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JOBS AND PRICES IN BOSTON

HEARING
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JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
NINETY-FOURTH CONGRESS
SECOND SESSION

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FEBRUARY 16, 1976

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JOBS AND PRICES IN BOSTON

MONDAY, FEBRUARY 16, 1976

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

The committee met, pursuant to notice, at 9:55 a.m., in the cafeteria, John F. Kennedy Federal Building, Boston, Mass., Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey and Kennedy; and Representatives Heckler and Early.

Also present: Jerry J. Jasinowski, John G. Stewart, and Larry Yuspeh, professional staff members; and George D. Krumbhaar, Jr., minority counsel.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. Mr. Mayor, we want to welcome you to this hearing, and Lieutenant Governor O'Neill, we certainly welcome you.

The procedure of the Joint Economic Committee is to have a very brief opening statement by members of the committee. We have as members, Senator Kennedy, Congresswoman Heckler and Congressman Early who are here. We will hopefully have other members of the Massachusetts delegation present with us during the day.

This is the sixth of the Joint Economic Committee's regional field hearings, hearings that have been called for investigating unemployment and economic conditions in our Nation's major regions. We have conducted hearings in New York City, Chicago, Atlanta, Los Angeles, last evening in Fall River, and of course today in Boston.

The meeting today in Boston is a prelude to the Joint Economic Committee's National Conference on Full Employment and Balanced Growth which will take place in Washington on March 18, 19, and 20. It is at that conference that we will have an overview and a review of the Employment Act of 1946, looking forward to recommendations as to updating that legislation.

The overriding purpose of these regional meetings is to learn what the Federal Government needs to do to put this Nation back to work, to bring both inflation and unemployment under control. The national economic policy has failed miserably in keeping our people at work. We have had nearly 20 million Americans who want jobs

that have been out of work in each of the last 2 years. To take a look at the overall unemployment in the last 2 years, some 20 million Americans in those years have been out of work, looking for work and needing jobs. The President tells us in his economic report that we should not expect the number of jobless workers to dwindle very much in 1976 or in the rest of the decade for that matter.

Although the President offers a rather grim prognosis for American workers, and American industry, the only treatment suggested is slow economic convalescence. The solution is to have the jobless collect unemployment for an extended period and when that runs out, to go without benefits and become compelled to seek welfare.

This plan, as I see it, is expensive and wasteful, both in terms of its burden on the Federal budget and more significantly on the spirit of this Nation's working people and upon the overall health of the American economy. This policy has bankrupted five of New England's six employment service agencies. And I believe that that is a fact that is not all too well recognized outside of this area. Only New Hampshire's State employment service is, as of today, solvent.

The President's program fails to respond to the concerns of either the taxpayer or the unemployed. It drains money from the employer, the employees, and destroys hope for the jobless. We must find a way, therefore, to put this Nation back to work and we need to do it now. Our hearing last evening in Fall River emphasized one word: "Jobs", and jobs now.

While virtually all of the Nation suffers from high unemployment, the New England region in many ways is inflicted with tougher unemployment problems than the rest of the country. As I understand it, here in Massachusetts, unemployment continues at a double-digit rate. And of course the same is true in your neighboring State of Rhode Island.

New England is a mature economic region. It has been the heartland of American industry for many, many generations. Much of its traditional labor-intensive industry has left or is leaving and is being replaced with high technology, capital-intensive firms. The result is a continuing outflow of jobs from New England, even in good times when new industry is coming into this region.

Because New England has many older plants, a much higher percentage of this region's capital needs to be used to meet Environmental Protection Agency and Occupational Safety and Health Administration standards than would normally be spent in other less economically mature areas. This use of funds, although necessary in most cases, I am sure does drain capital from use in job creating and generating projects.

The underlying causes of New England's unemployment are more structural than cyclical in nature. Many feel that even after our economy has returned to normal levels of productivity, New England's unemployment problems will linger. Where jobs exist in New England, workers often do not have the skills to fill them as we heard yesterday. An incredible picture of people in the needle trade being unable to be trained, workers being denied under CETA the right to training. When a worker has a skill, there frequently

is no job that requires that skill. These conditions have caused a severe unemployment problem that now plagues this area, and might I add, certain other areas. Today, therefore, we will hear from a variety of witnesses, who will discuss ways to put New England's jobless back to work.

Might I add, speaking for myself, that it doesn't require any great insight to know that there are a lot of things that need to be done in our country. This is a country that has tremendous needs in its public sector. We have been privately rich and publicly poor. There are roads to be built, water and sewer systems to be constructed, all sorts of environmental protections to be initiated, reforestation that is desperately needed in this Nation. I might add, that if we continue to use the amount of timber that we're using in America without a stepped-up program of reforestation in the next 25 years, this country will have a critical timber and wood product shortage, yet the Government goes willy-nilly on its way with no program that even plants trees, much less does anything about some of our urban problems. There are railroads to be reconstructed, parks to be expanded. I think it's nothing short of a capital shame that the American citizenry has to queue up as if they were in Moscow to get into a national park in this country with a camper or with a tent, to make advance reservations when we have hundreds of millions of acres of public lands that should be available for park purposes.

This morning we have Mayor White and Lieutenant Governor O'Neill who will testify. Following that, there will be a panel on the costs of unemployment. After lunch, we will have Governor Salmon who will make a statement. Then we will hear from a panel discussing the economic outlook and job development policies for the New England region.

Finally, at about 4:30 this afternoon, we will invite anyone from the audience to speak who wishes to on the subject of employment. If you want to make a comment, you must first speak at that time with a member of the committee staff. I mention that because we like to have some order for these extemporaneous remarks that may come from the audience.

This morning, I welcome of course the members of this committee who are with us. We are very fortunate to have Senator Kennedy and Congresswoman Heckler from Massachusetts on the Joint Economic Committee. Senator Kennedy is chairman of the important Energy Subcommittee which deals with a subject that means so much to your area. Congresswoman Heckler has been a tremendous worker in the field of economic policy and of the study of the inflation and the unemployment conditions that afflict our country. And we have Congressman Early with us; and, while not a member of this committee, he has shown a great interest in our work.

With that, I ask Congresswoman Heckler for her statement.

OPENING STATEMENT OF REPRESENTATIVE HECKLER

Representative HECKLER. Mr. Chairman, I would like to congratulate you and express my appreciation and that of my constituents for your double appearance in Massachusetts. Unfortunately, we

qualify for this type of attention since the focus of the Joint Economic Committee has been on the unemployment problems of the country. I am particularly grateful to you for bringing the problem from the halls of Congress out to the grass roots. Last evening on Main Street in Fall River, we heard from witnesses who testified eloquently and from the depth of experience on the devastation of unemployment in that particular city in my Congressional District.

Today in Boston we will hear as well from a panel and from a series of expert witnesses who are competent to speak to this troublesome problem. I am not consoled by the predictions of recovery when the slowness of the pace in Massachusetts remains a plaguing problem. Our area, we find in December for example, when the unemployment nationally was about 8.3 percent, in Massachusetts it was 11.8 percent. This disparity continues despite the fact that there are hopeful signs in other areas of the country. I know, Mr. Chairman, that you have commented briefly on the problems in Minnesota and on the rate of recovery in Minnesota, and I listened with envy to Minnesota's progress.

Chairman HUMPHREY. It's not that good yet, Mrs. Heckler.

Representative HECKLER. It's so much better than ours. Nonetheless, I think that today we will hear from very impressive witnesses, and I think it's time we pondered the questions aloud with representatives from city and State government and from those who assess the economic and social impact of the problems of unemployment.

Obviously, the answers aren't all in Washington, and I think it's time that we listened to the wisdom of the people on the questions which relate to this particular economy. There are disagreements. Nonetheless, I feel that with the attempt at solution through the auspices of your chairmanship and this committee, we will at least search for answers yet to be found and approach a resolution of this difficulty which is truly intolerable for our people.

I thank you again for coming to Massachusetts.

Chairman HUMPHREY. Thank you very much, Congresswoman. Senator Kennedy.

OPENING STATEMENT OF SENATOR KENNEDY

Senator KENNEDY. Thank you very much, Mr. Chairman. I, first of all, want to express my very deep sense of appreciation that the Joint Economic Committee has found it important to come to Massachusetts to these hearings here in Boston and also to have the hearing it held last evening in Fall River.

The No. 1 domestic problem I feel that we are facing in our country and every citizen of Massachusetts understands full well is the recovery from our economic problems and our economic difficulties. Mr. Chairman, you are going to hear eloquent and compelling testimony this morning in two or three very important areas:

No. 1, jobs. How are we going to fashion an economic policy at the national level, State and local level, that is going to bring a restoration of jobs to Massachusetts. You, Mr. Chairman, and other

members of the committee remember other times when because of bold national leadership we were able to bring unemployment down at the early part of the sixties from 7 percent unemployment down to 4 percent unemployment.

Mr. Chairman, there are going to be men and women who will testify here before you this morning who will point out that only a few short years ago in Massachusetts we only had 4 percent unemployment. Now, we're at just about 12 percent unemployment. You will hear as well the problems of ever-increasing prices with which the housewife or the husband who is shopping is faced and confronted. We need important counter-cyclical remedies to the problems that we are facing in Massachusetts. But, Mr. Chairman, the problems that we're facing in Massachusetts are more complex and more difficult. They involve the structural problems of economic restoration, the problems of transportation which is so critical to our particular area, the enormous cost of energy which plagues our industry, the problems of regulatory reform and the burden that it places upon the small businessman, the kind of tax adjustments that must be made to stimulate the small industry to continue to be a vital part of our own State's economy as it has played such an important role in the past.

We don't have, Mr. Chairman, the natural resources that exist in many other parts of the country: the coal that exists in West Virginia or Pennsylvania or the oil resources that exist in the Southwestern part of this country, or the great water resources, hydroelectric power that exists in the Northwest. But we do have men and women of skills. We do have a talented working force. We have people who want to be on the payrolls rather than welfare rolls or the unemployment rolls. We have imaginative and creative business leadership here in Massachusetts that wants again to play an important role in the economy, not only of this State, but also of the region and of our country.

So we welcome you here to Massachusetts and we realize that this is basically a regional hearing as well. But we have very special problems and we know that you have listened to problems in the heartland of this country in Chicago and on the west coast and in the Southern part of the Nation; but when you finish these hearings, we will hope that you will raise your eloquent, powerful, and strong voice in the Senate of the United States and on the committees on which you serve so that we can bring the restoration of our economy.

Finally, let me just mention this point, you and I and, I think, Congresswoman Heckler and Congressman Early have sat in the well of the U.S. Congress when we've listened to our distinguished President talk about economic recovery. And I know that you've listened to Alan Greenspan speak about how things were getting very much better generally around the country. You and I sit on this committee and we listen to administration spokesperson after spokesperson talk about how our economy is back on track again. Now, the administration fails to understand what is happening. We understand it in Massachusetts and we understand it in New Eng-

land. If the temperature is 10 degrees below zero and it goes to zero, this administration would say that you're having a heat wave. And that is just what has happened in terms of the type of recovery that we've seen in the country, and I think, here in Massachusetts.

We still have serious, deep, continuing, economic problems and we don't minimize the complexity and the difficulty of bringing around economic restoration; but we look to you and to this committee to help the various committees of the Congress develop the kind of economic program which can bring jobs back to people and a sense of pride to the work force and a sense of participation to our industries and businesses so that we can be back on track again.

I thank you for coming. I appreciate your presence here.

Chairman HUMPHREY. Thank you very much, Senator Kennedy. Congressman Joseph D. Early.

OPENING STATEMENT OF HON. JOSEPH D. EARLY, A U.S. REPRESENTATIVE IN CONGRESS FROM THE THIRD CONGRESSIONAL DISTRICT OF THE STATE OF MASSACHUSETTS

Representative EARLY. I would like to publicly commend the Joint Economic Committee for holding this meeting. Too often Government is isolated from the people; too often it is an institution far remote and out of touch with the people, which is too involved in the political atmosphere in Washington. We can all be proud of the type of thinking which has brought this committee hearing to the people rather than make the people go to Washington.

I would like to comment briefly on several important issues with which I hope this committee, the Congress, the administration and the American people will deal in the upcoming months and years. The most important issue is that of unemployment. As we gather here, the administration has proposed a budget which accepts as inevitable the fact of high unemployment into the 1980's. The budget proposal of the administration is cloaked in language such as that found on page 16 of the "Budget in Brief," in which the budget is described as moving gradually towards a higher level of employment. For a man who has been unemployed in Worcester, or Boston, or New Bedford for 11 months, a gradual move towards higher employment simply is not satisfactory. We need a rapid move towards greatly increased employment. I hope that the Nation shall analyze in depth the option of attacking unemployment head-on, rather than accepting it.

The Government certainly must take a good portion of the blame for the current high level of unemployment. It should also provide a major part of the initiative in attacking it. Each day that a man or a woman in this country who is willing and able to work is denied a job, is a day on which the potential contribution he could have made to the general welfare is lost forever. We must as a Nation at a goal of substantially lowering unemployment long before the administration proposes to. Such a goal will take innovative thinking and hard work, but innovative thinking and hard work are what made America great.

In closing, I would just like to mention one other issue which I believe is a unique interest to New Englanders. During 1975 the President unilaterally imposed a major oil import excise tax on our great Nation. These increases hurt this region as much, if not more, than any other region in our country. Hopefully, these taxes will soon be refunded. When such a refund should take place, equity dictates that those Americans who paid the tax should benefit from the refund. I hope that we shall see this happen. I have filed legislation to that effect and would commend that this committee and its membership look favorably towards it.

Again, I want to thank you for the opportunity of addressing this committee and congratulate you for bringing Government to the people in a very real way. Thank you, sir.

Senator KENNEDY. I just want to acknowledge that Congressman Early has been a real leader in the Congress in trying to provide for the restoration of those funds. I think everyone in this room, Mr. Chairman, remembers very well the President's program that started off as a \$3 tariff per barrel for importation. It was eventually reduced somewhat, found to be unconstitutional on a case that was brought by our Attorney General Belotti, and still those moneys which amount to hundreds of millions of dollars are consumers' moneys that have been collected by the Federal Government, and Congressman Early has been the real leader in trying to bring a restoration of that to the consumers here, and I am glad he mentioned that point.

Chairman HUMPHREY. Very well. That is very important to have. We are going to proceed now with the witnesses, and we are very pleased and honored to have as our first witness, the Mayor of Boston, and we thank you for taking time today, Mr. Mayor. I know that this has been a very difficult day for you. Thank you.

STATEMENT OF HON. KEVIN WHITE, MAYOR, CITY OF BOSTON

Mayor WHITE. It's what lies ahead that bothers me, Senator. It's not what occurred this morning. But make no mistake, I am very pleased that you are here and I want to welcome you and the members of the committee, both in the public and official sense and in a personal sense as well. I can see that both on your left and your right are colleagues who have served this Commonwealth and city very well. Obviously, Senator Kennedy in his distinguished career in the Senate, and Congresswoman Heckler, and I might just join Senator Kennedy and say that Congressman Early, particularly when he served in the House of Representatives, not only served his own district with distinction, but served the city of Boston very well and more than once responded to our needs. So, collectively I welcome you here and I am pleased that you are here on such an important problem that faces all of us, and those of us in the city.

I would like to begin my brief testimony this morning by quoting a local economist of note by the name of Ken Galbraith. Mr. Galbraith wrote in a recent national periodical and identified what he

called the new political phenomenon, the conservative majority syndrome. He said that it has expressed itself in the feeling that:

There are no poor, no aged, no sick, no black, no other minorities, no people in this country are seriously squeezed by inflation, not many for whom unemployment is a major issue, no one whoever whose health, education, food, shelter, protection from economic abuse or exploitation or even survival, the problems that depend upon the government of this country. Instead, in this Republic there are only indignant taxpayers deeply angry about the willful idleness of the unemployed.

Unfortunately, I think there is more truth than humor in those words of Mr. Galbraith, and I think his assessment of the national mood is all too accurate. He went on to say briefly that:

We discuss the demise of the New Deal philosophy, forgetting that there is nothing obsolete about compassion, and we see the New York City fiasco as a management failure rather than as the failure of our national government to conceive an effective and pragmatic urban agenda.

It is with an acute awareness of this national mood that I come to testify before this committee this morning, and for this reason, I do welcome the opportunity to contribute to your deliberations and to the national debate over economic policy.

I trust that it is no accident that a mayor was selected to begin the hearing this morning. For Boston and cities like it are first in both the problems and I think in the prospects of our national economy. The key to the cure of our larger economic ills lies, I think, in the revitalization of our urban environments.

The facts of economic life in cities make it abundantly clear that recessions come first to the cities, hits the hardest and stays the longest. While the national unemployment rate is an intolerable 7.8 percent, the unemployment rate for Boston is an unconscionable 15 percent. And while the recession has weakened government at all levels, the municipal government suffers the most, which results in stalled capital improvements, shrunken revenues, and declining services, all of which have been visited upon this city.

Thus, a recession for the Nation means depression for cities. But the paradox is that Boston and cities like it can generate the economic recovery that is needed. Cities are more than a microcosm of economic maladies. They are vast reservoirs of the kinds of resources that we should be effectively employing.

Cities are the organisms where the basic elements of economic growth are available in abundance. They are ready markets, extensive transportation systems, a network of educational and research institutions and access to both capital and labor are within the American city.

Boston and cities like it can and should be a central force in the revitalization of our national economy.

We can see the sources of this recovery in the steady commitment of the business community within our own city. Last year, private business invested over \$1 billion in Boston, and \$1½ billion is scheduled to be invested in this city by the business community in the next fiscal year. Today Boston has a \$10 billion economy that provides over half a million jobs in a city of approximately 600,000 people. We have tried to enhance this kind of economic strength within our own borders.

We have fostered a climate receptive to the initiatives of private business development. We have become directly involved in the economic development ourselves, and finally and most important of all, we have made in our neighborhoods key efforts and made the neighborhoods themselves key elements in our economic strategy. As the Mayor of Boston, I can say with some sense of pride and I am maybe accused of a lack of humility, that we have built more schools, more libraries and more public facilities than any administration in the history of this city. The capital improvements program has, in itself, been a major element in the fostering of neighborhood and community cohesion within this city. It has encouraged people to stay in the city. It has catalyzed community pride and stimulated private investment not only downtown, but in the neighborhoods themselves.

But current conditions make it clear that municipal self-reliance is not enough for our survival, for cities are engulfed inexorably in national trends. For instance, any further progress in our neighborhoods is now threatened by the collapse of the municipal bond market following the New York fiscal crisis. As a result, Boston's capital improvements program has of last week literally come to a screeching halt.

The bond crunch illustrates an important point: Clearly cities are the key to an economic recovery, but they cannot do it alone. We cannot promote neighborhood strength in the face of national economic mismanagement and dwindling Federal support.

The Federal antirecession policy is working at cross-purposes with an urban policy. The President offers each citizen a rebate on income taxes, while cities are increasing their regressive property taxes. Just the other day I discovered that, if the public works bill passes, Boston will be awarded Federal funds to increase jobs after we have been forced to lay off hundreds, almost thousands, of city workers.

President Ford's veto of the public works bill is only the most recent example of this administration's indifference, as the Committee members stated in their opening remarks, to the unemployed. I cannot share the President's enthusiasm about the recent unemployment figures. Seven million Americans are still out of work. If the public works bill is not overridden by Congress, our Nation's cities will lose the means to maintain vital city services. The countercyclical aid provision is desperately needed by American cities and the unemployed within them.

Boston and cities like it across the country are faced with unpleasant choices. Maybe that has always been our case, but today it is critical between the reduction of desperately needed city services, the layoffs of city employees and increases in regressive property taxes. Taken together these measures effectively cancel antirecessionary action at the Federal level, not to mention the corrosive effect they have on the quality of urban life.

In short, instead of acting like life preservers that they naturally are, cities become a millstone around the neck of national recovery. Beyond the statistics, the talk of grievances and remedies, the social impact of the new urban crisis is often ignored.

In Boston, court-ordered school busing continues to divide the city, as even the morning headlines describe all too vividly. The national economic policy ignores the need of the urban poor, both black and white, and it can only inflame the tensions created already in this city by social change, the economic deprivation that surfaces as a conflict of poor versus poor.

Even more alarming is the development accelerating the apathy and cynicism spreading across this Nation. We have not moved decisively to solve our economic ills and we suffer from a declining faith, obviously, in political life and the institutions as well.

Clearly, there is much that can be done. I would suggest that a good beginning would be to override the President's veto on the public works bill. In addition, Federal revenue-sharing must be extended and increased if at all possible, and an immediate Federal intervention to stabilize the municipal bond market obviously is imperative. In the short run those three actions, I think, will help cities across the country, no less Boston, to weather the storm.

But let us face it. When the Nation is well into recovery, the severe economic dislocations of our large, older cities will, in fact, remain. These problems were only brought into sharper focus by the recession, not created by it. They will not disappear with renewed prosperity, whenever that might come. Nor will they be erased by even short-term assistance for which we cry—structural unemployment, concentrations of the poor and the elderly, aging industrial facilities, decrepit transportation systems and decaying housing. These are facts about cities which won't change with the return to normalcy.

No, what we need and what good sense and human decency demand, is a master plan which will extend the policy of détente to the Nation's cities.

First, we have to create, as Senator Humphrey has suggested time and time again, the planning capability at the Federal level to effectively predict the local consequences of Federal policies.

Second, we need an energetic commitment to full employment at the Federal level and the job-training programs that will attack the structural deficiencies in the labor sector that is so apparent in New England, in Massachusetts and in Boston.

Third, although Boston does not carry the cost directly, I honestly believe that the Federal Government should assume the cost of welfare.

And finally, we require Federal guarantees to preclude the disastrous fluctuations in the availability of credit to State and to local governments.

In conclusion, Mr. Chairman, let me say this. It has been very, very frustrating to see a well-managed, lively and prosperous city like Boston brought to the brink of abyss and its economic problems worsened considerably by the mismanagement, I think, of Federal policy. But the recommendations I have outlined, with concern if not modesty, could easily make Boston and cities like it, at a minimum, allies in the fight against hardship across this country, particularly in the area of unemployment.

Chairman HUMPHREY. Thank you, Mayor White, very much for your splendid statement. We will come to Lieutenant Governor O'Neill now, and then after the two of you have made your presentations, I would ask my colleagues to join in some questioning or any comment they wish to make. Mr. O'Neill.

STATEMENT OF HON. THOMAS P. O'NEILL III, LIEUTENANT GOVERNOR, STATE OF MASSACHUSETTS

Lieutenant Governor O'NEILL. Mr. Chairman, I want to thank you, too, for the opportunity of coming before you today and representing the Governor of the State, Michael Dukakis. At the same time I would like to pick up, Mr. Chairman, on some of the things you said about the structural and cyclical differences as they pertain to our economy here in the State of Massachusetts.

I will, in my text, talk of the specific economic problems as they relate to the jobs in the State. I want you to believe as I think Senator Kennedy and Congressman Joe Early and Congresswoman Margaret Heckler understand that Michael Dukakis in this administration on the State level has done everything he can to structurally solve the problems that we face surrounding the state, that we are, in fact, finding ourselves. It's difficult to contain the economical problems because of the cyclical nature and the very cyclical nature of this problem. I think that the fact that you would choose to hold your 5th and 6th meetings of the Joint Economic Committee of the Congress of the United States in Massachusetts is certainly symbolic of the need to have something done for our economy here in the State; and to that extent that you have given it certainly more recognition than the national administration. Our heart goes out to you and I know I speak not only for the Governor, but also for the people of Massachusetts.

I will tell you at the same time that in December of 1975, 11.8 percent of the Massachusetts work force was unemployed. That meant 314,000 men and women without jobs were looking for work. For too long, we have comforted ourselves with the thought that our economic problems, although severe, are only relatively worse than everyone else's. In truth, they are much worse. Without some major stimulant they are likely to remain so. New England, in fact, may come to symbolize in the 1980's what Appalachia came to mean in the last decade. The economic changes of the past 20 years have not been kind to New England as a whole.

Mill-based manufacturing which provided the core of New England's prosperity has perceptibly declined. The New England industrial plant is 40 percent older than the average plant in the rest of the United States, while new manufacturing investment has fallen 30 percent below the norm of the last 20 years. This industry has little or no potential for growth in the face of competitive foreign goods and other more attractive opportunities for investment. As a source of jobs, it is expected to supply little more than replacement jobs as older workers retire.

In the 1960's, sophisticated light industry, much of which located in the route 128 corridor, appeared to give a new dimension to the New England economy.

Unfortunately, most of this industry is capital intensive; consequently its impact on total employment has never been as significant as was hoped. Worse, it was proven especially sensitive to fluctuations in the national economy; at the very time slack begins to appear, it feeds us more rope.

One of our major employers, the Federal Government, is also one of the most undependable. Among defense installations alone, since 1968, the Boston Navy Yard and Army Base, the Otis and Westover Air Force Bases, Springfield Armory and Watertown Arsenal, and the Chelsea Naval Hospital have been shut down throwing thousands of civilian employees out of work. If the Defense Department now closes Fort Devens, the last major installation in this State, another 3,000 jobs and a payroll of \$100 million will be lost to central Massachusetts. Since 1968 the number of Federal jobs in Massachusetts has declined by 20 percent.

Chairman HUMPHREY. May I interrupt. I was in Rhode Island and I heard a similar story in that State, where 10 percent of the entire work force had been displaced by the movement of the naval rehabilitation or repair facilities from Rhode Island down to Mississippi.

Lieutenant Governor O'NEILL. I would like to give credit where credit is due, if I might. Senator Kennedy and some members of the congressional delegation have for years fought the closing of some of these major defense installations, and I don't think enough credit has been given. I think when the national administration, over a period of years, has tried its damndest to close these installations down, I think it's only right to point out that Senator Kennedy and many members of that delegation have fought to delay that closing down and I think all the credit in the world deserves to be given his way.

Senator KENNEDY. May I mention, Mr. Chairman, what all of us are mindful of without wasteful spending, and none of us are interested in just maintaining a military base that can't be justified in terms of our national security. But we also have insisted, those members of the delegation, on a very important consideration which the Department of Defense has not been willing to make; and that is, if they are going to consider the termination of any facility or the termination of any personnel, what they haven't considered in the DOD studies are what its impacts are going to be on the Federal budget in terms of unemployment compensation and on welfare costs. And the fact of the matter is DOD looks at it from DOD's point of view. HEW looks at it from their point of view. What we have to do in any kind of consideration is to require that they try to get a composite picture of it and they have just not been willing to do that. That has been true on a number of different instances. If you consider what we are faced with with Fort Devens—I would let Congressman Early speak on this point—with the kinds of unemployment you were faced with up in Fitchburg where it is 13 to 15 percent, and many of the other communities in that area. What

you are going to be saying is that the welfare costs and the Federal participation and the unemployment costs and the whole range of additional kinds of Federal services have to be programed in, and we are certainly insisting that those calculations be done before we get any kind of a reduction.

And the other point, of course, is that we are prepared to do our share, but we don't think that we ought to be singled out in comparison to other parts of the country. You and I remember that it was always the North Atlantic sea lanes and all the naval bases now are going down South. It is nice and warm for cruising around with the ships, but in terms of steaming time to the North Atlantic which has generally been recognized as being the vital link between Western Europe and our security it is—both to naval figures and to defense planners—amazing to us, but you and I know what the Armed Services Committee implemented.

Lieutenant Governor O'NEILL. Thank you.

Services are the only real source of new jobs in the New England economy, and while growth in this sector conforms to the pattern of the American economy as a whole, many service jobs are too low paying or seasonally unstable to be a truly satisfactory substitute for the loss of jobs elsewhere.

In short, the New England economy is not generating jobs at a fast enough rate to accommodate either the unemployed or the new entrants into the job market. In a typical month last year, when, in Boston, 165,000 persons sought work, State-sponsored job banks offered only a listing of 3,065 jobs. The point I wish to make is this: New England is in a period of difficult economic adjustment. We do not have the economic resources to make this transition successfully by ourselves. Some measure of Federal assistance is imperative, particularly with respect to the most stubborn of our long-term problems: unemployment.

In 1962, President John F. Kennedy set a national goal of reducing unemployment to 4 percent. Even Richard Nixon embraced a target of 5 percent. Yet budget projections of the Ford administration contemplates levels of unemployment 2 or 3 percentage points higher even until the end of this decade.

The politics of unemployment are not difficult to comprehend. Assuming an irrefutable link between employment and inflation, the President and his advisers embrace the notion that while all voters suffered inflation, joblessness is the isolated misery of a few. Not only do I doubt this as a political fact, but I also doubt the truth of its economic assumptions. Even Mr. Burns, a recent convert to public jobs, concedes that an unemployment rate of 8 or 9 percent, insufficient to halt inflation, suggests that something in the economic system is no longer working as once supposed. Whatever the motives or notions of the President and his men, the price we pay for unemployment is enormous. Unmeasurable, of course, is the human price exacted in loss of self-respect and initiative among the unemployed. It is disturbing, to say the least, that suicide and unemployment rates may be more closely linked than are the rates of inflation and unemployment.

Measureable are the budgetary consequences. Last year, more than 20 million Americans were out of work an average of 13 weeks. As many as 14 million received unemployment compensation, the rest were consigned to public relief, private charity, or something else even worse.

Unemployment insurance cost the American businessmen nearly \$20 billion in 1975. The Congressional Budget Office estimates that each percentage point increase in the unemployment rate above 4 percent increases the Federal deficit by \$16 billion, \$14 billion in lost tax receipts and \$2 billion in increased transfer payments. At last year's unemployment rates, this amounted to some \$75 billion, which is fully equal to this year's projected deficit.

The most puzzling feature of the President's unemployment politics is the preference it gives to welfare over work. Despite his recent lecturing on the dignity of a work ethic, his budget projects a publicly supported army of idle unemployed. How ironic, as Senator Humphrey has noted, that while so many millions are out of work, so much work needs doing.

Last year employers in Massachusetts paid over \$886 million in unemployment compensation. This year the President has asked for another raise in unemployment taxes, meaning that no relief is in sight; yet Budget Office figures show that the same \$886 million invested in Massachusetts in the form of public service jobs would have produced as many as 135,000 new jobs.

Several days ago, the President vetoed a major congressional public works bill, referring to it as an election year pork barrel. This \$6 billion bill, if enacted, is expected to create from 600,000 to 800,000 new jobs. If by pork barrel the President meant that this bill is politically popular, he is right. If instead he means wasteful or inflationary, which I suspect he did, he betrays a mistaken sense of priority. Memories are not so short to forget the same President a few months ago defended a veto of price controls on domestic oil with the argument that an \$8 billion cost to consumers was an obviously small price to pay. Nothing then was said about the inflationary impact of higher energy costs.

Aside from the supposed anti-inflationary impact of unemployment, it is difficult to marshal any impressive array of arguments against a Federal role combating joblessness. Some of the lingering resistance stems less from argument than from a few pervasive myths about the unemployed and public works.

There is, for example, the myth that the poor do so much better by welfare that it is impossible to lure them to any real jobs. In fact, as a recent Brookings Institution study makes clear, the entire range of government assistance programs, unemployment insurance, welfare, food stamps, and others, cannot replace pretax earnings for a substantial portion of workers at all. There is the myth that American workers, egged on by their unions, have been so greedy as to bring calamity upon themselves. In fact, between 1970 and 1974, the average real earnings of nonagricultural workers rose at an annual rate of eight-hundredths of 1 percent. If 1975 were to be figured in, the average is worse off today than he or she was in 1970.

In the same period, coincidentally, according to Business Week, the income of corporate business executives rose at an annual rate of 10.2 percent.

Then there is the myth that public service jobs mean unproductive work. As best as anyone can tell, the leaf-raking stereotype appears to be an indelible impression left by the hastily organized emergency job program of the winter of 1933 and 1934. Its successor, the Works Progress Administration, which employed over 3 million people at the zenith of the depression, left an impressive record of public improvements.

In Massachusetts, the WPA built major parts of our public transit system, the Commonwealth Avenue underpass, the Gloucester sewer system, airports at both Beverly and Hyannis, 4,000 miles of roadway, 107 bridges, 492 public buildings, acres of athletic fields and, I dare say, 5 municipal golf courses.

A similar agenda for public improvements exists today. We have railroads which are, as you, Mr. Chairman, have pointed out, a disgrace to the whole idea of transportation; a deteriorated stock of housing, both private and public. We have parks to develop, energy conservation work to be done, and public buildings to refurbish.

I am convinced that this country cannot afford a purely welfare approach to unemployment. In the last 20 years transfer of payments, the redistribution of income from those who work to those who don't, have risen from 14 percent of all government outlays to 34 percent, nearly \$180 billion last year. In 1965, unearned transfer payments were only 7 percent of all earned income, that is salaries and wages. This year, transfer payments total nearly 20 percent of earned income, while almost \$200 billion of the Nation's productive capacity lies idle.

A few taxpayers, I am convinced, object to their tax dollars being spent to provide the unemployed with productive work. A job is not a human investment, it is obviously a public benefit. But I do question public tolerance for an ever-increasing welfare burden for which there is little, if any, public gain.

Finally, there is the myth that public jobs can be created only at inordinate public expense. In his veto message, President Ford offered the estimate that a typical public works job involved a cost in excess of \$25,000. I think his figure is disputable, but even if correct, it is misleading. The impression the President meant to convey is that an inefficient bureaucracy, which sometimes he forgets he heads, spends \$2.50 for every dollar it delivers. In fact, the average Federal expenditure per job under Title VI of CETA is about \$8,000, only a small part of which is absorbed by the administrative costs.

The real point, which Congress in the public works bill has recognized, is that the economy can absorb only so many CETA-style, civil-service-oriented jobs, although I don't believe we have reached that point yet. Other jobs, if they are to be useful, require capitalization, as the experience of the Works Progress Administration and common-sense have revealed. Necessarily, that means an investment, but one that offers a tangible return.

I believe that too much time has been spent mired in the myths of public employment, time that would be better spent by planning to put people to work. With that and keeping in mind that I speak for the Governor of the Commonwealth and to some extent his people, I again, Mr. Chairman, want to thank you for this opportunity, and Senator Kennedy, and Congresswoman Heckler, and Congressman Joseph Early.

Chairman HUMPHREY. Thank you, Governor. May I commend both you and the mayor for well-documented statements. We hear a great deal about the generalities of inflation and unemployment, problems of cities and so forth, but today we have heard specific information.

My colleagues would agree with me, I am sure, that all too often in some of our hearings before the Joint Economic Committee in Washington we get general observations. For example, the average rate of unemployment, the national average, was 8.3. It is now down to 7.8 percent. I don't know where they get the averages because when you go to New York City it is 14 to 15 percent. Boston, did I understand, is 14 percent, Mr. Mayor? And when we were in Rhode Island it was 12 percent. If you're in Los Angeles, it is 14 percent. If you are in Miami, it is 15 percent. In Detroit, 18 percent. It's better now, I think; it is down to about 15 percent in Detroit. But in all of the great urban cities we see these horrendous figures of unused manpower, of human resources with the talent, and the skills, and the ability of people; terrific wastes.

I can't help but say here that what we have had happening in this country is what one of you referred to a moment ago, and I believe it was you, Mayor White, or it may have been you, Mr. Lieutenant Governor; that where there are spokesmen in a country speaking about the failure of these programs when, in fact, there has never been any real effort to make some of them work, and there has also been a willingness to accept joblessness.

I think this city needs to know—and you do know, but it needs to be remembered—that the United States of America has the highest rate of unemployment of any industrialized nation in the world. We have the largest number and the highest rate of unemployment. This is something that is inexcusable.

When the French Government faced an unemployment rate of 5 percent, the President of France declared a national emergency and summoned the Parliament into emergency session. When the Federal Republic of Germany had 5 percent, they moved heaven and earth to attack it even though they recognized that their economies are tied very much to the economy of the United States. When Sweden has 4 percent unemployment, they summoned a special meeting of their Parliament and it is a declared national emergency.

We have been lectured in this country to accept high rates of unemployment because the people who do the lecturing have got a job. [Applause.]

I have never been able to understand why our economic advisers to Congress and to the President can look with wonder upon the Federal Republic of Germany, which for years has imported almost 2

million foreign workers into its economy, and has had less than 2-percent unemployment, and has had a rate of inflation lower than ours. They ignored a pattern of 60 million people like it didn't exist, like it was, you know, something in no man's land, off into another world, beyond any comprehension of the human mind.

And yet here in our country we have a national policy—and you have stated it well, both of you—that joblessness is something that you just have to put up with, and no one in the high councils of government is relating this to crime, to social disorders, to a community disintegration, and all of the things, Mayor White, to which you have referred, will still be faced as problems in America's urban areas even if pockets of prosperity are restored though recovery of GNP growth. And this will be the case until we get a national policy that relates to our urban life.

I come from the Midwest, and one thing that has impressed me in New York, and Rhode Island, and Massachusetts in the last month or so is how little my people out home understand or appreciate the difficulties that you people here face; and that is a national shame because we are one nation. We are supposed to be celebrating our Bicentennial. We are supposed to be thinking in terms of our great Republic; and here, find there are rates which I have known myself, and which I try to relate it to the people back in my home State; I fought back in my home State for help for New York City.

At a time when the public opinion poll in my State was 77 percent against it—thank God for our newspapers, and I want to commend them in this instance particularly—the Twin Cities and the efforts of some of us, turned that opinion around somewhat; but even then about 40 percent were very antagonistic toward any help toward New York, because we don't have leadership today that tries to point out that we are all in this ballgame together. And so when unemployment rates in my State are below 6 percent, it is very difficult for people to understand what the problems are here in New England; and here is where we are going to celebrate the Bicentennial, you know, right here.

I met people today who are visiting Boston as they were lined up waiting to get into breakfast. There are going to be millions of our fellow Americans who come into Philadelphia, Boston, New York, Washington, these great cities of the eastern seaboard. We all get together to sing Yankee Doodle and celebrate the Bicentennial and what have you; and nobody is more sentimental about this than Hubert Humphrey. But the real truth is that this is the part of America today where some of the greatest economic hardships are suffered by some of the most wonderful people in our land who live here where you people are privileged to be.

I am impressed by the willingness of these people to go to work; they want to do things. The work effort that prevails in this area is really amazing—I can't imagine any other place with a greater degree of attention to or devotion to, the work effort. What's really gone wrong is that people—well, it was, I believe, President Kennedy who once said that, in the campaign of 1960, that this was not a struggle between two political parties but between the comfortable and the concerned. [Applause.]

I think this is true today even in political parties. There are some people who are just very comfortable, and there are people who are really very concerned; but I have to tell you quite honestly that if we have got to go battling every day of the week trying to get a little edge here, just a little bit here and a little bit there, we are not going to get where we ought to be. The real problem is that we have tinkered with the economy rather than really getting at it with fundamental reforms that are needed and investments that are needed.

Now American business says, in order to get jobs you have to have investment, and I agree with that. I believe in profits; I believe in investment. But I have to say also that if you are going to have jobs, you also have to have public investment; and good Lord it seems to me that the best collateral in the world is what you were talking about here, 492 public buildings, acres of athletic fields, 107 bridges. All of that, if they were privately owned, if anybody owned those privately, would be able to go to a bank and get a loan. But for some cockeyed reason we have interpreted in our society that if you invest in these things which are vital to our health and welfare and economic prosperity and growth, that somehow or other it is just a wasteful expenditure; and you and I and the mayor and others have got to get the public thinking straightened out.

All of the economic policies in the world are not going to change us around if we don't have people who begin to put together in their mind that we have an interdependent economy, because believe me, that's what it's all about.

And I just want to express to the mayor, first of all, my thanks for the restatement of the necessity of a national urban policy. There is a terrible kind of discrimination going on in this country. The discrimination of segments of regions of this country against others which has been traditional for a long time, regrettably: rural areas against the cities and the cities against rural areas, and that kind of politics of division is worse than the politics of hate. And if we keep that up, you are not going to have very much of a country to celebrate or to think about for the Tricentennial. This is to me what's so vitally important.

I want to compliment both of you on it, on what you have had to say. I don't want to take any more of your time. I only wish to God we had the people here who needed to hear it. This is like preaching prohibition to the Temperance Society. Everybody here believes in what you were saying, but we can't get the message through. And, by the way, I want to lay this on the line. It isn't only the White House, we've got a lot of foot draggers in Congress. We ought to have the guts to go in and do what needs to be done and get people back to work. I think that we are developing in this country, if we keep it up, a generation of people in certain parts of America that never had the wholesome experience of work, the therapy of work, the discipline of work, the ability to learn from work. We are going to develop people who learn how to live in a shadow economy, how to cream it off, so to speak. We don't want to do that, but people have to survive. And if they can't have a job that pays them enough to live, they are not going to just fall over

dead. They are going to get what they can, wherever they can get it and then rip off a little bit in crime; and that's what's happening.

We have all of these pontificators about crime, and everybody proposing new methods of putting people in jail; and, by the way, the biggest public works program that was announced by the President was the building of four Federal penitentiaries. And that is no way to get at the problem of unemployment in this country. There has to be a better way than locking them up in penitentiaries. [Applause.]

Chairman HUMPHREY. Senator Kennedy.

Senator KENNEDY. I just want to thank you, Mayor White and Lieutenant Governor O'Neill. I think it was excellent testimony and statements. I want to thank you for presenting them.

Chairman HUMPHREY. Congresswoman Heckler.

Representative HECKLER. Yes; thank you, Mr. Chairman. I would like to thank the witnesses, and I would like to remind them, I am sure they know of my voting record in the Congress which is a very independent-minded one; and as a matter of fact, I intend to continue that course and I will vote to override the veto on the public works bill. [Applause.]

