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JOBS AND PRICES IN CHICAGO

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-FOURTH CONGRESS

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CONTENTS

WITNESSES AND STATEMENTS

MONDAY, OCTOBER 20, 1975

	Page
Humphrey, Hon. Hubert H., chairman of the Joint Economic Committee: Opening statement	1
Percy, Hon. Charles H., member of the Joint Economic Committee: Opening statement	3
Daley, Hon. Richard J., mayor, City of Chicago	6
Bernstein, Sam, administrative head of manpower, City of Chicago	17
McNicholas, Rev. Joseph A., Bishop of Springfield, Ill., and chairman, Committee on Social Development and World Peace, U.S. Catholic Conference	20
Compton, James W., executive director, Chicago Urban League	24
Collins-Robson, Mary-Jean, member, national board, National Organization for Women	30
Bonner, Annette, local 588, United Automobile Workers	32
Abboud, A. Robert, deputy chairman of the board, the First National Bank of Chicago	35
Eisner, Robert, William R. Kenan Professor and chairman, Department of Economics, Northwestern University	40
Friedman, Milton, professor of economics, University of Chicago	46
Riddick, Rev. George E., vice president, Operation Push	50
Johnson, Stanley, president, Illinois AFL-CIO	53
Mayo, Robert P., president, Federal Reserve Bank of Chicago	55
Conlon, Harry, executive vice president, Graphic Arts Union	68
Daniels, Hon. Lee A., Illinois State Representative, 40th District	70
Spiegel, Jack, director, Lake States District Council, Shoemakers Union	71
Wyatt, Addie, international representative and director of women's affairs, Amalgamated Butcher Workers and Meatcutters Union	74
Smolarek, Ted, president, local 3745, United States Steelworkers	76
Cicchetti, Charles J., director, Wisconsin Office of Emergency Energy Assistance	80
Johnston, Robert, director, region 4, United Auto Workers of America	85
Killingsworth, Charles C., professor of economics, Michigan State University	88
Jones, Donald, local 1395, American Federation of Government Employees and chairman, Chicago chapter, National Coalition Against Inflation and Unemployment	101
Rosen, Frank, president, district 11, United Electrical Workers	103
Sandor, Richard L., vice president, Chicago Board of Trade	114
Dechant, Tony T., president, Farmers Union	118
Carpenter, L. C., vice president, Midcontinent Farmers Association	131
Boyd, Alan S., president, Illinois Central Gulf Railroad	143
Finney, Leon D., Jr., executive director, the Woodlawn Organization	145
Hamermesh, Daniel S., Department of Economics, Michigan State University	148
McKenzie, Charles, director of human resources, city of Minneapolis	150
MacGregor, Robert, president, Chicago United	151
Latimer, Ira, executive vice president, American Federation of Small Business	153

	Page
Pearson, Ted, legislative secretary, Communist Party of Illinois and Iowa	159
Jameson, David, private citizen	163
Schaffner, Ruth, private citizen	164
Fitzsimmons, John C., private citizen	165
Austin, Abe, private citizen	165
Szapiro, Jacob, private citizen	167
Brophy, Thomas C., consultant, Nathan, Barnes & Associates	168

SUBMISSIONS FOR THE RECORD

MONDAY, OCTOBER 20, 1975

Abboud, A. Robert:
- Prepared statement — 37

Brophy, Thomas C.:
- Prepared statement — 169

Carpenter, L. C.:
- Prepared statement — 134

Cicchetti, Charles J.:
- Prepared statement — 82

Compton, James W.:
- Prepared statement — 27

Dechant, Tony T.:
- Prepared statement — 120
- Article entitled "Views Presented to the Presummit White House Conference on the Economy" — 123

Eisner, Robert:
- Prepared statement — 42

Friedman, Milton:
- Prepared statement — 48

Johnston, Robert:
- Prepared statement — 86

Killingsworth, Charles C.:
- Prepared statement — 90

Mayo, Robert P.:
- Prepared statement — 57

Pearson, Ted:
- Prepared statement — 162

Percy, Hon. Charles H.:
- Article entitled "Bankrupt Cities Don't Disappear," from the Chicago Tribune — 66

Riddick, Rev. George E.:
- Prepared statement — 51

Sandor, Richard L.:
- Prepared statement — 116

JOBS AND PRICES IN CHICAGO

MONDAY, OCTOBER 20, 1975

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

The committee met, pursuant to notice, at 10 a.m., in the studios of WTTW, Chicago, Ill., Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Kennedy, Percy, and Stevenson; and Representatives Bolling and Long.

Also present: Lucy A. Falcone and Jerry J. Jasinowski, professional staff members; Michael J. Runde, administrative assistant; and M. Catherine Miller, minority economist.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. This is the first of a series of regional meetings of the Joint Economic Committee of the Congress. We are during this period of regional meetings attempting to review the economic conditions and developments in our country to gain information from the general public as well as from those who are leaders in their respective fields of finance, management and labor, consumer organizations, people deeply involved in social welfare activities. We'll be going to New York City, Atlanta, Los Angeles, and hopefully, to Boston.

And following the regional hearings, we'll be undertaking a major national conference in the latter part of February or the early part of March 1976, reviewing the Employment Act of 1946, and its 30 years of application.

It's quite evident that that act needs to be updated. It's equally evident from the developments that have transpired in the economy since 1946, that the goals of the act, of maximum employment, maximum production, and maximum income have not been achieved.

The emphasis in these hearings will be upon jobs or employment, or to put it in a negative manner, upon the crucial problem of unemployment, as well as on prices and inflation, along with the possibilities and the necessities of proper economic growth.

The Joint Economic Committee comes to the Chicago area troubled and concerned about the future of the American economy.

Although there is some good news on the economic horizon, such as the increase in industrial production, our gross national product, much of the news for the average person still is bad.

Jobs as yet are not available for millions of our people. Supermarket prices, the one identification that the average citizen has with the word "inflation"—supermarket prices continue to climb.

Frequently the victims of high unemployment, young people, young couples, cannot afford to buy their own homes, and many of our elderly citizens cannot afford the necessities of life or the necessary medical care.

The magnitude of the economic problem we face in this country and the squeeze that it has put on the budgets of American families can be seen if we look at how jobs have decreased and prices increased in recent years.

The combination of these two regrettable trends has been to increase greatly what I call, to put it in simple terms, the economic misery index.

Now, the economic misery index is to be found over there on the chart [indicating] that we have prepared. It is a combination of price and unemployment increases, showing that they have roughly doubled from 7 percent in the early 1960's to about 16 percent in the last couple of years.

The people in the Chicago area know about these bad times as unemployment has risen to 12 percent, far above the national average; and, might I say, this is characteristic of many of our great cities; other cities have even higher rates of unemployment.

The President's spending and tax proposals—I speak now as one member of the committee and not for the committee—are, I believe, poorly conceived.

They do not come to grips with the nature of our current economic problems. The deficit we have, and it is a large and frightening deficit, is, in the main, a recession deficit, caused by reduced tax revenues and higher welfare and unemployment compensation costs, both of which are the product of an economy that is in recession.

The way to end these high deficits is to restore healthy and balanced economic growth, which in turn relieves the problems of unemployment compensation and welfare costs, and increases the revenues that come to the Federal Treasury.

This should be the objective of our Nation's economic policy. Anyone who has a simple explanation for these complex and negative trends, I am afraid, fails to understand what is going on.

It is obvious to me that the old economic rules no longer apply. Increased unemployment, for example, does not reduce inflation. In past years it was looked upon as the sure cure. We must reject, therefore, these economic dogmas of the past and open our minds to new ideas on how to restore economic growth, how to achieve full employment and to do so with relatively stable prices, and we welcome your counsel and your advice on these matters.

We must shake up our economic institutions, rid ourselves of outmoded Government activities, increase competition in the private sector, and begin planning ahead so that we can avoid this running or careening from one crisis to another.

Now, I have some ideas about how this should be done. To put the American economy back to work, I have submitted legislation, along with another member of this committee, Senator Javits of New York, and several other Members of the Congress, such as the Balanced Growth and Economic Planning Act of 1975, and along with Congressman Hawkins of the House of Representatives, the Equal Opportunity and Full Employment Act.

I suggest that these are only ideas. They are not refined products. Today we are in Chicago to listen to you. We need the ideas of people in the Midwest and across the country in this crucial and national debate on what should America do to get America back on the high road of economic growth and social progress.

Some of my colleagues have statements and, to keep them within limits, may I just lay down the ground rules for today.

We have a large number of witnesses and we want to hear as many as possible.

For those of you who have prepared statements, we'll ask that you make them available for our record. They will be included in full text, and we ask you to make a summation, hopefully, not to exceed 5 minutes.

The general practice of the committee is a 10-minute questioning by each member of the committee. That will be reduced to a maximum of 5, and we may have to reduce that.

We believe that we need to hear from you.

Now, I will ask Senator Percy for any comments that he wishes to make.

Opening Statement of Senator Percy

Senator Percy. Mr. Chairman, thank you very much indeed, and I know that I join together with our distinguished mayor, Mayor Daley, and Senator Stevenson, my colleague in the Senate, in welcoming the Joint Economic Committee to Chicago.

Mr. Chairman, you are known for your optimism, and for you to present a misery index is an indication that we have problems that we want to face up to. And we have, I think, one of the most distinguished panels of witnesses here today that this committee has ever had before it. Certainly, we welcome Congressman Bolling from Missouri and Congressman Long from Louisiana, and certainly Senator Kennedy, who is not a stranger in Chicago at all, and who feels, I'm sure, very much at home here.

I think we also appreciate the facilities of WTTW. Educational television is running this series all day because this is a matter of concern not just to those distinguished citizens who have seen fit to come personally, but all of those at home, particularly, those who are home unemployed, who cannot find a job, and who are out of work because of no condition they could control themselves.

We'll be inquiring into many, many different issues, and we'll have with us distinguished leaders from the political area, business, labor, and civil rights area, to talk about the problem which is not a theoretical problem at all for the millions of Americans who are out of work now.

When we consider that the old slogan went, "If you can't find a job in Chicago, you can't find one anywhere in the United States," it is not true today. Through a series of factors, Chicago has the highest level of unemployment, 11.9 percent since the so-called great depression of the thirties. We want to find out why. But more importantly, we want to find out what we can do about it.

We certainly wish to inquire into why Illinois is the worst State in the Nation so far as getting unemployment compensation checks out on time. Over half of our unemployed at the end of 1 month of unemployment, for funds that are in a trust fund—for the Federal Government provides all the financing to the administration by the State—can't get their check. That's an outrageous condition that I have talked several times to our Governor about, as well as Secretary Dunlop, Department of Labor.

We have all the facilities of the Federal Government, and we still haven't been able to get through the bureaucratic jungle, and this makes people angry. Those checks should be put to work in circulation, in retail stores. This is why the faceless bureaucracy of the Government is in such ill repute today.

That's why this committee wanted to come right out of Washington, right here into the heartland of America to hear our witnesses and talk to people about their concerns, and we are not going to talk to just bankers—we'll have some distinguished bankers—but we are going to talk to people who are unemployed, who know right from the first line what these problems are.

There's a tremendous amount of cynicism about hearings, you wonder whether anything ever comes of them. I just want to assure the citizens of this city that this particular committee is a problem-solving committee, not a legislative committee; but out of it have come the Full Employment Act, out of it have come the concept of public service jobs that people ought to be on a payroll, not just a welfare roll.

Out of hearings that the Congress has held have come ideas for tax reductions for individuals to pull us out of recession, for tax credits for business to give us more incentive for capital formation and to create jobs.

