Edward Brooke (R-Mass.); Mr. Patrick Murphy; President of the Police Foundation; Mr. Renault Robinson; Director of Chicago's Afro-American Patrolmen's League; Ms. Eleanor Holmes Norton; New York City Human Rights Commissioner; Mr. William Lucy, Sec./Treas. of the American Federation of State, County and Municipal Employees; Mr. John Gunther, Exec. Director of the Conference of Mayors; Ms. Carole Foreman, Executive Director of the Consumer Federation of America; Dr. Bernard Anderson, Wharton School, University of Pennsylvania; Prof. Bertram Gross, Hunter College; Dr. James P. Comer, Assoc. Professor, Yale University Child Study Center; Mr. Clarence Mitchell, Director of the Washington Bureau, NAACP; Mr. John Hampton, Executive Director of the National Tenants Organization. Each of the knowledgeable witnesses recognized the need for a comprehensive full employment program and each noted that such a program could effectively address the plethora of social and economic crises now ravaging the nation.

In follow-up to the Hearings, the Congressional Black Caucus is planning a major nationwide effort to inform the American people of the need for and advantages of a full employment program; to assess and report the costs of our current high unemployment versus that of full employment; to assess the probable impact of full employment on varied sectors of the population; assess and report the positions of every member of Congress of the passage of full employment legislation. We realize that this is an ambitious effort and that we will require the support and cooperation of many citizen interest groups, labor, local elected officials, business/corporate representatives and our colleagues in the House and Senate. The push for full employment requires broad commitment—it is, as I stated previously, a national issue.

The Caucus' legislative initiative for full employment will focus on the Equal Opportunity and Full Employment Act (H.R. 50), introduced by Representative Augustus F. Hawkins. This legislation provides that the President shall send to Congress, at least once a year, a Full Employment and National Purposes Budget. This Purposes Budget would include specific goals for the reduction of unemployment to 3 percent or less within 18 months of the bill's enactment. It would allow the President to request an interim budget for immediate implementation of programs designed to comply with stated goals. Other provisions of H.R. 50 include:

A periodic reporting system which charges the Executive Branch with responsibility for developing the Purposes Budget, maintaining economic performance, and reporting on trends, accomplishments and projections. This report would be reviewed by Congress.

After the review process, development of supportive or alternative recommendations and legislation by Congress.

Immediate creation of supplementary reservoirs of public and private service jobs. It is contemplated that the size of these supplementary programs would gradually decline, with the increase of productivity and growth in the private sector.

A requirement that all federal agencies, including the Federal Reserve Board, act in a manner consistent with the Full Employment and National Purposes Budget.

An overwhelming majority of the participants in our May 20th hearing on full employment, recognized the need for a comprehensive jobs policy. Vice President Nelson A. Rockefeller, our luncheon speaker, pledged a continuing open line of communication between his office and the Caucus. We fully intend to follow-through on all pledges of cooperation received from the Executive Branch, from our colleagues in the House and Senate, from labor, and citizen interest groups. The Caucus is determined that the rhetoric of support on the issue of full employment will be translated into action, and into a national mandate that guarantees each and every citizen who is willing and able to work a job.

Thank you, Mr. Chairman, for allowing me to have an input in these vital hearings.

Statement of the Regional Plan Association, New York, N.Y., November 12, 1957

REGIONAL PLAN GROUP TELLS HUMPHREY COMMITTEE: NEW YORK'S DECLINE WILL COST NATION ENERGY, FARMLAND, DOLLARS

Regional Plan Association, the nation's oldest metropolitan planning agency, today submitted to the Joint Economic Committee of the Congress a statement arguing that better New York City services not fewer are needed for a healthy New York Region economy that would save the nation money, energy and farmland. The Association asserted that:

Higher taxes or lowered services for New Yorkers would drive more jobs from the City and Region.

Recent trends suggest that these jobs would scatter on the outskirts of the fastest growing urban areas of the nation, where their employees would use far more energy than they do in the New York area mainly because they would travel much more by car. Employees homes would spread over far more land, and the move would cost business and the public much more than the cost of improving the New York environment enough to induce business to stay.

It would be more economical as well as fairer to lift the costs of poverty from City taxpayers. The Association estimates the cost to local taxpayers of poverty-related public programs at over $1.5 billion and argues that poverty is a national problem that only happens to be concentrated in old cities.

New York is not inherently more expensive to maintain than other urban areas, considering all costs, the Association says, nor are residents luxuriating in high-quality public services or low taxes.