And I intend to support revenue sharing and I intend to continue the kind of evaluation of the programs based on the judgment as to how they will work. Gentlemen, I am a little disappointed today and I have to say so. I really feel that a note of balance has to be introduced into this debate. I feel quite strongly that we have problems in Massachusetts; and that while we share some of the difficulties with the rest of the country as the recovery does occur in other areas where it has begun, unfortunately not here. I am deeply concerned that Massachusetts will still be suffering.

I am concerned about jobs. I have a district which has a very high unemployment rate; but I am very fearful that what you are seeking and thinking about is a pacifier and not a cure. What we are talking about would be public service jobs on a temporary basis, and, indeed, I do feel they are necessary, and in the short run they are going to be the answer; but I question what is a long-run strategy. What is the long-range prospect for recovery in New England? Lieutenant Governor O'Neill, I am very disappointed to hear you compare New England to Appalachia.

Lieutenant Governor O'NEILL. So am I, Congresswoman.

Representative HECKLER. I disagree with you. I happen to feel that is an admission of failure, and I wouldn't want to be in public office if I felt that was our future. I wouldn't feel responsible. I feel it is up to us and in the State government and Federal Government and local government to reverse that prophecy and to make the opposite realizable; but it is not going to happen by exporting all problems to Washington. Washington goes back to the same taxpayer that we are already hitting in Massachusetts. Yes, we can drain the budget at this point because our people are desperately in need; but ultimately we have to look to ourselves for a strategy.

I well remember the famous words of the loved former President, "Ask not what your country can do for you, but ask what you can

do for your country"; and if I may very inelegantly paraphrase his message, today it might be, you may ask what your Federal Government can do for you and it must do for you, but you also must ask what you can do for yourself.

Lieutenant Governor O'NEILL. Nobody has ever said of the administration of which I am part that we have shirked our responsibilities; and I don't want to get into what has taken place over the past year with this administration, because I think you were part of it and you helped live through it. I dare say it was one of the most severe economic years in the history of this State; and only because of the straightforwardness of Michael Dukakis who had the guts to stand up to a problem and face it, deal with it head on, do we now hopefully see for the first time light at the end of the tunnel.

When I tell you the major difference between the structural economic problems and the cyclical economic problems, we feel in Massachusetts we have dealt with it. There is no shirking of responsibility here. What I am saying is that the shirking of responsibility is in the highest elected position of the land, and that should be addressed and that should be talked about; and those are the things I am saying.

Representative HECKLER. May I just say that what I am saying is that it is up to Massachusetts and I see this as our need, to start to face our own economic climate. We are a consuming Nation. We consume what other States produce. Until we become a producer, we will not have long-term jobs. In your statement earlier you referred to the closing of Federal bases in Massachusetts and Senator Kennedy explained, I think very wisely, how unwise and injudicious those closings were in terms of the national interest as well as our Massachusetts interests and Rhode Island interests. But as a matter of fact, the Federal Government is a very undependable employer. We have suffered from the capriciousness of Federal funding over 128 and part of that area I do represent. We cannot go back to finding a Federal answer to unemployment in the long-run, because it is not going to come forward. So, what we need right now is a Massachusetts strategy, and in my own district, in the city of Taunton, for example, we have a section of I-495, an interstate highway, essentially the main access route to an industrial development center, and yet we cannot get funding—from the State, for that access route. We have to start to place a priority on investment and on industrial development. We have to change the climate of this State in order to attract business. When this committee went to Georgia and listened to the Governor of Georgia testify on the economic problems of the State of Georgia, he talked about their unemployment, which is very, very low. He talked about getting jobs from Massachusetts, and then he talked about winning jobs from capital invested by a foreign government. We are competing with the Georgias of the United States. We cannot afford to be mired in our own problems without developing a concrete strategy for economic development, and if we merely seek the temporary jobs and this assistance from the Federal Government, we are shortchanging our own people. We should be putting as much time and effort and inno-

vation as is available and is significant in this Commonwealth into a strategy for economic development, and that should be a priority of Massachusetts.

Now, I don't say this in criticism of you, Lieutenant Governor O'Neill. I say this as one who has followed the national picture and the unemployment problem in Fall River for 10 years. And I have seen Federal funds go in to do specific jobs, but the overall recovery has to come from within our own region.

Mr. Mayor, you have heard my statement on votes in the Congress and I intend to vote for the programs that are effective there. However, I would like to ask you just one question in terms of your assessment of unemployment in the city of Boston. I would like to know if you have compiled and if you have available, or if you can make available for the record, statistics on the rate of unemployment among women in the city of Boston. We have many women who are heads of households today who have a full economic burden. What is their unemployment rate? And, secondly, what is the unemployment rate among the minorities?

Mayor WHITE. I can't give you the first figure, Congresswoman. I can give an approximate figure for the second within the city, although the usual rate is within the standard metropolitan statistical area. About 28 percent is the figure for minorities.

Representative HECKLER. The figure on women you do not have?

Mayor WHITE. I don't have it but I can get that for you, get you some kind of a breakdown. I don't think it will fall in the same category as is shown in your district for a number of economic reasons, but I can isolate that.

Representative HECKLER. I would appreciate that. Alan Greenspan could not give us a figure on the rate of unemployment as it relates to women in the country, and if you can for Boston, you would be certainly improving on his performance. Thank you, Mr. Chairman.

Chairman HUMPHREY. Congressman Early.

Representative EARLY. I would like to commend both Mayor White and Lieutenant Governor O'Neill on their statements because, as Senator Humphrey said, you did deal with specifics. I would like to also say to Kevin White that you point out the grave fiscal plight facing Boston. It would have been twice as bad if your administration hadn't administered as you have this past year. Having just recently left Boston—the last 13 months I spent in Washington, the prior 12 years I spent in Boston in the State government—I can honestly feel the lack of communication is the biggest detriment we have, as far as the poor communication between Washington and the States, and the States and the cities and the towns. When anyone is ready and willing to accept an unemployment expense the last fiscal year of \$19.4 billion, that is \$400 million per State. It just totally—I just can't fathom that at all. And then you have projections, the President's projections are merely to reduce unemployment to 7.8 percent by the '80's. That is unacceptable. The President's projections, mere decrease of the inflation rate from 7 down to 6.3 percent; that is unacceptable. I say our goals have to be more what Mrs. Heckler and Senators Humphrey and Kennedy have said. We must

attack the problem. We must get more aggressive, and I think we are all proponents of revenue sharing. What revenue sharing basically says is with as little bureaucracy as possible, give the moneys back to the cities and towns to let them do with it, because they know best what can be done. I really feel we should go in that direction, and I feel we should have a positive outlook. I hate the negative attitude of this particular administration, as far as they want to do so little.

Again, Senators, it is my pleasure to be here but I want to commend both spokesmen for their statements.

Chairman HUMPHREY. Thank you. I know, Mr. Mayor, that you must go. Let me just make one clarification, and don't feel that you have to stay, Mr. Mayor. I just do it for the record. There is a statement made that whether it is Federal Government or State government or local government, it is all the same taxpayer, but it isn't. That's the important thing here. I want the audience to understand that it isn't. I don't know what you do here in your State, but we are unable to tax Exxon in Minnesota. We cannot tax a multinational corporation except for the amount of business they do in our State, and the only body that can tax the large multinational corporation or conglomerate is the Federal Government. So, it isn't as if it's, you know, your cousin Nelly that is being taxed or your Uncle Fred. But the fact of the matter is that the Federal Government, because of the power over interstate commerce and foreign commerce, is able to tax where the revenues are really able to be obtained. So, frequently, people talk about returning all of these things to the States, to which many times I have no objections providing somebody sends along the money bank, because there isn't any way in the world that the State of Minnesota, for example, can pay for all of the things that the State of Minnesota needs, unless we can tax Exxon and Mobil and other large multinational conglomerates. But our tax system doesn't permit that, nor does our Constitution. The Constitution lays that taxing power in the hands of the Congress of the United States. I believe that all the political arguments and all of the economic arguments that we have today need to center on where the money comes from, and it isn't, as I said, coming from Uncle Fred or Aunt Nelly. That's part of it. Where it is really coming from and where the tax power needs to go in order to have any quality or equity of taxation is in the Congress' ability to raise funds on interstate and foreign commerce matters. I might add, also, that if there was as much desire of the American capital market to invest in this country as they have been willing to invest willy-nilly elsewhere, a lot of our investment problems would be over. I have listened to all of this talk about the need for capital investment, Mr. Mayor and Lt. Governor, and I want to tell you that the flow of capital out of this Nation looking for lucrative markets at the expense of American workers and American industry and American gross national product is nothing short of a major disaster. Likewise, the fact that many of our largest banks are in trouble today, is not because they loaned to a business in Boston or Minneapolis or St. Paul or Fall River, because businesses there generally are able to pay back and they understand the terms.

They don't believe in expropriation. But a lot of that money has been loaned out for a quick, fast buck someplace else. Now, when those loans go sour, and they have gone sour, the only way that a bank can repay them is to raise the interest rates, and the American people have suffered. It is high time that that kind of economic understanding is put forth across this land, and I know no better place to start it than Boston, New York, Philadelphia, Washington, some of the great capitals of this country. Lt. Governor and Mayor, you are excused.

We now have our panel this morning—

FROM THE FLOOR. I would like to make one statement. I have followed your record since you started. I have never heard of a man having a better record than you have. I have attended a thousand rallies and I have been a member of various committees here in Boston—the Curley and Fitzgerald governments, the biggest war—

Senator KENNEDY. What about Grandpa Fitzgerald's record?

FROM THE FLOOR. I mentioned that. You have here the finest group of political characters in Boston—that Boston has ever had. You have here a member of the greatest family in America, Teddy Kennedy, going over with the biggest vote next time he goes.

That's the story. I have had the New York Times representative ask me what I thought of Senator Humphrey.

Chairman HUMPHREY. What did you say?

FROM THE FLOOR. He's waiting for me now. [Laughter and applause.]

Chairman HUMPHREY. I hate to ask, but I will take a chance. What do you think?

FROM THE FLOOR. The best ever who has run for the Presidency in my day.

Chairman HUMPHREY. We will conclude on that note.

Senator KENNEDY. Mr. Chairman, we have had a lot of interruptions of hearings up here in Boston in recent times, but you're always welcome any time.

Chairman HUMPHREY. Thank you. All right, we are back to our schedule. We have Mr. James Wilson, Professor, department of government, Harvard University. Mr. John Crosier, director of the division of employment security, Miss Lucy Benson, the former secretary of human services for the Commonwealth of Massachusetts and former president of the League of Women Voters. We remember her visits to Washington. We also have as witnesses Mr. Oliver Ward, Mr. Mel King, and Mr. Gregory Roy.

We will proceed with our witnesses according to the listing that I read. We will start with Mr. Wilson. Then Mr. Wilson will be followed by Mr. Crosier, followed by Miss Benson.

STATEMENT OF JAMES Q. WILSON, PROFESSOR, DEPARTMENT OF GOVERNMENT, HARVARD UNIVERSITY

Mr. WILSON. Thank you, Mr. Chairman. My name is James Wilson. I'm a professor of government at Harvard University. I've been asked by your staff to speak on the relationship between unemploy-

ment and crime in the United States. I will try to be brief though the relationship is a complex one.

There is not a clear and strong relationship between the overall unemployment rates and the overall crime rate. In the 1960's when crime was rising at perhaps its steepest rate at any time in this country, the unemployment rate overall was declining. Indeed, this is the experience of most industrial nations, almost all of which have experienced a steeply rising crime rate during the 1960's and into the 1970's, despite low or declining unemployment rates.

However, this is the overall picture. To understand what relationship might exist between these two social forces, one has to look beyond the average—the total figures. It is possible, and indeed it is quite likely, that there is a relationship, not between the overall unemployment rate, but between the unemployment rate of teenagers and young adults on the one hand, and the rate of property crime committed by persons in this age group on the other hand. There have been a number of studies in the last 4 or 5 years that have attempted to discover this relationship; and insofar as these studies have found reliable data, they have been able to detect such a relationship.

One of the reasons, of course, why crime may have gone up in the 1960's is not because the overall unemployment rate was high, but because the unemployment rate of this particular age group was mounting. For example, in 1968, less than 13 percent of those persons ages 16 to 19 were unemployed. By 1972, 16 percent of those in that age group were unemployed. To look at perhaps the most vulnerable sector of the youthful employment market, that of black males, ages 16 to 19, in 1955 only 13 percent were unemployed. By 1960, 24 percent were unemployed nationally, and that very high figure has persisted down to the present and of course is at a higher level today.

This occurred at a time when the adult unemployment rate for both blacks and whites was low or declining. One of the reasons for the high youthful unemployment rate during the 1960's was the fact that the baby boom of the post-World War II era came of age. There was an enormous influx of persons seeking jobs in our economy in the 1960's, and the economy for complex reasons was not able to provide for them.

Even here, however, the relationship between youthful unemployment and youthful crime rates is not altogether straightforward. In research that I have recently done on the rate at which people are victimized by robbery in 26 of our largest cities, I discovered that there is no clear statistical relationship between the youthful unemployment rate or the labor force participation rate of young people on the one hand and the rate at which persons are victimized by robbery—after you control for certain other characteristics of the population.

One of the things one must control for is the way in which the criminal justice system operates. The reason why the evidence is so contradictory and so difficult to interpret is that there is not in the minds of any given young person a straightforward relationship be-

tween unemployment and crime. Young persons who are overly participatory in both the unemployment figures and in the crime rate make a calculation that takes into account, at least at the margin, not only the availability of a job and its benefits both monetary and nonmonetary, but also the opportunities available for participating in illegal activities; and at least at the margin there is evidence to suggest that young persons make a kind of precalculation asking whether the benefits from jobs available to them exceed the benefits from illegal opportunities that may be available to them.

Therefore, if one is going to deal with the conceptual problem of discovering the relationship between youthful unemployment on the one hand and property crime on the other, one has to take into account at the same time the operation of the criminal justice system. During the 1960's, when the youthful unemployment rate was becoming so large and when the property crime rate was becoming so high, the criminal justice system, the police, the courts, the correctional systems, began to falter and ultimately to fail, so that for a person coming of age in the mid-1960's, there was strong reason to believe that the opportunity to work in a car wash for the minimum wage was not as attractive as the opportunity to participate in various forms of street crime where the minimum wage was higher, the work hours less and the opportunity to associate with your friends and colleagues somewhat more substantial.

I believe that increasing the availability of jobs for young persons is desirable, indeed, essential; but I believe it would be wrong for the committee to suppose that in the short run the mere increased availability of jobs will in and of itself lead to a lowering of the crime rate. To make that prediction I think would be to do a disservice to the public by misleading public expectations.

I believe that we must lower both the unemployment rate and the crime rate simultaneously by both increasing the number and value of legitimate jobs available for young persons, and decreasing the benefits that now flow from participation in illegal jobs. Achieving this, however, involves more than just job creation programs—though job creation programs may well be essential. We have to think much more carefully than we have in the past about how young people are inducted into the work force. And this in turn requires reexamining the role of educational institutions and their relationship to the job market.

At the present time, we require by law all young persons to remain in school to a mandatory school leaving age. All persons, in a sense, are funneled through a single institution, public high school, and this system has not worked well to discriminate among persons who have college aspirations, who have work aspirations, who have military aspirations, or who have many other aspirations. All tend to be treated by an educational process that sorts them more or less along the same line and does not facilitate, and in fact often impedes, their entry into the work force under the best possible circumstances.

Let me simply mention one study that indicates what the inattention to the relationship between schooling and work may imply for

the crime rate. In one study done in 1966 in San Diego by D. S. Eliot, it was found that young boys from average families who dropped out of high school had a lower delinquency rate after they dropped out than while they were still in school. One of the reasons for this is because for these persons school, as then constituted, and perhaps as still constituted, was irrelevant for their aspirations. They were searching for opportunities to begin a life on their own, to assert their own autonomy and individuality, to participate in the work force; they did not have college plans. They sought marriage and a job, perhaps some of them sought also a brief period to experiment with alternative life styles.

The fact that we have not addressed the problem of the relationship between schooling and the work force has meant that we have, in my view at least, perhaps artificially and unnecessarily contributed to the rates of vandalism and violence in schools, and impeded the entry of persons into the work force and perhaps as a combined consequence of this inadvertently allowed the crime rate to rise higher than it has been in the past.

I would suggest that among the things the Joint Economic Committee could examine as it celebrates the 30th anniversary of the Employment Act of 1946 is not simply the availability of jobs in the aggregate, but in particular the availability of jobs for young persons, and most particularly the relationship between schooling and school-like institutions on the one hand, and the opportunity to enter the work force through on-the-job training and apprenticeship programs and the line on the other hand.

One last issue I would like to address, and then I will be silent, the problem of persons released from correctional institutions in our criminal justice system is acute. Studies have been done that suggest that those who after release from some form of correctional program, obtain and hold jobs, are much less likely to commit new crimes than those who are unable to get jobs or who cannot hold a job that they have been able to find. Unfortunately, job training programs located in prisons do not seem to have any effect on the chances that a parolee will get a job or hold a job after he is released; and this despite many efforts by the U.S. Department of Labor, by State agencies, and by local groups to make such programs work. There have been a number of evaluations of this, and they are cited in the prepared notes which I have distributed to you.

There does seem, however, to be some evidence that parolees released from the criminal justice system who are given on-the-job training, and are then given a job first and then provided training at the site of the job and placed in an environment in which they are given every opportunity to succeed, working with persons like themselves in a supportive environment, can do well in holding jobs and as a result this can substantially reduce the probability that they will return to a life of crime. There have been studies of this, Operation Pathfinder in Los Angeles, the supported work programs of the Berry Institute of New York City. There have been such programs here in the Commonwealth of Massachusetts.

Thank you, sir.

Chairman HUMPHREY. Thank you very much, Mr. Wilson. I'm sure you're familiar with the work of Mr. Brenner, too, are you not, of Johns Hopkins?

Mr. WILSON. No, sir. I am not.

Chairman HUMPHREY. We want to very much bring to your attention his work and the committee will be making available to the public a staff study as a result of some of his investigation along with yours. I appreciate this.

Our next witness will be Mr. Crosier.

STATEMENT OF JOHN D. CROSIER, DIRECTOR, MASSACHUSETTS DIVISION OF EMPLOYMENT SECURITY

Mr. CROSIER. Mr. Chairman, members of the committee, Congressman Early, I am John Crosier, director of the Massachusetts Division of Employment Security. I would like to briefly outline the real problems in Massachusetts and to suggest to the committee some programs that might be able to assist us.

At the present time, as has already been pointed out, the unemployment rate in Massachusetts is 11.8 percent, far above the national average of 8.3; and the unemployment rate here ranks us among the five highest and this has been so throughout all of 1975. By comparison, in early 1970, the rate here was under 4 percent and nearly comparable to the U.S. rate. Massachusetts has suffered two major recessions in this decade. Initially, changes in the national priorities in the late sixties which reduced national defense and aerospace research programs caused a short rise in unemployment in Massachusetts. These nationally directed cutbacks compounded the depressing effect of long-term structural changes in the industrial composition of the Massachusetts economy.

Then the 1974-75 recession caused the most severe unemployment levels in nearly 40 years. During the 5 years ending December 31, 1975, the balance in the Massachusetts Unemployment Compensation Trust Fund fell from a \$374 million surplus to a \$119 million deficit. This deficit, as you know, is financed through loans from the U.S. Treasury, but retroactively liable on the employers of this commonwealth; and as the Senator mentioned earlier, all the New England States, save for New Hampshire, are presently in that posture. By December of 1976, we estimate that the Massachusetts employers will owe the Federal Government \$258 million.

In 1975 alone, \$548 million in benefit disbursements were expended by the Employer Finance Trust Fund. An additional \$350 million were disbursed through the federally financed programs, the Federal supplemental benefit program, and the Special Unemployment Act program. That means that in Massachusetts in 1975 nearly \$900 million was put into the economy. The insolvency of the Massachusetts fund occurred despite a financing system that imposed the highest average contribution or tax rate in the rest of the country. The average contribution rate in Massachusetts was twice as high as the national average in 1975, and it was nearly 80 percent higher than in 1973 and 1974.

The present system of financing unemployment benefits requires the States where unemployment occurs to pay the costs, but when the cause, as in the Massachusetts experience, is a reordering of Federal priorities, then the remaining employees in the State are taxed regardless of their responsibility for creating the unemployment. And thus, we have an ever increasing tax burden on a reducing industrial base. As a result of the increased tax burden, the experience rating system in Massachusetts, which is the foundation of the unemployment compensation system, had to be suspended in April 1975. And there is little likelihood that it will be reinstated without major rebuilding.

Again, employer costs are not limited to the taxes on the Trust Fund for the Commonwealth. Employers pay an additional Federal tax of 0.5 percent or \$21 per employee for all wages in the State. H.R. 10210, presently before the House of the Congress, would raise that tax to 0.7 percent on \$8,000, or \$56 per employee. In addition, employers in this State will not be repaying their loans because the higher rate will not be adequate. The prospect is a bleak one for Massachusetts and other industrial States which have suffered the most during the last two recessions.

A 1975 tax rate, 100 percent above the national average, has been unable to keep the system solvent. To offer some perspective, the trust fund deficit on December 31, 1975 was higher than the total benefits disbursed in any year prior to 1970. Continuation of the present Massachusetts tax rate which are too far above the national average will itself be a factor in continuing the unemployment rate since new economic growth will be hindered.

However, the Federal Government can assist in the Massachusetts recovery as well as that of other major industrial States. We have several suggestions:

First: The repayment period of U.S. Treasury bonds should be extended to 10 years. Massachusetts employers will face crushing tax increases if they have to restore the solvency of the fund in addition to repaying the Federal loans.

Second: The current requirement that employers in individual States pay one-half of the cost of the Federal-State extended benefit program should be repealed retroactive to its effective date. The payment of extended benefits results largely from factors over which the States or their employers have little or no control. The Massachusetts experience with defense and aerospace cutbacks is a prime example.

Further, the deliberate cooling of the economy through fiscal or Federal monetary policy is another problem.

Third: Employers should not be required to finance the cost of the Federal supplemental benefit program, weeks 40 through 65, enacted a year ago as a part of the economic recovery strategy. This temporary program was designed to increase consumer power, and is not a part of the permanent unemployment insurance system. Therefore, it should be financed through Federal general revenues; and, as I noted, it has been responsible for the crippling of the actuarial soundness of the entire experience rating system across this

Nation. At the State level, the Massachusetts employers in 1976 are expected to pay in \$320 million while we expect benefit cost to exceed \$459 million. With this shortfall continuing, a major overhaul is clearly in order and will be recommended.

A Massachusetts Task Force on Unemployment Insurance appointed last May has recently submitted its recommendations to the Governor. These recommendations include raising the taxable wage base, a new tax rate schedule, and a redistribution of benefit costs among employers. It is the first comprehensive review of the Massachusetts system in 37 years, and I suggest that the recommendation on H.R. 10210 include a similar set of action at the Federal level.

The task force concluded that the existing taxable wage base of \$4,200 is inadequate to meet the rising benefit costs. A gradual increase, minimizing Massachusetts competitive disadvantage, raising it to \$6,000 in 1978 is being recommended. These increases, however, will not bring the Massachusetts fund anywhere near solvency, nor will it permit a pay back of the Federal loans.

Massachusetts, like a majority of the States, adjusts its maximum weekly benefit each year to a percentage of the State's average weekly wage. As wages rise, so do unemployment benefits based on those wages. Thus a taxable wage base which remains at a fixed amount as our present system does will never cope and keep pace when benefits are geared to rising wages. A similar cost-of-living increase arrangement exists in the social security system whereby when benefits increase so does the taxing mechanism. To do less than that in the Federal unemployment tax procedure will keep us in perpetual trouble. There is no escaping the need to increase taxes, if we are to restore the fiscal soundness of both the Federal and the State unemployment compensation funds. Massachusetts and other States have already taken first steps in that direction. In 1976 the Congress will have the opportunity to support these actions through the enactment of legislation covering the issues discussed here today.

Of most concern to us is that H.R. 10210 has been unsuccessful in its bid to reach the floor of the Congress, and the additional 1 year of probable delays in the implementation of the steps recommended in that action further will contribute to the deterioration of the entire fiscal foundation of the UI system.

And if I may be permitted a personal forecast, if we do not address with greater urgency the issue of fiscal soundness of the UI fund, then I see no choice but for a Federal takeover of the UI system in the not-too-distant future, a system that would make virtually impossible experience rating, reduce it to another Social Security flat tax system, a course of action I think most inappropriate.

Thank you, Senator.

Chairman HUMPHREY. Thank you very much. I'm going to alter this, if you'll pardon me, Miss Benson, because I want to get the State representative. We've had the employment security officer here now and we'll get it from the State legislative point of view, Mr. King; and then we'll come back to you, Miss Benson and Mr. Ward.

**STATEMENT OF HON. MEL KING, STATE REPRESENTATIVE,
MASSACHUSETTS LEGISLATURE**

Mr. KING. Thank you very much, Mr. Chairman and to the other members of the committee. I am pleased to have this opportunity to be here and I might add that I feel a little secure about the possibilities for what could happen with this when I saw the Congressman from Worcester up on the podium.

I would like to start by giving a few figures as a backdrop, some of which might in their context answer questions that were posed by Congresswoman Heckler earlier. Approximately 54 percent of the Afro-American population is under 24 years of age, compared to only 42 percent of the white group. This large number of young Afro-Americans between the ages of 16 and 24 comes about due to the high fertility rate. I think it's important to understand that proportion of the population.

I want to move on. Among Black female teenagers, for example, their official unemployment rate during the first quarter of 1975 was 41.3, the highest jobless rate of any group of workers in the United States. The similar rate for white teenage females was considerably less, 17.4 percent. For black and white male teenagers it was 38.1 percent and 20.3 percent respectively.

According to Mr. Bernard Anderson, 65 percent of America's black teenagers are unemployed. He further warns that if the economy does not improve in the near future, a whole generation of young blacks will enter adulthood in the 1980's without ever having held a job. He further goes on to say the implications and ramifications of such a situation are absolutely disastrous. Already an increasing number of black youth are dropping out of the labor force. In the first quarter of 1975, 34,000 adult black women dropped out. About a half of all black labor force dropouts are male teenagers.

The economic and accompanying social conditions we all face amount to an assault on the black youth of America. The assault is being launched from all sides, and it's started at the highest political levels. The Nixon administration was the most politically and morally bankrupt within memory. The current administration in getting help from Democratic leaders or Democrats in some instances are continuing his approach to undermining court decisions to desegregate public schools. Their remarks directly contribute to violence and lead to the escapism and the scapegoating of the South Boston parents who feel they can defy a court ruling.

Now it has also become evident that black youth are expelled more often for inadequate reason in many public schools. Our black youth understand the message that they are being denied access to decent education.

That message is reinforced by Federal and State policies which have cut back loans and scholarships: even if black youth get in, they find that the schools, for example, the University of Massachusetts at Boston which was created to serve urban youth, are cutting back on services that they need. The Nixon-Ford posture has spread to business. Lockheed took public money and actually bought contracts. Black youth understand the message, the quality of your

work or product has nothing to do with success. And when they leave school, they discover they have no skills for work or survival or for coping with change. Business tells them they will have to take the most minimal jobs. The whole education process is negated by the way we do business.

State policies cutting people off welfare and general relief only compound the problem. By cutting out part of the unemployment compensation, we are making it impossible to survive without turning to crime or joining the increasing forced labor work force working at meaningless jobs. And ironically, there aren't enough jobs to go around, and one of the things that we heard the Lieutenant Governor say was that there are only 3,500 jobs at the Division of Employment Security for people, and there were some 165,000 I heard him say who were looking for work. And we have a policy that we have instituted in this commonwealth which says those folks who do not have any unemployment compensation coming to them cannot get general relief because there are jobs. But by their own admission there aren't the jobs for them and they are exacerbating the problems of crime and the need for looking at other ways for survival.

And if we understand that we're talking about a State where there are some 400,000 people identified who are looking for work, you know that that figure can be multiplied by the number of people who have dropped out and have not given up. And that's not even to deal with the number of people who would like to work but who know that there isn't any sense going out trying to put themselves into the market, and here I'm speaking about the number of women who are not even considering going out to work because they know that the jobs are not there.

Our black youth are also assaulted by the environment they are forced to live in. Public housing projects brutalize their residents who have no police protection, minimal garbage service, maintenance, and minimal social services. Those people who care and try to keep things liveable, get no support. If the concept of the State providing housing along the lines of a public utility has gone sour, we should ask what practices have contributed to that failure.

And public housing is not the only environment unfit to live in in Boston and other cities. If you want to see an area—and Congresswoman Heckler said that she resented having New England compared to Appalachia. Congresswoman Heckler, you may have that feeling overall, but I would suggest that there are many parts of the city of Boston that you could walk down, if they don't look like Tobacco Road or some of the conditions that exist in Appalachia, then—if you saw that, then you would understand why that kind of concern has been expressed.

There is a direct connection between the cutback of Federal assistance to cities and the lack of jobs and services. Black youth get the message, that they are not worth the effort to keep the streets clean or housing repaired. It is no wonder if they find it hard to maintain a positive self-image. In Boston and elsewhere, black families who tried to move into white neighborhoods have literally been assaulted and even tried for defending themselves against mob rule. The message is clear: Why should black youngsters work hard

to get ahead when they will not have decent services in their own neighborhoods or the freedom to move elsewhere?

What is the connection between all this and economics? For one thing, no one has asked how come during the phase I and phase II desegregation issues in the schools all those young white men ages 16 to 30 have the time to be outside South Boston schools harassing black students. The whites see those black students as a threat to their job opportunities. But they don't have any jobs. The irony is that the poor and uneducated white is not going to get a job any more than the black youth they are trying to keep away from education. It is well known that social friction goes up when the economic situation is down.

For another thing, the social cost we will pay in health bills, physical, and mental welfare, unemployment compensation, crime and a criminal justice system are staggering. We must consider whether the social cost of letting off workers will outweigh the cost of supporting businesses through economic difficulties. We don't need any more Lockheeds, but you can bet that if that money had gone to the workers it would not have been spread around the world in bribes. We do need more investment in our workers, especially our young workers. We do need mechanisms to support community and worker-owned businesses directly related to serving community needs. We've made a start in Massachusetts with a new Community Development Finance Corp. to aid businesses designed to revitalize community economies.

Another bill provides guaranteed mortgages to stimulate business development in communities. We need another bill and legislation to create jobs specifically for youth from 16 to 25. If these bills get proper funding then I think we'll have a model that could be part of a solution to the employment problem. The model will encourage public direction and control of public and some private resources, specifically for the development of jobs. Profits will go partly to the business and its workers and partly back to the community to help create more jobs. We are used to obligating ourselves to bonds to pay off past debts, knowing we'll get some return down the line. Why not bond ourselves to invest in jobs and workers that will also provide a return for our future?

But we need help from the Federal level, too. There are some useful models from the past. First the CCC workers went out and made our forests and land more usable. In many cases it was 10 to 20 years or more before the facilities or improvements they made were fully used, but the investment provided lasting skills and lasting public works which were the basis for our moving into a new age of technology.

The G.I. bill is the second major model. It gave hundreds of thousands of men the opportunity to get a college education and some technical skills. But should we require people to subject themselves to something so horrible as war before they are eligible for support? Looking at it another way, there are thousands of people now who can be considered veterans of their own war against poverty or rats or hunger or unemployment.

We need to provide support for a new kind of public employee to work on our pressing infrastructure needs: public transportation; energy conservation and production; housing; and food production. And on the issue of food production, I think I do agree with Congresswoman Heckler's point which she makes where there is a role that we need to play here within this Commonwealth, within this region to deal with some of our own needs. We can no longer continue to exist importing 85 percent of our food from California with the rate that their population is growing—they're going to need more of it to feed themselves. We've got to look at issues of how we reclaim some of the land here, how we deal with that fish industry, and if the 200-mile limit is to have any meaning, then some of the money and some development money needs to go to building fish processing centers, building new kinds of ships and trawlers, so that that industry can get back to where it belongs; and one estimate was that 75 percent of the fish that we eat here in New England are imported. They're imported not from other parts of this country, but from other parts of the world, so that development financing would be a useful way to provide for these kinds of services and jobs that could be done right here.

Training should be through both the GI-type scholarship and the CETA type for jobs related to the infrastructure, and the new technology, and if we are going to do the public service type of financing, then it ought to be linked to capital formation and capital needs, and it ought to be part of something that can have a multiplier effect; it ought to be part of some training that deals with infrastructure issues.

Let me close with the recent study from one of the public interest research groups which indicated that the amount of employment actually goes down as military spending goes up, contrary to all popular belief. I think it's incumbent on this committee to dispel the myth about the value of military spending for employment. I think we may have a blessing in disguise when the defense industry gets out of Massachusetts, and gets out of New England, because if it makes us begin to look at more meaningful ways of dealing with our economy and not relying on the making of weapons that are going to maim and to kill people, I think we've got a better chance for something that has a lot more roots in our long-range economic development policies and we'll be out of the business of the dependency on war; and the other part of it is that the only two times that we have had full employment for black people, and a lot of other people—but for black people full employment was when there was slavery, and we don't want this to be the case again. But for the rest of the people full employment has only been around when there's been a war, and it seems to me that we have got to move this country in the direction where we can really provide full employment for people without having most of them carrying guns and weapons on their shoulders as a part of their job.

Chairman HUMPHREY. Mr. King, thank you. Thank you very much for a most instructive and I would say provocative and informative statement. Miss Benson.

**STATEMENT OF LUCY BENSON, FORMER NATIONAL PRESIDENT,
LEAGUE OF WOMEN VOTERS; AND FORMER SECRETARY OF
HUMAN SERVICES, STATE OF MASSACHUSETTS**

Miss BENSON. Thank you very much, Mr. Chairman, Senator Kennedy, Representative Heckler and Representative Early.

I am Lucy Benson of Amherst, Mass., former national president of the League of Women Voters and for the year 1975, secretary of Human Services for the State of Massachusetts. I want to thank you very much for the opportunity to make some brief comments on the social costs of high and prolonged unemployment.

The magnitude of the human services situation in Massachusetts is very stark. In terms of dollars alone Massachusetts is expending this year \$200 million less for human services than was expended last year; and although the Governor's budget for fiscal 1977, as presented to the legislature a few weeks ago, provides for an increased expenditure of \$150 million over this year, that is still \$50 million less than was expended 2 years ago and does not permit the restoration of any programs or services which have been taken away. In fact, it represents further severe reductions in many areas.

These reductions may not seem drastic, especially in terms of numbers, until you get behind those figures and see which programs have been removed, reduced or not expanded and what has happened to people, especially to older people, women, children, particularly our young black people, and persons under institutional or community residential care.

I would like to give you a number of examples of actual reductions which have been made during the past year; and then I will outline briefly some of the problems which are related to people's unmet needs which are already increasing exponentially.

I believe it's important to talk directly about people and their needs. Far too often people get lost in numbers. Reductions in social programs which have been made here and in other states, as well as by the Federal Executive Branch, have been made in part for philosophical reasons and in part because the social costs of unemployment have not been spelled out in a sufficiently compelling way to overcome philosophical biases of the public and of many of the public officials who make these decisions. However, research findings which conclusively establish relationships between economic fluctuations and indicators of social damage are now beginning to make their way into the public debate on economic policy, thanks in part to this committee. Hopefully, in the near future, and with the aid of the work of economic policy makers at both the Federal and State levels of government, we will be unable to ignore certain specific social consequences of policies which foster continued high rates of unemployment.

These findings show that the social costs of unemployment are considerably higher than is indicated by looking only at the immediate cost of unemployed individuals or to government of human services programs.

One of the first places to explore in order to understand the impact of all of this, is what happens to a State government when it is finally forced to respond to the impact of a prolonged economic downturn. Revenues and expenditures both decrease, but revenues decrease by much more than expenditures and at a faster rate.

The nature of State and Federal budget processes increases the problem of intelligent and informed forecasting. Revenue and expenditure estimates must be made well in advance at the start of the fiscal year. This almost guarantees that when unemployment increases, a budget gap will arise in the fiscal year within which the unemployment occurs. That budget gap will have to be dealt with, probably within that fiscal year from reserves, if there are any, through deficit spending which in this State is unconstitutional, or accounting sleights of hand, which is the usual method, or through tax increases, borrowing and/or service cuts or all of them.

Massachusetts, in fact, employed all of these methods beginning in January 1975. Revenue estimates for the Governor's fiscal 1975 budget requests were based on late 1973 data and presented in January 1974. These estimates turned out to be \$86 million above actual revenues. Expenditure estimates, on the other hand, were over \$500 million below actual expenditures by the end of fiscal 1975, a real squeeze. With a change in administrations taking place, the full implications of the shift which was occurring was not fully recognized and accepted until the fiscal year was more than half over. By that time, the situation was so serious that tax increases, medium-term borrowing, and service cuts all had to be employed, and very rapidly. Service cuts to meet the anticipated revenue constraints, borrowing to meet the cash flow needs since there was no way services could be reduced far enough to meet the fiscal needs, and tax increases to make the bonds marketable.

Finally, since all these decisions had become politically almost unmanageable, the adoption of the fiscal 1976 budget was delayed until November of 1975, and the legislative process itself resulted in additional cutbacks that were just short of catastrophic.

It was in this highly pressurized atmosphere which began in early 1975 that decisions about reductions in services were made.

A brief review of some of these major decisions in human services, I think, will give you an idea of what the Commonwealth has been through and especially its people.

In the income maintenance program area no grants were adjusted for increased cost-of-living, even though legislation had been passed in the previous year providing for this. All persons deemed employable were eliminated from general relief despite the then 13 percent unemployment rate in Massachusetts.

The medical assistance program for general relief recipients was totally eliminated—and I am glad to say there was one very small shift in that—after 2 months experience it became recognized apparently by everyone that some persons on general relief required some life sustaining medication such as drugs for diabetes and corrective legislation was passed in that one area. But this meant that close to 30,000 people were taken off of medical assistance and returned to the old charity care nonsystem.

Several optional services under medicaid like dentures, eyeglasses, hearing aids, and some drugs, have been eliminated as well.

In mental health and mental retardation there have been severe cuts in both institutional and community based care, the most serious and devastating resulting from several across-the-board hiring freezes which made it impossible to fill direct care vacancies in mental health hospitals, schools for the retarded and community mental health centers. The level of patient care and the morale of direct care personnel in State service suffered severely and progressively during most of 1975.

These staff reductions have been followed by an increase in death, accident, and escape rates and have greatly raised the spectre, from the State's point of view, that a number of hospitals may lose accreditation and thus medicaid and medicare reimbursements, which would only increase the problem.

Community based services have suffered heavy retrenchment. Worcester State Hospital, for instance, has already closed three of its community programs and the Lindemann Center in Boston, just next door, has discontinued day care treatment programs serving over 150 people.

In children's services, budget cuts have led to the termination of over 200 treatment programs across the State for delinquent youths, for runaways, for battered children, for mentally ill children, and for the retarded and physically handicapped child, affecting some 26,000 children.

The capacity of our Department of Youth Services to provide treatment for youth committed to it or referred to it has been severely limited at a time when the demand has risen dramatically; and similarly, the capacity of the Department of Public Welfare to provide foster care and other residential services to children in its care has been substantially reduced.

In corrections and parole, medical, educational, and vocational programs, particularly those carried on outside the prisons that were underway, have been suspended to a greater degree for lack of funding. Overcrowding at the several State correctional institutions has become a major problem; and there again, because of the reduction in funds for the expansion of the community corrections system. Yesterday at Concord there was a very painful reminder of that problem.

In short, economic recession and its interaction with the timing and current level of sophistication of State revenue and expenditure forecasting virtually guarantee that in times of economic downturn State governments will make decisions with harmful social implications for many citizens. This is particularly so for citizens who are dependent on the public sector of our society for income assistance, for medical help, or who are under the direct care of the State for either long-term or short-term care.

There is an additional area that needs to be explored; and that is, the direct social costs of unemployment and recession to individuals. I believe this committee is already familiar with the work of Mr. Harvey Brenner of Johns Hopkins University and the strik-

ing quantitative evidence developed by him and others which establishes a clear relationship between fluctuations in economic activity and the level of unemployed on the one hand, and a number of undesirable social indicators in the areas of health, mental health, and crime on the other hand.

Mr. Brenner's work shows that a number of social indicators move in patterns over time which closely mirror fluctuations in economic activity, particularly fluctuations in unemployment. After allowing for long-term trends, such as rising per capita alcohol consumption associated with rising per capita income, there are a number of indicators which rise in response to recession and rising unemployment and fall in response to the opposite. Just a few of these. For instance, in the area of mental illness, the first admissions to mental hospitals rises markedly. Stress-related deaths, suicides, homicides, and deaths from heart and renal diseases also rise. Alcoholism is another area; death from cirrhosis, alcohol-related arrests, and alcohol-related hospital admissions for mental disorders.

In the general area of health, other than mental health, malnutrition and infant mortality and morbidity take a marked upward swing. The regression to crisis health intervention, instead of preventive health and maintenance care, also has a very serious affect on people. In the area of families, of course, the rising tension in bad economic times takes a toll on abused children and on the inability of families to take care of their disabled members.

The implications are obvious. If State capabilities in key social program areas are reduced at the same time that levels of negative social indicators are rising, each is bound to reinforce the other. Shortages of State human services capacity means more people with social, health, mental health needs at the preventive stage which are not being served because of the immediate needs to concentrate on crisis intervention. So some people, at the prevention stage, not served, move to the crisis stage further overtaking the State's capacity and doing damage to themselves, to their families, and to their future capacities to work.

A social policy aimed at averting negative social results of economic fluctuations must, therefore, include both a countercyclical economic policy and a contingency mechanism or mechanisms for maintaining health and social services capacity in the event of a prolonged economic downturn.