And certainly I hope today our distinguished mayor will talk about the problems of cities and financing. I have suggested to my distinguished colleagues, like Senator Javits in New York, who wants the Federal Government to bail New York out, what we could do in Chicago to help them better instead of sending money is just loan them Mayor Daley for 3 months. I think he could run and probably put a little commonsense in some of the programs to bail out New York, that make no sense at all to me as a Chicagoan, and until they take some absolutely essential and necessary action for themselves.

So we are going to have a very full day of hearings. We thank our distinguished witnesses who are here today, and we very much appreciate this audience being with us to extend a hearty, warm welcome from the city of Chicago to this distinguished Committee.

Chairman HUMPHREY. Thank you, Senator Percy.

One of our colleagues who has had a long period of service on the Joint Economic Committee is Congressman Bolling. And I think Congressman Bolling may have some statements he may wish to make.

Representative BOLLING. No, Mr. Chairman, I think I'd rather hear the witnesses. I will reserve my comments until later.

Chairman HUMPHREY. Senator Kennedy? Senator Kennedy needs no introduction.

Senator KENNEDY. Thank you, Mr. Chairman.

I first of all want to commend you for holding these hearings here in Chicago. I think one of the most important factors of these hearings is that they are outside of Washington, D.C., where, so frequently, we hear spokesmen for the administration say how well the economy is really doing, how industrial production is up, inventories are down, the GNP is expanding, and I think it's very important for us to hear from the people.

I have just spent 8 days in my own State of Massachusetts where we have 13-percent unemployment, and one of the things that I hear from the workers and from the housewives in that State is that:

> We keep reading about how fine everything is in Washington. Don't you people really understand what's happening out here in the towns and villages and cities of the State of Massachusetts?

And I'm sure this may very well be true in Chicago and many of the other cities of the Midwest. And I think given the opportunity of people to talk about what it means in terms of unemployment to the housewife, what it means in terms of increasing prices at the supermarket and to hear what their ideas and their recommendations are is really one of the very important functions that this Committee can serve.

So I want to thank you for holding these hearings out here and say how much I appreciate the chance to be here, and also to look forward to hearing from Mayor Daley, who's been a longtime friend of my family, and someone I think all of us who recognize the challenge of administering a great and important city, how well he's been effective, been able to do it over the years.

Chairman HUMPHREY. Thank you, Senator Kennedy.

Congressman Gillis Long of Louisiana is one of the most effective members of this committee, and he has journeyed here to share with us and with you the experience of this hearing. Again may I add, I have always believed that government was a two-way street. We either ask you to come to the government or the government can come to you. And in this instance, certain members of the government are coming to you. Congressman Long.

Representative LONG. Thank you, Mr. Chairman.

I, like Congressman Bolling, would like to reserve my time until such time as we have heard from the witnesses, because I think this is an important aspect as Senator Kennedy mentioned of what we are attempting to do here.

I would, however, like to thank the mayor and the people of the city of Chicago and the city administration for the many courtesies that they have extended to us in inviting us here, and also in helping on all of the arrangements that have been made.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Mr. Mayor, I'm sure you know how pleased we all are to have you here, and may I say the same to Bishop McNicholas, who is with us here today.

We are honored with all of the fine representation.

Senator Adlai Stevenson is with us. He is not a regular member of this committee, but he is a very active and effective member of the Committee on Commerce in the United States Senate and has taken a very strong and leading role in matters relating to our national energy policy.

We are happy to be in his State, and the name of Stevenson in this State is a name of honor and integrity.

Adlai, do you want to make your presentation?

Senator STEVENSON. Thank you, Mr. Chairman. Thank you for the invitation to participate in these hearings.

I don't intend either to take advantage of your invitation to make a statement. I would like to join with you today to listen to the witnesses from among my constituents.

But it is my pleasure, Mr. Chairman, to welcome all of the distinguished members of this committee to Chicago, and also to introduce to you one of the most remarkable figures in American politics For 5 hours already today, Richard J. Daley has been governing Chicago. He has been governing Chicago for 20 years.

It is the most extraordinary record of municipal management anywhere, with all respect to Minneapolis, and the former mayor of Minneapolis.

Dick Daley, in good times and bad, has been good for Chicago. He is not only its chief executive, but an eminent authority on United States and cities urban conditions, which, of course, includes much of the unemployment in America, and so, Mr. Chairman, it is a great pleasure for me to introduce to you as the first witness, the mayor of Chicago, Richard J. Daley.

Chairman HUMPHREY. Thank you.

Mr. Daley, would you come to the witness stand, please.

STATEMENT OF HON. RICHARD J. DALEY, MAYOR OF THE CITY OF CHICAGO

Mayor DALEY. Thank you.

Thank you very much, Senator Stevenson, Senator Humphrey, Senator Kennedy, Congressman Bolling, and Congressman Long.

As Mayor, it is my pleasure to welcome the Joint Economic Committee to Chicago. You are to be commended for bringing the National Government to the people through the regional meetings you are conducting. Certainly the subject matter—full employment and price stability—directly affect the lives of all people, and the decisions which Congress makes on these issues are vital to every citizen.

The regional hearings serve a twofold purpose. On the one hand, the committee is able to hear directly from all elements of the Nation, the various States, cities and neighborhoods. I am confident that you will hear much straight talk from some very concerned individuals. You also serve the purpose of your committee by bringing into focus the basic issues, the varying and conflicting viewpoints, and the many alternatives that must be weighed in determining the economic policy of our Nation.

This communication is essential because the success of any national policy depends on the understanding and the support of the people. I want to thank the committee for giving me this opportunity to testify before you, the Congress, and the public from the viewpoint and experience of a mayor of a central city with millions of residents.

I know that we are all pleased that these hearings are being televised by our educational station in Chicago, WTTW. The broadcast of these proceedings is a distinct contribution to the community. Your committee was created by the Employment Act of 1946—also known as the Full Employment Act. The declaration of policy in the act stated that it is the continuing policy and responsibility of the Federal Government—with the help and cooperation of industry, agriculture, labor, State, and local governments—to promote maximum employment, production, and purchasing power. Its purpose was to prevent serious depression and to achieve economic stability. Economic stability was generally understood as a rising national income under conditions that would assure steady jobs for those who want to work. These objectives were to be achieved within the framework of a system of competitive enterprise.

The Employment Act of 1946 was written after the bitter experience of the Great Depression and at a time when the Nation feared renewed unemployment and inflation resulting from the end of World War II. The Employment Act had the support of Democrats and Republicans alike.

In 1966, to mark the 20th anniversary of the act, the Council of Economic Advisers, a group also created by the legislation, issued a policy statement, and I quote:

> Twenty years of experience have demonstrated our ability to avoid ruinous inflation and severe depression. It is now within our capabilities to set more ambitious goals. We strive to avoid recurrent recession, to keep unemployment far below the rates of the past decade, to maintain essential price stability at full employment, to move toward the Great Society, and indeed to make full prosperity the normal state of the American economy.

The recognition that there was a national commitment to these goals was reflected by President Kennedy's "New Frontier," President Johnson's "Vision of a Great Society," and President Nixon's proposal to change a self-defeating and self-perpuetating national welfare system. Congress responded with a multitude of progressive programs.

But what might have been was overwhelmed by a bitter war that diverted funds from constructive programs and planted the seeds of inflation and depression. To this was added the disastrous consequences of an energy crisis.

As we approach the 30th anniversary of the Employment Act, we find ourselves once again suffering from the aftermath of war and crisis—depression, inflation, unemployment, and a national mood of discontent and frustration that cries for positive action, for solutions from its leadership.

One of the basic reasons for the public's mood arises from their disillusionment concerning the so-called law of supply and demand. Industrial production is down sharply, factories are producing well below capacity, and yet prices rise. It is true that higher fuel prices have an effect throughout the economy, and yet it appears that administered prices are gradually taking over the marketplace.

I am not an economist, and it is dangerous to simplify in an economy so complex and where a variety of factors influence its operation. But taxation and spending, and the allocation of resources and the setting of priorities, are determined to a large extent by adoption of the budget.

I have had some experience with budgets, having served as county comptroller, director of revenue under Governor Adlai Stevenson, and as chief executive of the city of Chicago. Of course, the Federal budget is on a different level of income and employment, and is concerned with the total activity of Government—domestic and international.

In preparing a Government budget, there are certain fundamental steps that must be taken such as estimating revenue, expenditures, determining costs, studying the requirements of personnel, establishing wage levels, discussing with department heads improved administrative procedures and new programs, and gathering essential economic data. This is the economic side of the budget which is similar to the procedures followed by any business or corporation. But there is another side to the preparation of a Government budget, which I consider to be my direct responsibility as well as the responsibility of the city council, in determining the allocation of resources and the establishment of priorities.

The primary function of government is to meet the needs of people—all the people. In our democracy it is based on the principle that the community will not turn its back on those who are less fortunate, those who are in trouble, through circumstances they cannot control. In the past 30 years all government, and particularly local government, have had to greatly expand and enter into programs that they had never been engaged in before in order to meet the needs of people.

For example, government never wanted to get into the field of public housing. It was forced to do so when private enterprise was unable to provide housing that people of low income could afford. There are hundreds of similar examples illustrating the expansion of government services to fill needs. In preparing the budget of 1975, Chicago like every city was faced with rising costs and a demand for cost-of-living increases. We did not increase real estate taxes or did we seek to economize at the expense of those who are the first victims of a declining economy.

The 1975 budget expanded the program to feed the hungry, gave more aid to senior citizens, provided more health centers and medical centers to the young and old and continued unabated the local government matching funds for Federal programs that serve the personal needs of people and improve neighborhoods. Where Federal funds were cut, we increased the local share.

We did not engage in a program of layoffs. We took advantage of every Federal employment program and help put people to work quickly.

I was proud, but not surprised, that not a single member of the city council opposed these measures, including the aldermen of those neighborhoods which would not directly benefit from many of these services. Nor has there been any protest against these measures by complaining groups or by mail.

In determining national fiscal policy, the policymakers have basically three alternative approaches. The Government can hold spending constant and change taxes, hold taxes constant and change spending, or change both taxes and spending. Economists are sharply divided as to which of these methods is most desirable. However, most of them will probably agree that in the present circumstances, there should be changes in both taxes and spending.

I am all in favor of a reduction in taxes both to give some relief to taxpayers and to further stimulate the economy. I am also in favor of cutting spending, but while the administration has been somewhat specific in its proposals for tax reduction, it remains silent concerning the cutbacks in spending. But this administration, by its past actions, has made it clear where the cut in expenditures will come after he exercises his veto. It will come from programs designed to help the less fortunate. This has been made clear by the programs supported and the 39 bills vetoed.

Among the most recent vetoes are the school lunch program and the health service bill. But the veto of the Emergency Employment Act and the philosophy behind it, is most indicative. We are told, and all of us hope that it is true, that the recession has bottomed out and the economy is turning around. The reason for the recovery is the increase in inventory liquidation.

But we are also told that a reduction in unemployment will lag behind any recovery. The 8.3 percent reported in September does not include those who have given up and withdrawn from the labor market and the hundreds of thousands who have been dismissed from seasonal jobs. We are told that in 1976, at best, there will still be 7-percent unemployment.

In other words, increased production to replace the liquidated merchandise will take place much faster than the increase in hiring to fill the liquidation of jobs.

But jobs are people, not merchandise. Seven percent is not only a statistic. It is not only approximately 6½ million people being deprived but more like 30 million because their families are equally affected.

And how long will it take for increased employment to reach those who are most vulnerable, the young people and the minorities, those who are last hired and first fired? And what about those who are over 45?