Improved government efficiency and reasonable work rules and pension programs for municipal employees will improve services, and that seems likely to result from the existing State oversight of City finances and the work of business leaders officially reviewing City spending and administration, the Association observes. But even with such changes, the Association feels, the costs of poverty will keep the City services low and taxes high, certain to result in further economic decline and unemployment in the New York Region and further sprawl on the periphery of the nation's fastest-growing urban regions.

Immediate federalization of welfare and eventual federal financing of all poverty-related health, housing and compensatory education costs is one solution suggested. A second proposal is to shift federal policies in favor of cities instead of against them. For example, states might be allowed to use highway grants for public transportation, federal employees might be located in city centers, renters might receive equal income tax benefits as home owners.

The full statement is attached.

Statement Submitted by Regional Plan Association

New York City's dilemma is this: on the one hand, City services must be cut sharply; on the other hand, the City environment already is becoming too shabby to retain the City's and the New York Region's economic base—high-level corporate and institutional offices.

The country as a whole also has a dilemma—as those outside our Region might see it: New York City should not be allowed to get away with spending beyond its income, yet if New York City spends much less or taxes much more, its economy will decline. The total cost of that to the nation in both dollars and energy will be much higher than helping New York become the kind of environment business and civic leadership demands.

These are the facts, as Regional Plan sees them:

1. The present arrangement for State oversight of City finances—relying heavily on business leaders—will assure that money going into City services is efficiently spent. A great deal could be saved by changed work rules and pension plans.

2. Even with this improved efficiency, budget constraints needed to satisfy bond buyers will mean a drastic cut in City services.

3. While the spotlight has turned on a few City services that might seem luxurious elsewhere in the country, particularly the City University system (which amounts to only four percent of the budget), most City services have been below what is necessary for satisfactory living and working conditions. For example, a number of parks in the City has simply been abandoned; there has been no money for upkeep. Transit projects have been postponed or abandoned which would increase riders far more for their cost than transit programs that have gone ahead in Washington, Atlanta, San Francisco.

4. In large part as a result of inadequate City and regional services, many corporations have abandoned the City already. In the past dozen years, Manhattan lost 40 headquarters of the largest 500 industrial corporations, nearly a third of those previously there.

5. Since business decisions are our major export in the New York Region, this gradual decline at the heart of the Region is an important cause of the severe unemployment that hit our Region in 1969, from which we have never recovered. Although the Region's population has stopped growing, our labor force continues to rise because young people are growing into working age. Between 1975 and 1980, 400,000 young people will enter the labor market. Between 1980 and 1990, 800,000 will. But the Region's jobs have not been growing, and New York has lost about a half million jobs since 1970.

6. If services already are below par and City costs are greater than can be supported even with very high tax rates, can we conclude that a large, dense City is simply too expensive? Would it be good policy to encourage its decline? In fact, the most of decentralization would be overwhelming. Our City and Region are extremely conserving in energy. Our compactness saves farmland and total air pollution by keeping more trips on public transportation and on foot compared to other urban areas. A substantial move of business out of New York City would leave a costly hole in the middle—wasted resources of buildings, of utilities, streets, transit—and people. If present trends are indicative, business would move onto broad campuses on the edges of the fastest growing urban regions, while our Region declines. No, the total costs, to business, governments and the general public, would be far greater for corporations to respond to the proposed service cuts by an even faster out-movement than if some means were found to provide an adequate environment for corporations where they are, in New York.

7. If New York City is not an excessively high cost location for jobs and population, how did it get into this mess—high taxes and yet poor services? A prime reason is poverty.

Through New York City's history, it has accepted the tired, poor, huddled masses yearning to breathe free and given them the opportunity to make it in the nation's economy. In the past quarter century, the task has been to transform people with no background of an urban economy, with few skills and often with little tradition of the work ethic, into not just workers but white collar workers. This City has done that task to a remarkable if inadequate degree. Over the 1965 to 1970 period, for example, some 170,000 unskilled immigrants entered the New York Region economy as white collar workers. But there is a cost—to the corporations which have stayed here and have carried out this transformation and to the governments of the City and State.