In conclusion, it seems clear that recessions and the accompanying fluctuations in employment have consequences which equal or exceed in severity those normally associated with a high and prolonged rate of unemployment. In addition to unemployment and the loss of income and stability which unemployment brings to those who are unemployed, the ability of State governments to maintain necessary social and health programs is severely undermined and there is a striking increase in the rate of negative or harmful effects on the general population.

Thank you very much, Mr. Chairman.

Chairman HUMPHREY. Thank you, Miss Benson.

Next we have Mr. Ward.

**STATEMENT OF OLIVER WARD, PRESIDENT, SMALL BUSINESS
ASSOCIATION OF NEW ENGLAND**

Mr. WARD. I am Oliver Ward, president of the Small Business Association of New England. I have been asked to testify this morning on the impact of the recession on the small business, on its effect on small business' ability to staff the positions and also on the effect of unemployment compensation on the employment seeking patterns of people during a period of high unemployment.

The impact of the recession has, of course, been a substantial failure on the entire small business community. On small businesses it has been even more devastating. I sort of feel like the man who went to Las Vegas and said: "Please God, I hope I break even. I really need the money."

The significant difference between large and small business lies in the ability to pass on costs. A large business, frequently alone or together with several other similar businesses, dominates the market. If certain costs go up, so do prices; and if the consumer or customer gets hurt, so be it. If the volume goes down, prices may often be raised to keep the enterprise profitable. Small business is never in a position to dominate its market. Hence, its prices are determined by the market conditions. The brutal law of supply and demand still characterizes the market in which small business sells.

One of my companies is a machine shop, a classic job shop. We are still seeing jobs go for half what they would have 2 years ago. The fact that we are losing money couldn't concern our customers less. If we were to go under, they would just place the next order with the one who survived.

The other major distinction between small and large business is the ability of large business to borrow capital at a reasonable cost in contrast with the inability of small business to do the same. Small businesses are frequently undercapitalized, which makes it difficult to borrow money in the best of times; and in a recession, naturally it makes this problem worse.

Specifically with reference to unemployment, unemployment compensation has to a certain extent become a counterproductive economic force. It is a significant cost even of itself. Moreover, our experience indicates that where the benefits are substantial—and at least until recently, Massachusetts qualified as very liberal—being on the dole has come to be considered an alternative to employment.

While it is true that what Lieutenant Governor O'Neill and the Brookings Institution were saying, that unemployment compensation and welfare do not replace 100 percent of the after-tax earnings, it comes sufficiently close to making this an alternative for many people. I personally have had employees at the \$5 an hour level ask to be laid off, particularly during the summertime if they lived on a farm or had some project such as a barn they wanted to build. At the lower wage levels it's worse.

At my electronics company where we employ 85 people, many on the line at around \$2.60 an hour, we have used the Division of

Employment Security extensively with varying degrees of success. In many instances, we feel that because unemployment compensation satisfies the needs of the individual to such an extent, the individual doesn't want to work. Because the implied tax is so high on returning to work, many of the individuals will hold out for a higher paying job.

Any small business employer can doubtless recount numerous stories in the last few years when an unemployment compensation recipient turned up and asked to have his name put down for having looked for a job, but really didn't want one. This has obviously in the last year been less true. Dropping the requirement that unemployed persons look for work at least saved the wasted assets, such as gas and oil, of those who really didn't want to work.

We recently offered a well-qualified secretary \$160 a week, and we were told she would only consider a 20-hour job and that we would have to pay her under the table, otherwise she'd lose her ADC benefits. We turned her down. I suspect, however, she did find work on her terms. Abuses should be effectively corrected without becoming a Fascist state. Some policing and assistance would be beneficial. If the Government had vigorously dealt with the abuses in our welfare system as the IRS does in extracting the last filing from the taxpayer, we suspect we'd see fewer abuses.

What do we suggest? First, we suggest that the abuses be effectively dealt with. We also suggest that, to the extent that unemployment compensation is fundamentally social welfare rather than strictly an insurance function, the cost be borne out of general revenues. An example of this is dependent benefits. We suggest a job credit to stimulate employment. Tax revenue would rise, unemployment would go down, gross national product would go up, and we'd become more productive economically.

If every small business in America were to be encouraged in one way or another to employ one more person, there would be 9.4 million workers on the payroll again. The status of unemployment is psychologically damaging and economically unproductive. No effort should be spared to reduce it. It seems to us that no subsidy is too high which encourages the creation of jobs to have people gainfully employed in the private sector rather than on unemployment or on welfare.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Thank you very much, Mr. Ward.

Now, I believe our final witness is Mr. Gregory Roy. Is that correct?

STATEMENT OF GREGORY ROY, MEMBER, VEST

Mr. Roy. Thank you, Senator. I want to thank you for letting me speak in front of you, Senator Kennedy and Congresspersons.

I am the only person on this board who is probably unemployed. I am one of the statistics that you have been talking about. There are two of us? OK. I'm sorry. [Laughter.]

Really it's quite an honor for me to be able to do this. Up until 6 months ago I was working, making a very decent wage and very high earnings until one day I got the word that I was no longer needed.

By the way, I don't have a prepared speech.

Chairman HUMPHREY. That's fine. Just go right ahead.

Mr. ROY. I will try to be as personal as I can.

The first thing that hits when you are given the pink slip, the door swings open, is "Why me? What have I done? Is it myself personally? What's the situation?" And, of course, you are really not told. So the first thing that took place in my own particular instance was that I took a small vacation just to simply reevaluate where I had been and where I was going to go; and since that time, 6 months later, I am still searching.

Now, I am going to try to give you two sides to the story. We have all heard a very negative side here today, as far as I am concerned, about the problems dealing with the Government trying to get jobs available for people. We all know that; and I will give you the bad side of being unemployed, but I would also like to give you the good side, a positive side, something—a little token that you can bring back to Washington and let them know what the unemployed are doing for the unemployed.

The people behind me who have been clapping belong to an organization called VEST. We are associated with the Division of Employment Security. Mr. Crosier and I will give you my testimony and I will parallel it with the testimony of our group as a whole.

I am young. I'm only 27. Most of our members are 40 years old. The average age is about 38. We have many members over 50 and many under 28 or so; 25 percent are engineers, scientists, and technicians; 40 percent are schoolteachers just getting out of college with a beautiful piece of parchment on the wall but not one opening. It is estimated that when a position is available in the Commonwealth of Massachusetts, a teaching position, there are over 2,000 applicants for that one teaching position. I think Mr. Crosier will confirm this—my figures may be wrong however. The other 35 percent of our force, or our group, is made up of the other miscellaneous professions. Myself, I am in sales marketing. We have people in administrative professions, and we have people, social workers, a great deal of social workers who, there is absolutely nothing, absolutely nothing. It is just incredible.

Just to give you a little idea of what it is like, of course, you have 40 hours a week now to do nothing except to look for a job; and I counter Mr. Morton's approach of people don't want to work. That is not true. Yes, there is an abuse. A very, very small percentage of the people abuse the system, because when the State is paying you \$95 to \$100 a week when you're out of work and you try to look for a job as I did, and then they tell you you can't work because if you work part time, that portion that you earn part time is deducted from your paycheck from the State. Therefore, it pays not to work; and whose fault is that?

I get \$95 a week unemployment. My wife is working, thank God. I feel bad for the people whose wives are not working. We've had

25 members in the last year lose their home. The bank foreclosed. They wouldn't listen to them any more, wouldn't let them pay the interest payments, nothing.

Now, you want to know what it is like to search? I have tried different approaches as most of our members have. I've pounded on doors. I've walked into company personnel offices. I've written broadcast letters. I've called up on the phone. My God, I've contacted personal friends and references. I have been offered two jobs in the 6 months that I have been unemployed, and they were underqualified, underpaid, and demeaning to my own profession. It pays me to stay on unemployment, believe me.

But I submit to you over 125 rejection letters from companies, not only in the Commonwealth of Massachusetts but in such places as Hartford, Conn.; Washington, D.C.; New York City; these are all rejections saying: "Sorry, thanks but no thanks." And I can show you others, gentlemen who were out 2 years in industrial engineering, and they had an album of 600 letters. One man had 600 of these letters, many two and three times from the same company saying the same thing. So people are willing to work. People are willing to get off their butt and get out there and look.

I'm sorry if I'm getting a little emotional. I feel a little bit angry because I'm the last to speak, and I think if you're talking in terms of the unemployed, you ought to hear them first to get their ideas.

Chairman HUMPHREY. May I say most respectfully that sometimes it is better to be last because you have a chance to reflect on what others have said, and honestly I do that. As Chairman of this committee I have frequently asked the unemployed to speak last because they have a chance to hear what the others say and to come in with what I always like best, when I'm in a bit of a discussion, as good rebuttal.

Mr. ROY. Thank you very much. I must say, Senator, your comments earlier on the rhetoric in Washington, we really feel that when you are out of work, when you have nothing to do, you know, you have painted the house six times already, you have mowed the grass three times. You really can't do much more than that; so where do you turn? Well, you turn to the State, you turn to your legislative people; and I must say in all honesty that this is the first time in the year the organization, VEST, that we have been able to confront with anybody on a State or local level. We have been rejected. They don't want to talk to us. They have no good news to speak; and you know what the best thing in the world for you people as politicians is to make yourself come out to the unemployed, let us see you. Just as long as we see you we know that you care. You have won our vote, believe me. It is just incredible, that impact.

Some of the other problems, the marital status. After 3 or 4 months, the wife gets a little itchy, especially around the Christmas holiday which was devastating, absolutely devastating. You go home, and of course if a housewife who is home with two kids, she doesn't want you around that house all day, she wants you out working, out looking for a job; but you can only do so much. You can see so

many people. It costs money, gas. Thank you for the tax write-off, IRS, for looking for a job. That's very nice.

But some of the other problems, you finally get into the personnel office of the company and you finally have got that interview. You get in there, and first of all, it's very curious. Companies have to be reeducated as to the unemployed. You are joining an elite group of unemployed when you are unemployed, and as a stigma a lot of companies will not even speak to you if you have been unemployed. This is a fact, on record. Anyone of these people behind me can testify to that.

As soon as you say what you have been doing for the last year or so, "I've been unemployed," they don't even want to talk to you. Another thing, there is age discrimination. It's either you're too young with not enough qualifications or you're too old and you are overqualified. Now, how can anybody justify overqualification?

The other thing is obviously a lack of a college degree; I don't have one. I have a 2-year degree; but I still am discriminated against. Some companies have this policy of, "We hire college graduates only." They will not go on experience.

Believe me, Senator, as a young man getting involved politically through being unemployed, I've always been a great believer in the American system of free enterprise and anybody can do it if they want to; but believe me if the companies can't get that message, you're going to be demeaning a lot of people, a lot of the younger generation to that belief, because they won't give you the foot in the door—no way. They just close all the doors on you. It's really a tough thing to accept.

All the while your bills are piling up while you're unemployed. What do you do? Where do you go? You've only got X amount of money to deal with. Further anxiety; further frustration; need new clothes, you have holes in your shoes from walking the beat trying to find a job; your automobile may go on the fritz; anything can happen. You have bills just like everybody else out there, and yet you've got a quarter of the income to deal with it. You still have to eat; you still have to clothe yourself; and you still have to have shelter.

So, if the companies would be reeducated to hiring the unemployed—do you realize that our own Boston Globe every Sunday, the first page of the "Help Wanted" ad has a huge company—and I won't name any names. The very opposite side of that page has another huge company, and do you realize that they are pirating people from themselves. They will not hire unemployed. They put an enticing ad for this type of technician, and an enticing ad for that; and what they are doing is simply pirating one another. They're offering 10 percent more, better benefits. We have found this out to be true. Again, if you're unemployed, we don't want to talk to you.

Getting to our VEST organization, the good news now. What it stood for originally was a volunteer group of engineers, scientists and technicians. It was set up by the American Institute of Aeronautics and Astronautics back in 1969 or 1970, I believe. Since that

time, as I say, where we were strictly engineers, scientists and technicians, we're no longer 100 percent. The biggest majority are the school teachers now, the welfare social worker-type people.

So with your permission I'd like to give you some statistics which are boring but we've all heard them, but I have to. We are affiliated with the DES at the Professional Service Center in Waltham, right on the heart of the 128 region. We are the only office that is a professional job, placement job search type office. People come in and they can look at the microfiche for the various openings, and we try to help them through counseling. We try to help them by work shops. So we help with the Division of Employment Security. We are unpaid. We are strictly volunteer. I hope we do get some money sometime because we could do tenfold what we do now.

We had 8,346 people walk through the doors of that Division of Employment Security Office in 1975. Of that, only 1,000 came into our VEST organization; and of that 1,000, about a half, about 500 were placed directly by us. We offer work shops to retrain their attitude. You know, after a year of hearing, "No, you're too old; you're overqualified", you can't help but be negative. It's just phenomenal. Your head is hanging down, and you wouldn't believe when we get through with our workshops how these people turn around and they come out of there with a whole new outlook on how to attack it, because it's a 40-hour job just trying to get one.

We are, by the way, the only organization affiliated with DES, and I may be wrong on this, especially at this office in Waltham where we do offer these workshops. We do offer this assistance, some sort of personal counsel. We helped the division of employment security through our efforts by placing 1,150 people in the year 1975; and more importantly, those 1,150 people held place over \$14 million in salary back in the Commonwealth of Massachusetts; and all this service being done by VEST is being done at the cost of \$200,000 free. We've had this estimated. This is what it would cost the Commonwealth to do it, and we do it for free. That's why I say, if we could have some funds, have a full-time staff, we could increase this to a phenomenal rate.

We have liaison with companies where they'll call us up without even advertising in the paper, without even advertising in the division of employment security. We offer a tax rebate to the company for placing people with us, and yet again we just cannot get the word across. We need more publicity. This is phenomenal for us. Again I thank you; we all thank you.

Just another point, if I may to hit on some of the problems we have been discussing; and Senator Kennedy certainly did touch on those. The fact that the high inflation rate in the Commonwealth of Massachusetts especially because we have to pay higher costs for energy and transportation; and yet I say to you, we have these people out here with 25 years, 30 years of experience, the best minds almost in the country if I can be so bold, who are doing nothing. Why can't they be put to work on an energy program, on solar energy? Why can't we work on transportation, especially here in

the Boston area where we thrive on it, the city of Boston does. Why can't the Government, instead of the defense contracts, work on what you mentioned, Senator Humphrey, forestry, environment protection, energy resources, waste disposal? We have the brains here. MIT. Why not? What's wrong? It seems that since 1972 we've been blacklisted because we went the other way.

Mr. KING. It's white listed. [Laughter.]

Mr. ROY. I would just like to close with some other points, if I may. No one likes to be unemployed. No one likes to hear the words, "sorry, we cannot use you"; and it takes a big effort, as you people are really trying today, to get something done; and what it will take is to have the Government, the business sector, reeducated to the fact that, here we are, folks. We're not out here. We've been looking for months, and months, and months. We want a job.

So, therefore, I say it's not so that we're using the system. If we had our way, we wouldn't even go near the DES welfare office. We wouldn't even have anything to do with their checks; but if Government could realize that we are here, we want jobs, we want to work for them, then I think the situation as a whole will increase ten-fold.

Thank you very much. [Applause.]

Chairman HUMPHREY. I want to thank you, not only for your moving testimony, but also your very practical and thoughtful testimony and I truly want to thank you. And the fact that you were sort of a clean-up hitter here is not by accident. I personally like to have it that way, because it gives us a chance to get the total picture, as we did with trying to keep the picture in focus, starting with Mr. Wilson and then the department of employment security and then to Representative Mel King, then citizen participation, small business and coming back to the representative of a group of people unemployed in this State. I think what this testimony tells us more than anything else is the incredible waste of human resources, productivity, income and of social values that we are experiencing here. And it also tells me something else, which I hope we can get across to people who do have the power levers in their hands; namely, that there is a policy underway now of just pushing the unemployed off over here, whether they are youth, white or black, professional or unskilled, whatever they are—putting them off over here, trying to make them somewhat content by just a little check or a little relief. Then the rest of us are off over here. Kind of a new class division in this society. I think this is terribly destructive and it's got to stop. I want you to know that testimony such as you have all given here today—and the testimony is of a wide spectrum—is evaluated very carefully. I only wish I could tell you that, as a result of it, we will change things and get it all straightened out, but let me assure you that this does not go unnoticed, nor does it go unreported. We do take this material to the committees of Congress. This committee is an economic advisory committee to the Congress. We do not have what you call legislative authority, but my colleague here to my left and your right, Senator Kennedy, is on the Labor and Public Welfare

Committee, as one of his committees and the Judiciary Committee, the Joint Economic Committee, and others. We will take this material and will excerpt from your testimony the specifics that you have given to us and get it off to the Finance Committee or the House Ways and Means Committee or the Labor Committee or the Commerce Committee, where the authority rests for legislation. Then we will evaluate whether or not the current law is applicable to the problem or whether there needs to be revision. But, again, I have to be exceedingly candid with you. Unless there is a will to get the job done at the highest levels both in Congress and the executive branch, it doesn't happen. What we do is just listen to stories that touch your heart and make your mind almost reel in confusion, but things don't happen and I want you to know that we are going to try to make it happen. I think it is incredible that we have, for example, Mr. King testify as to what is happening to young people, and may I say that this is a story that we have heard but never with such poignancy and such definitiveness as you gave today, Representative King. Yet, you know, that message is heard again and again, and for some incredible reason nothing is being done about it. At least not enough. The effort takes much more. I mean the problem takes much more than the current effort that you and I know it receives and it goes far deeper than just a job. It goes right down to the whole social attitude, the whole social structure of our society. What you have said here, Mr. King—or Mr. Roy, about the organization that you represent, I think tells us once again that with a little help through such an organization, the whole country will receive such great dividends. There's no doubt that you can do amazing things if we give you some kind of cooperation. We will bring this testimony to the attention of the Executive Office and of the Congress, you can rest assured of that. Mr. Ward, we want you to know that yesterday we had Mr. O'Malley from the Small Business Group of New England as well. And there is a move underway, I am happy to report to you, primarily because of the work of your Senator here and because of Senator Gaylord Nelson of Wisconsin and others, to get at some of the financial problems of the smaller businesses and the problems of the States, the problems of taxation, the problems of capital incentives. This is not going unnoticed, but again, it takes a tremendous effort and everybody has got competing problems. That's why there is a shove and a push all the time around here on how to get at it. I think what is really needed is to recognize the urgency of the situation, that things are not going to get better by just going around saying that we can wait for normal economic recovery. Somebody was asked the question once, what's the difference between the long-run and the short-run? In the long-run, we're all dead, and I suppose in this area of economic life we can say, well, if you can last it out, the survivors will get by all right. Obviously, in our society today, as one of the witnesses was indicating, a large number of people are at least not in danger of losing their homes, or not in danger of insolvency. The thing that worries me is that we can get into a frame of mind where we become callous and indifferent to the

problems that afflict a minority of our people, and the thing that really is a standard of the moral quality of a society is what happens to the least of these—not what happens to the majority as much as what happens to a minority. May I say to our witnesses that some of us have gone out to the unemployed and have worked with them, counseled with them, and felt the pain with them. Some of us even have this problem in our families. So, it is not as if it is foreign to us. The Members of Congress are not a unique breed. They are sometimes portrayed as such, but they have husbands and wives. They have sons and daughters, grandchildren, pain and suffering, health and disease, failure and success. We go through exactly the same problems. The only difference is that we are kind of psycho-analyzed and exposed and imposed and turned upside down about four times a day, and sometimes that lends itself to decomposition, which can also lead to what we call political extinction. Senator Kennedy?

Senator KENNEDY. Mr. Chairman, I again want to thank you for the opportunity of permitting these witnesses here this morning to testify and really represent hundreds of thousands of fellow citizens all over the Commonwealth of Massachusetts, and I daresay all over New England and other parts of our country. I think, as you quite appropriately pointed out, we are witnessing in this country today, I think, a real indifference about the wellbeing and the general welfare of millions of our citizens who are being excluded from participating in our economy and in our society because of far too many reasons which are outside of their own ability to be able to influence. We find it dramatically portrayed in the whole range of human services in this State where hundreds of thousands of citizens are excluded from getting the decent quality health care because of the financial inability to pay. We are finding that, as Lucy Benson mentioned to you, that that problem is going to get much more severe before it is going to get any better. All you have to do is look at the figures that have been set forward by the administration in the areas of health, whether it is a child or maternal care, community mental health center, alcoholism and drug control, any neighborhood health centers; in any of these areas we've had dramatic and significant cutbacks, and you and I know what is going to happen. The Congress is going to restore some of these funds, the President will veto. I'm hopeful we will override it and the Congress will be put into the position where it will be a spend-thrift Congress. It will be misinterpreted and misunderstood by millions of people and I believe for absolutely the wrong reasons. We are going to find that severe kinds of cutbacks in opportunities for young people to continue in education. All you have to do is talk to any young student who knows the education programs, work study, educational opportunity grants, guaranteed loans, loan programs, and see how they are being reduced and see the sense of fear that is taking place, not only among the young people but among their parents and among their families about the fear of not being able to get a decent education; not decent health, the threat of not decent education. These are points which we haven't, perhaps.

mentioned here this morning but need attention. The fear of our senior citizens of not being able to survive because of the constantly chipping away of their own kinds of income. But it is in all of these areas, and I think it has been terribly accurately portrayed in human terms by this panel of witnesses. Yet it seems that those who strive to work in these areas are the ones who certainly appear to be on the run in terms of a national political debate or discussion, or in terms of their voices being represented in the Congress. I think that this panel has reflected on this issue and showed the dehumanizing, demeaning aspects of unemployment and the problems that those faced with unemployment are going to be challenged by in any reasonable period of time, particularly with the announcement of this administration's program about its recovery rate and you are very familiar with that estimate. We are going to continue to have these problems, and that is a message, I think, of despair that we are sending to millions of our citizens, which I find, as I am sure you do, totally unacceptable. I think we have found, as we found yesterday, that these problems are not easy and, as you quite properly pointed out, we are not going to be able to resolve them by just the actions of this committee because they are too complex; they involve in terms of the restoration of our economy, the general kind of countercyclical policies which are necessary to bring some hope of restoration to our economy. They are going to take the fine tuning that is necessary in terms of tax stimulation to small business, in terms of transportation policies; what we are going to do in energy areas, solar energy and energy conservation; how are we going to eliminate the enormous kinds of, in too many instances, oppressive actions by regulatory agencies on small businesses and others. But these are challenges which I think we can and must meet. I think what we take back from this particular meeting this morning is still the sense of hope that exists among many of our good citizens here, citizens who have faced the most difficult times and yet there is a sense of hope about them and what they want to do in terms of their families and what they want to do for their communities and our country. And I think that that is a message that we can bring back, as well as the problems, and it is a challenge which I think exists for us and is a challenge which I know you are willing to accept and I think all of us have to accept if we are going to try and make this particular meeting meaningful this morning. I want again to thank you for the meeting and thank our witnesses very, very much for their testimony.

Chairman HUMPHREY. Congresswoman Heckler, we would like to get your observations and any questions you wish to put to the witnesses.

Representative HECKLER. Thank you very much, Mr. Chairman. The witnesses have spanned a broad range of issues and complexities and each one prompts so many questions that where do I begin? This meeting would never have a conclusion. Nonetheless, the issues raised and the probing questions will be pondered well beyond this afternoon in Boston. On my return to Washington and after reviewing of this record, which will be published, and hopefully before

that time, we will have addressed some of those concerns in legislative terms, and this meeting would have been of meaning and significance.

I find, Mr. Chairman, that I always learn from the witnesses and I have learned a great deal today. I have to say, Mr. Roy, that your description of the problems of the unemployed had a great deal of depth. It made me realize that we might have upsetting statistics in Massachusetts of 11.6 percent unemployment, but for that person who is unemployed, it is a 100 percent problem, and I see this as something that is, of course, not only human because you are not the first to raise it, but you have done it very eloquently. Do not be disturbed that your lack of a degree is adding to your problems, because unfortunately in my district the unemployed span those with both a doctoral thesis behind them as well as elementary school education. It is no respecter of one's academic status. But I do feel, as well, that what you have done is very, very significant, and it seems that there is cause for hope. Certainly, Government is going to listen and continue to listen and to respond, but what gives me the greatest hope is the inherent dynamism of the American people and, really, if we were to compute the value of voluntary contributions in our society to our hospitals, to our schools, to our libraries, to our symphonies, to our museums, in every area of society itself, I am sure that the gross national benefit would far exceed the gross national figures. So, I think that really the dynamism that you have exhibited is particularly outstanding because you are not merely giving and sharing on a voluntary basis, but you really have turned a problem into an asset, and if there is going to be an answer, it will come largely from the spark that you have created even in this hearing room today. So, I do wish to congratulate you and those who are from your organization and assure you that the attitudes that you have exhibited are going to be successful. However, you have simply amazed us by the statement that business discriminates against the unemployed and your specific illustration of advertisements placed in the Boston Globe on competing pages with competing incentives to the total detriment of providing opportunity which exists in reality for those who are currently on the street and unemployed is absolutely mind-boggling. Could you give me the rationale behind business thinking which would not seek out first the unemployed skills that might be available rather than seeking a course that really is a raid upon existing businesses?

Mr. ROY. I will try to answer that the best I can. We have had several of our members who have told us or testified to us that they have gone to X Co. and they have been told—first of all that they are asked—first of all. "Are you employed?" And I said, "No." They said, "Fine, we will not consider even speaking to you any further." This is not at the higher hiring influence. This is strictly the personnel people on the lowest echelon. We have two or three gentlemen who are presently employed by one firm and three or four employed by the other firm, and they have reported back to us—they are past members of our organization. They have now—they are back in the work force. But they have reported to us that this goes on, this

type of swapping of talents, this type of raping of talents, if you will; one to the other. If my company hasn't got a certain man, maybe the other company will and so I will entice. This was boggling to us, as well. We didn't know anything about it until about a good 6 months ago, and why, with all this talent out in the street, are they doing this, this is what took us by surprise, totally by surprise.

Representative HECKLER. How do you think we can bring about a change in this practice?

Mr. ROY. Myself personally, the stigma of unemployment is the best thing—the removal of that stigma. We tell all of our people when they came through our workshops, you are not unemployed but you are self-employed. You are self-employed because when you come up to join our organization, you are helping yourself and your fellow man get back into the work market. Do you understand? We place our people back. And by the way, our people when we put them back into a job, get a job as good as, if not better, than the one they had previously left. Our salaries are far and away better than a newspaper and/or the division of employment security. Not to discredit them. So, yes, there is a stigma of being unemployed and if you can get around that and to the attitude of self-employment, then I think that has a little bit more bearing on the issue.

Representative HECKLER. What is the average period of time in which a person is listed with your organization before that person finds a new job opportunity?

Mr. ROY. Congresswoman Heckler, I really don't know. I can only say this. I have been out 6 months. We have gentlemen out of work 3 months to 2 years. The majority, I would say 6 to 8 months.

Representative HECKLER. Six to eight months?

Mr. ROY. Yes; before they get another job.

Representative HECKLER. Representative King, I would like you to know I know your area very well. When I served on the Governor's Council I represented four wards, two in Roxbury. So, we do share a great deal, and I was not aware of your statistics on the habits of purchasing and eating imported fish, but we do have a better side of the coin forthcoming. I do expect that the President will sign the 200-mile limit bill and the heyday of the fish feast of the foreign vessels which presently take 75 percent of the catch off our New England shores will be over in 1977. So, at least we have that. We have that to look forward to.

Mr. KING. But it is only going to be over with some meaning for this region if we provide the capital for the equipment and then some training for the poor and the building of fish processing centers and we do the job of marketing and distribution, and change some of the habits around. So, there are a lot of things that have to go into it.

Representative HECKLER. You and I are on the same track and we need to develop that type of a processing opportunity and a distribution and marketing system, not only in fish but in a number of other areas in order not only to provide jobs, but to provide again—become again—producers as well as consumers in the country. Again, we could go on indefinitely on that subject and in all of the others,

but I can't resist asking Mr. Ward something. It is my impression, and my district is involved—has involved some of the bedroom towns which outline Boston and then go down to Fall River and so forth. Looking at my district, which may not be representative of Massachusetts or of Boston, I feel that the major source of jobs through private industry comes from small businesses. Is that typical of Massachusetts in general? What share of the market is represented by small firms versus large in terms of major or multinational corporations and, if we are to address the problems of small business specifically, are there a number of proposals which could have a regional benefit for Massachusetts that relate to small businesses—changes in law, changes in tax policy, et cetera? What is your share of the market in terms of Massachusetts?

Mr. WARD. I can't give you that breakdown in Massachusetts. We've got about 10 or 12 million small businesses which constitutes a good 55 percent of the work force and something like 48 percent of the Gross National Product. I would suspect in New England, in Massachusetts, that figure would be higher by virtue of the fact that we have fewer manufacturing companies here in New England, in Massachusetts, and more service companies. The service companies, by definition, are almost always small. So, it would seem to me that, since we don't have as many large companies here, coupled with the fact that we have so many more service companies, the figures have to be higher here in terms of the percentage of the business that is done by small businesses.

Representative HECKLER. So 55 percent is the national figure?

Mr. WARD. Fifty-five percent of the work force is employed by small business, and I would expect that figure would be higher here in New England. I think most of us look at the problems of Massachusetts as being particular to Massachusetts, but there, obviously, are other problems that are regional in nature.

Representative HECKLER. Would it be possible for you to provide us with a specific figure for Massachusetts?

Mr. WARD. Sure, I think we can get that.

Representative HECKLER. I certainly would appreciate that, and I do thank Lucy Benson for her very valuable testimony, as always, Mr. Crosier for his alarming facts and figures which we need to learn about, and certainly Professor Wilson with whom we could go on in colloquy for some time. I think you have been an excellent panel. You have left terribly serious problems with us, but I think we have benefited from listening to your point of view, and I thank you, Mr. Chairman, for coming to Massachusetts.

Chairman HUMPHREY. Thank you very much, Congresswoman Heckler. Congressman Early?

Representative EARLY. Senator, I would just like to personally thank these six witnesses for their very constructive testimony, and I would like to thank you, Senator, for bringing this committee here to Massachusetts.

Chairman HUMPHREY. Before you leave me, I enter into the record the statement that was presented to me this morning by Senator Edward Brooke. Senator Brooke could not be with us today, but he

was well aware of our meeting here and has sent us a very thoughtful statement. And I will read it because he indicated that he would prefer that it be shared that way with the audience:

The responsibility for achievement of maximum employment now more than ever before rests with the Congress of the United States. The startling national unemployment rate of 7.8 percent represents great suffering, as a tragic waste of our human resources. It is a waste of our work capacity, education and of hard-taught skills. It is a waste of our factories and our industrial capacity. It is a waste in terms of income not earned and goods and services not provided. It is a waste of limited government revenues, which because of the drain of unemployment compensation, are not available to be spent on social programs which are now desperately needed. It is a waste of our youth who cannot find jobs as they begin their work careers. It is a waste which we, as Americans, cannot afford, especially in Massachusetts, where this national disaster reaches stark and even epidemic proportions.

I asked to have this statement incorporated in its entirety into the record, but I thought that that part of the Senator's testimony was so pertinent to what has been said here today.

[The statement of Senator Brooke follows:]

STATEMENT OF HON. EDWARD W. BROOKE, A U.S. SENATOR FROM THE
STATE OF MASSACHUSETTS

I am delighted that the Joint Economic Committee has taken this opportunity to hold hearings in Boston and regret very much that official Senate business outside the United States keeps me from joining you this afternoon.

Now, more than ever before, the responsibility for achievement of "maximum employment" rests with the Congress of the United States. The startling national unemployment rate of 7.8% represents great suffering and is a tragic waste of our human resources. It is a waste of work capacity, education, and of hard-taught skills. It is a waste of our factories and our industrial capacity. It is a waste in terms of income not earned and goods and services not provided. It is waste of limited government revenues which, because of the drain of unemployment compensation, are not available to be spent on social programs which are now desperately needed. It is a waste of our youths who cannot find jobs as they begin their work careers. It is a waste which we, as Americans, cannot afford, especially in Massachusetts, where this national disaster reaches stark and even epidemic proportions. The average unemployment rate in our state is 11.8%, and in some areas, as high as 25%.

To increase the level of employment, the Congress and the citizenry should, of course, encourage the private sector to increase job opportunities. But, if this is not sufficient, the federal government must be firmly committed to fulfill at last the goal of full employment which was signed into law as the "Employment Act of 1946." The government must provide decent jobs at decent wages for those who are willing to work but who cannot find work—and it must provide those jobs immediately. In order to do this, the government must become the employer of last resort, creating public service jobs when the private sector is unable to produce employment. These jobs should not be "make work," but should be developed in those areas which badly need staffing such as health, conservation, public service, public works, and construction of public facilities. We have already had limited experience with public employment jobs in the "Comprehensive Employment and Training Act." The results of government projects, particularly those in Massachusetts, have been encouraging for both employers and employees. Especially heartening are letters from those working in CETA jobs who tell of their pride in the useful work which they are doing and their thankfulness at having a job rather than unemployment compensation or a welfare check.

Because of the urgency of the unemployment situation, it is my hope that these hearings will produce a positive legislative agenda. An attitude of complacency toward the massive army of the unemployed is unacceptable. I simply do not believe that America does not care that over 7,200,000 fellow-citizens are unemployed. I believe that America wishes to see her people in useful jobs

rather than on unemployment compensation or welfare. I believe that America does care about the needless pain and suffering caused by the present joblessness and that America expects that the Congress will take direct action to relieve it.

Ending this debilitating rate of unemployment would have salutary effects at every level of our economy. There will be more dollars spent on consumer goods, thus stimulating production. Although some investment of federal monies will be necessary to accomplish full employment, this investment will be substantially offset by fewer welfare checks, lowered unemployment compensation expenditures, and additional tax revenues. Clearly, all Americans, and not just the unemployed, would benefit from increased employment opportunities. All Americans, therefore, must come together and help those who are less fortunate because they are underemployed, trained in obsolete professions, or unemployed. We in the Congress must keep the spirit of America in mind and work to relieve this misery by initiating a more comprehensive program of legislation than has previously existed, creating jobs in both the public and private sector. Conscience and economic commonsense demand that we do no less. I will read the transcripts of these nationwide hearings with great care and stand willing to do whatever I can to insure that the residents of our state and the citizens of our country get the Congress' immediate, unqualified and undivided attention for as long as is necessary, in order that this national crisis might be alleviated.

Chairman HUMPHREY. Might I just call to the attention of our visitors here today and on the panel, that in the last 2 years, 75 million Americans have been directly victimized by unemployment. Now, that figure represents one-third of the total population of this country—better than one-third. Twenty million earners, or people who were employed, have lost their jobs at some time or another sometime in the last 2 years. They, plus their families, who are also the victims of unemployment, represent 75 million people in this country who have had incomes reduced or cut off, plus the humiliation that comes with unemployment. Now, this tells us that unemployment is not just something that is a problem of the few. It has a pervasive infiltration effect upon the entire economic and social structure, and the cost, and I want to mention this because people are constantly worried and rightly so about Federal Government deficits and all of us are worried about that, but let me assure you that the cost, according to the Government's own projections, of the Council of Economic Advisers and the Office of Management and Budget, between 1974 and 1980, that 6 year period, the estimated minimum cost is \$1,500 billion in lost income, lost goods that were not produced, lost revenues that were never collected. In other words it was as if you had taken \$1,500 billion in the year 1980 and put it out to sea or flushed it down the sewer, or put it into the river and forgot that it even ever once existed or could have existed. This is the kind of waste that people need to be concerned about, along with other wastes. Yes; waste is absolutely indefensible, of any kind, but \$1,500 billion, that is a colossal figure. That is the equivalent of the total production of this Nation, everybody for 1 year today. That is what is gone and what we will never even touch, see, feel or use. And then to think that 75 million of our fellow Americans in the last 2 years including affected families have had to say what you said today, "Gregory, I am unemployed," or "My daddy is unemployed," or "My mom is unemployed," or "My brother couldn't get a job." "I am in a household, I am in a family where

they didn't want my work," or "I didn't have anything to do." One-third of the population of this country, and until that figure sinks into the minds of people who have something to do about policy in this country, we are not going to get anything done. This is the shocking, disgraceful figure that has to be understood.

Now, we are going to meet back here again at 2 o'clock. Governor Salmon of Vermont will testify as our first witness. I want to thank everyone here for your presence.

[Whereupon, at 1 p.m., the committee recessed, to reconvene at 2 p.m. the same day.]

AFTERNOON SESSION

Chairman HUMPHREY. We shall resume the hearings of our Regional Hearing program. We had a very productive and helpful series of meetings this morning. Our witnesses were most informative. This afternoon we are very privileged to have the able and distinguished Governor of the State of Vermont as our first witness. He will be followed by a panel that will direct its attention to the economic outlook and job development in the New England region.

Governor Salmon, we do thank you for taking the time to come from your very busy schedule to share some of your thoughts with us about the economic possibilities, opportunities and problems of this region, and in particular of the area that you so well serve as Governor. I shan't take any more of your time. Senator Kennedy will be with us in just a moment. He is presently on the telephone, but he suggested that we go right ahead with the testimony. So if you would care to proceed, we would welcome your testimony.

STATEMENT OF HON. THOMAS P. SALMON, GOVERNOR, STATE OF VERMONT

Governor SALMON. Thank you very much, Mr. Chairman, Members of the Joint Economic Committee. To my right is Leonard U. Wilson, the State planning director of the State of Vermont; to my left is Fred Nimmergut, who is an energy economic specialist on the staff of the New England Regional Commission.

I'm here today, Mr. Chairman, as a New Englander, although I happen to be a Vermonter, with a notion that I perhaps could cast some light on the subject matter before this committee through the eyes of one with a regional prospective. I know that the primary concern of this committee is with the national economy. It's with the issue of full employment. This is a national goal which I wholeheartedly support but with some reservations I would like to leave with you here and now.

We in the New England States cannot accept a definition of full employment that is based on some national averaging of State or regional unemployment rates. Such a definition would permit a clearly, unfavorable New England rate to be hidden in the national average. Now to us, full employment means this: it means that a job exists, within reasonable access, for every person who wants to

work. In short, we won't buy and we really can't buy statistical juggling that balances job opportunities in the Southwest with unemployment in this six-State region.

Let me put this thought another way. Genuine full employment will not be achieved in this country until existing economic disparities among the regions are overcome. The unemployment rate in this Nation last year, 1975, was 8.5 percent. The rate in New England was 11.4 percent. Now, that's almost 34 percent higher. In fact, since the 1970-71 recession, regional unemployment has consistently been 25 percent higher or more than the national average. It's very significant to note, Mr. Chairman, that before 1971 New England, in terms of unemployment rates, was very close to a parity with the rest of the regions of this Nation, and this is a relatively new phenomenon.

Now more disheartening is the notion that while the national unemployment rate is coming down, and becoming more manageable, our rate is still climbing. The last numbers I looked at were for the month of November, the national rate 8.3 percent, the New England rate 11.7 percent. That's up. That's up, Mr. Chairman, above the Nation by 42 percent. Other numbers, I think, are significant here. Between 1960 and 1974, national nonagricultural employment grew by 44 percent. New England's grew by only 19 percent. Manufacturing employment in the six-State region declined in the 14-year period by 2 percent, while it grew nationally by 19; and worse yet, was the 10-percent loss in manufacturing jobs between 1967 and 1974.

Now, this sampling of statistics should be sufficient to make my point. Our economy is seriously lagging behind the rest of the Nation and the gaps are growing wider. The reasons, you've heard them and you will hear them during your deliberations here today, high energy costs, construction costs, land prices, transportation costs.

The Public Works and Economic Development Act of 1965 established as a national policy the purpose of achieving a closer inter-regional economic parity throughout this country. In 1970 the Congress passed the Urban Growth and New Community Development Act. That act called for a National Urban Growth Policy that would foster the economic strength of all parts of this country and help reverse trends which reinforce disparities among the States.

The Employment Act of 1946 set the full employment goal. These more recent acts have, in effect, married that goal to a balanced developmental goal. Now, from our perspective we are falling woefully short in our pursuit of both these goals. Let me try to summarize what we in the New England States are trying to do about it; and let me point out, Mr. Chairman, and members of the committee, what I think the crucible is as an entity with the best chance of coping with these matters on a regional basis: and that crucible is a vestige of the creation of the Congress of the United States, and it is entitled here in this region the New England Regional Commission. Pursuant to the legislation passed in 1965, in 1967 we established a Regional Commission here. For the first 9 years it operated around \$7 million annual budget. It is now ap-

proaching a \$10 million annual range. I don't have to impress this committee with the fact that \$10 million is a relatively paltry sum in attempting to deal with large economic issues. We haven't had the money the Appalachian commission has had to deal with a significant highway building or other capital initiatives. Our funding level has restricted us fundamentally to research, to planning, to demonstration projects.