It is the people in the cities who bear a disproportionate share of the hardships of this deep recession. The unemployment rates in the central city exceed the national rates, and these rates show only averages. They do not portray the incalculable stress placed on so many of our citizens. Unemployment among the minorities is at least twice the national rate—and among minority youth, three to four times.

Even the presidentially appointed National Committee for Manpower policy said in February:

> The American people are no longer willing to permit their government to do little to stem the ravages that unemployment brings in its wake. If the government ignores the demands of the public in general and the inner city frustrations in particular, it will do so at tremendous costs to our social fabric.

It is the city that provides housing, health, and social services, jobs and recreation to the poor, the low income, the unskilled, the urban newcomer, and the senior citizen.

The cities cannot and will not turn their back on these citizens and the withdrawal of Federal funds that support these programs would only shift the burden from the Federal income tax, which is heavily financed by corporate wealth, to local real estate and sales taxes.

Those who persist in the belief that city limits are walls to economic problems are seeking to evade the real world. In this urbanized society we all live as part of a total economic and social entity. Without a viable healthy city, there can be no thriving suburbia—no strong Nation.

The administration contends that inflation should be the target of national economic policies, not unemployment. Yet, every increase of 1 percent in the unemployment rate results in a $16 billion rise it the

Federal budget deficit, accounted for by lost tax revenues and increased spending for unemployment and welfare.

It is paradoxical that those who most criticize welfare do not hesitate to increase it.

I do not pretend to know all the answers to our troubled economy, but I do know that making people who are able and willing to work dependent on welfare, is a step backwards. Giving a person an opportunity to work is a giant stride forward to solving many of our problems, economic and social.

We hear there is a tremendous need for investment to supply the capital for industries to expand, but I think that more will be gained by investing in people, by giving them an opportunity to work in meaningful public service jobs until they can be absorbed by private industry.

This is not an issue which has suddenly risen. In the past 5 years I have appeared before congressional committees and made hundreds of public statements urging public service employment and supporting the objectives of the Full Employment Act. In all fairness, the record discloses that President Ford and his administration have also been consistent. There is an honest difference of opinion.

This difference does not only apply to the choice of alternatives in dealing with the problems of the economy, but in assessing the will of the people.

I do not believe that the majority of the people of American want to abandon the objectives of the Full Employment Act, nor do I believe that the majority of the voters want their Government to return to the economic philosophy and fiscal policies that preceded the Great Depression.

This is not only a question of money, it is a question of value. I welcome public debate on this issue, and I'm confident that the Congress of the United States will give us the answer.

Thank you for the opportunity, Mr. Chairman, of appearing before you.

Chairman HUMPHREY. Mr. Mayor, we thank you for a very thoughtful and powerful statement. Truly it's a magnificant statement.

Might I just add in the brief moments that are mine, in the past 2 years some 25 million Americans have suffered direct unemployment at one time or another. In any 1 year 75 million Americans, members of the families of persons unemployed have been directly affected by unemployment. It gives you some idea of the scope of the unemployment problem, its depth, its critical nature.

Figures of 8.3 or 9.3 in any 1 month do not tell you of the ravages of unemployment in terms of income reduction on families all during a year. So we have an incredible reduction of income in this country and an ever-increasing problem, as you have well pointed out, in terms of social services costs to government—State, local, and Federal—because of a recession; and, of course, because of inflation.

I thought your words here were well put when you spoke of increased production to replace liquidated merchandise, indicating some degree of recovery, but the words that impressed me were these, "But jobs are people, not merchandise."

And your statement on investment in people is, of course, the feeling that I have long held. But I believe that you have stated it succinctly and directly—investment in people.

Finally your plea for the city—and I'm pleased that public television here in this fine facility in Chicago is conveying your message—you have said it is the city that provides housing, health, social services, jobs, and recreation to the poor, the low income, the unskilled, the urban newcomer, and the senior citizen. People forget that, because the city today has become the residence for many of the unfortunate people or the less fortunate people in our society. And we cannot have these islands of misery and islands of despair surrouuded by the comfortable affluence of surrounding suburban neighborhoods.

I want to compliment you when you say the cities cannot and will not turn their backs on these citizens, and the withdrawal of Federal funds that support these programs would only shift the burden from the Federal income tax, which is heavily financed by corporate wealth, to local real estate taxes. This is what the political argument is about, Mr. Mayor. Who's going to pay the bill?

Many of those who are saying there's too much Federal activity are simply saying they don't want to pay the bill out of high incomes, but rather to shift that burden back to the local governments that have to raise their money out of sales taxes and real estate taxes, which are not based on the ability to pay, which are not called progressive taxes.

The services have to be provided. It is incomprehensible and inconceivable that any major city could just leave people to starve and leave them on the streets or leave them with no income whatsoever. Nobody in his right mind dares advocate that kind of solution.

So the question comes, where do the means and the funds come from? Where are they to be accumulated and used?

I want to compliment you also on your emphasis upon jobs. We know how to make jobs in this country. And it seems to me that above all we should spend some time thinking about jobs for our young people, many of whom are living in communities where jobs have not been available for years.

We could have a situation of a generation of jobless young people, not only in urban America, but in rural America. I can tell you in the rural areas of America, in the smaller towns and communities, young people age 15, 16, 17, 18 are walking those streets with nothing to do, engaging in petty crime and organized crime, engaging in mischief and idleness because there's nothing for them to do.

And for a government to sit around quietly wringing its hands and being unable to provide something for people to do is incredible. If we had a war on, they'd be conscripted to do something. And there is a war on. It's the war that's been the ancient war of man's problems, man's struggle against his ancient enemies of idleness and disease and misery.

I thank you for your statement. There may be others who wish to comment.

Senator Percy.

Senator PERCY. Mayor Daley, I find your statement a powerful statement, but I find one disturbing paragraph and I'd like to give you a chance to amplify on that.

You say—

> We hear there's a tremendous need for investment to supply the capital for industries to expand. But I think that more will be gained by investing in people by giving them an opportunity to work in meaningful public service jobs.

I find that a great contradiction. I believe in public service jobs. I have sponsored legislation for them and I think the employer of last resort should be government. But I'd a lot sooner they be working for Commonwealth Edison, Illinois Bell Telephone, Public Service Commission of Northern Illinois, or International Harvester than for the Federal Government.

What we have provided is the investment tax credit—we found it very hard to get that—for public utilities it was only 4 percent. We have increased that now to 10 percent. That gives them the capital to create the jobs, to create the energy, the public services in the private sector on which they pay taxes.

We are paying 100——

Mayor DALEY. How is it going to help the fellow that's unemployed today? Where are they expanding this employment? Certainly we are are for private industry. But we know that when you are talking about this expansion, the jobs don't follow it.

What we are concerned about today is putting people to work, and they can't get jobs in the respective areas you mentioned because they have been laid off. They can't put the people they have laid off back to work, and we are——

Senator PERCY. When you say there's more to be gained——

Mayor DALEY. I don't want to be misunderstood. I think one of the great faults here is that industry hasn't met its moral obligation to other people of our country providing that kind of expenditure at a time when the oil companies have 400 and 500 percent in the investments they have had, to see companies also laying people off. Where are we going?

I said that and I believe it, that we are concerned about putting people to work today, and we talk about expanding the capital investments of all these corporations. I'm in favor of that. But I'm also in favor of having some time limit on when they are going to put people to work.

Senator, you can't be promising a guy forever, that has a wife and a few kids, and you are going to get a job next week or next month, because he's been listening to that now for the last 18 months, and he sees his neighbor with a pink slip every time another group is laid off.

And what we are concerned about, and I feel very strongly that our Government has the obligation to say to the people of America if private industry won't provide employment to keep you working with your family, then, by God, the entire resources of our Government should be put behind some kind of program to do exactly that. And we'd have a finer country and better country if this is done. [Applause.]

Senator PERCY. We are not in disagreement, we are not opposing capital for——

Mayor DALEY. I never oppose anything. I am for constructive——

Senator PERCY. I can find some things you are opposed to.

In other words, we are going to do both of these jobs. I think we are in agreement then.

I'd like to ask you in the matter of priorities, Senator Kennedy and I worked for many years to create the nutritional feeding program. There were 31 feeding stations in Chicago. We almost lost them on the floor of the Senate. Now it's been expanded to a $200 million program.

That's the kind of program we should keep in high priority when we consider what expenditures we can cut out of the Federal budget.

Mayor DALEY. One of the greatest programs that anyone ever passed. All you have to do is go to the senior citizen nutritional program, just a few blocks from here, at 12 o'clock, and see 300 or 400 happy people in 92 stations all over Chicago. Not only did it provide the food, but the greatest thing you provided is to let old people get together; and too many times people living alone and to get out four or five times a week at that nutritional program I think is the most humane program ever put together.

Senator PERCY. I wish to commend Chicago on what it's done. I visited many of those centers. I agree with you, they are the highest priority, I think, for our expenditure.

I'd like to ask you, you mentioned housing, how high a priority would you place housing for the elderly, for which I happen to think we need more funds. We need more Federal assistance. We have housed our young people at campuses all over the country, and we have empty rooms. How high a priority should be the stimulation of the building industry?

Mayor DALEY. With the lack of funds coming from Washington in the last 6 years, we put our emphasis on senior citizens' housing, and the only housing we've built is senior citizen. But we haven't enough funds to build more of them, and we talk about again the problems, as the chairman said, people coming into our city, elderly people asking for the housing. And they are Americans, and regardless of where they come from, we try to take care of them.

But you could double, in my opinion, the appropriation on senior citizen housing and do one of the greatest things our Government should do in paying our respect and obligation and gratitude to elderly people for what they contributed to the Government.

Senator PERCY. Mr. Chairman, I thought we were on a 10-minute time limitation. I have one more question on New York, and I ask unanimous consent that I be able to ask one more question.

Mayor DALEY. I think Abe Beame—I'll tell you what I think—I think Abe Beame has done a great job. All of the problems of New York are not mismanagement—the problems of what we are talking about today. People come to New York from all over the world and this country, and they come because they thought there was opportunity in New York and opportunity in Chicago. And they think anyone with a heart would take care of them. And that's what happened.

You can all say, Senator, about the mismanagement, and I'm not justifying all the things, but don't kid yourselves, and they shouldn't be kidded that all the problems of New York are due to mismanagement.

Senator PERCY. Mayor, I'd like to ask you specifically two questions. As I understand it in New York City, retirement benefits are based on your last year's income, and it's a common practice to load the last year income with all kinds of overtime and forever after that New York City is obligated then to pay retirement payments based on a balloon figure.

Second, New York City University provides unlimited entrance and free tuition, when in our own city colleges we charge $200 for entrance, and Chicago Circle Campus, $666. Should we until such time as New York recognizes they can't afford that kind of program any longer with the declining employment and so forth. Should we bail them out before bring some of their programs, that simply can no longer be afforded, into parity with the rest of the country?

Mayor DALEY. Well, Senator, breaking down your question, No. 1, on pensions, everyone knows and no one talks about the rigidity of pensions. What about a policeman retired from the police department getting $175 or $200 a month pension? New York took the liberal attitude and the human attitude of saying when the pension is fixed we know that in this inflation that's taking place over the last 10 or 12 years there will be higher costs next year and the year after. But that man's or woman's pension is fixed. Now, I don't justify, and I don't say to you that we should spend more than we take in. But I say to you that what percentage of the money we are talking about is due to these pension questions you ask and the question of tuition.

What would be the total figure?

Senator PERCY. Tuition alone would be $150 million a year. Just put them on a parity with Chicago.

Mayor DALEY. What would be the pension?

Senator PERCY. I don't know.