The dollar cost of poverty to New York City taxpayers also is staggering. This includes not just unemployed but also a large number of persons who are employed at hard jobs that do not pay enough to support their families. Of the $8 billion paid by local taxpayers to New York City, more than $1.5 billion goes for services directly related to maintaining the poor and trying to help them out of dependency. This is nearly 20 percent of the taxes paid to the City. Since no one can deny that poverty is a national problem that only happens to take place more in certain cities than elsewhere, we feel the federal government should immediately relieve New York and other local governments of this burden—first welfare but quickly other poverty-related programs like public health and compensatory education.

Poverty has not been just a dollar burden on New York. Throughout the 1960's, when New York City should have turned its attention more than it did to creating a better environment—though even then, considerable progress was made in public transportation and zoning and State and federal parks—the main attention of City and State leaders had to be on poverty—keeping the City cool and improving opportunities for the poor.

In other ways, too, federal and State policies weakened New York. Money went for highways that led business out rather than for transit that would have improved conditions for business in the City. Federal housing policies encouraged middle-income families to move out of cities. We strongly feel that federal and State dollars should now go toward strengthening cities.

Also, many federal jobs that could have strengthened the City have gone to distant suburbs where workers must drive long distance to get there, for example, more 18,000 employees of the Internal Revenue Service in Brookhaven, Suffolk County, Long Island.

Federal income tax policies have resulted in a much larger share of New York City residents' taxes going to the federal government than residents' outside the City, because most City residents are renters who do not get tax deductions that home owners get. They pay about the same share of their income in total taxes as suburbanites pay, but less of that goes to the City and more to the federal government.

8. So altogether, it would be terribly costly to the nation to bleed New York further, which a decline in City services probably would do. It would hurt the fast-growing urban areas which would be asked to shoulder even greater growth; it would hurt businesses which might feel they have to move out even though it is a difficult enough time for corporations without the disruptions that such a move would entail. It would increase energy use, cut into farmland. And it would leave New York severely shaken, threatening the cultural and civic life of the nation as New York's institutions are weakened in the wave of outmovement. What we are asking is not unreasonable: it is essentially help with the national problem of poverty which the nation's local governments have been bearing; and national policies that strengthen rather than weaken cities.

9. Through the history of this nation, the East has financed the West. When New York City was riding high, its residents were taxed to build highways, dams and irrigation ditches in the West, Now the East needs financial help to continue to fulfill its functions and get this Region over a hurdle as the nation moves from an energy and resources rich stance to resource conservation—when the New York Region should again be a strong competitor for jobs.

10. In the face of the City's immediate financial needs, you may consider this plea hopelessly academic. But it was just that kind of response by federal, state, City, business and labor leaders over the last generation—"let's just worry about today's crisis"—that has brought us to this condition. This crisis can be an opportunity to think and act beyond this week!

Regional Plan Association is a half-century-old civic organization that has, over the years, alerted the New York Region to the need to preserve its commuter rail network, large tracts of open space and city downtowns.

Statement of Mary C. Sansone, Executive Director, Congress of Italian-American Organizations, Inc.

Mr. Chairman and members of the congressional Joint Economic Committee, I am Mary C. Sansone, executive director of the Congress of Italian-American Organizations. Our organization represents thousands of Italian-Americans throughout New York City. We work in predominately Italian-American communities developing and operating programs to give our poor opportunities for self-improvement. We have programs for youngsters, senior citizens, day care as well as walk in service agencies to help needy persons with income maintenance problems, counseling and job referrals.

Since our large staff of social workers, caseworkers, teachers, nutritionists, etc. is out in the neighborhoods of New York City—living and working with the people—we are the first to recognize new problems and trends affecting New

Yorkers. We are the first to be contacted when financial setbacks befall the citizens of our communities.

Ladies and gentlemen, there are frightening signs out on the streets of New York City. Last month in just one of our Brooklyn community agencies—in Bensonhurst—we experienced a 50% increase in income maintenance cases. Recently laid off workers are asking for our help in supporting their families. For others, who lost their jobs earlier this year, employment compensation is running out and they are becoming new welfare and food stamp clients.

As would be expected, within our own organization—which is funded in part by the city of New York—we have laid off dozens of workers and cut back on essential services we provide. This is something we must do to aid in reducing city expenditures. But, how are we going to cope with thousands of New Yorkers out of work for the first time in their lives? And how are we going to help needy seniors, children, disabled heads of families who are faced with cutbacks in their benefits from the City? What in the world will we do if—as is threatened—we are forced to shut our doors altogether?