For the first 6 years of its existence the New England Regional Commission pattered around a great deal. They spent a lot of money rather thinly on various projects running the full gamut from educational experiments to natural area inventories. And then after a significant prodding from the Boston Globe in 1972 this group of Governors got their act together. They took a long, hard look at the structure of this commission, and they made some judgments that led to reorganization; it led to retooling. Since that time we've concentrated fundamentally, Mr. Chairman, in three areas. We've concentrated in the area of the regional economic interest of this six-State area, energy matters and transportation. On energy, I think the fact is well established that close to 80 percent of our oil, as an economy almost entirely reliant upon oil, comes from overseas, from imports as opposed to 35 percent for the rest of the Nation. In 1973, the year of the embargo, the price of a barrel of oil grew by 300 percent. The cost of the post embargo importations to us was about \$2.5 billion. On the energy front we've done a variety of things. First, we have identified a New England energy policy that says on the one hand that we've got to deal somehow effectively with the demand side of the equation, that conservation should be the link pin in any national energy program. Second, we have agreed to agree—and let me say, Mr. Chairman, that the six New England Governors do not agree to agree regularly on all issues. But on the issue of energy, on the issue of our economy, we have agreed to agree that we have got to do as much as possible with what we have in terms of taking those indigenous energy resources we have in bringing them on line as a partial contribution to national energy solutions. We took the President of the United States to court on what we felt was an illicit tariff and we won. We have moved into the wonderful world of computers by building a capacity through the New England Regional Commission to give any Governor in this region at any point in time the ability to project energy needs and energy requirements based on certain given objective assumptions over a period of years. We've made some reasonable progress in a word. We have opened up a dialog with the provincial heads of eastern Canada for one essential reason, potentially to snite national policies that appear on the surface somewhat negative to the interests of the United States. They have something up there that we need and we have something to give in return. They have vast hydroelectric resources. They don't have the environmental laws and the other constraints that lead to the siting of refineries or the building of other energy producing resources. There is a natural potential future between these two contiguous areas if we can mesh our regional and our national policies, and we are meeting regularly with them in an effort to achieve that end.

A word or two about transportation. We are plagued in this region, as other more knowledgeable witnesses will testify, with the deteriorating state of the rails in the Northeast. In my little State of Vermont we are faced with impending bankruptcies of significant railroads that we decided to do something about. The State of Vermont has purchased the right-of-way of a significant amount of trackage and then leased back the rails on a long-term basis to given operators. This has been one of the best investments, Mr. Chairman, we have ever made. We have taken this experience, we have molded it into a significant piece of legislation, introduced before the Congress, drafted at the New England Regional Commission. It is predicated on the proposition that the best long-term solution to the sorry state of the rails in this country today is the notion of purchase by the Government of these rights-of-way, removing of this enormous piece of overhead from the backs of the private carriers long-term leases in an orderly refurbishment program that will guarantee and lock in place all of these vital rights-of-ways for the future of this country. Thus far this initiative has not been given significant support outside our region.

Chairman HUMPHREY. May I say, Governor, that I have introduced legislation on that a year ago and also 2 years ago. And it was reintroduced in the first session of the 94th Congress. I feel very strongly about it. The only form of transportation in this country that doesn't have a public base is the railroad. I mean your airports are owned either by State, Federal or local government. Your highways are owned by a combination of governmental instrumentalities. Your waterways are taken care of by your Government. It is just incredible that we haven't done the same thing with the rights-of-way of our railroads so they can be maintained and leased back and given a proper system of transportation.

Governor SALMON. A partial solution, Mr. Chairman, to the woes of a region such as this in my view would be to beef up the capacity of an institution like the New England Regional Commission to better do its job. Now, I would recommend this significantly to you. I don't think that the Government itself can pull New England out of its current economic morass. There must be some self-help, some initiative here at home. I could recite, if you would give me 7 or 8 minutes, the kinds of things we are doing in the State of Vermont that deal with hard economic times, but I won't take that much time this morning. But I will take a few moments to suggest to you what the New England Governors are seeking to do under the aegis of a significant study completed in 1975 when I chaired this commission. The capital and labor markets task force, which completed its work and held a national symposium here in Boston last December, reaffirmed some things that we suggested for a number of years and it taught us some new lessons.

It told us that New England, rich in capital but poor in employment, suffers from some serious structural imperfections in both our capital and our labor markets and we better get about the business of doing something about it. It reaffirmed the notion that here in New England we are a region of small businesses. There are about

24,000 manufacturing firms, Mr. Chairman, in New England that make up our manufacturing base and of that number over 80 percent employ 50 or fewer production workers. We are a region of small and middle-size business. The problems of small and middle-size business given all of the built-in economic disadvantages of this region to start with are exacerbated by the proposition that there is inadequate long-term debt and equity capital available to these firms; and we reckon to try to do something about this in terms of a self-help initiative involving the private sector, heavily involving the private sector, to build a New England capital corporation in this region to fill some of these needs; not in competition with the insurance companies, not in competition with the banks, but in an effort to take a business that can make it under normal review of its financial statements who cannot go to the marketplace today and borrow money on a basis competitive with the multinational corporation, with a public company or the giants in American industry today and attempt to put them on somewhat of an equal footing with special emphasis on the venture capital requirements of these firms.

We learned a lot about the labor markets during this survey, Mr. Chairman. We learned, for instance, that our departments of employment security, our manpower offices throughout this region, although striving diligently to do their tasks, consistent with their mission, under their law frequently overlap. They don't talk with each other enough. There are some built-in structural deficiencies here. We are not doing anywhere near enough, Mr. Chairman. In this region, we've found from this survey, in terms of occupational forecastings, projecting the jobs that are actually going to exist 2 years, 5 years, and 10 years hence, that we are not matching up the vocational, technical capacity that we have in our secondary school systems, in our higher educational school system today, with the jobs that are actually existing, and making that very, very important and crucial linkages. So we have many miles to go on this issue.

I will be at a meeting in Boston here tomorrow morning when we retain or seek to retain a project director to take these 12 capital and labor task force recommendations and put them to work and make something happen instead of just filing this report, which I have here, so it can gather dust in the dustpan of history. We are optimistic about our capacity to make some movement on this front.

Chairman HUMPHREY. I want to suggest at this time, if there is no objection by the committee members, that we make this report a part of our record.

Governor SALMON. I will be happy to supply a copy of this report for the record, Mr. Chairman.

Chairman HUMPHREY. This is the report of the New England Regional Commission, Task Force on Capital and Labor Markets.

[The report referred to follows:]

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REGIONAL COMMISSION**

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Russell F. Merriman

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Thomas P. Salmon
Governor of Vermont
and State Cochairman

**THE NEW ENGLAND
REGIONAL COMMISSION**
**Task Force on
Capital and Labor Markets**



**Findings and Recommendations
to the New England Governors
and the
New England Regional Commission**

NEW ENGLAND SYMPOSIUM
November 12, 1975
Boston, Massachusetts

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STEERING COMMITTEE**

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Russell F. Merriman

Honorable
Thomas P. Salmon

Mr. Richard D. Hill
Chairman
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TASK FORCE RECOMMENDATIONS SUMMARIZED

The New England Regional Commission Task Force on Capital and Labor Markets was established at the April 4, 1975 meeting of the New England Regional Commission in Dedham, Massachusetts. Responding to an offer of assistance from the private sector, each Governor appointed three representatives to the Task Force, including representatives from business, banking and organized labor. Their task as outlined by the Governors was to suggest policy recommendations designed to alleviate bottlenecks in the region's capital and labor markets. Through-

out the summer and early fall, the Task Force solicited the views of business, financial, labor and governmental leaders on the issues of an unacceptably high regional unemployment rate and the capital limitations to regional growth.

As the work progressed, a meaningful process developed among the key interest groups who were represented. The Task Force strongly believes that these different interests have more in common than is usually acknowledged; namely, that by failing to

To Make New England Capital Markets Work Better, the Task Force Recommends:

- A broad-gauged informational program that forcefully favors economic growth.
- A capital budgeting and financing program for small and medium businesses to be taught in the region's publicly supported business schools.
- Expansion of the concept of the Vermont Municipal Bond Bank and the Maine Municipal Bond Bank to the remaining New England states.
- A change in Federal tax regulations to spawn and accelerate expansion of new technical enterprise development.
- Expansion of the Connecticut Product Development Corporation to operate in all of the New England states.
- A privately financed regional fund—the New England Capital Corporation—to supply long-term (10-20 year) debt capital to established, profitable, sound and growing New England companies at competitive costs.

work together to reach common goals, all interests can lose together.

As the work proceeded, a distinct approach to these two New England economic policy issues emerged from the Task Force process. Although there was little, if any, discussion about the need to develop a specific methodology or philosophy to attack the policy issues, one nonetheless evolved. It can be best described as a commitment to realism. This commitment clearly runs through the twelve recommendations, specifically in terms of suggesting that

the new policy options to make labor and capital markets function more smoothly rest heavily upon minimizing existing frictions and obstacles that prevent their orderly interaction with the other sectors of the New England and national economies. This emphasis is important because it recognizes the imperative need to first clear away these structural impediments before any more sweeping policy options can be considered.

The twelve Task Force recommendations are summarized below.

**To Make New England Labor Markets Work Better,
the Task Force Recommends:**

- A comprehensive labor market demand and supply study to identify specific occupations in which labor market shortages are likely to occur and launching of a major informational program emphasizing the visible career ladders in these occupations.
- A Skilled Worker Development Financial Loan Program to attract workers into the critically short emerging occupations.
- Greater coordination of the six Divisions of Employment Security Job Banks within the region, especially where labor market clusters cross state boundaries.
- A viable mechanism to forecast emerging and declining occupations and coordination of the dissemination of this information among the region's vocational-technical schools.
- A Journeyman's Advisory Council drawn from representative skills to advise the region's vocational-technical schools.
- A Transportation-to-Work Program for labor market clusters where travel distances and lack of transportation facilities restrict workers to specific locales.

THE EMERGENCE OF A COLLABORATIVE PROCESS

Having to deal with New England's troublesome economic problems has long been the preoccupation of the region's Governors and socially responsible individuals and institutions. New England's current economic problems date back several decades. The national economy grew rapidly in the early 1950's, but New England slipped into the rut of economic maturity as the region's historically vital industries migrated southward in search of cheap and unorganized labor. Difficult as the transition years were, marked by chronically high unemployment and decaying mill towns, the problems seemed to correct themselves through unguided market forces and a substantial wave of replacement industry, especially in the high-technology research and development firms stimulated the region's growth. By the late 1950's, the New England economy once again began to show favorable income and employment characteristics. Most observers believed that the worst was over and that the region's inherent growth momentum would be self-sustaining. This, however, proved not to be an accurate forecast as new problems resulting from defense and NASA cutbacks emerged in the late 1960's.

In large part, New England's current economic difficulties date from the failure of the regional economy to recover fully from the 1969-70 national recession. The protracted 1974-75 national recession has only worsened a poorly functioning regional economy. While it is a fact that substantial economic gains have been made through the growth of high-technology industry, underlying structural problems have been too easily glossed over. New England still relies excessively on too many labor-intensive industries which are faced with foreign competition, and still contains too many economically depressed mill towns unable to resolve their unique problems.

Today the region's unemployment rate is well above 10 percent, compared with a national rate of about

8.0 percent. This unemployment differential vividly portrays the magnitude of the region's structural problems which only compound dislocations caused by the nation's business cycle downturn. The magnitude of this unemployment problem, and the commonly shared view that it will continue, provide the basis for the formation of the Task Force.

The essential fact for New England is that the economic outlook is far less encouraging now than it was more than two decades ago. Today, Governors, governmental officials and regional economists alike believe that the decade ahead will probably not contain sufficiently strong and pervasive national growth forces to produce economically acceptable employment and income levels in New England. The spectacular recovery in the late 1950's and 1960's—partially financed through government spending for defense and NASA and strengthened by a vigorously growing private national economy—is not likely to be repeated in the late 1970's and early 1980's. Furthermore, the momentum of national market forces is inducing rapid growth in other regions, especially in the South, Southwest and West. While most agree that New England's stake in future national growth is not as clear as it was two decades ago, building an economically healthy and environmentally acceptable region is not beyond the reach of prudent economic policy. What is required is a continuing partnership among the key participants of society—government, organized labor, business and finance. The Task Force believes that elected officials should provide regional leadership to bring these diverse groups together. Perhaps unknowingly, these interests have a good deal more in common than is usually acknowledged. By failing to work together to reach common goals, all interests can lose together. With a meaningful collaborative process, the cooperation necessary to convert the troublesome problems of our economic maturity into prosperity can become a reality.

Unquestionably the need to develop such a process has existed for a number of years. Repeatedly numerous governmental and private institutions have called for greater public-private sector cooperation in planning for our common economic future. Recent efforts to raise the level of concern about the economic ills of New England and to seek cooperative solutions can be found in the forthright appeals of the Governors, the New England Council, a number of utilities, and several of the region's large banks and other financial institutions. The need for a New England collaborative process within the context of a national economy was most forcefully stated by Governor Noel in an open letter to his fellow Governors at the Democratic Governors' Conference at Hilton Head, South Carolina, in November 1974 when he wrote: "I would bring to your attention that there is a very real problem of different effects of national policies on various sections of our nation. This differential impact is of sufficient significance that we must deal with it real-

istically, for the economic well-being of our nation rests upon the economic well-being of our different sections."

The collaborative process moved closer to reality when the New England Regional Commission met in Andover, Massachusetts, for its spring meeting on March 26, 1975. Responding to a request by Governor Salmon to outline new programming initiatives for the New England Regional Commission in 1975 and 1976, Dr. James Howell, Senior Vice President and Chief Economist of The First National Bank of Boston, stated that the private sector stood ready to share their experiences in management and problem-solving with the New England Regional Commission in an effort to develop policies to revitalize the New England economy. At its April 4th meeting, the Commission unanimously voted to accept the private sector offer of cooperation, thereby paving the way for the creation of the New England Regional Commission Task Force on Capital and Labor Markets.

THE OPERATIONAL STRUCTURE

The ultimate operational structure of the Task Force was determined once the six Governors designated three private sector representatives from their states. The seventeen-person Task Force is diverse. It is composed of seven banking, insurance and finance executives; six representatives from organized labor; two businessmen from manufacturing and forestry; one small businessman; and one retired town manager.

To initiate early Task Force momentum, a Steering Committee composed of Governor Salmon, Mr. Russell Merriman and Mr. Richard D. Hill was created, and on June 18th the new public-private sector collaborative process was launched. During this initial session, Governor Salmon, Messrs. Merriman, Hill and Howell outlined the principal procedural issues for the Task Force, specifically, the magnitude of the work to be covered over the next few months and the importance of developing practical and attainable economic policy recommendations to the region's Governors and programming recommendations to the New England Regional Commission.

Operationally, the work of this Task Force has been handled through the creation of subcommittees for the purpose of analyzing the five specific programming issues in this effort.

Issues in Capital Markets:

- Long-term debt and equity capital needs for New England industry; regional capital flows and their relation to regional income and employment growth.
- Special capital financing needs for small and medium business and their needs for better capital market information and access to capital markets.
- Venture capital financing and new business start-ups; the future of the high-technology industry in New England.

Issues in Labor Markets:

- The labor market paradox of high unemployment in the face of numerous job vacancies; the need of both industry and labor for long-range occupational forecasting.
- Labor markets, work attitudes and performance within the context of an economically mature economy.

These subcommittees met continuously throughout the summer and early fall. The meetings were organized and staffed by a New England Regional Commission coordinator (Mrs. Linda Frankel) and a private sector coordinator (Mrs. Julie Nickerson) and served to systematically collect the views of governmental officials, private businessmen, bankers, labor leaders and academics on solutions to the region's economic problems.

Relationship to Other Regional Issues and Ongoing New England Regional Commission Programs

Initially the Task Force members expressed widespread concern about the region's broad environmental, economic, and social issues and the problems of judiciously selecting trade-offs among competing needs. In the final analysis, there was a deliberate decision to limit the investigation to capital and labor market issues. The rationale for concentrating on these two issues alone was their usual neglect in regional economic policy. Under the careful guidance of the Governors, the New England Regional Commission has led the region in supporting sophisticated research and policy programming in the areas of regional energy and transportation policy. But the regional policymakers have not previously addressed themselves directly to the issues of capital and labor. A brief discussion of the Commission's work in the other highly complementary areas is contained in the appendix.

CAPITAL MARKETS IN NEW ENGLAND

One common assumption regarding capital markets is that New England's financial intermediaries are short-changing their region's capital needs. The challenge of the Task Force was to unravel the complexities of this often-stated generalization. The Task Force concluded that in a market economy capital should and will flow from the older, already industrialized areas to the faster-growing regions, and that great care should be taken before implementing policy tools that would interfere with this process.

More generally, the Task Force expressed concern about the factors that discourage new capital formation for business during a national environment of capital shortage. There is absolutely no question that the public interest is best served by strong regional and national capital markets and favorable attitudes toward growth. The Task Force discussed problems of increased governmental regulation which affect the performance of capital markets. The Task Force urges that there be careful assessment of the potential impact of future governmental action on these markets. In the final analysis, the growth in our regional and national economies rests on a strong debt and equity market to finance business expenditures for new plant and equipment. Great care should be exercised to ensure that governmental decisions do not erode the strength of these capital markets.

The evolution of national market forces has had both positive and negative effects on the New England economy. The rapid growth of New England's financial institutions has made the region an important clearinghouse of money and capital. The economic significance of this clearing function should not be minimized for, as a result, substantial funds flow into the region from the rest of the nation and abroad. There is absolutely no question that a part of this financial flow stimulates economic growth and job creation in the region. Additionally, some of the

capital that flows out of the region did not entirely originate here. Herein one is able to see the true nature of the financial clearinghouse process and its positive impact on New England.

Newly constructed urban areas with numerous industrial expansion and construction incentives facilitate rapid growth, however; and capital has naturally flowed to these areas. New England, meanwhile, continues to struggle with the high-cost economic disadvantages and is unable to compete with maximum effectiveness for the capital that flows through its institutions.

Simultaneously, the high cost of doing business in New England—higher taxes, higher charges for energy and transport—has produced a lower rate of profits, and therefore a lower rate of investment in new plant and equipment vis-a-vis the younger, growing areas. As a result, the stock of plant and equipment in New England has not been renewed at a pace sufficient to maintain the region's growth rate at parity with the national average. Capital spending surveys indicate that the average age of plant and equipment in New England is eleven years, compared with eight years in the entire United States. The age of this plant and equipment has a discriminatory dimension as well; namely, the uniform national application of OSHA and EPA standards necessarily means higher capital improvement costs in New England.

Another indication of the adverse impact of cost inequities on the region's economy is the declining New England share of total manufacturing investment in the nation. During the period 1958 through 1968 total New England manufacturing capital spending for new plant and equipment amounted to a relatively stable 4.3 percent of the nation's total capital spending. In the years following 1968, there has been a perceptible decline in this ratio, especially during the years 1973 and 1974. For the six-year

period ending in 1974, the region's ratio amounted to 3.7 percent, or approximately 15 percent below the ratio that consistently prevailed in the 1950's and 1960's. According to both McGraw-Hill and The First National Bank of Boston estimates, 1975 could intensify this disparity—regional capital spending is expected to reach only 2.9 percent of total national spending. If this forecast is accurate, the 1975 regional spending ratio would be about 30 percent below the norm of the preceding two decades. These trends are particularly alarming considering the fact that manufacturing activity is still relatively more important in New England than in the country as a whole.

Another troublesome dimension of this trend is that new manufacturing capital spending is not creating many new jobs. To the casual observer, this is a surprising conclusion, yet further consideration results in two possible explanations. The first is that because of New England's older plant and equipment, a significant amount of the region's capital spending is directed towards meeting OSHA and EPA standards rather than toward job generating expansion.

The second factor is related to the structural makeup of the emerging industries. A recent survey has shown that the dynamics of industrial change in New England are increasingly dominated by more sophisticated manufacturing processes as the region's more labor-intensive, low-technology industries are phased out. Of the forty-five New England plant closings during the two-year period ending July 1974, twenty (or 44 percent) were in labor-intensive industries, and only eight (or 18 percent) were high-technology firms, while 94 of 211 new plant openings (44 percent) were concentrated in high-technology or high-technology supporting industries. It is also noteworthy that 61 of 87 expansions of existing plants were also concentrated in these high-technology and capital-intensive industries.

This progressive structural adjustment into high-technology industries is not without problems affecting job creation. In order to understand this phenomenon the Task Force analyzed a number of production functions to determine labor's contribution to total output for declining and expanding manufacturing firms in Massachusetts and in the same industries nationally. The Massachusetts figures are considered representative of the region as a whole. The results of this analysis are shown in the table below.

**Labor Shares of Value-Added
in Selected Industries
Massachusetts—1963-1967**

Type of Industry	Job Content Expressed as Percentage of Output		National Growth Pattern of Industry
	U.S.	Massachusetts	
Labor-Intensive	35%	41%	Declining
Capital-Intensive	21%	12%	Expanding

Interpretation of these data is easy; namely, for every \$1.00 increase in output in the declining industries in Massachusetts, labor contributed 41 cents, while in the same industries nationally, labor contributed 35 cents. Conversely, Massachusetts' expanding industries relied far less on labor (12 cents per \$1.00) than their national counterparts (21 cents per \$1.00). Hence, Massachusetts stands to lose more jobs, on the average, in the nationally declining labor-intensive industries than the rest of the nation, and to gain less on the average in the nationally expanding capital-intensive industries. The high cost of doing business in New England has necessitated more capital per unit of output to remain competitive than in national markets. It should be noted that this analysis relates to the economic situation during the preceding decade. Since that time the industrial situation has worsened rather than improved.

The Task Force concluded that future regional policy initiatives should take into account these critical

characteristics of industrial change in New England. First, there is a cumulative widening in the capital spending lag in New England vis-a-vis the nation and, second, new capital spending in the region has consistently been capital-using and labor-saving.

The Task Force is firm in its conviction that regional capital flows are drawn to those areas (the older, mature and the young, growing alike) where attitudes toward profits are favorable. In straightforward language, capital is the most mobile of all the factors of production, and it responds to regional attitudes towards growth and investment. In time, favorable attitudes attract new investment and create business expansion. These regional attitudes are vitally important and their impact is significant, but they are complemented by institutional attitudes—especially among state and local governmental officials—toward new investment. Thus, the Task Force emphasizes that state and regional policies should not be limited to the design of regional capital investment incentive programs, and the possible creation of new capital market institutions. A major emphasis on qualitative improvement in governmental attitudes toward profits, job creation, and new capital spending is essential.

The Capital Market Linkages: Regional Underinvestment

The Task Force attempted to identify a number of the problems that have contributed to regional capital underinvestment. One of the first issues addressed by the Task Force concerned the attitudes of the region's financial institutions (banks and insurance firms) toward business expansion and credit extensions, especially among the region's small and medium businesses. Regional investors believe that availability of funds is not the principal problem. Rather, factors such as high taxes, high transportation costs, labor costs, cumbersome governmental structures and attitudes

toward new investment were key in a business' perception of its ability to profitably expand operations in New England. These are the old, troublesome problems that have plagued the New England economy for years. The Task Force was encouraged, however, by the investor view that additional capital spending will be financed whenever the businessmen develop a more complete and rationalized financial presentation to lending institutions. More specifically, the consistently stated view was that improved access to capital markets requires better knowledge, experience and case presentation. This range of expertise is not always available to the owners of small businesses.

Another dimension of the capital financing needs for small and medium businesses was considered. It has been widely recognized that most have less depth in their management teams, that there are usually cash flow or underlying liquidity problems, and that often, even in profitable and potentially expandable businesses, there is an inherent reluctance to grow or even to continue in business at all. A variety of factors including the problems of succession as well as trust management in family-owned businesses account for this reluctance. The Task Force concluded that the growth problems and the accompanying capital requirements of the small businessman are complex and important to the region.

The increased interrelatedness of the New England states and their participation in regional and national capital markets was discussed. The Task Force was surprised to find that there is little communication among the separate capital development agencies in New England. The experiences of these institutions will be helpful in the region. An outstanding example of this lack of the diffusion of information is the work of the recently created Connecticut Product Development Corporation (CPDC). This institution is virtually unknown outside of Connecticut, and yet the Task Force

believes its impact could be important in ensuring the growth of high-technology product development in the New England region as a whole.

The CPDC provides a fresh and innovative process of minimizing product development risk, while simultaneously accentuating job creation among existing Connecticut manufacturing firms. CPDC does this by financing new product development usually via a fifty-fifty joint venture with an existing business. Private inventors are encouraged to interest an existing company in their new product and then approach CPDC with the view to have the company apply for CPDC funding. The payback to the state is in the form of royalties from the product sales. Thus, while CPDC does nothing to solve the problem of a critical shortage of venture capital, it does provide a functional mechanism to encourage new product development in existing firms by sharing the cost of product development. CPDC avoids both the entrepreneurial and locational risks of investment by not financing new business start-ups or taking an ownership or a management position in any enterprise. Despite this innovative program, little was known of it outside of Connecticut.

The Task Force examined the venture capital market in considerable depth because new product development and new high-technology start-ups represent one of the most viable paths to future regional growth and job creation. As a result of these discussions, the Task Force concluded that the creation and expansion of new job opportunities among high-technology industries, in which New England has had a clear regional comparative advantage, will continue to play an important role in the New England economy. The high-technology firm consistently creates more new job opportunities and at a faster rate than the large, mature manufacturing firm. A number of recent studies have confirmed this; however, the production-line jobs that are created as a result are often located outside of New England where the wage rates are more competitive and business incentives are greater. There are major exceptions, of course; however, on

balance this is a valid generalization. The economic future of New England rests on the ability to create an overall business environment that will provide the incentive to keep more of these production-line jobs in the region.

The future growth of these high-technology industries rests heavily on finding ways to revitalize the venture capital and the new issue markets. Task Force discussions with chief executive officers of a number of recently created high-technology firms emphasized the fact that there is never a shortage of promising new products, but there will always be problems of successfully locating venture capital. The Task Force believes that this is a most pressing problem currently facing New England. The Task Force strongly believes that the creation of high-technology firms and new product development hold the key for a healthy regional economy, but that the venture capital available to these initiatives is, as previously indicated, limited. Even if the flow of fresh venture capital could be increased, there still remains the special financial recapture problem, that is, provision of a systematic method to move the venture capitalists out of the start-up and into the next new venture. The loss of the new issue equity market has impeded this process, making these young firms vulnerable to merger and acquisition by larger firms outside of New England as the original investors sell out to regain their liquidity. Historically, this sale-off process has plagued New England and many firms which were spawned here now are growing and creating jobs elsewhere due to relocation. If the new issue equity market fails to return, this could become a most pressing problem and require special governmental attention.

Additionally, the Task Force spent time investigating special governmental financing mechanisms to aid business development and city and town capital funding. Of particular concern were the special capital financing problems of the small and rural communities which have had, at best, only limited access to long-term bond markets to construct new schools and community infrastructure. This weakness

results largely from limited factual information about the financial structure and experience of these smaller areas; hence, they have never enjoyed realistic access to capital markets at competitive rates. In recent years this problem has worsened with the uncertainty surrounding the tax-exempt market. The towns that are hurt most in the current environment are those that are not rated by either Moody's or Standard and Poor's. In some New England states, most notably the northern three, this is a problem. Shown in the table below are the number of towns that presently do not have bond ratings.

<u>State</u>	<u>Number of Towns Without Ratings</u>	<u>Percent of Total Number of Cities and Towns</u>
Vermont	234	95%
Maine	402	91
New Hampshire	212	91
Massachusetts	108	31
Connecticut	57	30
Rhode Island	6	15

This financing problem is compounded by the fact that a relatively large number of towns are now rated as high credit risks by the rating institutions. Shown in the table below are the number and percentage of towns with Baa-1 and Baa ratings.

<u>State</u>	<u>Number of Towns Rated Baa-1 or Baa</u>	<u>Percent of Total Number of Cities and Towns</u>
Massachusetts	16	6%
Rhode Island	9	3
New Hampshire	3	1
Maine	3	1
Vermont	none	—
Connecticut	none	—

The Task Force believes that the special financing needs of these communities should be addressed. Access to capital markets is essential to the long-term viability of these communities.

CAPITAL MARKET POLICY RECOMMENDATIONS

The work of the Task Force leads to a number of specific recommendations. These are outlined below and most share common dimensions; namely, they rest heavily on the continuation of a collaborative process among business, organized labor, banking and governmental officials.

To Alleviate Existing Bottlenecks in Regional Capital Markets the Task Force Recommends:

- A broad-gauged informational program that forcefully favors economic growth. The Task Force believes that a meaningful balance can be struck between economic growth and environmental concern. The Task Force recommends that a continuing collaborative partnership be established among public officials, business, organized labor and the region's citizens to adopt attitudes toward an environmentally acceptable growth posture throughout the region.
- A capital budgeting and financing program for small and medium business to be taught in the region's publicly supported business schools. This program should be adequately funded and periodically evaluated in order to have a worthwhile and substantial outreach. This program should also include the creation of a region-wide business information and marketing program to cut through governmental red tape and include the creation of six Small Business and Labor Information Centers. The Task Force believes that the aggregation of all available business, labor and capital information into six regional centers will prove to be the key in breaking these information barriers.
- Expansion of the concept of the Vermont Municipal Bond Bank (VMBB) and the Maine Municipal Bond Bank (MMBB) to the remaining New England states. The problems of accessing long-term bond markets have been overcome through the creation of

the VMBB and the MMBB. The VMBB was created in 1970, and the MMBB in 1972, to reduce the transaction costs and interest rates of bond financing by consolidating smaller issues, pooling risks and spreading the fixed costs of bond counsel, bond credit rating, printing, and underwriting. Experience with the VMBB and the MMBB suggests that the interest savings from the pooling of these issues have amounted to about one half of one percentage point and has the added advantages of increased marketability. The Task Force believes that this approach represents a rational way for those low-rated and nonrated communities to access capital markets more efficiently, and that these two programs offer considerable merit to the other four New England states.

To Improve and Ensure an Orderly Functioning of the Region's Venture Capital Markets and the Expansion of New Technical Enterprises the Task Force Recommends:

- A change in Federal policy to encourage expansion of new technical enterprise development. New England is losing its decisive comparative advantage in the high-technology industries as competition from other regions—most notably, Palo Alto, Dallas, and Phoenix—quickly overtakes our lead. Unless new policy steps are taken, the unique regional advantages of an historical tradition of technical enterprise generation will be lost. To retain its regional advantages in research and development, the Task Force recommends that New England push for changes in Federal tax policies affecting new enterprise development. The Task Force recommends special consideration be given to efforts to change the current Federal capital gains tax to encourage investment in new enterprises, development of an appropriate mechanism to ensure the growth of founders' stock

in new start-ups, and provision for special tax incentives for technical innovations that stimulate job creation. The essence of these suggested changes is the creation of an atmosphere in which there will be a strong incentive to invest in new and growing enterprises. The Task Force recognizes that these proposed changes will be national in their scope. Nonetheless, the region's relative reliance on these high-technology industries indicates that New England still has much to gain from these proposed changes in Federal law; hence, the Task Force urges the region's Governors to work closely with the New England Congressional Delegation to effect these legislative changes.

- Expansion of the Connecticut Product Development Corporation (CPDC) to operate in all of the New England states on a state-by-state or regional basis. The growth and development of new Product Development Corporations should be carefully guided and coordinated with the region's financial leaders. An adequate funding threshold of \$5 million should be sought from appropriate Federal and State sources through the leadership and guidance of the Governors and the New England Regional Commission.

To Fill in Existing Institutional Shortcomings in the New England Capital Markets the Task Force Recommends:

- A privately financed regional fund—a six state New England Capital Corporation—to supply long-term (10-20 year) debt capital to profitable and growing New England companies to create additional job opportunities. The debt capital should be

provided at costs competitive with that available to larger national companies who have realistic access to national capital markets. The Task Force believes that this new Corporation is essential to ensure an orderly growth in New England's small and medium firms that presently lack realistic access to national capital markets because they do not have the visibility to make them attractive. In addition, these small and medium firms would also benefit through the elimination of registration and underwriting costs that would be required to access national capital markets. The initial steps to create this Capital Corporation could be accomplished through the establishment of a pooled risk funding authority of up to \$1 billion among the region's various private investment, insurance and banking institutions. The New England Regional Commission should begin at once to determine the technical and legal feasibility of the creation of this New England Capital Corporation and conceptualize a special implementation program. This investigation should, among other things, include the creation of a working committee composed of financial leaders and businessmen to verify both the supply and demand dimensions in long-term debt capital markets among New England firms. Moreover, the investigation should examine the future complementary roles of public (governmental) capital financing institutions as well as private (existing financial intermediaries) institutions in providing long-term debt capital as well as loan guarantees to profitable small and medium businesses. The Task Force expresses a clear preference for mobilizing existing private sector financial institutions in creating the New England Capital Corporation.

LABOR MARKETS IN NEW ENGLAND

The view that New England labor markets are not working well is widely held, but the underlying factors that have generated our current unacceptable unemployment level are not often fully analyzed and understood. Today, there are numerous misconceptions concerning the dynamics of New England labor markets. One of the principal concerns of the Task Force was, therefore, to unravel these complexities, and to draw up a list of policy recommendations to improve the efficiency of the region's labor markets. To this end, the Task Force concluded that most of today's unemployment problems may be traced back at least to the early 1950's—the period during which there was a substantial wave of industrial migration from the economically mature New England region to the South with its low-wage labor force. Since that period, New England labor markets have followed an irregular course. For instance, during the early 1960's, New England enjoyed much of the prosperity of a rapidly growing national economy with unemployment rates in close correspondence to those of the nation. Yet in spite of these improved economic conditions, the region continued to be dotted with numerous stagnant mill towns, lingering reminders that underlying economic fundamentals were still impaired. Following the sharp cuts in defense and space spending in 1968, a sizeable regional unemployment differential developed once again. Among the six states this unemployment pattern has been noticeably uneven. The Task Force concluded that many of the current failings in New England labor markets result from the fact that there are structural—not cyclical—factors that hamper the efficient operation of these markets. If the structural imperfections that impede the orderly working of these market linkages could be identified, then the goal of a lower unemployment rate could perhaps be more easily attained.

The Task Force also concluded that even with the restoration of national growth and prosperity, there

will still continue to be unemployment problems in substantial parts of New England. This is an important conclusion because it recognizes that recovery from the 1974-75 national recession alone will not solve our region's unemployment problems. Market imperfections resulting from structural rigidities are not new, but they are often minimized by the policymakers because of the difficulty in devising appropriate prescriptions to overcome them. Nonetheless, the Task Force strongly believes that one of the keys to an improved New England economy is a direct attack on these structural problems.

The Labor Market Linkages: A Problem of Structural Impediments

The Task Force attempted to identify a number of the structural problems that hamper the orderly workings of labor markets. There is no imperfection that is so often cited as work attitudes and welfare. It is commonly believed that many workers simply prefer welfare or unemployment compensation to work. Unfortunately, some abuses of both programs cloud the fact that the majority of unemployed workers would prefer to work. (See Leonard Goodwin's *Do The Poor Want to Work?*, Brookings Institution, 1972.) The Task Force concluded that most of the able-bodied workers on welfare and unemployment compensation desire work, but that there are simply too many barriers and impediments that prevent these workers from finding the right job in the right emerging occupation. As a result, there is what the Task Force termed a labor market mismatch—an unemployed, able-bodied worker who desires work on the one hand, and an employer who is puzzled by the apparent contradiction between high unemployment and his inability to find workers on the other.

The Task Force believes that the existing institutional and organizational ineffectiveness in New

England's state employment service agencies (the Divisions of Employment Security hereafter referred to as DES) is one of the principal contributors to this structural problem. Regrettably, in the eyes of many, these institutions have become a scapegoat for the region's unemployment problems. Far too many businessmen consider DES as nothing more than a way station to welfare. Unquestionably, some of these frequently heard criticisms are justified, but in the final analysis, these institutions are an important component in an improved functioning of regional labor markets.

There is absolutely no question that the DES stand in the center of labor markets. When they function poorly, labor markets function poorly. To small and medium businesses, the DES represent a potential employee referral service. To the unemployed worker, the DES can be a lifeline to another job or another career. To the vocational-technical educator, the DES represent an important clearinghouse of information on labor demand and supply.

Unquestionably, this is a valid scenario. In reality, however, the linkages don't function this smoothly. This is not surprising because the DES are struggling to overcome their own institutional entanglements. An explanation for the magnitude of these institutional problems may be seen in their widely differing and complex organization structures. Today the DES find themselves entrapped within the confluence of new and troublesome problems. They are overwhelmed with the administrative problems of unemployed workers. Five of the six states' unemployment compensation funds are bankrupt, thus necessitating Federal borrowings and higher employer taxes to maintain solvency. (New Hampshire is the single exception.) The demands of these pressing problems have meant that the employment service aspect of the DES is unable to provide adequate services to the job seeker. Indeed, it is commonly agreed that job placement performance was much more effective during the 1950's than it currently is. The dual role of the employment service—

that of being both a job placement center and the unemployment compensation distribution center—is usually overlooked. Far more emphasis should be placed on the job placement role of the DES. Some of the loss of confidence in the job placement programs may be attributed in part to the Federal guidelines imposed during the period of social legislation in the 1960's. The resulting disenchantment of employers and workers seeking jobs is recognized as a major problem that must be corrected if the employment service is to function effectively as a clearinghouse for the labor markets.

The lack of cooperation between the business community and the DES is well known and it is especially critical during periods of high unemployment. Unfortunately, there has been little, or no, planning and coordination with the business community. Indeed, in most instances, businessmen see the DES as the last source of information on labor market conditions. The heightened sense of employer frustration has reduced communication between business and the DES to such an extent that misconceptions about what one can do for the other are common. Employer complaints can often be corrected by requests to the local office, but the lack of confidence is so pervasive that this is seldom tried. The poor public image of the DES is only compounded by limited information on emerging occupations among regional businesses. Throughout all of this, organized labor attempts to develop better cooperation among the DES, the vocational-technical schools and their apprentice programs, but structural rigidities thwart these efforts.

The breakdown of these structural linkages in labor markets is not limited solely to the DES. Much is missing in the area of regional vocational-technical training. Today, curriculum planning among more than fifty of the region's vocational-technical schools is not based on a rigorous pattern of occupational forecasting. There has been no established procedure to blend together long-range occupational forecasts and labor supply and demand information

with vocational-technical training. Furthermore, it is evident that the region's vocational-technical schools are wholly inadequate when it comes to the retraining of the mid-career blue-collar worker who has become unemployed because of the decline of the region's labor-intensive industries. This is regrettable because there is always excess educational capacity in these schools. Again, a clear situation of structural barriers that prevent market linkages from performing at maximum efficiency.

Additionally, the Offices of Manpower Affairs in the states have failed to develop strong working relationships among the other various state institutions, basically the DES and the State Departments of Education; hence, manpower funding is often poorly allocated and has very little favorable job impact.

The current inadequacies of these linkages are not confined to intrastate issues. There is far too little coordination among the six DES Job Banks in New England. Yet most of the region's labor market clusters cross state boundaries. For instance, one labor market cluster is the Springfield, Massachusetts-Hartford, Connecticut axis, but current job planning and referrals are still considered within state lines. Similarly, there is little interstate cooperation among other agencies. The Offices of Manpower Affairs and the State Departments of Education have not succeeded in developing working relationships with their counterparts in other states. The result has been fragmented planning and programs with suboptimal impact on job creation and income.

These structural problems are not limited to the states. There are special problems in State-Federal relations. As mentioned above, the DES in New England complain that during the 1960's there was a significant downgrading of their employment service aspect. The high degree of social motivation in many programs was often seen as a dilution of the effectiveness of the referral programs. The escalation of too many unsatisfactory referrals promoted more misunderstanding among business, labor and the

DES in the 1970's. The result has been institutional dissatisfaction and, in turn, misuse of the mandatory job opening reporting system. Finally, the staffing of many DES offices is inadequate because of a discriminatory Federal staffing formula and/or low pay scales.

Taken together these factors prevent an orderly functioning of labor markets. The elimination of these structural rigidities will go a long way to facilitate the integration of the New England economy into our growing national economy. Unquestionably, regional labor market policies should concentrate on these fundamentals over the next several years.

Labor Markets in the 1980's: Potential Labor Shortages in a Number of Key Occupations

While it is recognized that the immediate problem is the creation of more jobs and the solution to the unemployment problem in the region, the Task Force also addressed itself to what may be the reverse condition in the 1980's. The dynamics of New England labor markets will show perceptible signs of change and could develop even more pressing problems than exist today. This new dimension results from the unique characteristics of the older age composition of the New England labor force. Proportionately, the region has more workers 55 years of age and over than the nation as a whole, and fewer young workers in many of the important industries to take their place. By the 1980's a significant labor market gap will develop as retirements take place. This unique regional problem has three pressing dimensions. First, some segments of the regional labor market will swing from their current situation of excess supply to excess demand. The increase in demand will produce selective tight labor markets in certain critical occupations. Assuming that there will be no dramatic inflow of labor from other regions, existing demographic patterns make this outlook inevitable. The result of tighter labor markets will be an upward wage pressure. Second, a

large overhang of retired workers who must be supported by an economically mature industrial region with relatively few mid-career skilled workers will develop. In the decades of the 1940's and 1950's out-migration of young, new entrants into the labor force took place at an alarming pace. Today there is a noticeable mid-career shortage in most occupations. Third, there will likely be tight labor markets and rising wages among a number of the region's labor-short industries.

The Task Force concluded that this is not only a significant problem of major policy proportions, but that to date it has gone largely unaddressed. The Task Force concluded, therefore, that the aim of policy should be to ensure an orderly adjustment in employee training and retraining to meet the emerging job demand patterns of business.

Tentative statistical analysis suggests that by the 1980's this exodus of the older worker from the labor force could become an important regional labor market problem. According to the 1970 *U.S. Census of Population*, 5.3 percent of New England's manufacturing labor force was 55 years of age or older, compared with 0.8 percent nationally. More detailed analysis allows for an estimation of the number of vacancies which need filling (based on existing employee positions in 1970) as a result of this exodus of older workers. Specifically, there are 76,000 job vacancies that will result from the greater number of older workers (relative to the national averages) who will exit from New England manufacturing during the current decade. Precise estimation of the labor market shortfall because of out-migration of the new labor market entrants is much more difficult. Nonetheless, there is no doubt that the out-migrations of the 1940's and 1950's will pose special labor market problems for some time to come.