Mayor DALEY. Shouldn't it be the aim of all of us to give educational opportunities to people regardless of their economic status?

Senator PERCY. Not to bail a bankrupt city out. If we started to do that in Chicago, we'd have a bankrupt city.

Mayor DALEY. No one wants a bankrupt city. But isn't it a wholesome thing to say to any boy and girl that we endeavored to educate you even if you don't have to have money to get it? Wouldn't you be for that? I am.

Senator PERCY. My time is up.

Chairman HUMPHREY. We are going to have to adhere to the 5 minutes.

Representative BOLLING. Mayor, you have been most eloquent in your description of government as an entity that is to meet the needs of people, all the people, and you said that in your statement, and you said it in your reply to questions.

You go on to point out that in 1975, this year, that when there were not funds from other entities that you were able to meet some of the needs of your people from within. And that you used all the Federal programs that were available to meet the needs of the people. Now, I have been studying up for this hearing and I found that your city was in remarkably good fiscal condition compared to any city. And I would like to know just from you, because I know your record, you were comptroller of the county, I believe, director of revenue of the State, and now you are mayor, and I hear a story told that you act like your own controller. How is it that after all these years with these tremendous burdens put upon you by the recession that you have the resources to meet the needs of the people that you described?

I'm not talking about management except as a tool to serve the people, but clearly you have used management in a most remarkable way. I'm not talking about New York, I'm just talking about Chicago.

Mayor DALEY. Well, I think basically, Congressman Bolling, it would be my mother who told me, God love her, you can't spend more than you take in too long until you are in trouble. And I try to run the city like you'd run your family. I always watch to make sure that we wouldn't appropriate more than we have in revenue. But only, not only that, but to always have a selvage at the end of the year in the operation instead of an overexpenditure.

But I think our great problem today, and this is what we are trying to address ourselves to in the 1976 budget, and I would hope the people of industry with their productivity, will increase the production of public service without increasing the cost, and would increase the production whether it is in the private industry or the public industry. We are doing a substantial thing to increase the service without additional cost.

I think government costs too much on every level, on the Federal level and the State, and on the local level.

I think industry has to meet that challenge that we boasted about years ago that we would outproduce everyone in the world, that we would outbuild everyone in the world, and forget about this question of inventories and cutting down, but go ahead and go into mass capital investments, if you will, or plants. You don't see many plants going up today. You see "for sale" signs on them, for rent, and I think what we need is some stimulation here, renewed confidence in ourselves, but at the same time not forgetting the most basic thing is people, the people of our country, and by God, they are entitled to a better shake than they have been getting, in my opinion.

Representative BOLLING. In essence, that is to say that good management in no way conflicts with the idea of serving the people well?

Mayor DALEY. Not at all.

Representative BOLLING. I agree. Thank you, sir.

Chairman HUMPHREY. Senator Kennedy.

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

I do want to join in thanking the mayor for his presentation.

I think the mayor has recognized what has been recognized at other times in our history, and that is, if you get people back to work, and make the kind of investment to get them back to work, we are going to be able to move ourselves out of the kind of unemployment which so plagues both your city and my State.

You point out that with every increase of 1 percent in the unemployment rate results in a $16-billion rise in the Federal budget deficit, so if we have 8½-percent unemployment nationally and we are able to bring that down to 4 percent, we have actually got a balanced budget or eliminate the deficit, and you have some $16 billion in surplus. I think what you have recognized, Mr. Mayor, is that the greatest waste that we are seeing is the people who have skills and talents who aren't being put to work and the unfilled investment in productivity. That is what I gathered in terms of your testimony, in those sections dealing with public service employment. I think you have really put your finger on the challenge for us nationwide.

You remember in the early 1960's where we had 7-percent unemployment nationwide and were able to bring unemployment down to 3½ percent, and we had price stability, and this, I gather, is one of the important concerns you have.

I just really have one question—and I don't think that there is a mayor in the country who is closer to the people than you are—when you walk the streets and talk with people in different parts of the city, what do they really talk to you about?

In my State it is the issue of jobs and the cost of things, and the uncertainty of fuel prices over the wintertime. They are deeply concerned about this, but I just, in my time, I would really like to know what you hear from anyone that you run into on the street. You listen to those people and I think, frankly, that is one of the reasons for your great success.

What are they talking to you about?

Mayor DALEY. Well, Senator, whether you go to a wake, to church, or whether you go to a tavern on the corner, or down the street, everyone is talking about employment. Someone in their family, a son or daughter, or a son-in-law, or daughter-in-law is unemployed, and they want to know also about the total picture of our country.

You talk with small businessmen, they talk about the economy, what is going to happen with all these people out of work, and we have consumer sales and the things that we are trying to sell. I would say that is the No. 1 question.

Also the further fact that if they are working and they got a job in the stockyards or in one of the places close by, they wonder if they are going to be the next one that is going to be laid off, or if they are working for one of the big utilities or something else, if they are going to be laid off. At the steel mills they wonder whether the next Friday they are going to get a pink slip, like the fellow alongside of them.

I don't think this is the kind of a government and society that you and I hope we will have in our country, and I think it is sad when you see able-bodied men looking at their children, and we come into the old neighborhood at 37th and Halsted and talk to them, and I think one of the things that the Senator from Illinois brought up, the serious question of men and women with 7 and 8 weeks of no employment compensation, and they don't know when they are going to get it.

We have established with great pride, Mr. Chairman, an emergency fund to provide food for many of those people on unemployment compensation in serious condition today, and we have gone with baskets to their homes, like we did in the 1930's, and we continue to do it because we think that is what neighbors are for, and that is what we do.

Senator KENNEDY. Thank you.

Chairman HUMPHREY. Congressman Long.

Representative LONG. Thank you, Mr. Chairman.

Mayor, I would like to call upon the diversified and certainly successful experience that you have had as director of finance for the State, or revenue for the State, the county comptroller, and certainly as a very successful mayor, and ask two specific questions in that regard, and get the benefit of your experience.

One is, as you know, and when we start, when the Federal Government starts re-creating jobs in the public sector, it starts getting the charge of make-work type things, and leaf raking and all of this. We have all heard this criticism, and those of us who have in some instances supported those have been subject to that criticism.

It didn't particularly bother me, but from your experience with these types of jobs, and assuming that we do that, and that we could get the administration to go along with it and override their veto that they are so prone and inclined to give, what type of jobs like that work the best from your experience at the level that you see?

Mayor DALEY. Well, for instance, the collection of records; wouldn't it be a great thing if we could collect records of the health of the people in the inner city? Every day in many places they are collecting it twice a week, and in other places, once a week. We could put thousands of men to work in a most productive field.

In the case of rodent control, in America should it be that youngsters have rat bites? We can put hundreds and thousands of people to work, not only in the alleys and streets, but the buildings, and the question of medical centers, senior citizens. This is all productive. Hospitals, forest preserves, recreation.

When you say there has been criticism about the raking of leaves, I remember the WPA, and the tremendous constructive work. They rebuilt all the buildings, and many of them in the forest preserves, in the parks; they cleaned the streams. I am talking about productive work, and we could train young men on this great job of rehabilitating old wornout neighborhoods of the cities of America, which call today for help and assistance, and no one has come up with the solution of how to take care of an old neighborhood and bring it back, and maybe those young people could be trained.

We have done it with the painting of the railroad elevations, with the help of the Painters Union. The unions are willing to help. We hired thousands of young men to work all summer in painting the railroad elevations.

I think we can improve that all over the city and you can have productive jobs, not leaf raking; we can put landscapers out there, and the fellows that rake the leaves, and the men and women that rake the leaves, we could do a lot of things, and we talk about jobs under the public service.

The man that is the most experienced on this in our country sits alongside of me Sam Bernstein, administrative head of manpower, and we can have him tell of some of the activities in a brief moment of what we are doing in Chicago.

Chairman HUMPHREY. Let's hear from Mr. Bernstein.

STATEMENT OF SAM BERNSTEIN, ADMINISTRATIVE HEAD OF MANPOWER, CITY OF CHICAGO

Mr. BERNSTEIN. Would you believe that in the Latino community one of the largest single problems is the inability to command the English language?

Representative LONG. I would agree with that in a French community because I have them in my district.

Mr. BERNSTEIN. That is certainly a program that was made possible by the public service employment bill, which permitted us to take Latinos presently unemployed and be able to teach them English as a second language, and continue in the training of these peope to the point where they became teachers aids, and are now moving into the field of backing full-time teachers with a dual language ability, which is so important in the City of Chicago.

The problems of paramedic training in all of our centers, as the mayor alluded to our health centers, we are training these people to be all kinds of technicians in various fields where their services are so much in demand, and where the job opportunities for these people are, once that training is done, to move into the private sector, into corporate funded programs, either in the city or the Board of Education, or in private industry, transitional, if you will, in giving them the kind of experience from which we benefit while they are getting the training and making it possible for them to move into permanent employment, and all that good jobs entail.

Mayor DALEY. Congressman, I think there was at the beginning, and therc always is in any public program, some mistakes made by some of the cities, and we made mistakes in Chicago, all of us do, but I think all the men, the mayors of those cities of America, are convinced now that the public service program is an opportunity for them to serve better the people that need to be served.

We talk about Latinos. We put now in the police stations of Chicago a Latino man or woman because of the problem of the language, and we are doing it in the courts. All of that was provided under this fine public service program.

Representative LONG. Let me say that I certainly support what your views are on this matter, and I think particularly important is the transitional stage, and using it as an opportunity to train the people to move into the private sector, and that the two are not at all incompatible.

Mayor DALEY. That's right.

Representative LONG. I appreciate your views.

Chairman HUMPHREY. May I say as a midwesterner, Mr. Mayor, that we are 15 years behind in reforestation, and we are now about 10 years behind in conservation, and there was a time that we had a program called the Civilian Conservation Corps, which saved our forests, cleaned our streams, built our parks, and today with a population of 215 million we have a park capacity that takes care of about 150 million, so there is work to do. Senator Stevenson.

Senator STEVENSON. Mr. Chairman, I want to call attention briefly to a comment which the mayor made, and which is rarely made by others. I personally think that it is very significant.

You said, "One of the basic reasons for the public's mood arises from their disillusionment concerning the so-called law of supply and demand. Industrial production is down sharply, factories are producing well below capacity and yet prices rise," and you mention the energy crisis. You say, "And yet it appears that administered prices are gradually taking over the marketplace."

You say further, "I am not an economist and it is dangerous to simplify in an economy so complex and where a variety of factors influence its operations."

Mayor, many of these economists and the disciples of economic orthodoxy in this administration are beginning to make Herbert Hoover-like economic gestures.

There are two ball games, it seems to me; one is the old fiscal monetary supply game, the fiscal and monetary policies; and the other is the game which you alluded to which we haven't even started; that is the structural game, prices, wages getting fixed by the powerful and paid by the weak, the demand going down, so Government regulations, standard production, inflation, unemployment is built into the structure. The inflation isn't the old excess demand inflation. It is caused by food and fuel, prices.

Housing, how do you get housing into the hands of people? We have tried interest subsidies. Housing in America, these prices are out of reach of most American families. There is a whole new game over here. I think that is what you are saying.

Mayor DALEY. Yes.

Senator STEVENSON. How do we get housing into the hands of people? We know interest subsidies don't work. How do we bring houses down to a level where people can afford houses? The dream of most Americans is home ownership. What can you tell us about this structural problem?

Mayor DALEY. What you are saying today, the average young fellow getting married, it is difficult first with the price of the home and the home builders in building it, and I have talked to a few of them in the last couple of days. It is almost impossible, with the cost of material, cost of labor, and the cost of borrowing the money. How can you pay the rate of interest that is being asked and put a home up for someone getting $10,000 or $11,000 a year? He can't get a mortgage. He can't get a loan, and there is no question but what housing is one of the backbones of the total economy of our country.