I am not an economist nor a political decision maker, but I believe that CIAO's experience in the last few months portends serious political and economic upheaval. It should be noted that the communities we work in are not considered the poorest of NYC in terms of average, overall income. They consist of substantial numbers of poor living in pockets of poverty hidden in most cases by their better off neighbors. We have always been extremely busy in these communities because there are many poor and because we are the only organization that exists to help them. But, today, what is particularly disturbing and what should be of great significance to Washington and New York officials is that our new case increases involve not just the chronically poor—we are being flooded with cases involving the professional and skilled laborers of New York City. We are showing the middle class ethnic workers—who have always been considered the backbone of our productive economy—how to survive without an income. These men and women are disillusioned by their sudden helplessness and they are disgusted with their government leaders. They cannot understand why when they need help, Washington suddenly decides it is each man, each city for himself.

Furthermore, if the trend we have seen in our communities is allowed to contine, we are going to be faced with an incredible rise in the service dependent population of this city. How will we pay the expenditures as welfare, medicaid, food stamps and unemployment insurance soar in the face of a declining tax paying population? What will be the eventual cost to the Federal Government?

I hope that this message can penetrate the inner circles on Pennsylvania avenue. I wish the White House could come to our neighborhoods and walk the streets of Brooklyn and lower Manhattan. Let them see who is being harmed by their stringent policies. It is the working population who is suffering. It is the former tax paying population who is becoming financially dependent on government services—for the first time—under the fiscal crisis.

We could benefit from a little less rhetoric about tightening our belts and a little more action to help us feed our citizens.

I deeply appreciate the opportunity to submit this statement and hope that it will become a part of the permanent record of these important hearings in New York City today.

Thank you, Mr. Chairman and members of the Committee.

STATEMENT OF ELEANOR YOUNGERMAN

For the past four years, I have been compelled to depend upon Public Assistance of $100.00 month excluding rent, a total of $241.25 per month.

I am employable as an experienced Full Charge Bookkeeper, with 20 Yrs. of experience until mild Epileptic seizures occurred in the office, at which time I was fired from my positions 8 yrs. ago. It did not affect my qualifications and ability to fulfill my responsibilities in the office.

For the past 6 Yrs. the condition is fully medically controlled verified by my doctor's letter.

In my search for full time employment, I found that I must conceal the truth of my past employment record and have used false references.

Unfortunately the majority of people misunderstand this minor medical condition, affecting employment for qualified and skilled person as myself. Enclosed is a copy of a New York Times article by Dr. Howard Rusk referring to this situation of being a victim of public misunderstanding.

The various city and state agencies as the Mayor's and the Governor's Offices For the Handicapped, The N. Y. S. Placement Service and the N. Y. Chapter of the Epilepsy Foundation have consistently refused to encourage and educate employers through their trade associations and chambers of commerce about the employability of skilled and experience victims of this misunderstanding.

The N. Y. S. Employment Service has never succeeded in referring me anywhere for employment because they insist upon informing an employer that I had a medical condition in the past even when they saw my letter from my doctor that it is now under control.

When I reply to the WANT ADS, interviewers demand recent references. It is impossible to convince employers that the best reference is the opportunity to convince them of my ability and qualifications, instead of someone else's recommendation, which many times is not a guarantee of a person's skills or qualifications for a certain position.

The Mayor's Office For The Handicapped recently wrote Sen. Jacob Javits informing him that they have an employment service now. I had been in contact with that office since its inception by Mayor Lindsey, called them again July 15, 1975, last Tuesday. They referred me again to the N. Y. S. Placement Service, The Epilepsy Foundation, as has been their policy in the past. Two persons I spoke with at this city agency did not know what Epilepsy was and never heard of it.

I am enclosing one of their radio schedules that they send me periodically. They have never had any programs relating to the misunderstanding of Epilepsy or the problems of the victims of this public reaction. Nor have they ever discussed Epilepsy in general.

I met with Mr. Friedman of the Governor's Office for the Handicapped in 1969 and again in Nov. 1975. On both ocassions he said he did not know what to do. On my last visit, I mentioned the employment opportunities available to persons with criminal records, and the public interest in their behalf. He said he did not want to hear about that and gave me a reprint of Manpower Magazine of May 1969, regarding employment programs for victims of Epilepsy in Atlanta, Chicago and San Antonio. When I asked him what purpose this serve me, he told me to throw it away.

The Epilepsy Foundation claims they do not have any money for public education for employers and are capitalizing on Epilepsy for their social purposes. Due to careless and unqualified H E W auditors in New York City, they have received federal grant renewals without filing their complete financial reports. Mr. Laggatutta the Financial Analyst for H E W told me so when I spoke with him in May 1975.