A number of manufacturing industries are expected to be disproportionately impacted by these developments, especially given the older age composition of their employees. They are as follows:

Percent of Employment in Industry 55 Years of Age or Older in 1970

Industry	New England		
	New England	United States	New England Age Differential
Yarn, Thread and Fabric Mills	30.9%	18.4%	+67.9
Other Textile Mill Products	27.3	16.8	+62.5
Machinery, Except Electrical	23.8	14.9	+59.7
Professional and Photographic Equipment and Watches	19.3	12.8	+50.8
Primary Nonferrous Industries	24.1	16.0	+50.6
Paper and Allied Products	19.2	14.1	+36.2
Furniture and Fixtures	23.0	17.1	+34.5
Apparel and Other Fabricated Textiles	26.2	19.6	+33.7
Miscellaneous Wood Products	27.7	21.3	+30.0
Fabricated Metal Industries	20.9	16.1	+29.8
Primary Iron and Steel Industries	22.6	18.0	+25.6

Most of these eleven industries are likely to continue operations in New England, but it is clear that they are going to face major labor turnover and shortages by the early 1980's. Additional study and evaluation must soon be initiated if this problem is to be adequately anticipated and appropriate policies developed. Unquestionably, this analysis understates the true magnitude of the problem because manufacturing employment accounts for only about 25 percent of the region's work force. When this special problem is considered from the vantage of our region's economic maturity it becomes clear that policy steps must be taken to ensure orderly adjustment in meeting these labor market demands. Otherwise the Task Force concluded that the New England regional competitive position could become even more eroded. This situation demands better cooperation among business, organized labor, the vocational-technical schools and the DES. The nurturing of this cooperation rests heavily on a significant improvement in attitudes among the principal participants of society.

LABOR MARKET POLICY RECOMMENDATIONS

The work of the Task Force leads to a number of specific recommendations. These are outlined below and all share a common dimension both among themselves and with the capital market recommendations; namely, that their successful implementation rests heavily on the continuation of a collaborative process among business, organized labor and governmental officials.

To Alleviate Structural Impediments Causing Unemployment in Labor Markets the Task Force Recommends:

- Greater coordination of the six DES Job Banks within the region. The existing Job Bank data should be developed around existing labor market clusters which often cross state boundaries. Further, to make the Job Bank program more functional and to improve its image, a program of greater cooperation with business, labor and the vocational-technical schools should be launched. Inasmuch as the DES are of pivotal importance in supplying labor to small and medium businesses, creation of a Special Business-Employment Advisory Board to the DES seems advisable. The Board should be composed of management, organized labor and DES officials, and its explicit purpose should be to meet the labor demands of small and medium businesses in a flexible and efficient manner.

To Improve Vocational Training and Retraining for the Region's Growth Industries the Task Force Recommends:

- A viable mechanism to forecast emerging and declining occupations among the region's industrial base and coordination of the dissemination of this information among the region's vocational-technical schools, the region's secondary schools and businesses, especially the large employers. Once these forecasts have been completed, special programs for

retraining the unemployed from the region's declining labor-intensive industries for reemployment in expanding industries is essential. In implementing this recommendation, special emphasis should be given to improving work attitudes by identifying emerging occupations with visible career ladders.

- Creation of a Journeyman's Advisory Council to the region's vocational-technical schools. Organized labor represents a substantial reservoir of untapped potential in terms of their occupational experiences. These trained professionals are a valuable resource in developing and implementing a practical and flexible curriculum in vocational-technical training programs. An additional dimension to the recommendation which will improve the likelihood of meaningful success involves cooperation between the vocational-technical school and the area's business community to keep the equipment up to date and the teachers aware of current work conditions. Summer job programs for teachers and business involvement in school equipment evaluation will insure a better match between the classroom and the workplace. The Task Force believes that development of the forecasting mechanism should be considered as a priority item for New England Regional Commission funding.

To Improve Labor Productivity and to Facilitate Its Accessibility to Changing Spatial Labor Demand Patterns the Task Force Recommends:

- A Transportation-to-Work Program for labor market clusters where travel distances and lack of transportation facilities restrict workers to specific locales. Often the constraining factor in employment relocation is the limited ability to secure a satisfactory commuting arrangement until after new employee relations are established. The New England Regional Commission's Lowell Transportation

Project has been particularly successful in providing transportation to and from work for newly hired and relocated workers—especially from Lowell to Route 128 firms—during the swing period until individual arrangements can be made within the new employee's peer group. The successes of this test program should be expanded to include other New England growth areas such as the White River Junction, Vermont-Greenfield, Massachusetts, corridor (a potential rail commuter project); the Portsmouth, New Hampshire-Portland, Maine, labor axis; the Springfield, Massachusetts-Hartford, Connecticut, metropolitan area; and relevant Amtrak routes.

To Develop Labor Market Policies to Deal With the Anticipated Longer-Run Shortages in Key Occupations the Task Force Recommends:

- A comprehensive labor market demand and supply study to identify the specific occupations in which labor market shortages are likely to occur. Once identified, launching of a major informational program emphasizing visible career ladders in these labor deficient occupations. This informational or media program should be patterned after the suc-

cessful Jobs for Massachusetts Worcester machining recruitment program.

- A Skilled Worker Development Financial Loan Program for the most critically demanded occupations. This loan program should be patterned after the successful and Federally funded primary and secondary school teacher loan program. In this program, personal borrowings to finance educational training were forgiven whenever the individual became employed in the critically demanded occupation. The Task Force believes that loan forgiveness can become an integral part of an interim financing program to reduce anticipated shortages among the region's manufacturing industries, especially for the mid-career worker with the financial responsibilities of a family. In such a case, these borrowings could become the key swing factor which would enable the worker to successfully pursue career retraining while minimizing personal and family financial hardship. Coordination of available manpower training funds with this program and accurate occupational forecasts would ensure that the training of these workers is on a high priority basis. In conceptualizing this endeavor, the loan program should give serious consideration to the financing of the tuition costs.

THE TASK FORCE PROCESS: THE NEXT STEP

In making these policy recommendations to the New England Governors and the New England Regional Commission, the Task Force was mindful of the problems of successfully implementing change. The road back to a strong and growing New England economy will not be easy. Rather, it involves the simultaneous reconciliation of a number of mutually interdependent factors.

The Task Force concluded that there are significant social and economic differences among the six New England states. Additionally, these differences contain many subtleties that are often fully appreciated only by the policymakers. One of the most important is the largely unappreciated sensitivity of income and employment in the New England states to national business cycles. These cyclical differences are caused by structural and industrial variations in the economic base of the individual states and are sufficiently great so as to sometimes make state-to-state comparisons difficult. For instance, the Connecticut economy is quite cyclically sensitive, while the states of Massachusetts, Rhode Island, and especially New Hampshire and Maine experience only moderate changes in income and employment in response to national business cycles. In these four states structural factors—market impediments to labor adjustment and mobility, and industry growth and decline—prevent an orderly economic adjustment to change. Vermont's cyclical sensitivity is somewhat less than Connecticut's. Unquestionably, these factors should be taken into account when one contemplates the specific applicability of these recommendations.

In addition to these industrial variations, there are significant differences in attitudes toward growth, the environment and industrial change among the six states. Again, the discussions of the Task Force often included reference to the "northern three" and the "southern three." The Task Force recommen-

dations are made in the spirit that their applicability and economic impact may vary among the states. More specifically, the recommendations are offered on the basis of a broad consensus view of what the Task Force believes will be good for the region's capital and labor markets and thus, the regional economy as a whole. In the final analysis, the Task Force believes that the ultimate effectiveness of these recommendations rests with the Governors, the state legislative bodies and the New England Regional Commission.

There is also the issue of regional and national economic policy recommendations. Again, the recommendations are offered because the Task Force believes that they will facilitate a more orderly adjustment of capital and labor markets within the context of a national economy of irregular growth performance and inflationary problems. Nonetheless, the Task Force is strong in its recommendation to the Governors that there be a greater harmonization of complementary economic policies among the six New England states. This harmonization will require greater coordination, including governmental, legislative and institutional adjustments, among the six states. This concern over regional-national issues contains another dimension. A number of the Task Force recommendations are suggestions of changes in Federal legislation, specifically those pertaining to tax regulations on venture capital. The Task Force realizes that New England has a vital stake in these recommendations, but the sphere of influence of the proposals will necessarily be national in scope.

The role of Federal spending initiatives to implement these recommendations was discussed by the Task Force. The Task Force was also mindful of the possibility of developing new programming initiatives for the New England Regional Commission over the next several fiscal years. It was clear to the Task

Force that Federal funding, including the New England Regional Commission programming initiatives, would be most constructive in the Task Force's recommended Transportation-to-Work Program and the feasibility study for the creation of the proposed New England Capital Corporation. As important as Federal funding will be in these and other areas, the Task Force is strong in its conviction that the private sector should continue to play a prominent role in the revitalization of the New England economy. The successes of this Task Force represent a quantum jump forward in public-private sector cooperation. This in itself is a significant contribution. It should be continued, but in the final analysis it will be the Governors' initiatives and leadership that implement these recommendations.

Finally the issue of the practicality of the recommendations is key. Quite understandably, any series of recommendations on issues as poorly understood as the workings of capital and labor markets will appear complex. To some extent, this is unavoidable, but what is so important in this collaborative process is that broad consensus recommendations were reached and specific economic programming recommendations were proposed. The importance of this fact should not be minimized. The Task Force

strongly urges the Governors and the New England Regional Commission to seek out specific programming options and initiatives from these recommendations. To this end, the private sector stands ready to cooperate.

In conclusion, the Task Force urges the Governors to disseminate these findings widely. One of the most surprising outcomes of the Task Force process was the realization of how little is known about the common governmental, business and labor practices among the New England states. Specifically, there seemed to be an alarming level of noncommunication among key public sector officials who are mandated to implement highly complementary policies that spill over into their neighboring states. This lack of communication concerned the Task Force and, hence, there is the concluding admonition that prudent and efficient economic policy rests heavily on the establishment of an effective interstate dialogue among public officials as well as between the public and private sectors. In the end, the revitalization of the New England economy will be a long and arduous task. The continuation of the spirit and intent of the Task Force collaborative process represents the beginning of an era of common concern for New England's future.

APPENDIX

The New England Regional Commission's Analyses of Economic, Energy and Transportation Issues

General Comment

There is little doubt that the New England economy has been nearly studied to death. Historically, studies were undertaken on nearly every conceivable detail of life and activity in the region, but few if any of the investigations faced up to the real issues of lagging economic growth and higher-than-acceptable unemployment. In recent years, as greater acceptance began to develop of the view that New England was an economically mature region and new policy initiatives were needed, a number of important investigations were launched by the Federal Reserve Bank of Boston and a number of the region's educational institutions, most notably MIT, Boston College, the University of Connecticut, the University of Rhode Island and the University of Maine. Unquestionably, these earlier works have been extremely important in delineating the precise nature and problems of economic maturity, but few have devoted much attention to the solutions and their appropriate policy prescriptions. Nevertheless, the necessary foundation of research has been developed, and this is significant.

Economic Problems

Background

Recently, the New England Regional Commission has also been an important initiator of a number of recognized analyses on the regional economy. One of the most comprehensive was conducted by Arthur D. Little and released in 1968 under the title *The New England Economy Today and Tomorrow: A Basic Assessment and Projection*. This important study correctly identified an area that has subsequently consumed a great deal of the Task Force's time; namely, that the demographics of the New England

labor force will have a powerful effect on labor supply over the decades of the 1970's and 1980's. The study commented that "without a substantial immigration in the latter part of the decade of the 1970's, labor shortages will be experienced." This and other studies soon led to the publication of the New England Regional Commission's *Regional Development Plan* in March 1971, and another important study in February 1971 entitled *The Changing Structure of Employment and Income in the New England Region* prepared by Professor Charles F. Floyd of the University of Georgia. In time, these studies led to the conceptualization of a number of specific programming initiatives by the Governors through the New England Regional Commission which attempted to overcome the special problems of regional economic maturity.

Current Programming Initiatives

A substantial portion of the New England Regional Commission's effort in the area of Economic Development has been a comprehensive program to attract foreign direct investment and to stimulate an increase of exports from New England manufacturing firms. To achieve this end the New England Regional Commission has established an office in the New York World Trade Center to aid states in developing new export leads. In early 1976 a New England European Office will be established to supplement the individual state efforts to attract foreign investment. This New England presence in Europe is considered an important step in the sequence of expanding trade and investment in the region.

Another major ongoing program is the Manufacturers Clearinghouse, a joint program with The First National Bank of Boston and Bolt, Beranek and Newman to match up the region's demand for machining with existing excess machining capacity within New England. The Clearinghouse program

has been in existence for nearly two years and has already proved to be successful in generating new machining work within the region at an annual rate of \$8 to \$10 million. Without the Clearinghouse, these match-ups of demand for machining may have been lost to companies outside the region. In time, this program is expected to expand further and will make a significant contribution to stabilizing machining demand within the region and will create many new job opportunities.

New Program Initiatives

It is clear that the Task Force recommendations spill directly over into new program initiatives in economic development. Of paramount importance are the direct ties to the business and labor sectors including verification of the rapidly emerging occupations (especially those where critical shortages are developing), dissemination of information pertaining to financing, planning and programming of new technology and product development, and practical conceptualization of new capital market incentives (especially the creation of a New England Capital Corporation for the issuance of debt capital to successful small and medium businesses). Much more work is required, specifically in quantifying the trade-offs between growth and the environment, but it is obvious that the business, labor and banking sectors of the regional economy are going to be pulled more tightly together as a result of the Task Force.

Energy Problems

Background Analyses

There is absolutely no question that the New England economy has been severely weakened by the two-year-old, two-tier energy price system. The protracted effects of the sharp rise in energy costs are now widely perceived and it is clear that their impact on regional manufacturing operations is increasingly pricing these firms out of national mar-

kets. A recently released special study by The First National Bank of Boston clearly documents this problem. Shown in the table below are the responses to three special energy surveys.

Survey Question	Survey Date		
	Spring 1974	Fall 1974	Fall 1975
Number of manufacturing firms indicating <i>No Reduction</i> in their New England production because of higher energy costs	249	256	314
Number of manufacturing firms indicating <i>A Planned Reduction</i> in their New England production because of higher energy costs	6 (2.4%)	10 (3.9%)	23 (7.3%)

The steady upward advance in the number of firms indicating a planned reduction in their New England production facilities is a most pressing economic policy issue. Through the leadership of the New England Governors, the New England Regional Commission has launched a comprehensive energy research and policy recommendation system. In the two-year period since the oil embargo, thirty-two new major investigations and numerous other in-house studies were completed. Two of these are particularly important and are relevant to the work of the Task Force.

First, there is the Arthur D. Little Inc. three-volume analysis on New England's energy requirements through 1990 and their impact on regional economic growth. This study points clearly to the need for greater economic and energy planning in order to avoid sectoral disruptions that could occur from energy shortfalls in natural gas, and before greater nuclear reliance is attained. Second is the creation of the New England Energy Management System (NEEMIS) by MIT. NEEMIS represents a major

step forward in the development of a system for collecting complex energy supply and demand data on a uniform basis for the region. NEEMIS has proved to be a valuable data system in judging the regional impact of Federal energy programs.

Current Programming Initiatives

In the past, the emphasis on NERCOM energy programs and studies has been primarily on identification of the region's needs, problems and resources. Having identified the region's energy components, current energy programming initiatives are concentrating more on implementation. This includes what technical, legal and institutional changes must be made if suggested corrective procedures are to be put in place and a more satisfactory energy price parity reached. In addition, a number of demonstration projects are being funded to increase public awareness about more effective and efficient use of available resources including energy sources of the future such as solar. Demonstrating the feasibility of windmill power as an adjunct to regular utility power sources is the purpose of an unusual project at MIT. A demonstration project in Maine involves the conversion of wood waste into fuel for use in residential and commercial boilers.

Another current New England Regional Commission program is designed to provide resource assistance to state regulatory agencies. Its purpose is to enable the agencies to act creatively rather than react to problems by providing staff, studies and consultants to explore different methods of improving energy capabilities. As an example, this resource assistance will be used to look at potential impacts associated with a particular electric power load management program. Rather than having to react only to the proposals submitted to them, the regulatory agencies will be better able to anticipate and direct action.

New Program Initiatives

The ultimate acceptance and successful implementation of capital and labor market recommendations rest crucially on the resolution of the region's special energy problems. There is no doubt that this includes a more equalized energy price parity with the rest of the nation. But the region's energy problems do not stop here for there are longer-run issues that will affect energy generation in the region. More specifically, this pertains to the special capital financing problems of the utilities, especially for the more expensive nuclear power facilities.

A special Task Force survey determined that the region's investor-owned utilities are planning to spend more than \$12 billion for new plant and generating equipment (mostly nuclear) over the next ten years. This substantial increase, up 126 percent over the previous decade, will bring extraordinary demands on regional and national capital markets. Although the Task Force did not address itself specifically to this pressing regional issue, several comments are in order for the region's Governors. First is the Task Force's concern over the recent public utility bond rating downgradings by Moody's and Standard and Poor's. Shown in the table below are changes in these ratings for the period December 31, 1969 through March 31, 1975.

United States Excluding New England		
	Moody's	Standard and Poor's
Unchanged rating	76 (66%)	60 (53%)
Upgraded	10 (9%)	5 (4%)
Downgraded	29 (25%)	48 (43%)
New England		
	Moody's	Standard and Poor's
Unchanged rating	9 (38%)	8 (42%)
Upgraded	5 (20%)	1 (5%)
Downgraded	10 (42%)	10 (53%)

The interpretation of these data is straightforward; namely, that while the financial stresses of the utilities are a national problem, they have become much

more accentuated in New England. Detailed analysis shows that the majority of the downgradings have occurred in Massachusetts and Connecticut. Second is that any continuation of these trends, even aside from their worsening, means there will be a serious problem of attracting equity investments in these utilities. The Task Force urges the Governors, the New England Regional Commission and the region's utilities to work in a realistic manner to create an environment in which these firms are able to compete successfully in the national markets for necessary expansion capital. In order for the utilities to earn a fair return on capital without excessive rates, the Task Force recommends that the Governors encourage accelerated utilization of coal, nuclear power and other alternative sources of energy. The Task Force believes that without adequate energy, the region's economic growth may lag even more in the decade ahead.

Transportation Problems

Background Analyses

The pending United States Rail Association (USRA) reorganization of the Penn Central and other bankrupt railroads is expected to have a major impact on the New England economy. Anticipating this action, the New England Governors through the New England Regional Commission undertook the New England Regional Railroad Project. The study included the building of an economic model of the New England railroads and an analysis of their impact directly and indirectly on the economy, including examination of alternative rail structures. This study has provided the Commission and the states with substantial expertise enabling them to work closely with USRA, USDOT and the railroads in determining the best structure for ConRail from New England's point of view. It also set the states on an entirely new direction, enabling them to argue for public ownership of rail rights-of-way as a long-term solution to the rail industry's problems. This

last effort was culminated in the draft of legislation which has been introduced in both Houses of Congress.

In another important analysis, the economic impact of rail service was analyzed by Harbridge House. According to this study, "The USRA preliminary system plan proposes a termination of rail service on thirty-two selected line segments of the Penn Central in New England. These segments presently serve customers who employ an estimated 19,200 workers in the three southern states." As the final USRA System Plan is studied in Congress, this too will be an important area for policy concern.

Current Programming Initiatives

The expertise gained from these important transportation policy works will continue to help the Governors and the Commission to meet overall planning efforts under the Regional Rail Reorganization Act of 1973. To look at the problem on a broader scope, the New England Governors through the N.E. Regional Commission undertook the New England Regional Rail Project. One conclusion of the Rail Project study was that there is a definite need to restructure the economic basis of the rail systems in the entire country.

In other areas, a current study is concentrating on the operation and regulation of intermodal freight movements in order to make it more efficient and responsive to the region's economic needs. Also, a demonstration project in New Hampshire is providing air/bus service to the North Country in order to make air passenger service more accessible.

New Programming Initiatives

Future programming initiatives include a study of freight rate-making criteria. This study will focus on methods to make the rates more rational and reflective of the actual cost of transportation. Another

project involves the coordination of the three southern states as they participate in the High Speed Rail Project which is mandated to improve rail travel from Boston to Washington.

A number of the Task Force recommendations are important in future New England Regional Commission programming initiatives in transportation.

Most notably is the recommendation to expand the Commission's outgoing Transportation-to-Work Program to the remaining New England states. The Task Force is most interested in this Program, especially the potentiality of the successful implementation of the rail commuter project between White River Junction, Vermont and Greenfield, Massachusetts.

Governor SALMON. Since it is in front of me, Mr. Chairman, I think it is important to point out that we can build upon it. I sense and I share with you, Senator Humphrey and members of this committee, that the Government must play an indispensable role in getting the economy of this region going again. But I sense, in this region at least, we tended to overlook the presence, and the vitality, and the promise of the private sector's role. Now this report would not have happened were it not for the private sector in New England.

It came to my Commission, when I was chairman, that Mr. Jim Howell, one of the economic panelists, today representing the First National Bank of Boston, made us an offer we couldn't refuse in terms of taking on this project. And now the question is, can the promise of the project be fulfilled in terms of some significant effort and implementation. I certainly hope, for one, that it can.

If balanced national growth with full employment is the goal of this committee, these hearings throughout the country, as I think it should be, should show that the title V commissions can play a significant role, a very significant role. They can only be part of the answer. All this will be of no avail as long as the Federal Establishment pursues fragmented contradictory program and public investment policies. If balanced growth and development is our national goal, shouldn't it be considered in every Federal policy?

A Federal public investment and procurement policy should deliberately favor, in my judgment, lagging regions. And the converse follows. Where Federal action, military base closings, for instance, will have a significant adverse impact on a below-par region, they should be reconsidered.

I think that some restructuring of the ground rules for the allocation of Federal program funds is in order. For instance, the requirements for State-matching money should be waived or reduced for States with severe economic problems that are not of their own making; and many of the problems today, Mr. Chairman, in New England, are not of our own making.

We are trying to bring the States and regions up to economic parity. If that's the objective, let's reexamine every single formula in Washington that allocates Federal program funds. Let's take revenue sharing, for instance. In my State of Vermont, we are low in per capita income. We have a very high tax effort and because of those two criteria, we do quite well in terms of the remainder of the States in this country on revenue sharing. There isn't a single metropolitan region in the State of Vermont by definition under Federal laws, and yet two-thirds of the money allocated to us is allocated to our cities and to our towns. Notwithstanding that, the fact is that we as a State bear a far higher proportion of all government expenses at the State level than many, many States in this region and many, many States in this Union.

Now, we have another kind of a problem—health, education, and welfare. A State, I believe, has programs I describe as compassionate as it respects human services, and program administrations follow suit. States like this often become a magnet for migration. A

magnet for the unemployed, disabled, and the elderly, and for those States that have more misery. The answer to this phenomenon, in my judgment, is formulas that reward States that attempt to meet real social needs with realistic programs. If the President's intention of assembling a lot of these programs into broad purpose block grants is carried out, such formulas and standards become, in my view, absolutely critical.

I believe, Mr. Chairman, that this country needs a comprehensive planning capacity and some national criteria designed to do this job. I think it's a multifaceted approach. There is no single mousetrap that is adequately designed to meet these objectives. I think we need national land use legislation designed to tell us as a nation where our priorities lie in terms of the use and abuse of our land. I think we need national criteria to help us with the question of where we spend the public capital investment dollar. I think there is a crying need today for an economic impact statement related to the natural and probable consequence of every Federal law and regulation, and every State law and regulation that we put on line. I think environmental impact statements have served us well to this end, but they're only one side of the coin in hard times. We need, in a word, rational, thoughtful, growth policies and any national full employment policy must recognize this. If it doesn't recognize that it is all a part of national development planning it falls, in my view, severely short.

You, Mr. Chairman, perhaps best summed up the call for a rational, national development policy in some remarks last year which I summarize as follows: We know how much it costs for public employment programs in this country, but we don't know how much it costs to be unemployed. We know how much it costs for Federal aid to education in this country, but we can't measure the cost of being unable to read. We know how much it costs to support cancer research in this country, but we don't know what it costs in pain and in money to the victims of cancer. And until we know or begin to know and to develop policies and planning procedures to give us the capacity, we are not going to do the full job in these United States. Thank you very much.

Chairman HUMPHREY. We particularly appreciate the regional approach that you have given to us and the many varied constructive suggestions that I hear. I should just like to indicate to you that we do have legislation here now that would require, at least as far as the Federal Government is concerned, an economic impact statement. I know that Senator Kennedy has legislation that has attracted a great deal of attention on the competitive impact of legislation as it relates to particularly small business enterprises.

One of the needs that I have seen at the public level is for a better system of financing in many of the public improvements that we require. The Congress today seeks to finance capital investments on what we call annual appropriations. If that were done in the private sector, I would suggest that we would still be back in the Stone Age. There is no business enterprise that tries to finance its capital investments on an annual basis, cash and carry. It's utterly ridiculous. We need a long-term system of financing which takes

into consideration the lifetime usefulness of a facility as well as the economic and social benefits that accrue from that facility. Some countries have developed what we call a capital budget separating the operating expenses of Government from the capital investments or the facilities that require longer term financing.

I have proposed what we call a national development bank that would permit local and State governments, for example, to be able to secure long-term financing, just as a private enterprise is able to borrow from a commercial bank or in the stock market which is a form of borrowing invested funds.

I think these are some of the things that we need to refine to be sure these are suggestions and proposals down the line. We also had introduced a proposal for national or economic planning and balanced national growth.

I was very pleased to see in the New York Times a few days ago where Robert Rosa, one of the leading financial figures and businessmen in New York, gave an idea of the strong State support. Regional planning, I believe, is at the heart of our needs, because regions are, as you pointed out, very different. There are disparities; and your opening statement about the national figures of unemployment or even what is a goal of full employment underscored this well. A national goal of full employment is not adequate to some of the regional requirements. Quite frankly, I must confess that I haven't given them nearly enough consideration.

We are talking about a full employment bill that will have as its objective the maximum of 3 percent unemployment over a period of time of 3 to 4 years; but let's say it's 3 percent or 4 percent. That could very well mean that some areas of the country have a much higher rate of unemployment than another area, and I gather that's what you are pointing to here in terms of the experience in New England, and it is unemployment here in a particular locality or even in a particular industry at times that is the destructive unemployment. It is unemployment here that bears so heavily upon the involved individuals of this region.

So these are suggestions that you have made for which I want to thank you. I think they are very helpful to us. I noted here the emphasis that you placed upon the three fields of regional cooperation: energy, transportation and the third was capital. What was the third area?

Governor SALMON. Business development.

Chairman HUMPHREY. Yes, business development. Those are areas in which you can have broad agreement amongst the different States and economic interests.

Are you suggesting to us that your Regional Commission be given more authority plus greater funding, or do you think you have in the Regional Commission the necessary statutory authority but you need the tools to do the job?

Governor SALMON. We need more resources, more money, more people, if indeed this is to be one of the central focuses of the regional economic effort in these three categories, as I think it deserves to be.

Chairman HUMPHREY. There was some comparison made this morning which related to the problems of the New England area today as compared to problems some years ago, which still exist, by the way, because of the recession which overcame the progress of the Appalachian region.

You may recall that one of the things in the sixties that governmental activity was directed toward was to overcome the incredible poverty and economic distress of the area that we call Appalachia. You and I know that because of directed Government efforts in that area known as Appalachia, there was a remarkable improvement. I mention this because it demonstrates that when you focus in on an area and put in resources, both public and private—because there is a tremendous effort made by private enterprise—the Government itself did what you suggest here. It went in and procurement was made in those areas. Government purchases were made from companies in the Appalachian area. There was an effort made to utilize the strength of Government, and the resources of the Federal Government to provide for economic improvement in what we call Appalachia. And my point is, it worked.

Now, you at that time had about a 4 percent unemployment rate around here. You were considered a more fortunate area. At least you were within what was called a national pattern of a relatively low level of unemployment; but since that time you have had a very serious deterioration in the economy. It just seems to me that your point is well taken, that we know what happened in the Tennessee Valley area with Government activity; and, by the way, it didn't hurt free enterprise at all. Some of the best free enterprise in the United States is in the TVA. It blossomed there. They got cheap electric power compared to many areas of the country, vast resources of fertilizer for the agricultural area of the country, tremendous numbers of new industries, and, in fact, the greatest explosion of new industry in the country was in the Tennessee Valley Authority area.

You have two examples in our time: The development of the TVA and the tremendous improvement that came in Appalachia in the sixties, and it demonstrates what can happen when you have some planning on a regional basis, and you have the targeting of Federal programs and resources into the area.

So I just wanted to mention for this record that the proposals which your Regional Commission are making, which I think are even better than some of those that we have had in the past, demonstrate and provide empirical evidence that they will work. They will work. And I just want to express to you my thanks for your laying out in such specific detail the things that you are doing in these fields of endeavor, proposals that you have in transportation, and business development.

Senator Kennedy.

Senator KENNEDY. Thank you. I too want to thank the Governor for his statements and comments in support of the regional commission. I had the opportunity to offer that as an amendment after talking to President Johnson. We were the second Regional Commis-

sion that was established by President Johnson. It is a recognition, I think, that all of us who were concerned about the common problems here in New England understand the importance of regional thinking and regional planning in some of the essential areas which the Governor has outlined here in the transportation, energy development, and I think in water resources as well. These are so common to the New England States and other areas.

I am just wondering, Governor, what you—you mentioned NERCOM in your statement. I am wondering, briefly, what you might be able to tell us about its value in terms of the critical problems which we faced in the allocation program a little while ago. NERCOM, I think, has served the region extremely effectively, and I think it is about as fine a testimony towards regional planning as there could be in this area.

Maybe just briefly you might elaborate on how that worked with Governors representing different philosophies but working with a common interest for the consumers and for the business interests in the New England area, and what success it had. What lessons can be learned from it in terms of regional approaches?

Governor SALMON. We have as extraordinary a group of people who serve as Governors of the six New England States today as we have ever had in the history of mankind, notwithstanding a fairly intense ideological, personal, political difference. We have been able, within the framework of the New England Regional Commission, to agree on a significant number of major policy initiatives including energy, transportation, and the main thrust of how we deal with economic melees in our times. I sense that's a tribute to the proposition that regionalism lends itself to definition here in this part of the country, and that we are convinced that there are methodologies acting together and using the office of Governor which is terribly important, Mr. Chairman and Senator Kennedy, as a focal point in making this effort work.

I think the Capital, Labor and Market Task Force is a critical case in point. I am bullish on regionalism. I think the New England regional economy can come back.

Senator Humphrey points out quite clearly that money and resources turned things around in Appalachia; and let me say if we have that kind of money and those kinds of resources, we would turn things around in New England. And I think it's a good crucible. I think it should be the point of central focus on regional matters here. I think it has worked reasonably well.

Senator KENNEDY. Thank you.

Chairman HUMPHREY. Congressman Early.

Representative EARLY. Just one question. I appreciate your comments, Governor. You said we had to find formulas that attempt to meet social needs with realistic programs as far as the States are concerned. I agree with you, too. What has your Governor's commission done to establish jobs?

I recognize the problems that these States are facing, the same fiscal plate; but it seems they are taking an approach to cut expenses by cutting jobs. I wonder if that isn't flying in the face of the Federal Government.

Governor SALMON. Part of my statement, which I didn't read to conserve time, showed where the New England regional projects created almost 1,000 jobs here in New England. That's point one.

Point two, many of the Governors—I'm one of them—have rejected the notion of significant layoffs of personnel as an integral part of dealing with our budget problems at home. We have flat out rejected that and do not consider that a viable proposition in terms of dealing with the economic and fiscal problems that we face. Many of us have initiated programs in our own State entirely State funded designed to give us a better competitive edge or greater capacity to deal.

Governor Noel in Rhode Island has the most unique job training program in the country partially aided and abetted by a significant Federal program. We in Vermont, in my view, have the most attractive industrial development authority in the country in terms of a variety of prospective businesses, in terms of what we can do for them here and now, and there are other examples. We're doing the best we can; but having in mind, Congressman, that the revenue level of States like Vermont producing the same revenue this year, the same dollars this year as last year. Despite inflation and despite exacerbating demand on the human service front because of unemployment and the human demand for the services that only Government can provide, we are attempting to do the best we can in hard times.

Representative EARLY. I was just thinking, Governor, I'm a big supporter of public works jobs, even public service jobs, at this time, and I think it should be a collective effort—and again there's a lack of communication. I think the individual States should be going on the same avenue, whereas I see some States cutting back on jobs or laying off and firing people, and I would say several years back that might have been the thing to do; but right now with the staggering unemployment rates, I would like to see the Federal Government give incentives to the States that will take their unemployment December 1 of 1975, as they reduce it, and they only reduce unemployment by establishing jobs. I would like to see the Federal Government give incentives in that direction.

Governor SALMON. In my judgment, Congressman, there would be no significant turnaround of jobs in New England irrespective of what any individual Governor or any individual State legislature does until the national economy both turns around and the turnaround has some demonstrable impact on this region.

Representative EARLY. True, but I really feel when we speak of a public works project, if there was ever a time for individual States who are in fiscal plight to have their own capital outlays, it is right now, because if we don't in our construction business which is hurting more than any other industry, now is the time we must build and we know that the private sector is not going to do it. So I think the States and the Federal Government and the local governments have to give the impetus to do it now and hope that you get the economy going so that the private sector supplements itself.

Governor SALMON. That statement would be a very hard sell to me. The Commonwealth of Massachusetts, at least as I understand

their problems, the debt service requirements and the requirement of turning over many, many hundreds of million dollars of notes this year and the overall economic situation as I have reviewed it somewhat with Governor Dukakis, and as I read about it, the problem is this, Congressman. As I see it, there is no such thing as a free lunch anymore if you are going to meet adequate economic fiscal needs in the States. You are either going to have to significantly cut programs or raise taxes, and the latter represents fighting words up here in New England, fighting words to raise the taxes, to, among other things, pay the debt service on the new bonds that you put on to deal with laudable, highly desirable programs such as the one you suggest.

Representative EARLY. But, Governor, one of the earlier witnesses today indicated in our State of Massachusetts, last year we bonded for operational expenses, so of course our debt is in trouble. One of the suggestions from one of the witnesses this morning was to bond for jobs which I think would be disastrous, but I think we have to bond the public works. I think we have to get more road building. I think we have to stimulate the Federal Government with the State government and the local government because the private sector is not going to do it now.

Governor SALMON. As long as we know the natural and probable consequences of what we do. As long as we know what a quantum jump in the debt of a given State given its own individual circumstances does in terms of the economic health of that State; what it means in terms of the bond raising; what it means in terms of the obligations; what it means in terms of its cash flow; and in terms of the fundamental capacity to pay its bills. As long as all those things are factored in and judgments are made on that basis, I don't fault the notion which is implicit in these hearings today that we have to recycle this economy of ours to get more people back to work.

My point is very simple. I sense that the Federal Government, the National Government has the premier role in priming this pump.

Representative EARLY. In conclusion, sir, I know what an outstanding job you have done. The only skepticism I have of you is the fact that you are from Boston College. [Laughter.]

Chairman HUMPHREY. That's a very serious impediment I can see, from what I hear up around here.

Congresswoman Heckler.

Representative HECKLER. After that last comment, since I attended Boston Law School with the Governor, I am outraged. Only the seriousness of this meeting would allow me to remain on this platform and absorb these insults and tolerate them. Nonetheless, Governor, it is always worthwhile to listen to you, and I apologize for the fact that I was out of the room during some of your testimony.

I would like to ask you one question. Are you worried about inflation?

Governor SALMON. I think all Americans are worried about inflation. My answer, Congresswoman Heckler, would be relative to what, relative to employment?

Representative HECKLER. No, in the abstract in judging the needs of Vermont, the prices in Vermont, et cetera.

Governor SALMON. Inflation affects a lot of people in the United States a little. It affects a lot of people in Vermont a little.

Representative HECKLER. A little?

Governor SALMON. A little. Inflation affects a relatively small amount of people a lot. My concern in the abstract with relationship to either-or, I am far more concerned with unemployment than I am with inflation in that context.

Representative HECKLER. I heard one of your statements earlier which was the relationship of the problems of New England in the job market and the linkage to the national picture. If I understand correctly, you said that you felt that the problems, our problems, cannot be relegated to the Federal Government exclusively. In other words, you accept a responsibility as the Governor of this State—and I applaud you for that stand—and I think as necessary as it is to have the Congress respond to temporary needs, with temporary measures to resolve the unemployment problems that we face so acutely today.

Looking at the long-range picture, the real hope for lasting benefit and the lasting improvement on a permanent basis of their lives will come from an expansion of the private sector and will come from our own strategy, because I am fearful that when the country recovers, we will still be seriously ailing in Massachusetts and in New England.

Consequently, I do agree with you that the New England Regional Commission is valuable. As a matter of fact, I did a study 8 years ago on energy which forecast all of the current excruciating problems and difficulties and supplied a regional answer. I was quite enthusiastic about their approach. I translated the proposals of that document into a piece of legislation. I found none of my colleagues would cosponsor that legislation, no one from my sister States or brother States or however we refer to them today. I am not sure. Nonetheless, none of them would cosponsor this simply because Connecticut wanted its answer; Rhode Island wanted its answer; and Vermont wanted its answer; and we were not willing to find the regional solution which could have lowered costs, could have maximized the assets that we already have.

Now, have things changed? Are we going to sublimate the State consciousness and pride to really implement regional answers, or are we just where we were 10 years ago? What do you think, Governor?

Governor SALMON. I know we are considerably advanced from where we were nearly 4 years ago when I became Governor. That's the only time frame. This is the post-globe series era. We are blessed in this region with a man named Philip W. Noel who now is Governor of Rhode Island, who more than any person in New England in my view is responsible for taking a somewhat amorphous creation of the Congress in the title V Commission, and putting it together as a working, vibrant entity with some real goals and objectives.

Representative HECKLER. Well my question is really, are the States willing to submit to a regional answer on some of these problems, or are they going to each go their separate ways?

Governor SALMON. Some are more willing than others, and among those, I would include Vermont, Massachusetts, Rhode Island, and Connecticut in the former category.

Representative HECKLER. With one omission obviously from New England?

Governor SALMON. I think there might be two. Tennessee lies somewhat differently.

Representative HECKLER. In terms of the implementation of the task force recommendations, the recommendation for the skilled worker development for a national loan program to attract workers into the critically short emerging occupations, coordination of the six divisions of the job banks within the regions especially where labor market clusters across the State boundaries, the transportation to work program for labor market clusters where travel distances and lack of transportation facilities restrict workers to specific locales, all of these are recommendations of the Task Force on Capital and Labor Markets as proposed. What implementation are you going to give or have you already begun for translating this from rhetoric into reality, Governor?

Governor SALMON. Here's what we have done in Vermont. I wrote a letter to about 200 people in my State who represented a good cross section of people involved in these areas. We invited them to Montpelier at a meeting that I attended and presided over in part, sat through all of it. Believe me, all of it. Out of that came the Vermont reaction to these 12 recommendations, where we felt we stood. Governor Dukakis, the new chairman of the Regional Commission, then asked me to head up the effort to try to put the implementation of the procedure together, and I did with a long letter with the other five Governors and exhorted them to follow a similar pattern and come back with some definitive feedback in terms of which of these recommendations made more sense to their individual States. We followed that with our first meeting this year where they voted to hire a skilled project director. Take this report and make it happen, we told him. We wanted someone who can walk easily in the world of banking and finance and industry and labor and the like; and there is a meeting in Boston tomorrow with the result that people might hire somebody. We need a person to carry the ball and see these initiatives through, and the process is moving reasonably well.

Representative HECKLER. Of the 12 recommendations, which is the highest priority? Which of them would have the greatest acceptance among all of the New England States? The coordination of the divisions of employment security job banks in the region? If that were implemented, that could significantly increase the opportunities for which we unfortunately have an excess labor pool. How far along are we, and what are the prospects and what are the time frames within which we could accomplish that particular recommendation?

Governor SALMON. Let me back into the first part of your question. The most significant recommendation here is the recommendation that we create a privately-financed regional fund, a New England capital corporation. I have had some meetings already with

people in the world of finance in this region who lead me to believe that this can happen and that it can happen through the aegis essentially of a private enterprise with a firm leg up from government in terms of startup costs. That's a very exciting proposition. That proposition theoretically could create a \$150 to \$275 million bank right here in New England to deal with small- and middle-sized business.

Representative HECKLER. Governor, if I may interrupt you there, how will you get the funding for this corporation?

Governor SALMON. That's a detail to be worked out. We have had two drafts of documents that talked us through, but essentially we perceive it as a freestanding operation in itself in the long run that will not involve any direct subsidy of the Government at any level, proceeding from the staff and other support by the New England Regional Commission during its early startup period.

Representative HECKLER. Would you sell stock or a security in it or—

Governor SALMON. That's a detail to be determined once a full-blown commitment is made to go forward on the project.

Representative HECKLER. Aren't you concerned in view of the nervousness and anxiety in the bond market today in terms of investments relating to municipalities or government that this is really valuable and meritorious as it might come on hard sledding in terms of attracting investors?

Governor SALMON. No. That's not the view of people far more knowledgeable than myself in the private sector, people who have earned their spots in business. They believe that properly created, this vehicle can serve the highly legitimate long-term debt and venture capital needs of small- and middle-sized business in New England.

Representative HECKLER. If that's your first priority, what would you say would be the second?

Governor SALMON. I think the next priority would be on the labor side in terms of the whole question of forecasting occupations for the future, 2 years, 5 years, 10 years down the road; and whether or not our vocational technical capacity, as presently tooled up, is doing the job, whether we are training young people today for jobs that don't exist, or whether we should retool or reprogram as New England changes and as the rest of the country changes.

Representative HECKLER. Governor, I want to commend you for your active strategy. At least you are thinking creatively and positively about the problems and I wish you success.