I don't know why, but I know that some of the things that have happened on the supply of material it is just almost incredible; the prices are made so high, the building material, and the market is going down. We should have more housing with more opportunities, and honestly I don't know the answer, but I know one thing, that we should provide an opportunity for housing for everyone.

How do you do it? It isn't simple. One of the things we ought to do is to find out what the price is, and the charge made that labor is responsible for all of it, I don't believe all of that. I know labor has increased, but no one talks about the increase of materials that go into the housing.

What does concrete cost today as compared to what it was years ago; what about wood costs, and all the other materials, but you are actually pricing the ordinary young man with a family out of the housing market any place in this country today, and something has got to happen on the Federal level or some level to provide an opportunity for that young fellow to get a home.

Senator STEVENSON. That cost of material goes back to fuel.

Mayor DALEY. The whole thing is tied up with fuel, and you have countries doing things today that if the corporation did it in this country they would be guilty of violating antitrust laws, and I am not an internationalist, but I think what is happening today shouldn't be happening to anyone.

We have been giving food to the people of the world; we have been good to everyone in the world. We can't turn our back on our own brothers and sisters in New York when they are in trouble. Five hundred billion dollars since World War II of giving war and foreign aid by this country; if we can afford $500 billion to be given all over the world, we surely can afford a few billion dollars to our brothers and sisters in New York, in my opinion. [Applause.]

Chairman HUMPHREY. Thank you, Mr. Mayor. Mr. Mayor, we are very grateful to you not only your presence, but for a very thoughtful presentation.

Our next witness—our next witness will be Bishop—you will have your chance. Sit down——

A VOICE. International situations such that——

Chairman HUMPHREY. Mr. Compton and Annette Bonner, is that right?

A VOICE [continuing]. Candidate of the United States Labor Party, candidate for Governor of Illinois. This man is—that's who he is—these hearings are unacceptable to——

Chairman HUMPHREY. Will the Marshal please step forward. There's only one solution.

A VOICE [continuing]. These hearings, these hearings brainwash people all over this country to accept austerity——

VOICES. Sit down. Throw him out.

A VOICE. Workers will not tolerate austerity——

Chairman HUMPHREY. Thanks for the compliment. I'd like to pick my own partners.

These occurrences, may I say, are part of the regular routine in meetings. I'm sorry that we were so late in having it come. I have yet to attend a meeting that this doesn't happen, and I believe in the right of free speech, but I don't believe that everybody needs to be taken seriously.

Now, with that we have people here who want a discussion, and may I say that people of any political persuasion have been asked to speak and will be given time. But we are going to respect the time of the witnesses, and we have a long day, and our panel now will talk to us on the social and economic costs of unemployment.

We have Bishop McNicholas; we have James W. Compton, Executive Director of the Chicago Urban League. We have Mary-Jean Collins-Robson, member of the National Board, National Organization for Women, and Annette Bonner.

Annette, you are unemployed?

Ms. BONNER. Yes.

Chairman HUMPHREY. We'll lead off with Bishop McNicholas, to be followed by James Compton and then Mary-Jean Collins-Robson and Annette Bonner. I'd like for each of you to make your statement and then we'll take a little time here for inquiry.

Bishop McNicholas.

STATEMENT OF REV. JOSEPH A. McNICHOLAS, BISHOP OF SPRINGFIELD, ILL., AND CHAIRMAN, COMMITTEE ON SOCIAL DEVELOPMENT AND WORLD PEACE, U.S. CATHOLIC CONFERENCE

Reverend McNicholas. My name is Bishop Joseph A. McNicholas, the Catholic Bishop of Springfield, Ill., but I appear here today wearing the hat of the chairman of the Committee on Social Development and World Peace of the United States Catholic Conference, the National Action Agency of the Roman Catholic Bishops.

I appreciate the invitation that is extended to me and welcome the opportunity to participate in these historic regional hearings.

I'm especially grateful to the committee for coming around the country and coming out to the people despite the little incident that you just alluded to.

My brief comments this morning are based on some working papers that the United States Catholic Conference Office of Domestic Social Development has commissioned, also on a 3-day hearing.

The current economic indicators point to a relatively slow, sluggish and painful recovery from our recent recession, the worst of six recessions since the Second World War. We are deeply concerned that this recovery may not have the strength or duration to bring down the high levels of unemployment or harness the unused productivity left idled by the recession. We are concerned about the human and social consequences of the troubled economy, what these forces mean for families, the elderly, and children.

I do not discuss these issues of economic policy without being keenly aware of their complexity and immensity. I do not have the technical competence to offer definitive evaluations of specific actions or proposals. My subject this morning is not the success or failure of particular economic policies or analyses, but rather the moral and social aspects of economic policy. Our economic policies ought to reflect broad values of social justice and human rights.

Speaking from my own religious perspective, I am relying on a rich tradition of social teaching on economic justice within our church. The teachings of the Popes of the past 80-years flow from a commitment to human rights and dignity. They have articulated and defended the basic right to useful employment, just wages and decent working conditions. At the present time many of our fellow citizens are deprived of the exercise of these rights. I hasten to point out that these problems are not Catholic, Protestant, or Jewish in nature, nor are they specifically Democratic or Republican. They are American problems and we all must find ways to solve them.

UNEMPLOYMENT—ITS DIMENSIONS, COSTS, AND IMPACT

A brief examination of the current state of our economy reveals the dimensions of the crisis. In September, 7.8 million persons were officially unemployed, representing 8.3 percent of the work force. Over 4 million additional persons have given up seeking work out of discouragement or are in part-time jobs though they desire full-time work. Taking this into account, the actual level of unemployment in our country is over 12 percent. This means that 20 million people will be jobless at some time this year. This committee's own estimates indicate that over one-third of the American people, 75 million, will suffer the traumatic experience of unemployment within their own family.

The official unemployment rate does more than underestimate the true extent of joblessness. It also masks the inequitable distribution of unemployment. The figures for September indicate: One out of five teenagers are jobless; 11.5 percent of all blue-collar workers were out of work (19.29 percent in the construction industry); 14.3 percent of all blacks were unemployed; nearly 40 percent of all black teenagers were jobless; 135 of our 150 major urban areas were officially listed as areas of substantial subemployment.

These dramatic figures clearly indicate the Nation's commitment to full employment has been seriously eroded, if not abandoned. The Employment Act of 1946, while it created important parts of our economic policy machinery, including this Joint Economic Committee, has increasingly fallen far short of its broad economic and social purposes. Since its enactment, unemployment has been substantial, persistent and drifting upward and tolerance for unemployment has been increasing. From 1946 to 1959, unemployment has averaged 4.5 percent, but from 1960 to 1974, it was 5.0 percent. In fact, when joblessness rose dramatically during our latest recession, it took the form of an acute, visible crisis, superimposed on a long-term unemployment problem which has persisted for decades. The performance under the 1946 act has not approached its initial promise.

The costs of this tragic underutilization of our country's human resources are enormous. In economic terms, it is estimated that each year every 1 percent in unemployment costs: 930,000 people their place in the labor force; $50 billion in unproduced gross national product; $14 billion in lost Federal tax revenues; $2 billion in Federal social welfare costs; $5 billion in State and local government lost revenue and increased expenditures.

The consequences of joblessness are grave. The impact of unemployment on marriage and family life cannot be measured with exactitude, but there is no doubt that the financial insecurity, anxiety, and loss of confidence impose a heavy burden on family relationships. Many minority youth may grow up without meaningful job experiences and grow to accept a life of dependency. Unemployment leads to higher rates of crime, drug addiction, and alcoholism as well as rising social tensions. In the struggle to obtain or keep scarce jobs, it ls too often white against black, young against old, men against women, since in times of mass unemployment one group may only gain jobs at the expense of another.

The human impact of unemployment is not hard to imagine. Unfortunately, in our society, a person without a job loses a key measure of his place in society and a source of individual fulfillment; he or she often feels that there is no productive role for him or her. The idleness, fear, and embarrassment of unemployment can undermine confidence, erode family relationships, dull the spirit, and destroy dreams and hopes. One can hardly contemplate the disappointment of a family that has made the slow and painful climb up the economic ladder and has been pushed down once again into poverty and dependence by the loss of a job.

Work is more than a way to earn a living. It represents a deep human need, desired not only for its income but also for the sense of worth which it provides for the individual.

In our view, the current levels of unemployment are unacceptable and their tremendous social costs are intolerable. Unemployment represents a vast and tragic waste of our human and material resources. We are disturbed not only by the present levels of joblessness, but also by officials' Government projections of massive unemployment for the rest of this decade. We sincerely hope that these figures do not represent resignation to the human and economic waste implied in these rates of unemployment. As a society, we cannot accept the notion that some will have jobs and income while others will be told to wait a few years and to subsist on welfare in the interim.

INFLATION AND UNEMPLOYMENT

Some insist that we must tolerate high levels of unemployment for some, to avoid ruinous inflation for all. We are deeply concerned about inflation. It weakens the economic stability of our society and erodes the economic security of our citizens. Its impact is most severe on those who live on fixed incomes and the very poor. The double distress of inflation and recession has led to an actual decline in real incomes for large numbers of Americans in recent years. Clearly, steps must be taken to limit inflation and cushion its impact.

However, the theory that full employment causes inflation and high unemployment reduces inflation seems questionable at best. It focuses attention on only two factors and assumes one causes the other. Many studies indicate that it is likely that inflation and unemployment are currently feeding each other; that high idleness of plants and workers and the implicit social costs, are themselves inflationary.

Low unemployment and high inflation are not inevitable partners as history and the experience of other industrialized countries bear out. It is worth noting that in 1953, we had our lowest unemployment rate and our lowest inflation rate—less than 1 percent. And in 1974, we had an inflation rate of 12.2 percent, and rising unemployment, reaching 7.2 percent by the end of the year. We would sincerely urge that policymakers find measures to combat inflation which do not depend upon high rates of joblessness. For many of our fellow citizens, the major protection against inflation is a decent job at decent wages.

POLICY DIRECTIONS

Without commenting in detail on the important proposals before this committee, let me offer some brief comments on the direction of public policy in the area of unemployment and economic issues.

We believe an effective national commitment to full employment is needed to protect the basic human right to useful employment for all Americans. It ought to guarantee through appropriate mechanisms that no one seeking work would be denied an opportunity to earn a livelihood. Full employment is the foundation of a just economic policy; it should not be sacrificed for other political and economic goals.

This policy will require a major mobilization to create jobs and increase productivity within the private sector and a new responsibility for government. We would support sound and creative programs of public service employment to relieve joblessness and to meet the important social needs of our people [housing, transportation, education, health care, recreation, et cetera].

We ask that the burden and hardship of these difficult times not fall most heavily on the most vulnerable: The poor, the elderly, the unemployed, young people, and workers of modest income. We support efforts to improve our unemployment compensation system and to provide adequate assistance to the victims of the recession. Efforts to eliminate or curtail needed services and help must be opposed.

We continue to support a decent income policy for those who are unable to work because of sickness, age, disability or other good reason. Our present welfare system should be reformed to better and more effectively serve our country and those in need.

Renewed efforts are required to reform our economic life. We ask the private and public sectors to join together to better plan and provide for our future, to promote fairness in taxation, to halt the destructive impact of inflation and to distribute more evenly the burdens and opportunities of our society.

CONCLUSION

I have confidence in the basic values of our people and the bedrock strength of our economy. I believe that we have the productive capacity and the human and material resources to provide adequately for the needs of our people. We must develop the will.