The Vice President of the Nassau Chapter, Laurence Rosenberg attracted social publicity through his affiliation with Epilepsy. He was a successful and prominent executive with Swank Inc and Jade East, and had offices at 99 Park Ave. N. Y. C.

In March 1974, I called him requesting assistance to find a Bookkeeper's position. He told me not to bother him. Obviously he encouraged discrimination while capitalizing on a fund raising racket, The Epilepsy Foundation. They are always on a fund raising spree. When he died in April, 1975 at the age of 48, The Epilepsy Foundation publication "National Spokesman" May 1975 issue dedicated part of a page to him.

In this same issue you will see the picture of Gov. Hugh Carey accepting the Honorary Chairmanship of the New York State Division of Epilepsy Foundation.

In 1971 I requested an appointment with Sen. Jacob Javits regarding my unemployment. I received his reply 19 12/29/71, copy enclosed. He never contacted me or replied to my calls.

When Sen. Mondale investigated the finances and performance of the Epilepsy Foundation on April 1974, I contacted him and sent him a copy of Sen. Javits' reply of 12/29/71. Sen. Mondale was kind in his reply and brought my letter to Sen. Javits attention again. But he still made himself unavailable to speak with.

In Sept. 1974, I contacted N.Y.S. Labor Commissioner Levine in reply to his comments about employable welfare recipients.

In his reply of 10/18/74, copy enclosed, Mr. Levine referred me again to the Governor's Committee for the Handicapped, who does nothing from my previous experience with him. I waited 3 weeks but Mr. Krashes, Assoc. Employment Consultant, never contacted me.

I called Mr. Levine's office several times to discuss my experience with all those agencies, but he never returned my call.

On Nov. 27, 1974, I called his office again under an assumed name. When he returned my call, I referred to his letter of 10/18/74. He disclaimed any knowledge of it. When I read the contents to him, he stated his secretary writes the letters and he signs them without reading them.

On Jan. 6, 1975, I met with Mr. Krashes. He said that Mr. Levine never contacted him or told him to contact me. He also said that frankly he has not been successful with employers to accept persons with a history of Epilepsy even if it is under medical control. He also said he "does not want to knock his head against the wall" with employers. He was contradicting all the claims that Mr. Levine made in his letter of 10/18/74. He referred me back to the N. Y. S. Placement Service again. When I told him they never helped me in the past, and they told me not to waste my time coming there, he insisted I report there again. He made it appear very urgent and arranged an appointment with then for 8:45 AM the following morning 1/7/75.

When I could not keep the appointment due to a cold, I called the counselor Mrs. Segenreich that morning, and she made a subsequent appointment for March 7, 75.

When I appeared on March 7, 1975, she told me she did not have much success with employers for applicants with my medical history. She told me to return in 2 months, or she would call me if she had a referral for me. Or I could call her from time to time, which I did.

There is always a demand in New York City for experienced Bookkeepers at good salaries. That is confirmed by many agencies, Accountants and Want Ads.

In March, 1975 when Gov. Carey reappointed Mr. Louis Levine as Industrial Commissioner, I visited the Governor's New York City office regarding Mr. Levine's letter and Mr. Krash's contradictions and claims and vicious cycle of referrels to same agencies.

I spoke to Mr. James Bollenbacker. The first thing he said was that I should not be ashamed to depend upon welfare. I told him I was concerned about my equal right to employment and a decent salary compensentory with my skills and experience, instead of existing on $240.00 per month which is far below the poverty level in 1975.

He told me he would contact Mr. Levine's office again.

On April 27, 1975, he sent me the enclosed copy of a reply from Mr. Levine's Asst., Harold Stern, which contains many discrepencies of the appointments. $200.00 is not a top salary for an experienced Full Charge Bookkeeper in New York in 1975. He is only contradicting the aims, purposes and goals of Mr. Levine's claims.

Sen. Javits duplicated my work and contacts with these individuals and sent me the same letters they originally sent me.

He represents the political bureaucrat who is defending and protecting the failing society and political system.

He still refuses to see me to discuss my discouraging and frustrating run-around that those agencies and the political patrons representing them, have caused me to endure.

I have had the same discouraging experience with my Congressman, Joseph Addabbo. When he finally agreed to meet me at his Forest Hills office in 1973, I had to wait Forty-Five minutes for him. When he and his friend finally arrived, they said they had an appointment elsewhere and did not have much time to speak with me. When I spoke with him briefly, he felt very uncomfortable and obviously did not want to hear or see any of the documents pertaining to my problem.