Chairman HUMPHREY. Governor, may I ask a specific question? Do you know what the average term of municipal and State bonds are? What is the average term of the bonds in this area? Do you have any idea?

Governor SALMON. I wouldn't want to quote off the top of my head, Senator.

Senator HUMPHREY. What are the average term of bonds in the State of Vermont, for example?

Governor SALMON. In terms of—

Chairman HUMPHREY. What is the longest term bond that you have?

Governor SALMON. The longest term bond that we have, I believe, is 25 years.

Chairman HUMPHREY. Most of them are what? What is the term?

Governor SALMON. They vary, 20 to 25 years most of them.

Chairman HUMPHREY. The average municipal bond in the United States is 12 years. You realize that if we had a 12-year mortgage, we would still be living in teepees? Let me tell you, this is what is really cockeyed about public financing, and why we ever got into this is beyond me except it was the early practice before consumer credit and really big lines of credit became an established practice of American life.

Let me give you an example why I am bringing this up. I happen to believe that one of the real problems today is what we call stop-and-go economics. You get started on a problem or on a project, and right away either the State legislature, or the Congress, or the public, by the referendum on a bond, stops a project halfway in between. We have wasted billions of dollars in public works in starting a project, slowing it down, keeping the machines that were necessary idle or laying off the workforce and then rehiring; and the incredible cost, the increase in cost is just devastating; and this happens in every community across the country.

Now, what any businessman knows above all is that he needs financing on a basis of continuity with an assured line of credit, specific terms of credit for a long period of time for any capital improvement. You couldn't even build a chicken coop if you didn't know that. Now, interestingly enough every major public financing institution that this Government has established has made money without exception. The Reconstruction Finance Corporation came through the most difficult period of the depression and loaned money to people to whom nobody else would loan money, made millions of dollars for the Federal Government. It took some losses, but who doesn't? You win some and you lose some. We know that in politics. You surely know that in business. A businessman who never has a loss is a man who never did anything. You have got to be willing to venture.

Now, the Production Credit Administration, established for the farmers out in my part of the country, is today owned by the borrowers. The Federal Government financed that originally and put in the capital stock. Today it is entirely owned by the farm borrowers themselves.

The Intermediate Development Bank for the Cooperatives sets up for all of these big farm cooperatives all over the country. I have one of the largest ones in the world out in Minnesota in the Farmers Union Grain Terminal. It handles 400 to 500 million bushels of wheat and many million bushels of soy beans. It is the greatest thing that farmpeople have. They can almost survive government policy because of their co-op. Today, that Bank for cooperatives is owned by the cooperatives. In other words, when the co-ops borrow, they had a little percentage that they had to pay for a service fee; and as that borrowing continued with the interest that they paid back they began to own the capital stock of the Bank of Cooperatives.

The Federal Land Bank, which financed \$400 billion worth of land

in this country, is owned by the farmers. Every single bank that we have had has worked, every one of them.

Now, we come along here, and we have the Government of the United States, and we say we can't afford low-interest rates for houses.

We can't afford to have low-interest rates for community development and here is what we are doing. I am chairman of the Foreign Assistance Subcommittee of the U.S. Senate. Just 2 weeks ago I had a request from the administration for \$2¼ billion of capital stock in the Inter-American Development Bank for the next 5 years. Now, anybody who knows anything about capital stock issues and what the loan ratio is on that stock knows that that represents billions and billions of loaning capacity for the Inter-American Development Bank. Now, don't misunderstand me. The Inter-American Development Bank makes money, too. Banks make money. They have a hard time losing money over the long run if they are a reasonably well established bank, and I am not opposed to that. They ought to. That's what they are there for. If you put your money in a bank, you want to be sure it is secure. But my point is, how come we can put in 75 percent of the capital in the World Bank that makes long-term loans, how come we can put in \$2¼ billion in the Inter-American Development Bank, new money, how come we can put in \$400 million in the Asian Development Bank, Central American Development Bank, and all of these are long-term loans, at any event, at low rates of interest? For example, the Economic Development Loan Fund of the Foreign Assistance Act has hundreds of millions of dollars of loan money and they lend money in other countries for 2-percent interest. The first 5 years, no interest, no payment on principal. They have a grace period so that you can have a chance to get your house in order before you start to pay back. Now—and the food. We ship food overseas. I am the author, coauthor of Public Law 480. We are going to have this year \$1,400 million of food credits. Now that \$1,400 million is going to go to countries, and I know we want to help these countries. I'm the author of the bill, but isn't it interesting that we were able to get that bill passed so that for the first 5 years you paid nothing, then you pay 2 percent for 40 years on soft goods. Soft goods. You're going to consume that. It isn't going to produce anything. All I'm saying is that our government does know how to set up financial institutions. We have an Export-Import Bank. They were going to loan the Soviet Union here a big sum of money not long ago at 6 or 7 percent. Can your State of Vermont get money from the Federal Government at 6 or 7 percent? Can the people in my State buy a home at 6 or 7 percent? Not on your life. But all I am saying is that if you have a will to do it, you will do it, and the interesting thing is that the biggest businesses in America are financed through the Export-Import Bank, because it is good for our export business. I am not opposed to that bank. To the contrary, I am for it. I am for the Inter-American Development Bank. I am for the Asian Development Bank, because these banks understand the importance of investment and they don't expect to make it all overnight. But we have some cockeyed conception around this country that if you are going to build a public

works project which is going to have a longevity of 50 years, that you have to pay for it now. Well, I want to tell you something, if that would happen in the regular economy of the United States, every business in this country would go broke. You wouldn't sell a piece of jewelry. The automobile industry would close down tomorrow. The housing industry would be totally disintegrated. Nothing could happen. Why in the world can't we get Governors like yourself here to come down to Washington and support the legislation we have in for it? The trouble is when a person like you would offer to put that legislation in, they say: "There he goes again, wanting to spend." I don't believe in spending. I believe in investing. When you buy a stock, you hope that the stock is an investment, and particularly if you buy bank stock. It's generally a pretty good investment. Banks like to buy bank stock. But here we've got you public officials, including Hubert Humphrey and others, who aren't willing to come down to Congress and say: "Let's put our house in order." Why don't we have for the American people a National Domestic Development Bank that can work with all of our private banking institutions? Why don't we do for cities what we have done for the cooperatives? Why don't we do for cities what we have done for farm credit? How do you think our farmers out there are able to survive under the cockeyed attitude that the Government frequently has, if it wasn't for the fact that they have a line of credit. Now, the small banks of my State, State banks, are tremendous. They do a great job on rural credit, but there isn't a banker in the whole country out there who would come in and say: "We ought to do away with the Farmers Home Administration," or that: "We ought to do away with the Federal Land Bank," or that: "You ought to do away with the Production Credit Administration." And you couldn't find a banker in the whole United States who serves rural America and says we ought to do away with the Bank for Cooperatives.

Yet, I can't find mayors or Governors who would come down to Washington and say: "Hey, get with it; set up a sensible system of financing so that we can get 25-, and 30-, and 40-, and 50-year money to develop this country." To develop it. That's what it's going to take and we just have to get away from this business of having long-term finance for everybody out here and short-term financing for public projects. It can't work, because all you have then is politics. The next question is, how much does Governor Salmon want to spend? How much does Senator Humphrey want to spend? Nobody ever says how much do they want to invest. I'm here to tell you that the investments that were put into the Grand Coulee Dam out in the Northwest gave them cheap power. It was a damn good investment and if New England had it, you wouldn't be in some of the trouble that you've got today, and I am here to tell you that the Tennessee Valley Authority is a good investment. How I wish it came up my way, because we have high cost oil, too. We pay a dollar a barrel more than the world price because we get our oil from Canada.

So, I just thought I'd kind of lay it on the line. What we need is not only the kind of forceful testimony that you gave, but the 50

governors of this country shouldn't buy this nonsense that has been foisted on the public that somehow or other we can't finance our way. The problem that we are getting into here is that we are trying to go around taking out of the cash drawer every day what you need to do to take care of your capital requirements.

Look, I just come from an ordinary, little family, but we own a building and we didn't take it out of the cash drawer. We had to go in and borrow money to buy that building and we borrowed the money on a long-term basis in order to own that building, and we own it today, and it hasn't depreciated. It has appreciated. Thank God that I didn't have the stupidity of Federal financing or we would be on the relief rolls. There isn't a businessman in America who could survive 15 minutes with the kind of stupid Federal fiscal policy and State and local government policy that we have had. Imagine an average bond issue for 12 years for a city. Imagine that. Oh, Lord God, they almost sell you a car for 12 years now. I mean, at least you can get a loan for 3. I just thought I would bring it up, Governor, because to me we need to get at the nitty-gritty. Keep right on with it, Governor. Hit them hard. You have to remember that story of that old Missouri farmer who took his 2x4 out and hit his mule right between the ears. His neighbor said, "Now, why in the world would you do a cruel thing like that?" He said, "I've got to get his attention first." And that's what it takes. Thank you very much.

Mr. THUROW, Mr. Patrick Caddell, Mr. Frank Morris, Mr. William Spring, Mr. James Howell, Mr. Bruce Reeves and Mr. Pat Jones, I believe that if we can bring you up here to the stand, we would appreciate it.

All right. We want to welcome you. I will go down the list as I have it here and the panel now is related to the economic outlook and job development in the New England region. It's a logical follow-up of the statement by the Governor of Vermont. The first witness is Mr. Lester Thurow. Mr. Thurow? And you are from the Department of Economics at MIT, I believe?

Mr. THUROW. That's right.

STATEMENT OF LESTER THUROW, PROFESSOR, DEPARTMENT OF ECONOMICS, MIT

Mr. THUROW. A week or two ago I was at Brigham Young and I was introduced by a Mormon Bishop as I was giving a set of talks, and he told me that there was the following parable in the Book of Mormon, and that at the beginning of the world, God and the Devil were putting the world together and God would do something good and the Devil would do something bad. God would create day and the Devil would create night, and it went back and forth for a while. And finally God created an economist, and that really rocked the Devil back on his heels. He sat there and he scratched his head for a while, and then his eyes lit up, and he created a second economist, and so what I want you to realize is that I come from God and anything the rest of you gentlemen say that differs, it is obviously

from the Devil. As long as you remember that, you will be all straightened out.

Chairman HUMPHREY. I'm glad we got that clarification here early.

Mr. THURLOW. I think if you look at the New England economy, you have to face the facts of life and some of those facts are rather uncomfortable. The basic thing about the New England economy—it's been true for a long time—is that it has two great disadvantages. One is the cost of energy and the other is the cost of transportation, which is primarily energy. These have always been handicaps in New England, but when the price of energy tripled or quadrupled at the beginning of 1973 and 1974, those handicaps became much more severe, and I just think that there is no question that in the long run a certain amount of economic activity because of that energy cost is going to more or less be forced to be moved to other regions in the country.

Now, I think in New England, since we have had high energy costs for a long time, that that's not going to be as severe as it is in the Middle Atlantic States and the States essentially between Pittsburgh and Chicago, but I think everybody ought to be aware of the fact that high energy costs mean that certain types of economic activity are going to rationally move out of New England in the long run, and the only thing you can really do is not find ways to keep them here, but see if you can't create some other kinds of advantages that will attract different types of industries that are not so energy intensive. I think the key thing should rest on that fact, that there are certain types of economic activity that are going to rationally move to the Louisiana's and Texas' of the world, and the question is whether you can think of something else that will improve it.

Now, I think, having said that, that you don't want to exaggerate the problem at the same time, because when you have a recession, every unemployment rate in every State doesn't go up by the same amount. I will remind you that in the late 1950's unemployment was very high in the Nation and unemployment was above-average in New England. When unemployment went to the low levels in the 1960's, unemployment in New England went down to the average. Now, I'm not arguing that necessarily reducing the national unemployment rate to 3 or 4 percent would be a panacea for this region; it's unlikely the New England unemployment would be 3 or 4 percent, but I think a lot of the problem would be cured if you did that because unemployment rates don't rise evenly and they don't fall evenly when the national unemployment rate goes up and down. So, to look at the difference between the current New England rate and the national rate I think is, to a certain degree, to exaggerate the nature of the problem.

One of the things I have been doing recently is reading the President's Economic Report, which is not exactly a radical document, but I was struck by one thing. They calculate in there the full employment surplus, not only of the Federal Government but the State and local governments, and let me remind you this is a calculation

not made by me, but presumably by Mr. Greenspan of President Ford's Council of Economic Advisers, and they calculate that if the economy were now at full employment, State and local governments would have a surplus—not a deficit, but a surplus of \$39 billion. Now a lot of the talk—

Chairman HUMPHREY. Is that just State and local?

Mr. THUROW. That is State and local. The Federal employment surplus deficit is \$6 billion, but State and local governments are now running under a calculation that the full employment surplus is \$39 billion. I think that is a real crime in this situation, because you have governors and mayors who legitimately have to cut back on needed programs while at the same time, if the economy were being run in a sensible way at full employment, the major problem of the same officials would be how to spend this enormous \$39 billion surplus. So, I think if you really ask yourself what can help the New England economy, the big thing is to get the American economy back on its feet. That won't completely cure New England's problems, but I think you can get rid of about 90 percent of them if you do that kind of thing.

Chairman HUMPHREY. Did you say that there was a deficit in the full employment budget for the Federal Government?

Mr. THUROW. The Federal. According to their calculations, for the third quarter of 1975 the Federal Government had a deficit of \$6 billion.

Chairman HUMPHREY. 1975?

Mr. THUROW. The third quarter of 1975, full employment surplus was a deficit of \$6 billion.

Chairman HUMPHREY. But the full employment budget for 1976 and 1977 gives us a surplus?

Mr. THUROW. That's right, but the interesting thing is that State and local governments would have a surplus of \$39 billion and I can't emphasize that too much, because it really puts the problem, I think, in a nutshell; that we don't want to go around kind of slicing things to the bone at the local level even though people at the local level have to do that, if the basic problem is this kind of a national recession that has these very uneven effects across the economy. I think those effects are very, very strong here in New England.

Now, interestingly enough, I think this is what puts us in these kinds of games where hurting your neighbor is helping you. If you really ask what could the Federal Government do tomorrow that would help New England, the answer probably is to force the rest of the country to pay very high prices for natural gas, because we don't use natural gas in industry very much in New England. The Midwest has a lot of cheap natural gas that they use in their industry, and so when a recession comes along and some firm has a plant in New England and in the Midwest, they are going to look at the energy cost of those two plants and they are going to close the New England plant. Now that's hurting your neighbors, so to speak, but that's the kind of game we're in, because as long as natural gas is cheaper in the Midwest and fuel oil is expensive in New England, it's going to pay to close down the New England plant.

There are two ways to solve that problem. Make fuel a little cheaper in New England, but we don't know how to do that. The other way is to make natural gas expensive in the Midwest. That we do know how to do.

Chairman HUMPHREY. But not the upper Midwest. You know what our problems are. The Canadians are going to phase out all natural gas and by 1980 we are going to have no Canadian oil or natural gas, and we face that D-Day.

Mr. THURLOW. I'm not advocating that we try to hurt the Midwest. That's not the point; the real point is that New England is in a very severe, real competitive disadvantage at the moment and most of the things that you could do about it are completely out from under the control of the people who live in New England. So, you know, I think that, if you ask yourself, other than the natural gas business, what can you do for New England, the problem is to get the economy growing much faster so that you can get back to full employment much faster than President Ford plans to.

Senator KENNEDY. Just before you leave that point, I mean, still with regard to the social equity point of view, you are still prepared to make that suggestion about the increased cost of gasoline, with all the kinds of trading off of resources that would be reaching back into the gas companies and all the rest?

Mr. THURLOW. No, I am not proposing to make it as a national thing, or an equity thing at all. All I was saying—

Senator KENNEDY. You're just talking about competitive?

Mr. THURLOW. That's right. If you just really said, "what would do good things for New England jobs," and ignored everything else, which I am not advocating that you do, but I think it points at part of the problem. In a recession you close down those factories that are expensive to run. If one factory has cheap natural gas and another factory has expensive residual fuel oil, you know which one you will close down. Now, that means that you will close down the one in New England, and somehow we have to get out of that box. Now, the best way to get out of the box is to run an economy at full employment so that you don't have to close either one of them down.

Senator KENNEDY. What about the decontrolling of oil? How does that—

Mr. THURLOW. The way the system currently works, I don't think that makes much of a regional difference at all simply because the way it's done. We basically spread the cost across the country so that everybody gets oil that's roughly at the same price and so you don't get these huge cost differentials from one region to another. But because of the different usage of natural gas in different parts of the country, they do create an enormous incentive to put your economic activity in those parts of the country that use natural gas for industrial purposes. That's all.

Chairman HUMPHREY. Maybe it's better if we just go down the line here. Why don't we do that. We'll take Mr. Morris.

Mr. Morris, you are the president of the Federal Reserve Bank of Boston? Is that right?

Mr. MORRIS. Right.

Chairman HUMPHREY. We are very pleased and honored to have you here.

**STATEMENT OF FRANK E. MORRIS, PRESIDENT, FEDERAL RESERVE
BANK OF BOSTON**

Mr. MORRIS. I think I can support two of the points made by Professor Thurow. First, this chart shows the unemployment rate in New England as against the rate of the United States at large. Now, I think quite clearly you will see that the movement of unemployment rates in New England exceeds the national average. Quite clearly the thing that has to be done is to get the national economy moving. But I think you will also note that there has been a divergent pattern here since 1971. The New England economy never fully recovered from the recession of 1969 and 1970. Up until 1971 you can see the unemployment rate for a great many years in New England was almost identical. We had a gap opening here, which reflected in part the cut-back in R. & D. spending by the military, the slower rate of growth in the electronics and computers industry, and in the later period some of the base closings. So, for 5 years now we have had a gap. While we have moved with the economy, we have had a consistently higher level of unemployment. That I think is going to persist for several years into the future, even though the unemployment rate in New England will decline with the national average.

Chairman HUMPHREY. You have sort of a big spread there in 1970. Is that about the period?

Mr. MORRIS. It opened up in 1971 in coming out of the recession. The rest of the economy came out of the recession nicely and we lagged, and that gap has not widened, but we have never been able to eliminate it and I think the prospects for eliminating it fairly soon are pretty slim. So, we have a chronic problem I think in New England. Now, I would like to make a couple of points: one, the impact of the increased energy cost on New England, and also I would like to comment in response to your letter, on the impact of development on the international trade of our region.

Now, obviously, New England firms have traditionally paid a higher price for energy than firms in other parts of the country. This is not a new thing for us. In 1971 industrial fuel costs were 47 percent higher in New England than the national average; but because of the increase in the price of oil in the past couple of years this advantage has now increased to 11 percent so it is our industrial fuel cost, 131 percent higher than the rest of the country. This reflects, of course, the fact that we, in our industrial base, depend on residual oil, either directly or indirectly through electric power plants that are fueled by residual oil.

This is obviously a very high price fuel relative to coal and natural gas which rather predominate industrial fuels for the rest of the country. The price of the residual oil in New England increased by 262 percent between 1972 and 1974 while the cost of natural gas and coal widely used in the rest of the country increased by only 65 percent and 96 percent respectively.

Now, these developments have obviously had serious consequences for the cost structure for some of our region's industries. For example, in the leather and textile industry and the pulp and paper

industry, energy costs as a percent of the dollar value of shipments amounted to 5 and 10 percent respectively in New England. This compares to the national average of 2.3 percent and 5 percent. It is even affecting the high technology industries which we have attracted in recent years because they were not energy intensive industries, such as computer industries, and electronics instrumentation. We have been able to attract these industries because of our university base for one reason, but also because our disadvantages have not been all that overwhelming. But even in the case of these high technology industries which typically do not use lots of energy, their cost structure has gone up by 1 to 1½ percent relative to their counterparts in southern California.

So, we've got an extra disadvantage even in seeking growth from various industries in the future. Now, we had a conference—the Federal Reserve Bank of Boston sponsored a conference on the energy problems of New England. One of the things we examined was the potential impact of the George's Bank oil development, if we find oil out there, on New England. And the result was that if we have a big oil find, it really won't help our problem very much. It will reduce the transportation costs of oil, but that is a relatively small part of our problem. The only thing that could really be extremely helpful to us in this development would be a large natural gas field, if that were to be found, that could change our relative cost structure.

But a big find of oil in itself would not do all that much for us. So I would end up on the energy question agreeing with Professor Thurow's analysis that the one thing that could be undertaken now to improve New England's relative position in fuel costs would be to deregulate the price of natural gas, because in a sense, while New England has a lot of built-in natural disadvantages, we're also operating under a legislative disadvantage in that the cost of this particular type of industrial fuel that we do not have access to, is being held down by the price control legislation. So our relative fuel position would be enhanced by the deregulation of natural gas.

Now, turning to this problem of foreign competition, and the impact of foreign trade developments on New England, this is something that we've given a lot of study, and we have found that the impact of freer trade that has developed in the past decade or so and the devaluation of the dollar has had the effect of boosting the overall New England economy substantially.

New England is the most export oriented part of the United States. In other words, we export a larger percentage of our manufactured products than any other sector of the country. Now this doesn't mean of course that we haven't had certain sectors that haven't been disadvantaged by foreign competition. If you look at our import vulnerable industries, we have five major industries of that type, rubber footwear, paper mill products, jewelry and silverware, costume jewelry and notions, and motor vehicle parts.

Senator KENNEDY. Add shoes and textiles.

Representative HECKLER. Textiles, sure.

Mr. MORRIS. I think certainly textiles and shoes, apparel. I think it's the basic material rather than the fabrication that is the problem.

But in those industries that I mentioned, between 1967 and 1973, employment declined by 25 percent whereas the employment in manufacturing generally in the region declined by only 9 percent.

So that these import sensitive industries have been hit by trade. But they've also been hit by other things. The fact that costs in other parts of the country are lower. We have lost a lot of the shoe textile industry to other parts of the country; and the higher energy cost of energy would intensify that movement because the textile industry is a large user of energy; but by and large if you look at our overall foreign trade position, you will find that our export oriented sectors are more important to the New England economy and hold a lot more promise for the region than our import vulnerable section.

The major export industries of New England account for about 20 percent of our work force, whereas the import vulnerable industries account for only about 10 percent; and the average wage in the export oriented industries is about 20 percent higher than the average wage in the import vulnerable industries. So I think it's quite clear that the future of New England lies in developing our export oriented industries.

Representative HECKLER. Could you tell us what those industries are?

Mr. MORRIS. Yes. Aircraft and parts, and electronic components, metal working, industrial machinery, office and computing machines, engines and turbines, mechanical measuring and control devices which is the most rapidly growing industry in New England, and plastics and synthetics. These are the things that we export, and these are the industries that pay the highest wages in New England.

So, in conclusion I would expect that as the national economy recovers, and there's no question in my mind that we're now in the early stage of a very vigorous economic recovery, New England will improve with the economy. But I think that we're going to face, for a number of years to come, a gap between the unemployment rate in New England and the national unemployment rate, a gap that's going to persist until we deal with the structural problems that we have in this part of the country, one of which is energy costs.

I think that exchange rate changes have had a very favorable impact on our trade sensitive industries, and I would hope that the current negotiations to promote reduced trade barriers will succeed because I think New England will benefit on balance from a freer trade environment.

And finally, I would hope that the evolving national energy policy will move toward a great equality of fuel prices between New England and the rest of the country, and as I indicated earlier, I think that the key area is the big disadvantage that we have relative to the rest of the country, not necessarily Minnesota, but certainly the Southwest on the cost of natural gas.

Thank you.

Chairman HUMPHREY. Thank you very much, Mr. Morris. I think we'll just continue down the line of our witnesses and we'll make our notes and come back to questions.

Mr. Spring, you are with the Regional Institute on Employment Training and Labor Market Policy, am I correct?

STATEMENT OF WILLIAM J. SPRING, DIRECTOR, REGIONAL INSTITUTE ON EMPLOYMENT TRAINING AND LABOR MARKET POLICY, BOSTON UNIVERSITY

Mr. SPRING. Yes; at Boston University. It's one of the regional institutes funded under the Comprehensive Employment and Training Act by the Department of Labor.

It's a pleasure for me especially to be here—I've been working on these problems for some years—to testify before you, Senator Humphrey, who worked in 1957 when the problem of youth unemployment first came to public attention, for reviving the CCC idea. It's really shocking to see that now all these years later our latest information on black male youth unemployment in poverty is again 40 percent, desperately high.

And, Senator Kennedy, you've worked so hard for community development corporations, Bedford-Stuyvesant, I've been in the hearings there with you. And these are two critical needs as we move toward doing something serious about public jobs, and that's what I want to talk about today. It's really only part of the picture, but it's what I want to talk about.

Public job effort in recent years has really been kind of a guerrilla effort on the part of the Democrats in alliance with mayors and governors around the country against an administration which is opposed in concept and principle and more than effective in cutting out many more jobs through administration policy than we were able to scrape together, something like 300,000 now in CETA anyway, through our efforts in public service employment.

And the fact that we had to put it together is kind of a guerrilla operation. You can't run the country from Congress very well. It has led us into some trouble. Public service employment as you know is in a little bit of trouble in Congress. Everyone feels kind of iffy about it. We're in favor of full employment. We're in favor of public jobs. Some are dubious about putting them on State and local payrolls, especially at a time when State and local governments are often forced to cut back. As Lester said, it's because of the decline in local revenues—if you look back to WPA; and the WPA by no means ended unemployment in the Depression. In 1939 we still had 17 percent unemployment in this country, dreadfully high. In that situation things were reversed. Roosevelt was aggressive. Congress was resistant to action. It wasn't until World War II came that we had a full employment budget in the 1940's.

But we did a lot. In this State for instance, one place where I grew up, we built a swimming pool in Greenfield; we built a sewer in Gloucester; the Huntington Avenue subway here, the airport in Hyannis, all by the WPA. We had brass bands playing in old folks' home; we had food canned and free lunch programs; we had day care. There's a lot that can be done.

But that program was run—even though ideas for the program were suggested at the local level—as a Federal program; and people worked something like 120 hours a month at something slightly below prevailing wages. It was a project-oriented program and very popular for that reason.

Now, we've got in a situation where the public service employment program we now have grew out of the manpower effort of the sixties though it's structured somewhat differently. You remember how it began. We left to Walter Heller and the Council of Economic Advisers the job of getting us full employment, and by God they did pretty well. By the end of the decade, we were down to 3.6, 3.8 percent; and we thought then we'd take manpower and train poor people for those jobs as they opened up. The trouble is, it didn't work.

In the summer of 1967, between Newark and Detroit, 60 people were killed in riots. While we had full employment nationally, it was not reaching the inner city areas.

Willard Wirtz did a study and found that something like a third of the workers in the poverty communities couldn't make even poverty level wages. Our subcommittee did a survey of information gathered in Boston, for instance, and when unemployment was 3.8 percent in the Boston standard metropolitan statistical area, sub-employment, that is, people out of work, part time, looking for full-time work, discouraged workers, or working full time at less than poverty wages, was 22 percent to 22.5 percent. What do you imagine it is today when we have 13 percent unemployment in Boston? Don't accept these levels any more now that the administration has lost interest in measuring with care what's happening in poverty communities, even though the CETA legislation supposedly requires them to do it.

Chairman HUMPHREY. I think that's very important to emphasize. The CETA legislation does mandate that they do it. Of course, that's just the law of the land and don't pay any attention to that, you know, we've got a lot of laws to which nobody pays any attention.

Mr. SPRING. So we have people in the Labor and Public Welfare Committee fighting this guerrilla effort against national policy really to create the beginnings of a serious public service employment program; and we run into some difficulty.

It seems to me that the answer to New England's economic—and I'm not really going to differ from anyone else here—the obvious one, you've got to have full employment in the Nation. As I recall, President Kennedy's first three major speeches in the Senate back in May of 1953 were on the New England economy and he talked about having a TVA for New England, for God's sake. Let's have something like the Regional Commission we've been talking about, a whole series of structural unemployment measures aimed at this region. Well, obviously, we need them again, especially in transportation, energy, doing what we can; but also in the delivery of health, the highest cost area in social services. Why don't we have health centers in every community with diagnostic capability for preventative help, so we don't have to talk in terms of catastrophic care when people become terribly ill.

These are broad national programs. But I think, that public job creation does have a significant role to play, though it can't do the whole job. One thing we can do is work on community development corporations, like Bedford-Stuyvesant or here in Boston, which have community bases and are able to find jobs and to carry out projects. That's a real possibility.

Another thing it seems to me is that the 40 percent youth unemployment rate is unacceptable. It's past time, long past time to get serious about a youth job program. Not the kind that you talk about, stop-and-go financing public works. My God, we've gone summer after summer after summer, we don't get people any money until the last minute and say you've got to spend \$5 million over the coming weekend, and then criticize them in September for not planning carefully. I think we have to have a year-round neighborhood youth corps which is serious, which is well planned. That's a possibility.

Chairman HUMPHREY. You're aware that the President's budget cut that whole program out.

Mr. SPRING. Well, you have to understand we want to leave these things to private enterprise because that's the only way real jobs can be created. If you hire a man to build a road for you with public funds, there's something slightly unreal about it to certain minds. I don't know why.

Chairman HUMPHREY. But I just want to emphasize that the summer youth program has been cut out of the budget, and I would predict, of course, it won't remain that way because the Congress is not that stupid. They're not going to let that happen.

Mr. SPRING. We get back to this guerrilla problem. It's going to be very hard to run from Congress.

Chairman HUMPHREY. Of course, it's impossible.

Mr. SPRING. I was also very pleased to hear the Governor of Vermont talking about the capital shortage. It's really a problem that you're talking about jobs with productivity, with serious payoff. You're talking about jobs that have capital associated with them; and I think we need to have them. You talk about capital institutions for farmers in the Midwest, and I think as you suggested, we need capital institutions for small businessmen and for community development corporations right here in New England.

Massachusetts has recently, as you probably know, passed a law to create a Community Development Bank. Now I think that's a very forward step. But I think we also need a thinking through again of the kind of programs which Congress has in this guerrilla activity I've been describing kind of fragmented. CETA was supposed to provide a way of organizing manpower programs at the local level. Why can't we use that mechanism to organize, not only public jobs programs, but the programs coming through community development revenue sharing, programs coming down the line through public works which all go down through different bureaucracies? Don't you see?

I serve on the Balance of State Prime Sponsor Planning Council here in Massachusetts, and I know that in a number of communities in this State, community development revenue sharing and CETA money is being put together. CDRS money for supplies and equipment, CETA money for materiel.

There's some talk about trying to use unemployment insurance. Twenty billion dollars last year paying people because we didn't have jobs for them. Why couldn't we have laws that made it possible to package some of that, at least after the 39th week when its all Federal money—it's just transfer payment—into jobs.

I think there are some ideas that we ought to pursue. There certainly is plenty of work to be done, but I want to emphasize again at the end that we're not going to have full employment in this country until we go about it, the national administration is committed to it, and plan for it carefully so that we can use all these resources in a sensible manner.

One final thing about CETA: We in Congress were very reluctant to see the Department of Labor lose control of manpower money and put it down at the local level, or we didn't think there was a great deal of readiness to use it carefully. But there is one enormous advantage: It does give us money in every city of any size, any county of any size to know about labor markets, to plan what to do about them. And although, of course, it's catastrophic to give a mayor or a Governor manpower training planning money at the same time you have national unemployment over 8 percent and 10.7 percent New England, what can you plan for? Training didn't work all that well in the late sixties. But it's a beginning of providing a local capability to think through and plan programs. I think that's very important.

Chairman HUMPHREY. Thank you very much, Mr. Spring. Mr. Patrick Caddell, we will welcome you. We are pleased to have you here as a witness today.

STATEMENT OF PATRICK CADDELL, PRESIDENT, CAMBRIDGE REPORTS, INC.

Mr. CADDELL. Thank you, Senator. I'm president of Cambridge Reports, Inc. I suffer the single particular distinction of not being in Congress. What I want to cover here are some of the areas questioned in your letter in terms of consumer attitude, particularly in New England over the New England economic situation, and in general consumer attitudes in the country, and then general attitudes about the Government, and Government and business involvement in the economy. I thank you for the opportunity to appear today.

I think that New England's economic and consumer attitudes are particularly significant in today's economy and that the Government would do well to focus its policies to pay attention to those special regional differences.

The most notable thing about New England, for those of us who look at national public opinion data, is its intense concern about economic development and long-term unemployment. New England has, as the committee members know, many older cities and many industries that have been adversely affected by technological change or which have moved to other areas of the country. What is unique is the degree to which this region has become aware of the extent of the unemployment, the all-pervasive impact of the problem and the willingness to accept the cost of new economic development.

Of course, today the cost of economic development encompasses many different factors:

First: In environmental tradeoffs, you find that there is a support allowing a certain amount of environmental damage in return for economic development, acceptance is as high in Massachusetts as in

any State in the Union. While New England residents are concerned about the environment, they recognize the pressing need for economic development in the region.

Second: On the same level, while New Englanders are as anti-business as any group of voters in the country, they have come increasingly in the past few years to support tax incentives and subsidies for job-creating industries. They are willing to submerge what might be called ideological preferences to practical needs.

And third: The energy crisis has brought home to New England through its dependence on imported sources, whether imported from Arabia or Texas. This has created the greatest regional awareness of the reality of the energy crisis and has made New England uniquely very conscious of the possible alternative sources of energy.

Our surveys have consistently shown New England stands out from the rest of the country in being more concerned about jobs and the broader questions of economic development than about inflation. Of course, most consumers would say that both are pressing problems and would reject the idea that they should make a choice about which one will be solved. Indeed, they have lost confidence in the ability of Government to solve either one. But New England stands out for its concern over its own economic future.

Moving to some broader trends, the broader questions of consumer attitudes, recent surveys have shown the emergence of a new and striking trend.

While consumer confidence has failed to increase in the last quarter—and indeed, while it has dropped slightly—consumers have increased their intentions to purchase a number of durable goods. Two significant trends appear to be at work:

First: Consumer confidence is breaking down as an indicator of consumer behavior because it is based on measures of inflation which are not responding in the normal fashion; and

Second: Inflation psychology, the acceptance of inflation as a permanent and normal aspect of life, is growing.

The breakdown of consumer confidence appears to be the result of the fact that consumers have traditionally used food prices as the basis for making judgments about the overall health of the economy. The cash register was the place where consumers got the information they needed to formulate their overall plans. Yet we have now, apparently, moved into a period of recovery without any decline in food prices or even much lessening of inflation. The consumers have thus become increasingly confused about economic directions.

At the same time, the simple persistence of inflation has convinced people that it is not a problem that will be easily solved. They no longer, as they did a year ago, expect inflation to be eliminated in the near future. Over 40 percent of our respondents in December agreed with the idea that inflation is here to stay and we may as well learn to live with it.

This presents us with an interesting puzzle. While consumers are not particularly confident, while they continue to expect bad times in the future, they are increasing spending plans. This spending will, of course, contribute to the overall growth of the economy. A

dollar spent by an unconfident person is the same as a dollar spent by a confident one. The increased spending may eventually fuel enough recovery to actually restore consumer confidence itself.

On the other hand, any bad news may cause consumers to instantly and dramatically reduce their spending plans. The danger we see most clearly is food price inflation in the summer and fall of 1976. If such inflation takes place, the consumer is almost certain to interpret it as further and conclusive proof that the economy is headed back downward. In the short run, the best thing the Government can do for the consumer in general is to insure in every possible way that food prices do not rise in 1976.

We turn just quickly to the Government and the economy. One striking and consistent finding of recent surveys has been a growing disenchantment with Government's handling of the economy. This is partly the result of the general disenchantment with Government brought on by Watergate and other developments. However, consumers have also increasingly come to feel that Government programs do not work. The last recession, and especially double-digit inflation, eliminated any feeling that the economy was perfectly under control and needed only some fine tuning to work perfectly.

At the same time, our surveys and those of other firms have shown great disenchantment with business and the way the current economy is run. People now feel that business is being run in a selfish and unpatriotic fashion; that the needs of ordinary citizens are being neglected; that excess profits are being made; and so on. Whatever the truth of these arguments, they have contributed a loss of confidence in business that matches the loss of confidence in Government.

The problem, of course, is that while the public wants change, it trusts neither the Government nor business to carry out that change. Indeed, when either of these suggest a change it is immediately suspect by the majority of citizens. The task before the Government is to restore sufficient public trust so it can rally support for public policies.

In the interim, it is clear that the most popular policies are those which seem to punish these evil-doers that the public sees. Excess profits taxes on oil companies, utilities and other businesses are popular. Public takeover of private utilities is now supported by a majority of the electorate in this State and some others. Proposals to break up the oil companies win substantial support. The public supports some general Federal planning of the economy, though they turn negative when the Federal role is described or outlined as management.

We turn finally to consumer spending patterns. The most notable thing about consumer spending patterns, as I have pointed out to the committee before, is the extent to which they have been influenced by inflation, particularly food price inflation. Perhaps the most tragic event of 1975 from the consumer viewpoint was that in the spring consumers saw food prices fall and built up a hopeful expectation that the economy was turning for the better. This hope was crushed by renewed food price inflation during the summer. The falling off of confidence in the latter part of 1975 can be attributed almost totally to renewed inflation.

Short-term spending patterns have shown a recovery. Consumers are now planning to buy more durable goods. While auto purchase intentions have leveled off, they are at a level substantially above those of a year ago. Plans to purchase clothing are up sharply, indicating that consumers are replacing many garments they allowed to wear or made do during the course of the recession.

However, the notable factor is how much of this spending is being done by unconfident individuals. Both short-term confidence and long-term confidence are down. Consumers do not believe that the recession is over. Substantial numbers do not feel their personal economic situations or their real income will increase over the coming year. This helps to explain the considerable caution that underlies their current spending. Consumers are trying to finance purchases out of current income. They show considerable reluctance to increase debt levels or deplete their savings.

As I said earlier in strict economic terms it makes little difference whether the dollar spent is a confident one, spent with expectation of an improving economy, or a despairing dollar, spent with the expectation that prices will rise and the economy will stagnate. Spending by unconfident people, however, could end tomorrow if food price inflation is reheated or unemployment rises dramatically. The potential for a crisis is much greater in the current situation simply because so many consumers don't really believe in the economy. Economic leadership will have to find ways to stave off the crisis, not merely by public relations and resounding gestures, but by actions that reassure the housewife in the checkout line. As far as the consumer is concerned the final verdict on the health of the economy will be announced not in the Congress but at the cash register.

Chairman HUMPHREY. Thank you very much. I hope you factored into your projection the possibility of drought in the cereal and grain producing sections of the country.

Mr. CADDELL. That's a major concern we've been looking at, Senator, in terms of that renewed food price inflation and what that might do to what is a tenuous recovery at best at the moment.

Chairman HUMPHREY. Mr. Howell, of the First National Bank of Boston.

STATEMENT OF JAMES M. HOWELL, SENIOR VICE PRESIDENT AND CHIEF ECONOMIST, FIRST NATIONAL BANK OF BOSTON

Mr. HOWELL. I'm pleased to be here. My name is James M. Howell. I'm a senior vice president and chief economist of the First National Bank of Boston. Over the past 6 years, I've had an opportunity to conduct a considerable amount of regional economic research in the New England economy. And I'm here today to talk about capital spending problems in the New England economy.

The essence of the problems that we're confronted with today in our region is a cumulative lag in regional capital spending. For instance, in the 1960's New England's capital spending share of manufacturing of total capital spending ran about 4 to 4½ percent. By the early 1970's, this ratio started to slide and our analysis suggests

today that our relative share of capital spending for manufacturing here as a part of the total has slipped below 3 percent. The result of this has been very clear; namely, the average age of capital equipment in manufacturing here is 11-plus years. In the rest of the Nation it's about 8 years.

And to some extent, sir, the lagging regional capital spending explains a large part of our problems with unemployment. Thus New England, I think, faces a very special challenge today; namely, we must catch up on our capital spending to lower unemployment and to resolve in general our region's unemployment and our region's problems of lagging prosperity.

This is an economic gain and every capital dollar that is spent must have the maximum impact on jobs and income. That's an important point. To deal with these pressing problems—and I'll not dwell on them because Governor Salmon covered these in some detail—the New England Governors and the Regional Commission created along with 17 individuals in the private sector from banking, business, manufacturing and, yes, including organized labor, a special Task Force on Capital and Labor Markets. Governor Salmon has already commented on the fact the Task Force came up with 12 specific recommendations.

I am here to comment specifically on the recommendation to create a New England capital corporation, or if you like, a regional development bank. We're all aware of the fact that there are gaps in capital markets. There should be gaps because there is never enough capital to go around to finance all the projects, and some legitimate needs must necessarily be left out. That's the way a market economy works and that's the way those of us in banking allocate capital. But the task force identified two gaps that I think are particularly troublesome to New England firms.

Gap No. 1 was a senior debt gap involving relatively long-term capital borrowings for small, efficient and growing New England firms, borrowings in the amount of 10 to 20 year debt over this period of time of firms which do not have, because of visibility problems, additional access to debt in equity markets.

Gap No. 2 was a venture capital gap which is, as you are well aware from the past several years, the virtual disappearance of the venture capital market and its very deleterious effect, I might say, on the start up especially of high technology firms. The second problem, or the subset to the venture capital problem is the virtual disappearance of the new issue market which has made it very, very difficult for the venture capital firm or the venture capitalist to get out of the new start up.

For example, in our bank, in our small business investment corporation, we literally have millions of dollars that are locked into venture capital startups that we cannot free up because of the absence of the new issue market.

This is a particularly troublesome problem to us here along the Route 128 high technology firms since they're the backbone of our future.