The U.S. Catholic Conference looks forward to the other Joint Economic Committee regional hearings and your national conference next year. We are anxious to assist the committee in its critical work of evaluating our past performance and fashioning the policies and programs which lead to a more just economy.

Let me close by quoting a passage from a statement on unemployment of the Catholic Bishops of the United States issued 45 years ago this fall. Their response to the economic crisis of their day was a judgment and a call:

> This unemployment returning again to plague us after so many repetitions during the century past is a sign of deep failure in our country. Unemployment is the great peacetime physical tragedy of the nineteenth and twentieth centuries, and both in its cause and in the imprint it leaves upon those who inflict it, those who permit it, and those who are its victims, it is one of the great moral tragedies of our time.
>
> Our country needs, now and permanently, such a change of heart as will, intelligently and with determination, so organize and distribute our work and wealth that no one need lack for any long time the security of being able to earn an adequate living for himself and for those dependent upon him.—Bishops of the United States, Unemployment, 1930.

It is past time that we meet that challenge.

Chairman HUMPHREY. I thank you very, very much. And we'll move along to the other members, and then come back.

Mr. Compton, I believe that you were next and you have with you, do you, Mr. Coleman? We are going to try to keep these statements as brief as possible, if you would cooperate with us.

STATEMENT OF JAMES W. COMPTON, EXECUTIVE DIRECTOR, CHICAGO URBAN LEAGUE

Mr. COMPTON. Mr. Chairman, distinguished members of the Joint Economic Committee, I wish to thank you for extending to the Chicago Urban League the opportunity to submit testimony on the economic conditions in the city of Chicago, and especially on the condition of joblessness as it affects the black community and the minority communities.

The Chicago Urban League, the largest affiliate of the National Urban League, is an interracial, nonprofit, social service agency which has provided 59 years of specialized leadership and service in helping to make metropolitan Chicago a better place for all of its citizens through the improvement of race relations. The league's efforts are focused on the advancement of the welfare of blacks and other minorities and the elimination of the difference in life chances between the poor and affluent individuals in our society. By so doing, the best interests of the total Chicago community are served. It is within this framework that this testimony is offered.

Since 1916, in response to large numbers of blacks who migrated to Chicago in search of jobs, the Chicago Urban League has provided employment guidance and placement services and for too many years was the only labor market intermediary between blacks without jobs and employers. In a much expanded way, this service continues to be provided today, placing us in an excellent position to view the ravaging effects of the current economic crisis upon the lives of blacks and other minorities whom we have serviced. Recognizing our individual service delivery limitations in the light of continuing covert racial discrimination compounded by massive layoffs—blacks are still last hired, first fired—the situation demanded that we embark upon an integrated research and planning process designated to shed light on the avenues capable of positively affecting the entire course of minority employment efforts in Chicago. Except for decennial censuses, we quickly determined that almost no data was available on the levels of employment and unemployment among blacks in Chicago. While the Bureau of Labor Statistics (BLS) provides data for Negro and other races on a monthly basis for the country, not since 1973 has any official data been published on the employment and unemployment of blacks in Chicago. As a result, our first task was to develop a sophisticated method for estimating black employment and unemployment. Having received sanction of the methodology from manpower experts, I should like to highlight our findings when the official BLS definitions are used covering the period January through September 1975.

Black unemployment in the city of Chicago ranged from a conservatively estimated 16 percent in the first quarter of 1975, to 19.7 percent in the second quarter. Third quarter figures indicated a level of 19.3 percent and for the month of September our estimate shows a level of unemployment at 19.8 percent. These figures stand in contrast to the figures for total unemployment in September of 8.3 percent for the Nation, and 10.2 percent total unemployment for the Chicago area. For the first time the Chicago area relinquished its accustomed position of experiencing unemployment lower than the national average. But black Chicagoans' unemployment rate almost converged to the national level for blacks way back in 1972, and was probably higher throughout 1974. And according to our estimates for 1975, blacks in Chicago have suffered this economic hardship at a higher level than blacks as a whole nationally.

The consequences of the cyclical and structural aspects of the plight facing Chicago's blacks can be placed in bold relief through additional analyses. In our view, a much more realistic picture of the extent of unemployment can be obtained using the hidden unemployment index which adjusts the level of black unemployment to include discouraged workers and those working part-time for economic reasons. These estimates reveal an astounding 29 percent black unemployment rate for the first quarter of 1975, 36.2 percent, and 35.4

percent unemployment respectively, for the seond quarter and third quarter. Our estimate for September indicates a black hidden unemployment level in Chicago of 36.4 percent.

These data support the contention that the Chicago black community is experiencing right now in 1975, levels of unemployment higher than during the great depression. Moreover, it is apparent that signs of recovery for the country as a whole and in Chicago as well, are not likely to be felt in Chicago's black community until much, much later, if at all.

The loss that the Chicago area has suffered in manufacturing employment hits minorities hard, since it appears that they bore nearly 35 percent of the unemployment burden during the first quarter of 1975, but represented only 15 percent of the manufacturing labor force according to the 1970 census. Serious questions have to be raised about the future employment prospects for blacks and other minorities in Chicago's labor market. Hemmed in by residential segregation, lack of transportation and saddled with distressingly poor quality educational and training systems, a growing segment of the black population will be excluded from meaningful economic activity by structural factors that do not lend themselves to quick, easy solutions.

Certainly black employment opportunity is tied closely to the overall demand for labor, but direct affirmative action must be taken to overcome economic and noneconomic barriers so that the exercise of employer perogatives do not become, in the final analysis, new subtly elaborated schemes of discrimination.

In the light of all this, there are several suggestions that the Chicago Urban League respectfully submits for your attention and serious consideration with regard to such extensive unemployment in the black community of Chicago.

1. Insure the publication on a monthly basis or at least quarterly of employment and unemployment levels of blacks in Chicago. With a black population well over 1 million and the second largest black labor force in the country, there is no justification for not having timely data on such a large concentration of the economically disadvantaged. The plight of blacks and other minorities in Chicago must be tracked, programs planned, implemented, and evaluated. None of this can be accomplished in any rational way without specific information. An excellent opportunity is available in Illinois since the Illinois Bureau of Employment Security is currently undergoing reorganization.

2. Change the definition of unemployment to include at least discouraged workers; their exclusion only serves to distort and understate the magnitude of the problem. Serious consideration ought to be given also to including those working part-time who want full-time employment and the working poor.

3. Stipulate that public program benefits be dispersed at the national and the local level according to need. Just as some areas of the Nation suffer disproportionately, so do blacks and other minorities as a group, and if public policy is geared simply to aggregate characteristics, the most desperate of the needy will not be served.

4. Include in legislative deliverations the related problems of flight of business to the suburban rings and inadequate transportation networks which together stifle employment opportunities for minority workers.

5. Redesign and expand training and retraining programs so that a better match between job seekers and employment demand results. At the present time there is a tremendous and growing gap between the skills of unemployed blacks and the employment requirements of the business community. For example, during fiscal 1975, the Chicago Urban League received more than 7,000 job orders from businesses in the metropolitan area but more than 90 percent of them required semiprofessional or professional skills. We were only able to fill a small percentage of these jobs because the skills of the recently unemployed did not match up with the requirements of these positions.

6. Support vigorously a full employment policy. Without one, this race relations agency, which I head, predicts that neither Chicago nor this country can survive the devastation that a generation of unemployed blacks and other minorities will inflict. If you are concerned about rising crime now, watch out; if you are concerned about rising welfare rolls, disintegrated families, drug and alcohol abuse, then the best wisdom, the best leadership and the best for American counsels unequivocally for full employment.

The black community is suffering an economic depression, the depths of which have been unknown to white America since the 1930's. Behind the cold appearance of numbers and statistics, behind the tragedy of joblessness, are broken lives, despair, delinquency and crime. Behind the statistics and the neglect are mounting anger and frustration.

And I predict that neither Chicago nor this Nation can survive the devastation that a generation of unemployed blacks and other minorities can inflict. Thank you very much.

[The prepared statement of Mr. Compton follows:]

Prepared Statement of James W. Compton

Mr. Chairman, distinguished members of the Joint Economic Committee:

Thank you for extending to the Chicago Urban League the opportunity to submit testimony of the economic conditions in the City of Chicago and especially joblessness as it affects the Black and minority communities.

The Chicago Urban League is an interracial, nonprofit, social service agency, which has provided 59 years of leadership and service in helping to make metropolitan Chicago a better place for all of its citizens through the improvement of race relations. It is within this framework that this testimony is offered.

Since the Chicago Urban League provides employment guidance and placement services for Blacks and other minorities, we are in an excellent position to view the devastating effects of the current economic crisis.

Statistical documentation of the problem has been scarce. Since no official data on unemployment among Blacks in Chicago has been published since 1973, the Chicago Urban League has developed a method of its own. I would like to briefly highlight our findings now:

Black unemployment in the City of Chicago ranged from a conservatively estimated 16.0 percent in the first quarter of 1975 to 19.7 percent in the second quarter. Third quarter figures indicate a level of 19.3 percent; and for the month of September our estimate shows a level of unemployment at 19.8 percent. As you can see by this chart, these figures stand in contrast to the unemployment figures of 8.3 percent for the nation in September and 10.2 percent for the Chicago area. Unemployment in Chicago is now higher than the national average—a unique situation for this city.

Bad as these figures are, in our view, an even more realistic picture of the extent of unemployment can be obtained using what the Urban League calls its Hidden Unemployment Index, which adjusts the level of Black unemployment to include discouraged workers and those working part-time for economic reasons. These estimates reveal an astounding 29.0 percent Black unemployment rate for the first quarter of 1975, and 35.4 percent unemployment for the thrid quarter. Our estimate for September indicates a Black Hidden Unemployment level in Chicago of 36.4 percent.

These data support the contention that the Chicago Black community is now experiencing levels of unemployment equal to those of the Great Depression. Moreover, it is apparent that signs of recovery for the country as a whole and in Chicago as well, are not likely to be felt in Chicago's Black community for a long time.

In the light of these findings, here are several suggestions that the Chicago Urban League respectfully submits for your serious consideration:

1. Ensure the publication on a monthly basis or at least quarterly of employment and unemployment levels of Blacks in Chicago. With a Black population well over *one-million* and the second largest Black labor force in the country, there is *no* justification for not having timely data on such a large concentration of the economically disadvantaged. The plight of Blacks and other minorities in Chicago must be tracked, programs planned, implemented, and evaluated. None of this can be accomplished in any rational way without accurate statistics. The Illinois Bureau of Employment Security ought to spearhead this service.
2. Change the definition of unemployment to include discouraged workers; their exclusion only serves to distort and understate the magnitude of the problem. Serious consideration also ought to be given to include those working part-time who want full-time employment and workers whose earnings are below the poverty level.
3. During crisis periods, stipulate that public program benefits can be dispersed at the national and the local level according to need.
4. Initiate legislation that will provide incentives for business to remain in the inner-city, and fund the development of transportation networks, which will make it feasible and possible for the urban worker to travel to those plants now located in the suburbs, and finally eliminate discrimination by race and economic status in the suburban housing market.
5. Support vital programs of training and retraining of the urban unemployed and underemployed.
6. Vigorously support a full employment policy. Strong consideration should be given to the two bills now before Congress, The Equal Opportunity and Full Employment Act and the Balance Growth and Economic Planning Act of 1975 which emphasize full employment policies. We believe each bill has aspects which may have positive influence on minority employment and should be supported to that extent.