In his letter of 7/27/73, he referred me to a doctor in Nassau County who is affiliated with the Nassau Chapter of the Epilepsy Foundation. When I called his office, the operator told me that they only see people who reside in Nassau County, and told me that I would have to see somebody in New York City. When I tried to contact my Congressman Addabbo again, regarding this misinformation, when he is in a position to know better, he has made himself unavailable like Sen. Javits and my State Assemblyman, Alan Hevesi, who does not have any office locally and is never at his home address.

Recently another racket, 'The Epilepsy Society for Social Service" advertised in the city buses and subways, soliciting new members and offering information through a Post Office Box number in the Bronx, an address at 509 Fifth Ave. and tel. No. Mu7-0890. When I called this number, an operator told me there was nobody there and she was just taking messages for them, and somebody would call me back. I never received a return call. Curiously I visited 509

Fifth Ave. several times. In a small office without any name on the entrance, I requested some information per the subway "ads". The girl told me she did not know anything about them and nobody is ever there who would represent them. She also said that somebody calls in for any messages from time to time.

I have their Ad in my possession.

I heard of them about four years ago and attended several of their meetings at the Lenox Hill Hospital Auditorium. After speaking with some of their officers and their president, Mr. Theodre Kahn, who is a successful business executive, I was convinced that they were not interested in public education to encourage employment for employables. They are also capitalizing on the this misunderstood medical problem, and are only dedicated to their social functions.

They always sent me schedules of their meetings. Congressman Mario Biaggi never attended any of their meetings, or said anything for employment, when I contacted him and received his replies of Jan. 21, 1972 and in July 26, 1972, he disclaimed any knowledge of my previous letter. He also gave me wrong leads to contact, just as like my own Congressman and Senator.

I received a letter of May 10, 1972, from the Society soliciting funds to honor Congressman Biaggi. When I asked Mrs. Kahn, one of the four Vice Presidents, the reason for this special tribute to Mr. Biaagi, as he never attended any of their meetings and was not interested in the unjust discrimination by ignorant and selfish employers, she told me he represents two of the other Vice Presidents in the Bronx, and attempted to get the society some federal funds.

Congressman Biaggi has always been an outspoken advocate for equal rights and good employment opportunities for convicted prison inmates, ex-convicts, and alcoholics and dope addicts, and assuring a job to persons still confined in prisons and institutions.

It is a disgrace to the world that New York employers are more interested in employing a person with a criminal record as an expression of public service and humanity, as a result of radio and television publicity by Fortune Society, Odyssey House and other institutions, for which there is no fee as Public Service Announcements.

The Epilepsy Foundation and the Epilepsy Society For Social Service have refused to avail themselves of those opportunities to relay the problem to the general public, and attempt to clarify the misunderstanding of the different degrees of Epilepsy and its affect upon different people.

Unfortunately a prison record seems to be the best reference for employment today.

Attachment.

STATE OF NEW YORK, DEPARTMENT OF LABOR,
STATE OFFICE BUILDING CAMPUS,
Albany, N.Y., October 18, 1974.

Miss ELEANOR YOUNGERMAN,
Forest Hills, N.Y.

DEAR MISS YOUNGERMAN: In your recent letter you indicated the problems you are having in securing a job as a bookkeeping because of your medical condition.

The New York State Department of Labor has long been engaged in a program to place handicapped workers in jobs at their highest level of skill. The Governor's Committee on Employ the Handicapped conducts an educational program to improve employer attitudes toward the handicapped. The Committee cooperates with representatives of employers, labor unions, and public and private groups in various projects to have disabled persons judged on the basis of their abilities rather than their disabilities. Employment Service offices, with specially trained counselors, interview and refer disabled workers to suitable jobs. Both personal visits and telephone contacts are made to increase job opportunities for the handicapped.

The increased hiring of handicapped workers has shown that a person's abilities, not disabilities, are the important factors in finding jobs.

I have asked Mr. Howard Krashes, Associate Employment Consultant from our Manpower Services Division, to meet with you, in my behalf, to discuss this matter further. You will hear from him shortly. I am concerned with the hiring of the disabled and hope that you will soon be successful in your efforts to find a job.

Sincerely,

LOUIS L. LEVINE,
Industrial Commissioner.

O