But let's talk positively today about closing this gap. Over the past 2 months, a group of bankers and financial experts have met—

and this is to answer more specifically a number of the questions that were directed to Governor Salmon—they're working very, very carefully to create this corporation. It is envisioned that it would be \$150 million for-profit corporation. The \$150 million will be raised from a number of sources but entirely from the private sector. It is our feeling that it will be absolutely no problem within reason to raise \$150 million worth of debt capital from existing banks and insurance companies of the New England region to get this problem solved.

If we match the \$150 million judiciously, with \$150 million as a gap filling event, we should be over the leverage of \$300 million to support in time corporate sales of an excess of \$1 billion. If you make some usual sort of assumptions about the average value added and the production process that would create 50,000 prime manufacturing jobs. Assuming a multiplier of two, we're talking over time of creating 150,000 total jobs in the region; and with a total unemployment of about 700,000 that's not bad country boy arithmetic.

What do we want from the Federal Government?

First: We wanted you to know that we're doing something up here in New England about our problems. We're really tired of everybody from Texas telling you that they're solving their problems, because we're doing something up here.

Second: And what we're doing most especially, is building a New England capital corporation. And I think—

Chairman HUMPHREY. Where are you from originally?

Mr. HOWELL. Texas. Senator, now I'm from South Boston.

Second: We would like to ask your support of innovative programs such as considering accelerated depreciation for new investments that arise in areas of high unemployment. This is a particular problem for us here in New England, and the rationale is very clear because almost all of our areas of high unemployment are the older urban areas that have high population densities and existing but underutilized infrastructure and potentially face the same problems of New York in the next several years.

Chairman HUMPHREY. I believe that's the first time today we've heard that suggestion. I want to commend you. I think it has considerable merit; and I've been rather surprised it hasn't been brought up earlier.

Mr. HOWELL. One of the reasons, sir, is probably because you've had some New Englanders testifying.

The final factor that I ask for you to consider—I propose it with some reluctance—is to consider the stretching out of compliance with a number of Federal programs until New England is able to close its capital gap. For example, their own EPA analysis shows that the dollars to satisfy the current Clean Air Act will raise electric utility industry's capital requirements by \$35 billion over the next 15 years. That's about \$1 billion in New England that's got to be spent to fulfill existing clean air requirements.

Under the Clean Air Act amendments now pending before Congress, the capital costs for electric utilities will go up another \$11.5 billion or another \$500 million for New England. As that gets

passed through, as surely it will, for every New Englander that will mean about \$100 more on their electric utility bill that you are legislating by fiat.

We think some necessity is important to stretch this out now during a period of capital crisis. For instance, No. 2, our recent capital spending survey of New England manufacturers suggested about 7.6 percent or \$10 million of all the capital spending in New England last year by New England manufacturers was spent to fulfill OSHA requirements. Now, admittedly, we're for clean air in the First National Bank of Boston and we're for safer plants, but we're also for lower unemployment. And given the critical lag of our region's capital spending, there is a need to make, I think, every investment dollar count to create jobs and to raise income; and I think that's the name of the game.

And my view as a business economist is very clear. I want jobs and incomes here first. I think that's got to be our first commitment. And it seems to me we are left to conclude that sometimes here when as much as we would like to have clean air and safe plants, that when we don't have enough money to go around and we're trying desperately to catch up on the capital side, that these investments are not compliments as one would like for them to be, but in the short run, they must be viewed as substitutes.

Thank you very much for the opportunity to testify.

Chairman HUMPHREY. Thank you, Mr. Howell. Let me assure you that one of the things that this committee has interested itself in is the economic impact of new legislation and new rules and regulations. I think your point is well raised here as to when we consider new standards, whatever they're in, whether it's water or air or industrial wastes, whatever we're talking about, that at least we know not only what the governmental cost is but what is the total economic impact felt in terms of capital markets, jobs, competition, competitiveness; and I think all of that is necessary. And we welcome your very constructive suggestions.

Mr. Jones of the Lena Park Community Development Corp.

STATEMENT OF PAT JONES, DIRECTOR, LENA PARK COMMUNITY DEVELOPMENT CORP.

Mr. JONES. Yes, the Lena Park Community Development Corp. is located in Dorchester in the city of Boston. It was founded in 1968 with the help of the Federal Government through a neighborhood facilities grant. The park is a 62,000 square feet facility. We provide day care services for children of working parents. We provide after school programs, tutorial and counseling, advocacy and counseling as well as serving as a liaison between the inmates of Concord Reformatory and that community.

We serve approximately 850 persons per day. The board in 1970, because of the inconsistencies and the lack of continuity on the part of certain Federal programs, voted that we would try to look to the private sector to finance and so as to insure the institutionalization of some of those services.

We also conduct from a three-story house in Dorchester a community residence for eight mildly retarded individuals who have been returned from the State mental institution. I might just add, we have to subsidize that particular program.

Mr. Chairman, and distinguished members of the Joint Economic Committee, I thank you for the opportunity to speak about some of the problems of unemployment in Dorchester. It seems to me that jobs and income are an integral part of the social matrices from which other relationships evolve. The very absence and denial of a decent job and adequate level of income commensurate with what is the maximum requirements of this society seem to relegate persons to a level of suffering inconsistent with the guarantees of the Declaration of Independence and the U.S. Constitution.

Mr. Chairman, in your invitation you asked me to describe the Lena Park programs which I have done; and then to talk about the kinds of actions of the Federal, State, and local government which would greatly assist organizations such as Lena Park to do a better job.

While the 23 member board of directors and the staff of Lena Park are generally pleased with our impact and results in the community, we realize that we are barely scratching the surface of human needs. I might add, however, that the work we are doing is critically important to the well-being of citizens in this neighborhood. I would like to correct some of the notions that some of the panel has shared earlier.

The fact is that 40 percent of the population in our area is under 18 years of age; that the median income of \$6,120 is some \$3,000 less than the citywide average; that the unemployment rate for blacks is twice that of the city's average, or approximately 26 percent, and 39 percent for Spanish-speaking persons; that teenage unemployment hovers, not around 40 percent, but around 52 percent; then it becomes all the more obvious that there has to be massive and immediate positive program input into the area by government, business, and labor.

In more concrete terms, the severity of the problem can be gleaned from at least two Lena Park experiences. Last summer we conducted a day camp for 825 youngsters, 7 to 17 years of age. We only had provisions for 165 job opportunities; yet we knew of 200 additional youngsters to whom we could not offer jobs. And yet another experience through the federally funded treatment alternatives to street crimes, juveniles, we had 10 jobs that were available and on a Sunday in a local newspaper we placed an ad. By Monday afternoon at 5 o'clock, we had 350 applicants for 10 jobs. Examples abound.

It appears that the problems of the inner city can no longer be treated or focused on in isolation from the functioning of the central core city. The interdependence of these areas is no more apparent in any eastern city, particularly Boston. Thus, when you begin to devise corrective measures and solutions to the problems of the city, an equal responsibility for distribution of resources in accordance with need is essential.

In a recent survey of office workers, which totaled approximately 45,612 persons, it was found that only 31.1 percent of employees in

office buildings lived in Boston as compared to 35.9 percent of the 535,000 jobs in the city which are held by Boston residents.

A further breakdown indicates that only 2.2 percent of the office workers lived in Roxbury; and 4.4 percent in Mattapan. South Boston fares even worse in that only 1.1 percent of the office jobs are held by South Boston residents. Since the Roxbury and Mattapan areas are not exclusively black, these figures could well be misleading if one relied totally upon them to reflect black employment needs.

It is apparent that the lack of training opportunities compounded with discriminatory employment practices denies residents of the poor communities equal access to the labor market.

Mr. Chairman, skill requirements and job requirements are just not meshing. A further survey of Boston's total personal population needs as it relates to growth potential, indicates that 50,000 persons are in need of training, yet the city has funds only to train 7,000 persons.

Mr. Chairman, what I have tried to illustrate is that the Full Employment and Equal Opportunities Act is very much needed to meet the needs of black, minorities, and residents of depressed central cities such as Boston. For the act to achieve its ultimate goal, there must be additional policies which address transportation, housing, and education needs. Additionally, the question of metropolitan government must be given full and serious consideration.

To move immediately to address the broader implications of the Full Employment and Equal Opportunities Act, I recommend that, one: There be increased Federal revenue sharing with a formula which considers the special needs of cities and with designated appropriation or percentage allocation to meet inner city needs. Two: There must be increased Federal aid to education that is designated to meet the critical projected needs for manpower training. Three: The Federal Government help to revive the public bond market by arranging an instrument similar to the Federal National Mortgage Assistance of the Fannie Mae program, which could conceivably greatly assist the secondary bond market. Four: That a Federal Urban Development Bank, similar to the World Bank, be established to aid the underdeveloped and overtaxed cities of this country with special and specific attention to the inner city. Five: That the act would encompass an information and dissemination arm whose specific responsibility would be to collect data relevant to manpower needs and in that light project future training needs for the country. Six: The Federal Government must move vigorously to enforce the many statutes which guarantee black and minority involvement and participation in all manpower programs.

Finally, the Federal Government under the Full Employment and Equal Opportunities Act working in serious concert with private industries and labor sections produce jobs which would lead to the reduction and consolidation of benefit programs. For example, welfare, medicare, and unemployment, so as to raise living standards commensurate with minimal needs and reduce the cost to the taxpayers and the several levels of government.

While my recommendations are not stringent or terribly difficult to deal with, they represent the minimum which must be done to

restore the confidence of millions of alienated and disenfranchised Americans. Many blacks in Boston now feel that every 100 years there are gains which are made incrementally for 5 years, to assist us in gaining equal access to manpower and other resources, and then the remaining other 95 years are spent in efforts to reject, defeat, and deny that progress.

As we move into the third century, let us make every effort to dispute that fact. Let us move to restore the gains made during the administrations of the late John Fitzgerald Kennedy and Lyndon Baines Johnson. Let us move beyond that to the true and complete fulfillment of the American dream for all American citizens.

In closing, I would remind you of President Lyndon Johnson's remarks made in his commencement address to the graduating class of 1965 at Howard University. He said:

But freedom is not enough. You do not take a person who for years, has been hobbled by chains and liberate him, bring him to the starting line of a race and then say, "You are free to compete with all the others," and still justly believe that you have been completely fair. Thus, it is not enough just to open the gates of opportunity. All our citizens must have the ability to walk through those gates. This is the next and the more profound stage of the battle of civil rights. We seek not just freedom, but opportunity. We seek not just legal equality, but human ability. Not just equality as a right and a theory but equality as a fact and equality as a result.

Even in 1975, this remains a goal for blacks and other disenfranchised persons. I would hope, Mr. Chairman, that we will not have to wait until 2064 to realize yet another period of 5 year increments. I would hope that within this decade this country would move to assure these human rights for everyone.

The Joint Economic Committee of the Congress has a golden opportunity to begin to restore that vision by providing job opportunities for all Americans who are willing and able to work. Thank you.

Chairman HUMPHREY. Thank you very much, Mr. Jones.

Our final witness on this panel is a State Senator from Maine, Mr. Reeves. We surely welcome you here. It lends a further dimension of the regional aspect of this hearing.

Following you, Mr. Reeves, I will ask my colleagues to make any statement they wish or to offer questions for our panelists. Go right ahead.

STATEMENT OF HON. BRUCE M. REEVES, STATE SENATOR, MAINE LEGISLATURE

Mr. REEVES. Thank you, Mr. Chairman. I am a family farmer from District 20. I live in Pittston, Maine. I am also chairman of the Joint Select Committee on Jobs of the Maine Legislature. I think it is appropriate that I am representing the State of Maine today. I am at the end of the line. I am sort of half on the table and half off the table, and almost everyone has gone.

Chairman HUMPHREY. The quality is all here.

Mr. REEVES. But you are here and Senator Kennedy and Congresswoman Heckler are here and I appreciate that. We have made the stand that we have to act on our own and that is why we formed

this Committee on Jobs last spring. The unemployment rate in Maine at that time had reached 12.2 percent and in some counties it was 24 percent. The Maine Legislature said that jobs were the number one priority, so we held hearings all around the State. We heard from labor people, business people, from politicians and even from the unemployed themselves. I would like to incorporate our first committee report into your record if I may, Mr. Chairman.

Chairman HUMPHREY. Yes; without objection, it will be incorporated into the record.

[The report referred to follows:]

MAINE JOBS—A DEMONSTRATION PROGRAM FOR PROJECT-ORIENTED PUBLIC JOBS

A Proposal of the Joint Select Committee on Jobs of the 107th Maine Legislature

I. INTRODUCTION

On March 24th, 1975, the Joint Select Committee on Jobs was created by the Maine Legislature. The Committee was mandated to:

1. "Examine the effectiveness of the present employment programs for the State including that conducted under the Comprehensive Employment and Training Act";
2. "To establish priorities for the use of public service jobs under the Comprehensive Employment and Training Act (CETA)"; and
3. "To consider new programs and methods in which the State can respond to the present unemployment problem."

After a series of public hearings on the unemployment problem in Maine during which time expert testimony and public opinions were received, an initial report was prepared by the Committee.

The Committee's findings: the severe problem of unemployment in the State of Maine will remain for at least the next five years; and, given the nature of the problem, that governmental action represented the only immediate solution.

The Committee found 12.2% of the work force unemployed and two million dollars a month of federal tax dollars being paid directly to Maine's unemployed. Furthermore, it was determined that this amount was increasing as more and more employees moved into the extended benefit periods permitted under recently amended unemployment compensation laws.

The Committee also found that citizens who were using unemployment benefits preferred to work rather than taking an unemployment subsistence allowance.

Accordingly, the Committee recommended "That the State Government take all practical steps to squeeze more jobs out of existing resources and to create more state supported public service jobs to put Maine people to work on jobs that need doing in the public sector. Such steps will require reorganization of present manpower programs."

The Committee recommended a shift of focus in the present federally funded job creation program from civil service slots to specific projects similar to the effective techniques used by the Work Projects Administration (WPA) and the Civilian Conservation Corps (CCC) of the 1930's. The Committee suggested that community involvement at the local level be used extensively in developing ideas and setting priorities for these project-directed slots.

The Committee further recommended that the considerable number of dollars necessary to support an individual as an unemployed person should be more fruitfully allocated to provide people with jobs that would be more meaningful for the individual as well as beneficial for the State. The approach recommended was one that would avoid accusations of positions created merely to "make work", or to provide federal subsidy for local government payrolls and political patronage.

While the recommendations listed above are not the entire list of recommendations made by the Committee, they are the recommendations which support this proposal as detailed below.

This proposal is based on an assessment of several successful experiences, including the Canadian Local Initiative Plan and the Community Services Administration's Winterization Program—a national program based on Maine's successful demonstration "Project Fuel."

At the present time this proposal is largely conceptual. Nevertheless even in its present form it is implementable—the work intensive projects discussed below can be started within 6 weeks of this proposals funding.

II. BACKGROUND TO THE PROBLEM

A. Unemployment

During the first four months of 1975, official unemployment in the State of Maine exceeded twelve percent (12%) of the work force. The summer tourist industry helped reduce that percentage to 9.6% by the end of July. Based on data accumulated for prior years, after this seasonal decrease, the number of unemployed persons will swing sharply downward beginning in November and continue its rise through the winter.

With over forty thousand (40,000) of Maine's four hundred fifty thousand (450,000) person labor force unemployed, with the actual unemployment rate being appraised by many experts as several points higher than the reported rate, and with another eighty thousand (80,000) of the labor force in the under-employed status—working part-time because a full time job was unavailable or working full time but making less than a poverty level wage,—there is recognition of an emergency problem that will remain with the State of Maine for at least the rest of this decade.

Furthermore, since Maine's unemployment rates are historically several points higher than the national average, it is highly unlikely, given the national estimates of unemployment, that private employers in Maine will be able to return Maine's unemployment rate to the seven percent (7%) level.

Thus, for the immediate future the solution to Maine's unemployment problem must lie in government action. This proposal on behalf of the State of Maine represents an opportunity for both the State and the Federal Government to combine their efforts to deal with severe unemployment in a Demonstration Project that will have immediate and substantial benefit to the unemployed of Maine, as well as to the unemployment problems of other states that will benefit from this prototype program.

B. CETA

This proposal assumes a concentration of CETA funds to project-oriented activities of a public works nature. This designation of available CETA dollars from Fiscal Year '77 funds is expected to demonstrate the benefit of a public works program over a public service program. This experience will aid the Department of Labor in determining a program policy for future funding years. These CETA funds would be combined with available funds from other sources to provide necessary jobs for community-determined public improvements that will last far beyond the funding period.

C. Unemployment compensation

Prior to December of 1974, the Federal Government maintained an insurance program that backed up state unemployment insurance systems. However, with the adoption in December of Emergency Unemployment Compensation Act of 1974, the Federal Government began to provide 100% subsidization for extended benefits to unemployed persons who have exhausted their thirty-nine (39) weeks of coverage under previous legislation.

This legislation requires two (2) million dollars a month in federal unemployment tax dollars to be paid directly to Maine's unemployed people. The prospects of an ever increasing allocation in the future presents a frightening picture when coupled with the realization that people want to work and work needs to be done.

Recent figures (Maine Employment Security Commission Research and Economic Analysis Branch) indicate that the assistance under the extended benefits has increased two and one-half (2½) times since the program's beginning. By the end of August, over 5,000 people had exhausted their benefits through the 39th week, and were into the one hundred percent (100%) federally financed period. Over 2,000 people had already exhausted all 65 weeks of benefit assistance.

Prior to December, 1974, the federal unemployment insurance fund was restricted to providing only benefits to unemployed workers. Through the provisions of Section 103(g) of the Emergency Compensation and Special Unemployment Insurance Assistance Extension Act of 1975 (P.L. 94-45; 30 June, 1975) unemployment compensation can be paid to an individual even though he is in a position generally characterized as "on the job training". This important improvement in the unemployment insurance laws appears to permit the packaging of insurance funds for use by working people. When an individual reaches an extended benefit period in which the Federal Unemployment Trust Fund is paying one hundred percent (100%) of that individual's unemployment compensation, then it is clear that the individual won't lose his unemployment benefits eligibility while engaged in a training program. The obvious benefit to our proposal is that the same individual may continue receiving unemployment compensation while engaged in a work training program. We suggest that the individual be permitted to participate in a work program where the unemployment compensation forms the core of a salary package paid directly to the individual.

While this is a novel interpretation in the use of that section, nothing known to date prevents that type of application: no regulations have been issued by the Department of Labor in regard to that section, though discussions are being held; no directives have been issued by the Federal Manpower Administrator concerning those provision; nor have any directives been issued by the Regional Administrator concerning that section. This proposal might influence that process by showing the public benefit to an expansive interpretation.

Thus there is nothing presently known to prevent the innovative use of these funds in a program that does far more than pay people while not working. The unemployment insurance fund was not created to be what in fact it has become: a system that maintains unemployment. We suggest that it is in keeping with the spirit of that program's initial intent to promote re-employment of the unemployed by permitting them to work without penalizing their benefits. Rather than to provide subsistence for unemployment (with the risk that it may discourage re-employment), we propose to permit individuals to take public work jobs with their insurance benefits being used as a part of their wages.

D. Other Federal programs to be coordinated with public jobs

The Housing and Community Development Act allotted in fiscal year 1975 over fourteen (14) million dollars to metropolitan and non-metropolitan communities in the State of Maine. It is estimated that for fiscal year 1976 a similar amount will be awarded. These programs are project-oriented, and many—even those not presently receiving funds—are extremely labor intensive.

Revenue Sharing will see another fifty-four (54) million dollars allocated to what broadly may be defined as capital expenditures for economic development.

This past August, the Department of Commerce announced that it was releasing over 350 million dollars under Title X of the Public Works and Economic Development Act of 1965. This new source of additional funding is reserved for Labor Intensive Public Service Projects. It appears well suited for the purposes outlined in this proposal.

Of particular interest is the Housing and Community Development Act's discretionary grants. This is the Secretary's Discretionary Fund, a little known section of the Act which is usually confused with the discretionary funds allocated to each state. Fiscal year 1975 allocated more than \$20,000,000 to the Secretary's Fund, with 90% of that allocation reserved for "innovative community development projects". An innovative project is one which "encompasses a concept, system or procedure that is unique, advances the state of the community development art and has the potential for transferability".

The priority areas for fiscal year 1975 included those projects that were designed to enhance the rational use of energy for community development—an example of the type of program that would fit in this priority category is depicted below as a hydro-electric dam project.

Fiscal year 1976 foresees anywhere between 20 and 40 million dollars being allocated to the Secretary's Discretionary Fund. While the priorities for funding may not be an excellent source of funds for some of this proposal's proj-

ects. Based on direct conversations with the Secretary's office in Washington, we will be receiving copies of fiscal year 1976 regulations by the end of October.

It is the Committee's intent to promote creation of public work jobs by seeking an allocation from these available funds to support the public jobs program of this proposal. Furthermore, in addition to direct allocation of funds from these sources, public work jobs should compliment the existing economic development projects supported by both the Revenue Sharing and Community Development Programs.

III. THE PROPOSED DEMONSTRATION PROGRAM FOR PROJECT ORIENTED PUBLIC WORK

A. Introduction

We believe there is a need for a demonstration project that can quickly provide jobs to unemployed people, that can minimize inflationary effects of federal spending by reallocating existing funds under previously funded federal programs, that can create public improvements that local communities select as their priorities, and that can provide the nation as a whole a beneficial experience for future policy.

We suggest a shift of federal focus away from the present attitude of funding civil service slots and toward a focus on specific projects selected by local initiative groups with minimal bureaucratic delay and involvement.

We propose what we regard as an innovative approach to job creation by coupling existing federal funds from the CETA program and the Community Development/Revenue Sharing Acts with Federal Unemployment Insurance Compensation to put Maine's unemployed back to work. In using *existing* funds the program does not call for "new" federal money and is therefore non-inflationary. By using *existing* agencies and previously proposed projects, the program is immediately implementable. We propose through a demonstration project to prepare a mechanism that can in the next five years of our unemployment crisis be expanded, refined, and made more efficacious in creating jobs for people and in performing necessary work for communities.

We propose the creation of a Job Fund to finance public work projects selected by the community to be affected, and funded from the following federal programs: (1) Federal Unemployment Insurance Fund; (2) Comprehensive Employment and Training Act; (3) Housing and Community Development Act; and (4) Revenue Sharing.

B. Canada's local initiating program

Representatives of the Committee have spoken at some length with the Provincial Manager of the Canadian Local Initiatives Plan for the Province of New Brunswick, Mr. Guy Thibodeau. New Brunswick, with a population of under one (1) million people, a large rural land mass, and an unemployment rate of about twelve percent (12%), is quite similar in all these respects to the State of Maine. That experience, coupled with Maine's own innovative program "Project Fuel" is the basis for this proposal.

In New Brunswick the administrative expenses for managing a five and seven-tenths (5.7) million dollar program involving 361 different projects and over 2,000 people is remarkably under \$500,000.

C. Proposed operation for Maine program

The nature of the emergency situation demands a program that can be implemented immediately and be made operational with the least amount of lead time as well as with a minimal amount of bureaucratic involvement and diluted decision making. Accordingly we propose to establish within the existing planning mechanism of CETA the following elements in managing this program:

1. *A fund for public works*—it would be composed of monies from various sources including the unemployment insurance fund, the state allocation under Community Development and Revenue Sharing Programs, and finally an allocation of CETA monies;

2. *Trustees of the fund*—the State Manpower Services Council would allocate funds through the Office of Manpower Planning and Coordination (OMPC).

The Council would review applications submitted for use of the Trust Funds. The Office of Manpower Planning and Coordination would contract with local sponsors, monitor performance and assure the minimum expenditure of administrative funds (not to exceed 10%).

3. *Sponsors*—anyone is eligible to be a sponsor of a public works project, including public and private non-profit agencies.

4. *Guidelines*—Guidelines for screening proposals would include the following: (1) Project oriented; (2) labor intensive; (3) with minimal allocations for overhead; (4) geared to structural community betterment; (5) immediately implementable; (6) complimenting existing community development efforts; (7) short-term; (8) highly-visible; and (9) equitably distributed.

5. *Project contracts*—Upon contracting with the sponsor of the project, the Manpower Council's responsibilities are to insure compliance with the terms of the contract. Those terms are the guidelines upon which the awarding of contracts were based. For the sponsor's benefit, those conditions could be defined from its perspective to permit the following:

1. A work training allowance over and above unemployment compensation to provide an incentive to the worker to get off unemployment compensation;

2. The sponsor would receive wages to permit his supervision of the employees;

3. Through the work training contract the sponsor would cover fringe benefits, sponsor's overhead expenses, and materials used in the project.

D. *Projects*

There are numerous projects of a labor intensive, immediately implementable nature that have been proposed by local communities during the present calendar year. At the present, these projects remain unfunded while workers go unemployed, and while two (2) million dollars a month in federal tax dollars sustain them. The approximate cost for the following possible projects range from under \$10,000 to \$500,000.

1. *Elderly home repair*—Maine's Council on the Aging, and its five Regional Task Forces that cover the entire state, proposes to establish five teams to perform maintenance and repair services on housing owned by the qualified elderly.

2. *Bangor's Bass Park project*—The City of Bangor has proposed a labor intensive project relevant to improvement of its Municipal Park. Activities include installation of walkways, footbridges, and some temporary campsite areas, as well as the construction and installation of park furniture and fencing. This project would require 60 worker trainees.

3. *Fryeburg Municipal Park*—The Fryeburg Conservation Commission had proposed the development of a four (4) acre municipal park located in Town. The land to be developed has already been obtained through donation.

4. *Georgetown Community Building*—Georgetown has plans to construct a community building to provide much needed meeting space for various community-wide programs involving youth groups and elderly citizens. The proposed building will also alleviate the pressure on the existing school facilities by providing a location for annual and special town meeting as well as serving the duplicate purpose of providing a gymnasium and auditorium for the adjacent grammar school.

5. *Mercer Community Building*—Similarly, Mercer has sought funds for a community building. That project could provide an additional ten jobs.

6. *Hydro-electric dam restoration*—A statewide dam-restoration project could, with more lead-time than other projects discussed, provide as many as 400 jobs to a wide range of unemployed persons, while at the same time acting to establish hydro-electric power as an energy source for the countless numbers of communities once serviced by these dams.

7. *Lead-based paint removal*—A statewide "de-leading" project could provide 40 more worker-years of jobs for under \$300,000 and detoxify residences from the hazards of lead-based paint.

8. *Deater Recreational Center*—The Town of Dexter's proposal for the construction of a much needed recreational center to replace an inadequate wood structure could provide some 17 worker-years of employment at a cost of \$125,000.

9. *Maintenance of ocean beaches*—The Towns of Scarborough, Old Orchard Beach and the City of Saco would sponsor a simple project to maintain the beaches at a cost of \$15,000 and with immediate, short-term impact on the job market.

10. *Human services jobs for women*—A statewide program geared to the specific employment problems of women could easily provide 15 worker-years of employment in social service areas such as health, the arts, counseling and teaching at a cost of under \$125,000.

11. *Holden Fire Station*—There is a need for the construction of a fire station in the Town of Holden which would provide approximately seventeen (17) jobs at one hundred thirty-five thousand dollars (\$135,000).

12. *Southwest Harbor Park*—The development of a town owned park in Southwest Harbor would provide ten worker-years of employment at under ten thousand dollars (\$10,000).

13. *Development of State-owned land*—The development of state-owned land for public use in the Town of Roque Bluffs could provide another ten jobs at under \$70,000.

14. *Construction of municipal garage*—The construction of a municipal garage in the Town of Enfield would provide three worker-years of employment at a cost of \$25,000.

15. *Kennebec River Greenbelt*—Citizens of Augusta have proposed the creation of a "Public Greenbelt" on the east bank of the Kennebec River.

16. *Sherman Lake fishway*—The Department of Marine Resources has proposed construction of a "fishway" at the outlet of Sherman Lake in Newcastle.

17. *Repair of bridges*—The Legislature has passed legislation for the repair of bridges in Baxter State Park.

18. *State veterans home*—The Legislature passed legislation to establish a State Veterans Home.

19. *Repair of dam at Annabessacook Lake*—There is need for the emergency repair of the dam at Annabessacook Lake in Kennebec County. The Legislature passed legislation to effect these repairs.

20. *Construction of site and facilities for Casco Bay Island Ferry*—There is need for the construction of a site and facilities for Casco Bay Island ferry services and the repair of other such ferry facilities. Such legislation was passed.

21. *Flood warning devices*—The cities of Hallowell, Gardiner and Van Buren have requested the installation of flood warning devices on the major rivers in the State. The Legislature passed legislation to provide such warning devices.

22. *Repair of Dead River Dam*—The State-owned dam on Dead River in Androscoggin County is in need of repair and maintenance. The Legislature agreed but the act was not funded.

23. *Rebuilding dam at Lake Wesserunsett*—The dam at Lake Wesserunsett in the Town of Madison in Somerset County is in need of rebuilding.

24. Other potential public improvement projects of a labor intensive nature such as a rural road improvement program (untended now in the absence of money in the legislatively created Town Road Improvement Fund) and the preparation of access roads to public and industrial parks. Again the legislation exists but the funds are unavailable for these labor intensive projects.

Mr. REEVES. Basically what we found is this: That we had bad times ahead, at least for the next 5 years and we did have to look to our own means to do something about it. What we found that Maine people wanted was a practical solution. They wanted us to make do with what we had. One thing that we found most of all was that this policy of extended benefits for unemployment was really resented.

They felt that putting people on these 65 weeks of unemployment benefits was like getting hooked on drugs. What came out most of all was that people in Maine wanted a day's pay for a day's work. So we asked what we could do instead and we have amassed a whole list which is in my committee report of community work projects. These include things like home winterization programs, which I know, Senator Kennedy, you have a bill planned on and which is a very successful program in the State of Maine. We are trying to bring the railroad back to Maine where we haven't had passenger

service since 1966. We have fisheries to build; we have parks; we have economic development parks. We would like to have a home-maker service, a program for the elderly so we can keep them in their homes instead of putting them in institutions at sometimes 10 times the cost.

My own conclusion from it all was that we need your bill, Senator Humphrey, H.R. 50. We need a guaranteed job for everyone in Maine and in the country.

One of the bad things that we've found was that the long-term unemployment was demoralizing the people who were unemployed. We found family counselors talking to us about people turning to alcohol, divorce, beating their children; of middle aged workers whose early retirement meant the end of their working career, that they had no further hope.

When I wasn't in these hearings and working in the State senate, I'd go around knocking on doors and talking to people. Maine is a State of very small towns. Portland is the largest and that has less than 90,000. What I found in talking to people at their doors was that they felt that people were cheating. That this whole system was making people in their community cheat. There wasn't one town that I found that they didn't know someone who was cheating that shouldn't be getting unemployment compensation; that should be working; that was getting food stamps that certainly didn't deserve it. What they didn't realize was that the people who were on unemployment compensation didn't want to be on unemployment. They wanted a job. I think that's what we started with. Our committee felt that while we wait for this deliverance from Washington, we had to work out our own program. So we started out by inviting the Manpower director from the Province of New Brunswick, which is our neighbor to the north, and they have a program called the local initiative program which I know your committee is aware of. The program basically lets the unemployed people or local community organizations plan projects that will help the community. The success of this program is just fantastic. It went over very well in the State of Maine; and it proved to us that we could do the same thing. We took sort of a sampling poll and found that some 90 percent of our people want this WPA and CCC type of approach, but with the jobs planned not at the State level, or the Federal level, but by the Lion's Club, the Methodist Church, by the town selectmen and by the unemployed people themselves, knowing that if they plan their jobs there's no worry.

We feel that with a program like this we could put 10,000 people to work, but that's just a quarter of our unemployed. I had hoped to impress you with the fact that we spent \$79 million in Maine last year to keep these people unemployed. I heard much higher figures from the State of Massachusetts and other places this morning; but in Maine that's a lot of money. We try to apply these principles that we learn from Canada, that we learn from our hearings into a State based program. Every time we did we'd find that some bureaucrat in Washington would write us a four-page, single-spaced letter telling us you can't do it. That's partly what I'm here to ask your help on today.

For example—I'll just give you two examples, I know the hour is late. One is that we thought of corralling some of this Federal money that's come into the State for using State agencies for supportive services and maybe even raising a little tax money to show our own commitment in the State of Maine. Putting these all together in a community jobs fund and letting the unemployed people who do want to work—and make it voluntary so we are not interfering with their rights—to get unemployment compensation, to allow them to assign their unemployment check to this fund. And in return, they would get a decent job working in a community betterment program so they could really be proud of working. This we found that you can't do. The people can't work, they can only collect the unemployment benefits.

In another area, our Maine woodsmen, who are the working force of the great paper companies of our country which operate in the State of Maine, came and told us that there were no jobs for them despite the economic well-being of these paper companies and despite the fact that profits were going up. As we investigated we found that the paper companies and their contractors were using bonded labor from Canada for these jobs. The reason that they did this was to keep the wages down. They would have these Canadians come in and sign a slip saying they had worked 40 hours when really they worked 70 hours, so they would actually be paid less. They favored these Canadians because they had national health insurance and because working in the woods, as you may know, is the most dangerous occupation in the country. When Americans did try to apply for these jobs they would put them off over there, and the best cutting areas went to the Canadians. So we found that the Canadians were coming in and cutting our wood, shipping it in Canadian trucks to Canada, processing the logs in Canadian mills and then shipping it back again to U.S. markets by Canadians. So we were ending up with stumpage fees. Now, that's \$7 or \$8 a cord every 25 years. Not a very good bargain for the State of Maine.

The woodsmen's complaints came to this—we found that there were Federal laws to protect their job, to protect their rights to work in Maine woods, but there was no way to enforce them. The Department of Labor tells us it's Immigration; Immigration tells us it falls right in between. We're just caught.

That is the end of my testimony. I would like to just say that one guy came up to me when he heard I was coming down to testify before you—I have this in my prepared statement, but I would just like to say it for the other people here. And he said that he had been on unemployment compensation for 6 months, had four children and was married, and in all that time he just fought with his wife. Finally he found a job at \$90 a week. Now, he had been getting \$74 a week, tax free, food stamps on top of that when he was on unemployment. His take-home pay when he got this job at \$90 a week—it was in a neighboring town—was \$79, but he said he had to pay \$15 a week for transportation. He was really getting \$10 less. He was taking home \$64 but he was really proud of it. He wanted me to tell you this, and also to say that he is not fighting with his wife any more.

So, it's kind of a sad story in a way that someone has to do that, to actually end up working for less, but it does give us hope that the work ethic is still alive.

Thank you.

Chairman HUMPHREY. Senator, we thank you very much. You have given us new insights into the idea, for example, of pooling unemployment compensation funds. And all of that, I think, is so innovative and thoughtful.

Again, Senator Kennedy was just saying to me a moment ago that when we listen to witnesses such as we have heard today, it's so evident the amazing amount of talent that's here and how come we can't put it all together. Sometimes it's such a frustrating, confoundingly frustrating experience. I want you to know that we are very grateful.

Now, my colleagues have some questions. I have to make a telephone call and I will be back here in just a minute, but I did want you to know that this committee has sought to broaden its vision, so to speak, by coming out to a number of places in our country to hear what people have to say, and the interesting thing is, gentlemen, that most every place you go it's the same message and it doesn't make any difference whether it is the Federal Reserve banker in Atlanta, or whether it is the unemployed worker in Chicago, or whether it's a professor of economics or business administration or government in Los Angeles, or whether it is somebody running a community development program in New York City, the message is very much the same; and sometimes I wonder if the message is so much alike, how come it doesn't all get through.

We don't go around trying to back the panels. I think it is evident here that this is a very good cross section. The only limitation I would say is that we don't have as many people who are unemployed here to speak as we maybe ought to have, but we're going to have now some time for private witnesses in just a moment.

We have tried to seek out information from the people. With that, I want to turn the questioning over now to Senator Kennedy, and he will be followed by Congresswoman Heckler, and I know there are some questions they want to ask for your answer. If you would excuse me for a minute.

Senator KENNEDY. Thank you very much. I really have very few questions. I just mentioned to Mr. Thurow and Mr. Morris the importance of conservation of energy and our whole view about what our problems are here in New England.

It seems to me that the hearings that we have had of the energy subcommittee of this committee show that it is the most economically sound and environmentally clean, and the implications in terms of the national energy-type of program are really significant and profound, and we are able to get 20 to 25 percent energy conservation by our major industries. We talked about approximately 5 million to 10 million barrels a day, and if we are able to get some 15 percent in terms of our residential areas, which is not I think overly optimistic, we are talking about close to 2 million barrels a day. Certainly in this area where the people have demonstrated over the period of almost 2 to 3 years a very profound interest in the

conservation of energy as the consumption of residual oil as well as gasoline have reflected, this is something which I think we can be and should be very much concerned about in trying to find out—putting this against what are the difficult economic problems we are facing, whether there are some ways or means where we can advance some limited resources of \$300 to \$500 necessary for installation of storm windows or whatever is necessary with the pay-back vision. I think there are some really important and impressive paybacks.

We have talked a good deal about investments and this seems to me to be a very, very significant opportunity. I think one real question I might just direct towards Mr. Caddell, is whether your experience as a pollster and one who has a very, I think, justifiably perceptive reputation or justifiable reputation for perceptiveness about trends, I suppose is the way to put it, whether you think that either the people in this State or the region would be willing to follow the kinds of leadership and proposal that we have heard really outlined here this afternoon, and I think this morning as well. I don't know whether you were here during this morning's presentation, but what sense can you give us?

I know one of the things you pointed out, I am very much aware of, and that is the reluctance of the American people to go for a change unless they are very sure where that change is going to bring them; but what can you tell us, from your own experience and from your own studies, about the willingness of the people to really bite the bullet in some of these areas? I know that's a pretty broad-gauge kind of problem because we are dealing not only with the cyclical problems in terms of economic recovery, but a lot of specifics in terms of structural problems. Maybe you can elaborate on that part of your own past studies and kind of look into your crystal ball in terms of what you think. Are there realistic possibilities in this area?

MR. CADDELL. Well, Senator, in response to that question let me say that I think the opportunities are very great if you do what I do, which is to serve thousands of people all the time. You take one very important message away from the public which is, first of all a tremendous strength of the people out there, a very unified strength, and there is a willingness to make sacrifices and to get the country going in some positive direction, particularly in the economic area, as long as the sacrifices that they are being called upon to make are being done first on an equal basis. This was the major thing that we found about the energy crisis, that people in 1973 made significant sacrifices, cut down their driving and cut down their thermostats and made the effort until they reached the point where they believed that they were paying the price that no one else was, that they were the victim of some larger effort by people who take advantage of them, and then they started putting the thermostats back up and they started driving once more. There was a tremendous resentment to that, and there is a feeling which I think relates, too, to the second part which is a tremendous desire in the country for strong leadership in the sense of defining larger goals and explaining to people in very specific ways what prices they are going to have to pay and what the changes are in articulating it if those make sense

to people. And if we find that the country is less and less ideological about those kinds of changes and more and more raise the question of, "Will they work; will they help the country move along"; that if they see that, those changes argued in some overall context, then they are willing to follow along. They are willing to make those efforts.

The greatest concern that we see is the cynicism toward both government and business, but that I think has been overstated. People say that the country is cynical. I don't think we are a country of cynics; I think we are a country that's disillusioned. We are people who really want to believe that the country can improve and can go forward. What they are really looking for is not just short-term things in saying this proposal and that proposal, because they have come to suspect that this proposal in this area may cause them trouble in another area, and what they are looking for, first of all, is a larger concept of where we are going to move the country and how the changes are going to fit in, and they are willing to pay the price and they are willing to bite the bullet if it is explained to them and if they think it is done in a fair way and that it is going to lead to something positive. They are willing to deal with the complexities of that. I think they understand, if nothing else, that the world is very complex and the simple answers aren't going to work.

Representative HECKLER. I would like first of all to clarify whether or not there is a consistency or inconsistency between the statements made by Mr. Thurow, Mr. Morris, and Mr. Howell. Our first two panelists, both of whom are very distinguished in their fields, suggested that the pattern of unemployment will continue with the consistent gap between the national figures and our State figures, the State, of course, suffering a much heavier level of unemployment, and that the future or the prognosis for the recovery in Massachusetts really rests on the recovery of the Nation. That was your basic thesis, as I understand it.

And what I question is whether or not that is consistent with what Mr. Howell has proposed. Is it consistent and is it realistic to have a two-track plan, one relating to the recovery of the country and on the other track a strategy, an immediate strategy geared to development and economic growth here? Can they both be done at once or will one lag because the country is lagging behind? Are you compatible or incompatible, gentlemen?

Mr. THUROW. It is eminently compatible. If you are thinking about a bank, you have to have somebody who is willing to borrow and you have to have an economy which is basically growing. From my perspective, it seems to me, it would almost be necessary to have a two-track strategy if you ever intend to close that curve down there that Frank was pointing out.

Mr. MORRIS. I would agree that the trends in the economy are of the utmost importance. Even when the economy gets back to full employment on a national basis, we are still going to have a structural problem to deal with here, and I think the proposal that Jim put forth is one of the elements in the picture. I think that we do have a potential for expanding our high technology industries, and one of the great blocks is the absence of venture capital. The venture

capital problem is not a New England problem; it is a national problem. But I think we can benefit more than most sections of the country from a vehicle which is going to generate venture capital for our new industries. †

Representative HECKLER. I'm very happy to have you say that because that's precisely the point I was trying to make with the Lieutenant Governor this morning; that is, that while we stress the Federal solution and the recovery of the National Government and the national economy, that is not a rationale or an excuse, nor will it be an answer for New England because at the same time, since a great deal of lead time is required before any new proposal, no matter how sound, is actually implemented, at the same time we have to be at this very moment planning actively for an economic growth strategy for New England or we will not recover as the rest of the country will.