The Black community is suffering an economic depression, the depths of which have been unknown to white America since the 1930s. Behind the cold appearance of numbers and statistics, behind the tragedy of joblessness, are broken lives, despair, delinquency and crime.

I predict that neither Chicago nor this country can survive the devastation that a generation of unemployed Blacks and other minorities will inflict.

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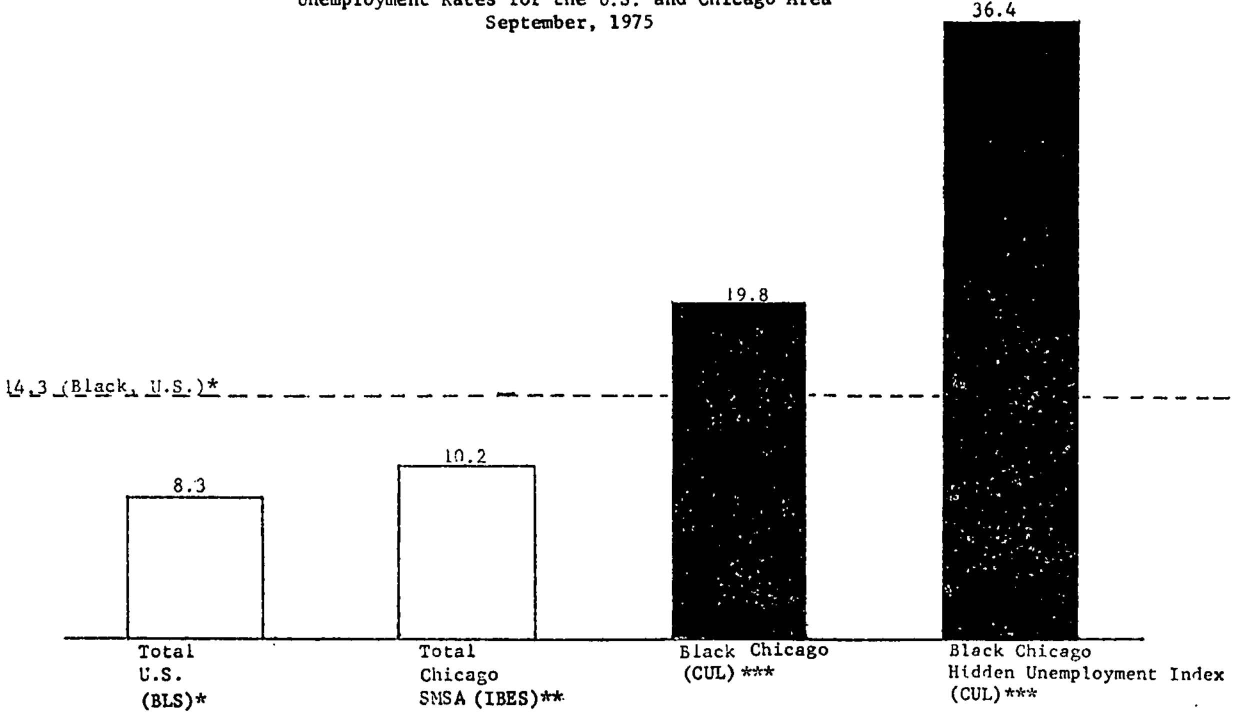
Chicago Urban League
Unemployment Rates for the U.S. and Chicago Area
September, 1975



* U. S. Department of Labor, Bureau of Labor Statistics
** Illinois Bureau of Employment Security
*** Chicago Urban League

Chairman HUMPHREY. Thank you. I just want you to know the Hawkins bill as it is before the Senate is the Humphrey bill.

Mrs. Collins-Robson, you are with the National Organization for Women.

STATEMENT OF MARY-JEAN COLLINS-ROBSON, MEMBER, NATIONAL BOARD, NATIONAL ORGANIZATION FOR WOMEN

Mrs. COLLINS-ROBSON. I am a member of the board of the national board of the National Organization for Women, and I'm also one of the national coordinators of the Sears Act, the action campaign against Sears, Roebuck & Co., a program designed to force the country's second largest employer of women to end its discriminatory practices against women.

It is out of both experiences, both as a national leader of the National Organization for Women and as someone who's tried in the last 2 years to work with corporations to end discriminatory practices that I would like to discuss the unemployment question with you this morning.

I am honored to be here to speak on behalf of the concerned women workers both in and outside of the paid labor organization.

Our organization has worked for nearly 10 years to pass legislation guaranteeing equal opportunities to women and minorities, and to insure enforcement and compliance by employers, private and public, with the spirit and the letter of the law.

Our concerns have focused not only on the inability of women to secure work commensurate with their skills and abilities, but also to address the perpetual unemployment and underutilization of women workers.

Women and minorities are disadvantaged in the establishment called good economy. The effects of the current recession in heightening their problems are not to be overestimated.

With the passage of the Civil Rights Act of 1964, extension of the Equal Pay Act, and the issuance of the Executive order to contractors to stop discrimination, the chances of equal treatment for women were increased dramatically, but what happens to these laws in our current economy?

Affirmative action has been dealt a severe blow by the economy. Increased unemployment means that women and minorities hired for the first time in new job categories have fallen victims of the last-hired, first-fired syndrome. Gains of the 1960's are going down with the economy of the 1970's.

We find the Government reluctant to enforce preventive legislation. Giant corporations are going to court to try to illegally stop the existence of affirmative action plans as a way of eliminating pressure on themselves to change their practices.

Women and minorities are brought into conflict with white male workers whose own jobs are threatened by these pressures for affirmative action for increased opportunities for women and minorities, so that workers are turned against workers in the fight for equal opportunity.

Meanwhile the economic situation for women workers has worsened. In the current economy more women are seeking work. One income per family is insufficient to meet current family needs.

The unemployment rate for women, always higher than for men, has increased dramatically. Forty-six percent of those unemployed are women.

Add to these figures the number of discouraged workers, which Mr. Compton talked about in regards to the black community, with respect to women those statistics are practically uncountable.

Women are not seeking jobs, even though the family income requires it because of discrimination, because of their own past history, and not having a work record.

We are in a recessive economy. Many more women will seek work. They need jobs. They are unemployed because they cannot find work.

There is no unemployment compensation that covers these workers.

In addition to the economic burden that women suffer there is another human cost.

A study conducted by the University of Michigan addressed the emotional burden of unemployment that is greater among the females. Why?

Most women realize they will have more trouble getting a new job. They are more likely to be discharged, and to be laid off, because they are part of the work force that is largely unorganized.

Fewer women belong to unions. They have fewer benefits and less protection than male workers. Women still are fighting the battle of the right to work. It is still not accepted by Americans that women have the right to be in the labor force.

Women's jobs are less secure. They are unfrequently covered by severance pay, so women suffer more on that basis.

Ten years of experience of the National Organization for Women, carrying the frustrations of women, has made us understand that Band-Aid solutions will not do. We will not solve the problems of women in economy with Band-Aid solutions.

Private industry cannot or will not solve these problems alone. Affirmative action cannot work within this economy.

Women will not be able to end discrimination against themselves and their sisters unless work is available as a matter of right to all that seek it.

Our concerns about the future of women workers are not limited to the handful of women workers who may get to be in an executive position.

We are concerned that all women in this country, as all men in this country, are guaranteed a right to gainful employment.

We are in total support of the Full Employment Act for that reason.

Senator Stevenson mentioned the need for structural change. In order for women to be integrated into the economy we have to look at a structural change.

We have to remember that the work force was never structured to include women workers on a 40-hour week, a 50-week year. It does not acknowledge the fact that women are even parents, so we must look at structural changes.

That is why we are supporting the new principle. That is why we are supporting the Full Employment Act. We need a hand in the value structure of this country. We need to put people first. We need to understand that unless we change the structure we are not going to integrate minorities; we are not going to integrate women into it because the structures as they exist were never designed to include them.

We support the right of every person who can to a job in this country. We support the Full Employment Act. We will work in our organization, and our 750 chapters; women all over the country will work to support this goal. We think it will be a change, a new direction for women finally to be guaranteed the right to a job.

Chairman HUMPHREY. Thank you very much for your support of the bill. Be sure you support it on both sides of the Congress, House and Senate.

We have Annette Bonner. We are happy to have you here and welcome your testimony.

STATEMENT OF ANNETTE BONNER, LOCAL 588, UNITED AUTOMOBILE WORKERS

Ms. BONNER. Thank you, Mr. Chairman.

My name is Annette Bonner. I am from local 588, Ford Motor Co., Chicago Heights, Ill.

I am a line worker, laid-off worker. I have been for approximately 11 months, with 19 months recall rights.

The benefits for the women at Ford Motor Co. are all running out. We don't have anything to look forward to now except an extension of unemployment compensation, 13 weeks, I think, with one more extension.

Chairman HUMPHREY. Yes.

Ms. BONNER. With this going out, it is very frightening because we all have to look forward to welfare, and I for one don't want my family on welfare, and there doesn't seem to be any relief in sight. I would just like to say that we need some sort of reform in order to get something done to help the people that are laid off.

I am very emotional when it comes to being laid off and when I have to look forward to being on welfare.

Chairman HUMPHREY. All right. I thank you for that short statement, but also for a very moving one.

Would you take a public service job if it were offered to you?

Ms. BONNER. I most certainly would.

Chairman HUMPHREY. Senator Percy.

Senator PERCY. I have just three questions that I would like to phrase all at once, and I think it can be a one word answer from each one of you. I hope it will be the same word.

First, in the 1960's, Chicago lost 211,000 jobs and gained 500,000 in the suburbs.

My question is, is transportation of the unemployed from Chicago to the suburbs where there are jobs a problem, and should we do something about it?

Second is unemployment compensation. Is there any reason that you can think of why we should not get unemployment compensation promptly, at least within a few weeks, to those who are unemployed and entitled to it?

Third, do you think the Federal Government should be the employer of last resort for anyone willing to work, able to work but can't get a job?

Chairman HUMPHREY. Let's take the last question first.

I think you have answered the last one, but go ahead, Ms. Bonner.

Senator PERCY. I hope your answer is "yes" to all of them.

Ms. BONNER. It is.

Senator PERCY. Reverend McNicholas.

Reverend McNICHOLAS. I wouldn't feel confident, not being a resident of Chicago, to address the transportation question, other than to say in my years in St. Louis the transportation from the inner city to the suburbs was always a problem.

The answer would be "yes" to the others.

Chairman HUMPHREY. Mr. Compton.

Mr. COMPTON. I would certainly say "yes" to all three of your questions, but also wish to say we should go about the process of alleviating discrimination in both rates and in the suburban housing market.

Senator PERCY. I thank you.

Mrs. Collins-Robson.

Mrs. COLLINS-ROBSON. Yes to all of them.

Senator PERCY. Thank you very much.

Chairman HUMPHREY. Senator Stevenson.

Senator STEVENSON. Just one clarifying question.

I believe you all testified in favor of public service employment. Senator Percy's last question was, "Do you favor the Federal Government as an employer of last restort?"

Are you saying that the form of public service employment that you would support is Federal public service employment or some form of public service employment perhaps based on funds to State and local?

Senator PERCY. That is exactly what I meant. We furnish funds to municipal, the State; many times in industry we furnish part of the funds to industry for training.

Senator STEVENSON. My question really is how do you feel about the role of the Federal Government as employer?

We have had the Federal Government involved in the EPA for instance, and, for instance, as mentioned by Mayor Daley, we would put the Federal Government in the role of directly employing the people in Federal projects, and public service employment in a way that might create new problems but eliminate some of the problems that we have had, or a mixture of both.