Senator KENNEDY. Would you just yield? I am going to have to leave. I want to thank the witnesses for their testimony and their comments. I think it has been extremely helpful to the committee, and as all of us have stated at each one of these meetings, I think, very legitimately, I find it enormously informative myself. I think other members of the committee reading this record will as well. I think you have a very interesting panel, both this morning, and this afternoon, and yesterday, and I just want to thank the members of the panel for their participation, and thank the chairman again.

Chairman HUMPHREY. Senator Kennedy does have to leave now, but I think Congresswoman Heckler has some more questions she wants to ask. Go ahead, Margaret.

Representative HECKLER. I would like to address this to Mr. Howell, and I am so relieved that you have stressed the private financing, and I infer that no loan guarantee from the Federal Government is going to be required; but I really also am very encouraged by the private initiative which this represents; and since I think that in your position you must have some support that has been expressed to you informally to underwrite an important corporation of this type, I think this is a very hopeful sign.

On another subject at another one of the hearings which this committee held in Atlanta, Ga., the Governor of Georgia amazed me by discussing his proposal, and, in fact, more than a proposal, his negotiations with foreign governments to attract foreign investment to Georgia; and I wonder, following from that, whether or not we can realistically hope and should we begin, in fact to begin, to attempt to make a sales presentation to foreign investors for investment in Massachusetts, and what would be the likely consequence, either commodities, or industries, or locations that would make such investment feasible. Is that an opportunity for Massachusetts also?

Mr. HOWELL. Certainly foreign investment, and particularly German investments in Massachusetts, is a very real and plausible opportunity. Over the past several years, there have been a number of missions by New Englanders, including from the Commonwealth, to Europe. We have probably, as you and I have discussed before, lagged behind South Carolina and Georgia, and this is regrettable. I think we are beginning to make up some of the distance with the

kind of efforts that Governor Salmon and the other Governors have suggested in paying a very particular interest to this. We feel that this capital corporation can go a long way to filling in capital gaps for a German high technology firm, just like it can for an American high technology firm in Fall River; and we think that's got to be a pretty good sign.

Admittedly, we can do more and the Governors are opening an office in January in Brussels, and this is a step in the right direction. I think there is a stronger commitment in trying to attract foreign investment into New England now than at any time I have been here in the last 6 years, and it will pay off.

Representative HECKLER. Do you think they are being sufficiently aggressive to meet the Georgian competition because, frankly speaking, I have seen what Southerners can do since they have taken so much of the industry from Fall River in my district. That was 30 years ago; and here they are not only with the assets of lower energy costs, although the gas problem will be added, an added difficulty for them, but now they are so aggressive in terms of attracting foreign investment, again ahead of us. Are we doing enough?

Mr. HOWELL. You know my feelings on that. I don't think we have ever been aggressive enough up here in New England.

Representative HECKLER. I would like this on the record.

Mr. HOWELL. My feelings are that we can sort of talk a yard and deliver an inch, and I think we can do a good deal more in closing that gap.

Representative HECKLER. I would like to hear from you more specifically in the future. Please feel free to give me concrete suggestions on this because, frankly speaking, Mr. Chairman, it was an eye opener to listen to the Governor of Georgia; and I am simply not willing to sit back and watch, listen, to our peoples' problems without taking firm action to counteract it.

Mr. Caddell, I am very intrigued with your exercise to a problem as an indicator in an area where energy costs are so high. Can you explain why food prices are so significant when energy prices certainly are breaking the budgets of the families that I happen to represent in many areas?

Mr. CADDELL. Well, Ms. Heckler, that's not to say that energy costs and prices are not important. They certainly are, and it has been our experience that where people are impacted, the impact that they perceive one price which is often not specific and often exaggerated, that when we go through a number of correlations on change, that the changes tend to come first from a perception of change in food prices either up or down; and then, secondly, by general inflation and then by energy costs, and that that part comes again from the theory we say of people buying small items. Frequently bought items at small prices probably have a greater psychological impact than larger items; and in this area there's no question, as in most others, that fuel prices and gasoline prices are very significant.

Yet even here we find that it is food prices that people use as their gage on the overall economy, and part of that is due to the fact that energy is removed from a lot of people in terms of economy.

It is not an economic result but a feeling that that is a result of policy either by the companies themselves, or by the Government, or both, and it really isn't a function of the general economy.

Representative HECKLER. Mr. Chairman, there are many questions that arise, and I think we can pursue them far into the night; but I personally wish to thank every witness for a very, very valuable contribution; and in the interests of the public witnesses who wish to testify, I would like to yield back my time, Mr. Chairman.

Chairman HUMPHREY. Gentlemen, I just wanted to toss out a couple of things for you to chew on for other days. We have what we call a Federal system. I'm afraid what's happened to it is it has become a national system rather than a Federal system. For example, the Employment Act of 1946 calls upon the Federal Government to do certain things.

Now, the Federal Government is made up of the Government in Washington and the governments of the 50 States and their localities. We have heard here that State policy sometimes goes in one direction and the Federal policy goes in another, the Federal Government reducing taxes to stimulate consumption and economic expansion, and the State governments, or local governments, particularly, compelled at times to raise taxes, and property taxes, and sales taxes in order to meet expenses, and the Federal Government expensing programs, such as emergency programs and whatnot, and the State programs having the requirements of their State constitutions for balanced budgets and can't indulge in deficit financing have to make cuts.

You have in a very real sense the need of a Presidential representative simply like you have an ambassador, and that man speaks for the President and the Executive branch in these areas and regions, and thus becomes fully acquainted with the peculiar needs of a region.

When I listened to the testimony here, the problems are somewhat the same as we have at home, but the emphasis is different. You go into one part of America and energy is just a classic example. There are some parts of America where there is an abundance of energy and at lower prices. Here comes a scarcity of energy at higher prices, or at least higher prices; and if you had the regional concept in which there is a person who is the executive branch Presidential representative who is really trying to become fully acquainted, as you do, Mr. Morris, as a regional banker from the Federal Reserve System, you have a regional understanding as well as, obviously, a national responsibility.

I think this would be immensely helpful to us. These are, as we all know, less than the real answer, but I see ourselves wasting a tremendous amount of time, and energy, and resources with our conflicting programs, or at least conflicting in progress.

There are many other things that we can speak of, but I just wanted each of you, in your own way, if you would, to give us some idea of how to better manage what we are doing. After all, a lot of this does get down to management. No matter how much money you pour in sometimes, if it isn't well managed it just isn't going to add

up; and I think that what we have done like most people who get in trouble, is to do a lot of things in a hurry that are not always as well thought out as they ought to be. The only thing that's worse than that is doing nothing or doing it too slowly, and I think we are a victim of all of it.

With that, I'm going to let you go because it is late in the day and we have some people who want to be heard; and I thank you very much. [Applause.]

Thank you, gentlemen. Now let me just lay down the agenda here, the ground rules for just a moment. We always like to have some audience participation. We've had a very patient audience today, and I'm going to call off some names here of persons who have asked to be heard, and the hour is 5:18. We will stay here for a little while. I think we've got at least a period of 45 minutes, and I would like to call first on Mr. Joel Kugelmas. Mr. Kugelmas, would you come up to the microphone and we would ask, if you would bear with us, that we keep these statements to no more than 5 minutes.

**STATEMENT OF JOEL KUGELMAS, FULL EMPLOYMENT COMMITTEE,
CITIZENS FOR PARTICIPATION IN POLITICAL ACTION IN
MASSACHUSETTS**

Mr. KUGELMAS. I am Joel Kugelmas and I am representing the Full Employment Committee of the Citizens for Participation in Political Action in Massachusetts. If George Washington had foreseen today's economy, he would have insisted that the preamble to the Constitution guarantee not only life, liberty and the pursuit of happiness, but the right to a job. Neither the unemployed nor the family of the unemployed can improve on life and liberty. The unemployed must measure the necessities of life in quantities that cannot be summoned to more than the very survival. The loss of income is only the beginning. Eviction threatens, whatever health insurance benefits were had are lost, what savings or credit offering some short-term protection he has are soon forfeited. Job experience, the development of additional skills, possibility of promotion, all the things for long-term security, disintegrate into memory and frustration. The unemployed are forced to become beggars, not on the street perhaps, but in the personnel office. There the unemployed are expected to respond enthusiastically to offers of lower wages, longer hours, fewer benefits, less skilled work and a reminder that there is always someone else ready to take their place. Willing and able to work, the phrase goes. Is a worker a less able worker because his compensation has expired or because in the case of Latin, Spanish-speaking workers massive discrimination prevents sufficient employment even for eligibility, or being a woman is therefore extraneous to the labor market? Yet it is Government policy that such workers cannot even exist. Imagine if the U.S. Census ignored anyone under 18 or over 65, but this is precisely the approach to a 40 percent unemployment rate. First time job seekers, exhaust their benefits—people who have used up their 65 weeks, welfare recipients, women—not going to be workers cannot find themselves in the monthly statistics. The undercount-

ing or discounting of millions of unemployed is part and parcel of a decade-long drive to raise the acceptable level of unemployment first to 4, 5 and now 7 percent. That 7 percent, of course, would ignore endless willing and able workers, and through clever averaging eclipse harder hit regions such as New England. So, once again we are confronted with purposeful coverup here of both the magnitude of the unemployment problem and the policies supposedly designed to reduce it.

In a year of Presidential politicking and growing distrust of corporate power, there is a fashionable consensus that unemployment must be dealt with, but this strategy of misery is paying off its architects. The deck with the phony Phillips curve in the face of simultaneous inflation and massive joblessness, the executive and corporate strategists do find that 7 to 10 percent rate acceptable. Such rates are fine for companies moving capital at low rates in countries abroad where repressive right to work stays at home. They are acceptable to businesses who want to count on migrant workers who want to work for \$10 a day. They are acceptable to short-term workers relying on a desperate, we'll-take-anything work force, and such rates are acceptable to companies resisting negotiations for cost-of-living clauses that cannot even compete with 1967 real wages. Hypocritically, we hear cries for tax incentives and other corporate welfare measures that merely create super profits in the name of creating jobs. What, however, is acceptable to the American people has been brought into focus by the New York Times' poll of February 13 in which it concludes that 76 percent of the people believe that the Federal Government should see to it that every person who wants to work has a job. Seeing to it is a proposition before every political leader in this country. Seeing to it means moving the Equal Opportunity Act of 1976 out of committee, out of the House and Senate and beyond the inevitable Presidential veto. Seeing to it is what the Boston City Council meant when they resolved support for the bill last Monday, and seeing to it is what 100,000 signatures submitted to Congress in the past few months is all about. We must bring unemployment, not to a spurious 3 percent, but to a genuine zero percent. This requires recognizing that when white people experience a recession, black people experience a depression. In the Bill of Rights, this requires facing up to a generation of youth who literally have never been allowed to work and the Federal policy of excluding women workers on the grounds they were housewives wanting pin money, when what is needed is milk money. More, however, is on the full employment agenda. The unemployed must be guaranteed to be protected against eviction, foreclosure and drawing fully adequate health care must be available without qualification to the unemployed and their families, job training must be linked directly and emergency job programs must be secured against local, political manipulation and patterns of racial discrimination, as has been so true in Massachusetts. Unemployment compensation must extend to the full length of unemployment, automatically adjusted to increased cost-of-living and must rise above percentages of substandard wage scales. If a person can't live on \$65 a week, he can't live on \$30. It is time to stop talking about

incentives for the unemployed to find work and start using incentives for production that abound in our society, going from housing, neighborhood health care, available education, mass transportation and so forth. It is not the unemployed who must be convinced to work. Workers are fearful of layoffs and shutdowns.

On our 200th birthday, let us serve a meal that will really count, a job for everyone. Thank you.

Chairman HUMPHREY. Thank you very much, Mr. Kugelmas. Mr. Norton, you wanted to have 2 minutes?

Mr. NORTON. Two minutes. I want to call attention to the man who did all this, gave us the greatest meeting that Boston has ever known. First we have here the outstanding man of the country, in my opinion, right here, the chairman. Second, the name of the man who brought all this—he's left here. He is the man that brought the whole thing to the most wonderful conclusion of any political meeting ever held in 40 years that I remember in Boston. What a wonderful man. John F. Fitzgerald, the mayor's grandson. John F. Fitzgerald, mayor of Boston, a great mayor, and this boy here, his grandson, and what a family. A mother that lost three sons already for the country, he the last son. The poor mother up every morning going to church to pray for him. That's where this great man came from that gave us today. That's exactly what I wanted to draw to your attention.

Chairman HUMPHREY. Mr. Norton, I thank you. We appreciate very much your kindness and your enthusiasm and also your compliments, and I know that Senator Kennedy will be very appreciative of what you had to say, and I want to personally thank you.

The next two witnesses I believe—we will take one at a time here. They are listed together. Mr. Abe Ferris. Is Mr. Ferris here? And Mr. Amicangeoli, is that pretty good?

Just identify yourself, please.

STATEMENT OF JOHN AMICANGEOLI, PRESIDENT, LOCAL LODGE 1050, INTERNATIONAL ASSOCIATION OF MACHINISTS & AEROSPACE WORKERS

Mr. AMICANGEOLI. Members of the committee, my name is John Amicangeoli. I am the president of Local Lodge 1050 of the International Association of Machinists & Aerospace Workers. I am here today to speak on behalf of the membership of local 1050. We of local lodge 1050 believe we are living in a time when giant multinational corporations are controlling the economy of the world, our country, our State, and will, if left to continue their present course, control one of the basic individual rights which is the right to our own destiny. The big business people keep complaining that Government is getting too strong and our system is leaning more socialistic. In truth, the Government is not taking anyone's rights away. They are giving too few too many rights. The multinational corporations are the ones who exist under an umbrella of subsidies and tax loopholes. It is time for the Government to act and take away the socialistic umbrella that the multinational corporations live

under. It is time to bring back the democratic way of free enterprise, competition. The United States is being ravaged by an exodus of jobs. We cannot, will not, and must not accept the rape of the United States we have seen in the past 6 or 7 years.

One of the most obvious examples of this is the State of Massachusetts where unemployment is high and increasing by the day. Local lodge 1050 represented the people who work for the American Can Co. in Needham, Mass. We believe we have witnessed a systematic and deliberate closedown by a multinational corporation because they chose to no longer compete. They have given our legislators many reasons why they have closed, which perhaps on the surface look very legitimate and truthful. They claim that the expense to install new equipment and to compete in today's two-piece can market was just too much to make, but our question to them remains unanswered. We offered them a \$1-an-hour cut in pay. We have been ignored. Why? They claim they lost money the last 6 out of 7 years. Perhaps that is true. What they did not say is why they actually lost money. Did they tell the legislators that they had a work force in the plant that at times bordered on a ratio of three hourly to one salary? That while they told the local union of their poor profit, they were installing air-conditioning where there was none for 20 years? They built walls and remodeled while crying about profits. All the work I speak of was needless and entirely pointless, but it did a beautiful job on the plant profits. When their beer and beverage customers wanted two-piece seamless containers, the American Can Co. did not install the equipment to make them. One example of this is the Carling Brewery in Natick, Mass., who wanted two-piece cans and had to go to Danbury, Conn., and have them transported to Natick, Mass. Could these costs have anything to do with Carling's announcement of a possible closedown of the Natick brewery? Quaker Oats, who was our largest sanitary can customer has since announced they are moving from Massachusetts. Could this moving of the Needham can plant have anything to do with this? We have learned that many other customers based in Massachusetts now must go to places like Buffalo, N.Y., to get their cans. How many of these will move or close altogether? While the American Can Co. was saying the investment for the two-piece can was too much for them, the National Can Co. in Millis, Mass., was removing two-piece equipment and sending it to another part of the country, while Crown, Cork, and Seal in Lawrence, Mass., has installed, and is still installing, two-piece equipment and is now dominating the two-piece beer and beverage business in our area. Unfortunately, we have entered an era of the oligopoly. It is time for Government to stop blaming the worker and to start telling the multinationals and putting some kind of political pressure on them to remind them that it is a privilege for them to market their goods in our country.

And there is one other thing I would like to say, Mr. Chairman. We are told we have a gross national product in this country of over \$1 trillion. We feed half the world. We arm half the world. We refuse to be unemployed at local lodge 1050. Thank you.

Chairman HUMPHREY. I thank you very much. Mr. Ferris.

**STATEMENT OF ABE FERRIS, MEMBER, LOCAL LODGE 1050,
INTERNATIONAL ASSOCIATION OF MACHINISTS & AEROSPACE
WORKERS**

Mr. FERRIS. Mr. Chairman, to elaborate on the president's speech, I have been in contact with employees and sent them out to different areas for jobs that they have—the people have asked for, and we sent them out there and as soon as they fill out an application, they see what their wages are, oh, no, we cannot hire you. Well, our employees are willing to take less wages, but still these companies, these large companies that we send them to, as soon as they figure these wages, they figure these people do not want to go to work, and they have stopped us in every way possible. At one time we had over 600 employees employed at the plant. Just as recently as last March, 1 year ago last March, a former plant manager came down and he went before the legislature and pleaded to stop these bills from going in from banning the can. He said before the legislative body, "If you put through these bills, there will be—we will have to eliminate the beer and beverage business." In the meantime, our beer and beverage business is going out the door and there are 500 people going out the door. In the meantime he lied before these legislators. Local 1050 was fighting hard to keep these bills from being passed because we knew if they were passed at that time, we were led to believe that if they were passed, that these people would go out the door and there would be no jobs for them. We have employed women, minorities; also in the summertime we used to bring in 75 to 100 children—I mean, employees—college students, to come in and work during the summer and earn enough to pay their tuition. American Can has looked at—leave Needham, leave the State of Massachusetts. I thank you, Mr. Chairman.

Chairman HUMPHREY. I thank you. I can't say I appreciate the information that I got because it is very sad what has happened here, and I don't know what, if anything, this committee can do, but you have two members here on this committee, and I know that Congresswoman Heckler is deeply concerned about these matters because I have been over in her district, and Senator Kennedy—well, he informed me he had to leave here—he promised he could stay until 5 o'clock and he stayed a little longer for us. So, I will see that this information will get to the Senator, but I gather you may have talked to him already about it, am I correct? If not, I will see that the transcript of this part will get to him and see if he can be of any help to you at all. Thank you. You belong to a great organization, by the way. Thank you.

Our next speaker is George Papas, of Brockton, Mass., a city council member.

Representative HECKLER. Mr. Chairman, if I might say, in relationship to the two speakers who have just finished, that this is one of the reasons that Mr. Caddell found that there was so much distrust of business. There is a sense that business, in today's world, does not think of the social consequences, and in my judgment, when the workers are left without resources, and businesses have to leave

the State without communicating with their elected officials, without raising the issues which caused the business decision, without seeking any redress from those of us in the government of State or Federal level, or even discussing it with the workers, I think then that business lacks a conscience and that is unpatriotic.

Chairman HUMPHREY. Thank you very much. I believe that Mr. Papas has left.

Now, is Marjorie Homonoff here?

STATEMENT OF MARJORIE HOMONOFF, UNEMPLOYED TEACHER

Ms. HOMONOFF. I am an elementary school teacher; I have been substitute teaching for 1 year and 3 months. I hold a master's degree, and I am a part-time doctoral student at B.U., in cognitive studies there in human development. Also, I am a member of VEST, which Mr. Roy spoke to.

It was after hearing the very encouraging statements from the panelists that I decided that I too would put in my 2 cents, for whatever it is worth. You were very supportive in wanting to know, and wanting to hear from the people, not only in terms of groups and generalizations, but in terms of personal statements from people. So I thought I would speak both as an unemployed school teacher and as a person in this dilemma.

Chairman HUMPHREY. Did I understand you to say that you have been a substitute teacher? Have you had a full-time teaching job since you left college?

Ms. HOMONOFF. No, I have had part-time employment.

Chairman HUMPHREY. Right now, are you unemployed?

Ms. HOMONOFF. Right, I was just hired last week, in fact, to be an aide in a school, which pays about \$2.20 an hour, and it is also a semi-permanent position, for only 2 months, so you can see the kinds of jobs that I am involved with—and in fact, this was the first aide's position for which I was even hired. I never got an aide's position before this, because it was claimed that I was overqualified.

Chairman HUMPHREY. Overqualified?

Ms. HOMONOFF. Right. I have a few comments here. I represent one of the many facets of unemployed school teachers in this country, and there are many of us. Our names are crammed into the State files at the Massachusetts Division of Employment Security in Waltham. As I said earlier, I am also a VEST member and many of us are from the field of education. We are from every branch of education—early childhood specialists, elementary school teachers, secondary, and many people who are professors in higher education positions, and they, too, have had no luck in finding work.

Some of us have left teaching entirely. The rest of us are still not ready to give it up totally. I am one of these people. I have been floating for 1 year and 3 months; not only from school to school, but from town to town, in a substitute teaching position. The most in terms of days that I would usually get is about 1 day to 2 at a time. So you can imagine the amount of children that I have been trying to teach, and the kinds of frustrations I have been involved with in terms of getting up in the morning and not knowing where I will be

until maybe 7 o'clock in the morning—getting a call and running out and finding these places. I have been traveling as far out as Sharon, Mass., which is practically in Attleboro—it is out pretty far; it is very far out.

Representative HECKLER. I object to that.

Ms. HOMONOFF. It is very nice there, however. My area is elementary grades. I have been trying to find a primary place to be working in order to help children to learn. Certainly the attitude that in the lower grade, one doesn't have to be as qualified and as intelligent, I personally feel the opposite. I feel that one has to be better trained; better qualified to teach the children of this country to read, to study, to attend, to want to succeed. That is one grave issue. There is a third group of unemployed teachers, not only in this State but in this country who are a little bit different than myself. Their reason for unemployment, as it has been told to them, is that they are too experienced in terms of years, and having talked to many superintendents and principals about this, I have been told that after about 2 or 3 years of teaching experience, a teacher is considered to be overly experienced, and cannot be hired—just like a person just out of school with no experience.

Now, I have been told, that the ideal situation for a teacher to be in is 1 or 2 years experience and no master's degree. In fact, I have been told 1 week ago now—how true this is, I am not quite sure—that one of the suburbs, Wellesley, has voted, or is going to be voting that there will never again be any teachers hired on the elementary level in the town of Wellesley with master's degrees.

Representative HECKLER. I will investigate that personally.

Ms. HOMONOFF. I wish that would be investigated.

Chairman HUMPHREY. It will be well done, too.

Ms. HOMONOFF. The reason is that this is a financial bind that the school systems are in now. Now whether that means that the State government should come in with additional support to try and upgrade the qualifications and training of teachers, I don't know how this is to be done. But I do know that I came out of the same mold as many of my friends, with a B.A. from a very fine liberal arts college in upstate New York, and with a B.A., of course, there was nothing that one could do with a B.A. in English. So again, back to school, retraining. The next issue is, I am told, as a person who has studied English, you're therefore not able to cope with teaching reading in the early grades.

So it is a vicious cycle, and obviously, the reason behind all of this, to my estimation, is that the people who are interviewing us, the hiring influences in each town, have a different set of values, a different set of credentials, and academic separation, and there is a kind of—you can call it distaste; you can call it envy, you can call it fear, from their point of view, of letting in a whole era of people out of college who are very well qualified and very well trained. I do believe that many of these people, whether they be principals or assistant superintendents, are very much afraid of their own jobs. This seems to be the big issue.

Lastly, I would just like to say that I am hoping that State and Federal Governments—because I think this area is big enough that

both should take a hand in it—would come in and help get the school teachers into some kind of a subsidized program for all of us throughout the country. Many of us are willing to move, to fit into any niches we can, but we have no help with which to do this.

If this fails, I would hope that State and Federal Governments would come in and help us to retrain for allied fields, because I know that we have a lot to give and we just need to be trained for an area where we will be well received.

I thank you both for listening.

Chairman HUMPHREY. I just want to tell you that you will be a good teacher. You really will be. I mean that. You have a tremendous enthusiasm and obviously, a great professional talent, and I just can't help but believe that somebody is going to see that they are missing a great opportunity by not giving you a permanent job. If you need a reference, put my name down. You are very persuasive. I thank you very much.

Representative HECKLER. Mine, too.

Ms. HOMONOFF. Thank you very much, and I thank the two of you for staying so late this evening.

Chairman HUMPHREY. Thank you. Mr. Mark Goldman was our next witness, but he had to leave. He is the vice chairman of the Economic Development Committee of Northern Middlesex.

Our next witness is Mr. Lawrence Sherman of the U.S. Labor Party. Mr. Sherman will be followed by Mr. Ponti.

STATEMENT OF LAWRENCE SHERMAN, NATIONAL COMMITTEE MEMBER, U.S. LABOR PARTY

Mr. SHERMAN. I am sorry that Senator Kennedy was not able to stay for our statement. I am sure that the message that we have to bring today will be delivered to him.

As has been touched on in previous statements throughout the day, the question of the current economic crisis has to be dealt with from the standpoint of the primacy of the global economy as a whole. We live in an interdependent, interconnected, economic world. There is no way that we can avoid that fact. So from that standpoint, I will deliver this statement.

Simultaneous developments in the United States and Italy point to the proper global context of the energy and unemployment questions which are being addressed here today. The same people who are fully implicated in the current total boycott of shipments of oil to Italy by the U.S. Seven Sisters Oil Multinationals—a naked attempt to crush the Italian working class and the debt moratorium and the implementation of the International Development Bank to stop the rape of their country by debt collectors—those same people are moving to bring Mussolini-type corporatism to the U.S. population. As a supposed solution to the unemployment problem, these people have taken over control of U.S. policy from human lives. Italy, whose economy has been shut down to marginal capacity by the enormous overhang of debt payments, which mushroomed following the staged oil hoax, is leading the fight in the advanced developed sector against that insane policy with the exact

program developed by the U.S. Labor Party, debt moratorium and international development bank.

At the moment the world faces the imminent chain reaction collapse of approximately \$800 billion worth of international and national financial structures directly or indirectly linked to the U.S. dollar. If no drastic alteration in existing institutions were instituted before March 31, 1976, the \$800 billion must inevitably collapse into chaos and panic. There are only two alternatives, either of which must be initiated before March 31, 1976 and in place by June 30, 1976; otherwise, a panic collapse is inevitable.

The general economic problem is this. At this moment, taking the developing section and advanced capitalist sector as a unit, the current combined level of industrial and agricultural output are insufficient to regenerate both existing productive forces and population as a whole. In other words, the capitalist system is operating below the breakdown level overall. This means that the capitalist system, as a whole, is not generating a net profit. In other words, the rate of absolute profit is negative.

Therefore, under present conditions, any effort to roll over the currently-due portions of the approximately \$800 billions of financial structures can come out of only the costs of maintaining existing levels of production and consumption. An approximately 20 to 30 percent slash in levels of both production and consumption would be required as a first-time measure to save the financial structures. And we can reference the previous testimony by the IAM workers as a result of the current process of trying to maintain and roll over existing debt. This approach is Schachtian economics. We have had a lot of historical references today, the WPA, the CCC. People here should be familiar with Hjalmar Schacht, who was the finance minister under Hitler, and implemented a horrible, horrible system to maintain debt structure. The type of economic cannibalism characteristic of the Nazi economy. Such economic policies are furthermore the essential feature of fascism. That is, the person who advocates Schachtian forms of austerity is a pure fascist.

This is the alternative which is being advocated by Senators Kennedy and Humphrey for Italy, the rest of Europe, the Third World, the United States—and States and municipalities, notably Massachusetts and Boston. Repay the debt through eliminating indispensable social services through cannibalization of industry and agriculture.

Within the United States an array of bills is being pushed by Senators Kennedy, Humphrey and other so-called Liberal Democrats, aimed precisely at servicing the enormous U.S. corporate and governmental debt at the expense, not just of people's immediate living standards, but of the ability of the U.S. skilled and semiskilled working class to reproduce itself. The Humphrey-Hawkins Full Employment Act now under revision is the leading piece of such legislation, along with various public service jobs and public employment bills. Representative Reuss' F.I.N.E. banking legislation and so forth, where the Republicans are advocating straight out austerity, the Democrats are pushing the same austerity with a populist, New Deal veneer. They have borrowed the corporatist trappings of Mussolini's worker participation, labor-management boards, and so forth in the hope of making slave labor palatable to U.S. workers.

The U.S. Labor Party's Emergency Employment Act is in absolute contradistinction to the Humphrey and related bills. Premised on the suspension of the parasitic debt payments which are bringing the U.S. economy to a halt, the aim of the EEA is the creation of production jobs in capital-intensive industry and agriculture. The EEA interfaces with the International Development Bank, which lays the basis for expanded three-way trade among the advanced sector, COMECON, and the Third World, providing the markets for an expanding U.S. economy.

Virtually every individual in the process of making a commitment to the EEA has asked in some form, "What is the difference between the EEA and Humphrey's jobs program?" That is, can I still get by with some form of horsetrading, or do I have to take responsibility for the economy? There is, in fact, no choice of this form. The actual choice is between being a human being and being an animal. Let us follow through the implication of Hubert Humphrey's labor paradise:

Under the March 20, 1975, version of H.R. 50, the Humphrey-Hawkins bill, a U.S. Full Employment Service would have "powers to seek out those not seeking work but able to work," including retirees, veterans, welfare recipients, and recipients of unemployment compensation. Then, "any job seeker who presents himself in person shall be considered prima facie willing to work" subject only to appeal through U.S. district court. Humphrey-Hawkins is now being revised. Humphrey's chief staffer Jerry Jasinowski, told the congressional hearing this past week that the revision would bring the entire unemployment compensation system under Humphrey's Full Employment Service.

Once drafted, the entrant to Humphrey's Labor Front undergoes compulsory "employment counseling," under the current version of the bill, in "worker participation, labor-management relations, productivity, and the quality of the workplace." The handbook of in-plant brainwashing. Part of this task will be handed over to "local planning councils," through "community boards," in the tradition of the Warsaw Ghetto.

Whether Humphrey's new version contains the provision in the old draft which put a Federal minimum-wage floor under U.S. Employment Service Jobs is immaterial. It is an open secret at the Joint Economic Committee and at the Department of Labor that "workers will set their sights lower once they run out of unemployment compensation." Holding full-time jobs at the minimum wage, the 7 million so-called official unemployed workers would cost the Federal Government close to \$50 billion annually, against \$22 billion in present compensation payments. There are three principal ways in which the financiers envision solving this cost-effectiveness problem.

One: Under the present draft, the projected Employment Service can contract labor out to private employers, extending the practice of certain Southern prisons to the labor force as a whole. This would enable industry, which laid off workers earning \$6 an hour, to rehire them at \$2.10 an hour. This provided, of course, that unemployment was already sufficiently high to prevent the slave-labor arrangement from "depressing prevailing wage rates," which the Humphrey bill piously forbids.

Two: The related CETA make-work jobs gives priority for the allocation of funds to municipalities for the purpose of rehiring health and safety workers just laid off under austerity conditions. In this case, there is no caveat concerning prevailing wage rates.

Three: As Federal Reserve Chairman Arthur Burns demanded, the wages for public-service employment can be reduced to the range of \$50 per week once the laws are on the books. Humphrey has already sounded out this proposal via Representative Paul Simon, who has proposed cheaper than unemployment public service jobs on an experimental scale in high-unemployment areas.

What Humphrey-Kennedy-Church's legislation contains as a vicious hidden premise, the EEA attacks as the first problem that must be directly confronted, to wit:

And I quote from the preamble of our Emergency Employment Act: ◊

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.

Where Humphrey's and related legislation assumes that labor is unwanted and, therefore, unproductive, and can be treated accordingly, the EEA plans to:

Foster shifts in the composition of the labor force away from unskilled labor-intensive and redundant administration practices towards an emphasis on increased proportion of skilled operatives, engineers and scientists.

To this end, the EEA provides for the orderly bankruptcy of the present lending institutions created domestically and negotiated internationally to provide credits for trade and production. Once such financial reorganization has been accomplished, the United States can mobilize its lending potential for high technology industrial production and investment. From this standpoint, the necessary labor force policy would follow.

And I quote again:

. . . is to provide the improved opportunities and condition of employment, leisure and essential social services which foster a rising 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 proportion 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.

On the immediate related question of energy, the USLP has drafted legislation for the crash development of controlled thermonuclear fusion power and for the reconversion of the completely wasteful defense sector for this purpose, which I will submit for the record along with the EEA. Neither the Republicans, who are still peddling the widely discredited project independence boondoggle and associated slave labor schemes authored by Vice President Rockefeller, or the Democrats, who have as yet to formulate an energy policy and are still talking about coal gassification, solar energy, and other gimmicks, have competently addressed this most urgent question. The recent breakthrough by Soviet scientists in

fusion power research reported in Tass on February 6, in which they achieved a hundred-fold increase in fusion-produced neutrons with their large Tokamak 10 reactor, underlines the fact that with international commitment to the rapid development of fusion power, this unlimited supply of cheap, safe energy can be realized before the end of the 1970's, and along with it an unprecedented expansion of world productive forces.

The prerequisite for the development of controlled thermonuclear fusion, full employment, expanded production, as I have stated, is the immediate implementation of debt moratorium. This is the question now on the agenda that the Congress must address.

In Boston, City Councilor Albert O'Neil, recognizing the choices currently facing the city, has introduced a municipal debt moratorium ordinance. The U.S. Labor Party, with wide working-class support, has introduced the EEA for memorialization into the Massachusetts General Court and other State legislatures. The policies I have outlined and those policies alone provide the solution to the current economic crisis. Without the implementation of these policies, only barbarism will follow.

Chairman HUMPHREY. Thank you very much.

We will go to our next witness, Mr. Ponti, and I believe that that will conclude the list of witnesses.

STATEMENT OF MAURICE PONTI, UNEMPLOYED CITIZEN

Mr. PONTI. I want to thank you for the opportunity to speak, late as the hour is. I have no prepared speech.

I am in that category that was referred to this morning as the over 40, very highly trained engineer, laid off for the second time in the last 5 years. The first time, I was neither bitter nor frustrated; I just dug in and did the best that I could to get back in the work force. I didn't collect too much unemployment before I started my own business. I couldn't stand the inactivity of unemployment. It failed, but I went on to other things, and finally, after 3 years, was reemployed back into the defense electronic field.

I mention this not looking for sympathy, and not looking for a handout. Some of the things that I am saying may sound bitter, but I am not; I am just frustrated again. I want to address myself first to some of the things that were mentioned this morning—and I am glad that Congresswoman Heckler is back with us.

First, to take off from what the distinguished Senator has said about the work ethic—a very nice and emotionally charged word and I happen to feel that I am a member of that old, work ethic group. I agree with the principle that Mrs. Heckler put forth—that we must help ourselves, and then maybe from that, we will gain two things. We will lift ourselves up by the bootstraps, and we will also be rewarded with our own moral fiber being reinforced.

I agree with Senator Kennedy's analysis that the problem that we are addressing ourselves to now is not simple; it is complex. Therefore, I don't consent to any simplified answers. The one thing that I would answer directly to Mrs. Heckler and I did so after the morning session, but I would like it to be in the record, and it is a

very simplistic view, maybe, of one facet of the unemployment situation—that nobody today or even prior to today, has even addressed themselves to.

There are, still employed in the work force, some very incompetent people, both in the private sector and in the public sector, obviously, and no one, in talking about job opportunity has really mentioned the efficiency of every worker on the job. Efficiency does not seem to be important any longer. You just create jobs; put people in them, and put them to work. If, and I am not patting myself on the back here, but from my previous employer and all through my career, I can at least point with satisfaction to the fact that I saved for every corporation I ever worked for at least my annual salary and sometimes much more. If everyone could do that, I don't think that there would be any unemployment. I don't think that we would have to turn to foreign interests for support of our industry.

I want to relate one specific thing that did occur back in the early 1960's in the semiconductor, microelectronics business I have worked for that had a technology exchange with a Japanese company, for example. When those Japanese scientists, engineers, and businessmen came over, they took copious notes on what we were doing, and they went back and did it better than we. Everybody thought at the time that the reason that they could do it and compete with us was because of their low labor wage rate, which was true initially. But they weren't satisfied even then with their low labor wage rate. They went ahead and developed automated and mechanized—a highly-mechanized system, to cut their labor costs even further, and we just sat back here doing our bumbling worst and not improving our efficiency one bit and crying that they were taking business away from us.

I think it is about time that we ought to wake up. You see, I have always belonged to that Navy group that says, shape up or ship out, and being an administrator of people during part of my career, that is the ethic that I tried to instill in them. If they weren't pulling their own weight, I talked with them and said, OK, you've got 3 months to shape up, or you are going to ship out. I think that is where we might be able to gain some productivity, and put people who are willing, able, and very qualified, or overqualified as you have heard, and overqualified, as all know, means you are earning too much money, and you are either too young or too old. They won't say it directly, because that would be discriminatory, but it is true in fact.

I think that is what we should turn our attention to, and maybe retraining some of these people who aren't qualified for the jobs they are holding, and let some of us who are qualified get back into the proper work force.

Now, I would like to hurl out, after having given each of you a thank you for some kind words you said this morning, a challenge that may sound quite bizarre, but think about it—at least, think about it.

If each of you four members of the committee—three members and Representative Early, who was up there this morning—could take into your minds the geometric progression principle, and convince

only two of your colleagues in the Senate or House, as the case may be, and have each of them convince two others in turn, then by the fifth dissemination of the right way to go, we would have much more than the needed majority to pass this kind of legislation and programs that would keep us all pretty close to full employment.

Thank you very much.

Chairman HUMPHREY. Mr. Ponti, I want to thank you. You ended on a very challenging and constructive note and for this, I am most appreciative. I do think that your emphasis on efficiency and productivity is very necessary, and there isn't any doubt but what there has been a sluggishness about it—a lack of emphasis, and you would be interested in knowing that the Joint Economic Committee, after its many hearings on the subject of employment, and production, and unemployment, through Senator Javits of New York, has sponsored legislation which has become law, to set up what we call productivity councils that would encourage increased productivity, with labor and management to look at these problems of inefficiency.

Of course, recession itself, may I say, with all of its troubles—and it does bring terrible troubles—and it also brings along with it a review of practices, of both management and labor within a particular plant. They call it a sort of wringing out process. There is no doubt that some of that is taking place. I wish a little more of this were taking place in government. It is not easy to get a handle on.

But like yourself, I think most of us work pretty hard. I think I do what I want to do, so I am not complaining. My day is 18 hours. If I ever had a Sunday off, my wife would think there was something wrong. Any man who stays in politics as long as I have, there has got to be something wrong with him anyhow, you know.

Really and truly, I think of this many times, because obviously, I am in political life because I have two feelings about it. One, I do choose it; I like it. Secondly, I feel a sense of mission, to be honest about it, but it doesn't leave much time for the children, or the grandchildren, or for the opera, or for the theater. I think the last time that I saw a movie was the "Birth of a Nation"—and that was before they had sound. I do a lot of traveling, but as I said today, I haven't seen Boston, even though I have been here maybe 50 times, but I generally come for a meeting, and what a joy it was today to go to a restaurant. I went to Jimmy's. I didn't realize that there was such good food. I thought it all came in sandwiches.

But let me tell you that we have had a great day, and a man like yourself adds a special meaning to this day. You came here, as you said, not in bitterness, but in some sense of frustration. You know something? I join the club. I get so frustrated when I hear these tremendous suggestions, and the quality of our witnesses, by the way, which is most impressive. They are all gone now with the exception of you so I can say it without anybody misinterpreting our remarks. Really, we have heard outstanding people today. I don't care whether they are unemployed, or they are president of the Federal Reserve Bank, or a college professor, or a worker. They have been outstanding, and this is a testimonial to our country. We hear this—it isn't just Boston, although I happen to think you are blessed here with uniquely high-qualified people—every place we go, we feel and

sense the same thing. So all of the human resources are here. It is incredible—the spirit and the vitality that is still left in this country, and frankly, I think it is one of the great unappreciated and sometimes almost undiscovered resources of this land. I am not a downbeat fellow; I really am pretty much of a congenital optimist, and I kind of feel that with a little determination, will, effort, and experimentation—to be willing to try—to dare to be not so blamed stodgy about it—if we'd just get in there and wrasse a little bit, it will work out.

I could keep you a long time, but I want to thank you very much. Representative HECKLER. May I say one thing. I would also like to congratulate the witnesses. I think that the last spontaneous witnesses who have spoken from the audience, and I apologize that I had to make a phone call and wasn't here to hear one of them, but I think that they lived up to the same high standards, without probably expecting to testify. I think their eloquence came both from their experience, but also from their innate ability to show exactly what is wrong with the system, when people who are so able find that there is no place to use their talents productively.

All day I have been struggling with a personal problem, Mr. Chairman. It is very strange and I remember VEST, and I remember the face of a person with whom I worked to secure some funding and permission of the Secretary of Labor to allow the housing for VEST and the computer systems which set up the data bank. For the first half of the morning, I remembered that man's face; and all this afternoon, I remembered that man's first name, and his first name was Herman, and I just remembered his last name—Herman La-Marke—and I worked with him in Washington. I never met anyone who was involved with the program after it was set up, so I am delighted to see you.

I would like to say, Mr. Chairman, that you have shown us a great deal. We do have an outstanding chairman of this committee, and I think that the people in Boston and in Fall River know that they have someone in government who truly cares and, frankly speaking, in the democracy, it is the little guy who counts. Each one is equal and no one is little. I think that I have been on many committees, and I have gone to many, many hearings and I have never been to a hearing where so much time was given to each single individual.

Before today, I was grateful for you bringing this committee to Fall River because we have serious problems, and I think we deserve the focus, but after today, I feel that what you have shown—the courtesy, and consideration, and the thoughtful listening that you shared with the members of this audience, and the people of Boston—is really outstanding, and I want this to stand, for the record, on a bipartisan basis, I think you are great.

Chairman HUMPHREY. Thank you. The hearing is over.

[Whereupon, at 6:18 p.m., the committee adjourned, subject to the call of the Chair.]