Mr. COMPTON. Senator Stevenson, if I might address that, I think the history of progress in the advancement of blacks in this country has come about when we have had positive and strong leadership and direction at the Federal Government level, the legislative, the Supreme Court, and the role of the President, so I strongly urge that the Federal Government play a strong leadership role in this direction.

Senator STEVENSON. As an employer?

Mr. COMPTON. Yes.

Senator STEVENSON. Thank you.

Ms. Bonner.

Ms. BONNER. As an unemployed worker, we don't have very much of a choice. We have to accept whatever job, you know, there is. People that are desperate, they would rather work in any job than to be, you know, laid off and faced with welfare.

Senator STEVENSON. Thank you.

Chairman HUMPHREY. Congressman Long.

Representative LONG. I have no questions, Mr. Chairman.

One statement with reference to Reverend McNicholas' statement, and what he said in his statement that the economic recovery may not have the strength of duration to bring down the high levels of unemployment or harness the unused productivity left idle by the recession.

From the witnesses of the administration that have appeared before this committee it has repeatedly appeared to me that the whole economic recovery is based upon a limited economic recovery, which in itself would not resolve those problems. They are speaking of a 6- and 7-percent unemployment a year and 2 years from now, and considering that as economic recovery, and I really don't think that is anywhere nearly drastic enough a remedy, as you seem to indicate here that you do not, in order to attack the problem.

Reverend McNICHOLAS. May I respond by saying most assuredly I would like my testimony to be recorded that we do not think this is just a passing crisis, and that the policy of government that tolerates a level of unemployment like 7 percent without translating that into human and to social implications of that on individuals and families, is intolerable from our veiwpoint.

Representative LONG. I agree with you, and, as I say, the thing that really concerns me is that the administration seems to be basing theirs upon that type of a long-range program, and it is in my mind no solution to the problem at all.

Reverend McNICHOLAS. That's right. It is very depressing.

Chairman HUMPHREY. Might I add that you don't have to have it either or. There is a role for both, or what we call community public service jobs and the Federal Government as employer of last resort.

I call your attention to S. 50, if you get a chance to look at it.

May I say that these bills are focal points. They obviously do not represent what will ultimately come from the committee hearing, but they give as a chance to focus attention upon a particular concept.

Now, we have had two expressions here about public service jobs and Federal Government as an employer of last resort, and I believe that the important thing is—as Ms. Bonner has said—a job, a job at a living wage. I think the message needs to get out of this committee as we are out here in Chicago that a job at a living wage ultimately is less costly in terms of dollars than what we are doing today. In terms of human dignity and the feelings of frustration and fear and the bitterness that come from being told you are not wanted, as has been indicated here, unemployment is more than an economic catastrophe. It is a human catastrophe at times. You are a casualty of the economic system, so what we have got to get the public to understand, and ultimately then the Government, is that there are things other than just unemployment compensation or food stamps or welfare.

It is my judgment, and it has been my judgment, that with a modest amount of more investment in work, you will reduce deficits, you will have this country back to work, and you will restore morale. That is what is needed in America today.

As was mentioned a while ago a feeling that you belong, that there is a place for you is important.

Well, we surely thank this panel. All of you have given us inspiration and you challenge our conscience.

We thank you very, very much.

By the way, do we have copies of your prepared manuscripts? They may be left on the table here, if possible. Thank you.

Now, the next panel, the General and Regional Economic Situation—a very distinguished panel. I hope we have adequate chairs here.

Our panelists are Mr. A. Robert Abboud, the deputy chairman of the board of First National Bank of Chicago; Robert Eisner, professor of economics, Northwestern University; Milton Friedman, professor of economics, University of Chicago; the Reverend Jesse Jackson, national president of Operation PUSH—Mr. Jackson, I understand, could not be with us, but he has an alternate, Rev. George Riddick, who is the vice president of Operation PUSH, and is substituting for Mr. Jackson; Mr. Stanley Johnson, president of the Illinois AFL-CIO; and Mr. Robert Mayo, president of the Federal Reserve Bank of Chicago.

I may say I don't think we could get a panel of more distinguished participants with different perspectives than the one that we have here.

Gentlemen, we can say that this hearing is stacked.

We will start according to the list I have, in alphabetical order.

The first witness, therefore, will be Mr. A. Robert Abboud, who is the deputy chairman of the board of the First National Bank of Chicago, to be followed by Professor Eisner of the Northwestern University, and then we shall go down the list. Gentlemen, you have heard the ground rules. We will try to stay within the limit to a certain degree.

STATEMENT OF A. ROBERT ABBOUD, DEPUTY CHAIRMAN OF THE BOARD, THE FIRST NATIONAL BANK OF CHICAGO

Mr. ABBOUD. Thank you, Mr. Chairman.

Members of the Joint Economic Committee, distinguished members of the panel, I will comment briefly from the longer paper submitted for the record.

First, I would like to express my extreme personal conviction that the United States achieved its greatness and will continue great only by being preeminent as the world's mass producer of agricultural and industrial goods. We will threaten this preeminence if we permit ourselves to continue our rapid drift toward a service-oriented economy. to demonstrate the point I need only cite Britain as a great country that reduced its ability to produce and turned instead to services.

Our country is blessed with a wide variety of peoples and nationalities. Most came here to find opportunity. They brought many fundamental skills and, perhaps more importantly, a pride of craftsmanship. They worked on farms and they worked in factories, but today only one-fourth of our work force works on farms and in factories.

For a healthy, vigorous America, we must restore the growth of jobs in manufacturing and agriculture. The necessary ingredient for providing jobs is the presence of imaginative, innovative management. Let me say Britain is suffering economically because its management lost its vigor. Here too management may be surrendering its own leadership and even the best workers and best management may not succeed, not equipped with the best tools and the best plants. To get to these we need an economic and legislative environment which promotes capital formation and provides incentives for the investment of that capital. No modern economy can prosper if its transportation network is inefficient.

I need not tell this committee about the problems presently confronting airlines or the railroads, shipping, trucking. I respectfully suggest that a case in point of major public policy import is the way we are handling the Penn Central situation. The confiscation of creditors' rights in that case for the first time introduced the concept of sovereign political risk, and domestic credit markets, which will further drive away private sector investments from these critical industries.

A vital ingredient in the expansion of the U.S. economy has always been the ready availability of ample supplies of energy. We should not crush the incentives for oil and gas production and we should make every effort to develop solar, thermal and nuclear energy production. Some have urged that we adopt a no-growth policy. I suggest that this country has never and can never exist on a no-growth policy. Our social structure depends on growth, and I urge this committee to encourage policies which foster growth, which must start with amply available supplies of energy.

No market economy can function efficiently without a reasonably stable and reliable medium of exchange. This holds both for the national economy and the global economy, and the two are interdependent. I know the prevailing sentiment both within the administration and within the Congress is to the contrary. But I respectfully suggest that a minority voice need not necessarily be wrong. In my opinion, if we live and compete in a world economy, we need a stable dollar which keeps its value relative to the other currencies, and which does not introduce the uncertainty into business and investment decisions of unpredictable and major changes in relative paraties.

Perhaps the most corrosive element in our economy today is deficit spending that takes place at all levels of Government—national and local. I won't take the committee's time to go into detail. But I suggest that no nation, state, city, or political subdivision can live beyond its means without ultimately facing financial collapse, any more than you or I or any family can live beyond its means and avoid financial collapse. To believe that deficit spending is sustainable is probably more dangerous than the act of deficit spending itself.

Deficit spending at any political level is a disease, like alcoholism or drug addiction, and the cure is also similar in that it is painful and must be largely achieved by the victim alone. There must be a desire, a determination, a willingness to accept a period of discomfort in order to be cured. Deficit spending at the national level, where the power of the printing press resides, may be even more insidious. At least the States, cities, and political subdivisions have the discipline of the marketplace with which to contend. But all the Federal Government need do is to run the printing press. And every time the printing presses are run, the resulting expansion of the money stock is inflationary, which, in turn, is a tax on each and every resident of this country, and the poor most of all.

This committee is more familiar than I with the problems created by the necessity to finance the national debt, which is growing each and every year because of deficits. The average maturity of the national debt is constantly shortening. and the financing of the national debt is crowding out the private sector from the capital markets and raising interest rates in the credit markets. I suggest that there is no more important priority for this committee than to promote economic growth without inflation, and that the most important step in promoting that growth would be to stop the deficits.

I don't suggest that this can be done overnight. I don't suggest that it can be accomplished without eliminating many programs which, under other circumstances, we would consider vital. But the alternative is rapidly escalating inflation. And to permit inflation and resulting tight money at a time when our unemployment rate is over 8 percent is, in my opinion, terribly wrong. Thank you very much.

[The prepared statement of Mr. Abboud follows:]

PREPARED STATEMENT OF A. ROBERT ABBOUD

Mr. Chairman and members of the Joint Economic Committee: In view of the fact that this Committee has the support of a fine staff of economists and also receives valuable inputs from other distinguished economists, perhaps you will permit me to comment from the point of view of a banker and businessman on some of the structures in our economic system that seem to be going the wrong way.

This sounds like a long menu, but my comments will be limited to a few subjective observations.

1. AMERICA'S GREATNESS

First I should like to express my strong personal conviction that the United States achieved its greatness and will continue great only by being preeminent as the world's mass producer of agricultural and industrial goods. We will threaten this preeminence if we permit ourselves to continue our rapid drift toward a service-oriented economy. Our strength in peace and war has been and, in my opinion, will continue to be the ability of our economy to produce food, machinery, and consumer products. To demonstrate the point, I need only cite Britain as a great country that reduced its ability to produce and turned instead to services.

2. JOBS

Our country is blessed with a wide variety of peoples and nationalities; most came here to find opportunity. They brought many fundamental skills and, perhaps more importatnly, a pride of craftsmanhip. They were farmers, blacksmiths, bricklayers, steelworkers, cabinet makers—people who produce the basic necessities. At first, as we expanded westward, they found jobs on the frontier. Later, during the industrial period, they found jobs in plants and factories.

Then came the technological revolution with a strong emphasis on mechanization and computerization. To counter this trend a strong union movement emerged which, in many industries, understandably established priorities in opposition to mechanization and computerization: Job security received a new emphasis rather than product excellence.

Resulting in part from these conflicting forces, our economic structure changed. In the last quarter century alone, manufacturing employment as a percent of total employment has dropped from 24.5 percent to less than 22 percent. During this period workers employed in farming dropped from 11.5 percent to less than 4 percent. Taken together, employment in these sectors declined from 36 percent to less than 26 percent. In my opinion, this is a trend which must be arrested and reversed. For a healthy, vigorous America, we must restore the growth of jobs in manufacturing and agriculture.

3. MANAGEMENT

A necessary ingredient for providing jobs is the presence of imaginative, innovative management. Many say that Britain is suffering economically because of a managerial base which has lost its vigor. This is attributed to a rigid class structure which spills over into the business hierarchy. So far, we have been able to preserve upward economic mobility, particularly in our managerial structures. In my opinion, however, management may be surrendering its leadership and entrepreneurial imagination.

For example, the corporate manager who identifies with and shares ideologies with a class, who is so busy with the "big picture" that day-to-day administration falls into disrepair, who seeks protection from competition—both domestic and foreign—rather than energizing the business consern to overcome competition by "building a better mousetrap," is, in general, not providing the leadership that is so necessary to make this economy vital. Obviously, there are many notable exceptions. But, overall, I think this is a problem that bears watching and is further aggravated each and every year as we turn out scores of thousands of business school graduates who come to industry and commerce with a homogeneous ideology and the "school solution" for every possible issue. In my opinion, private sector management had better start "doing its thing," or society will resort to a public sector alternative.

4. TOOLS AND PLANTS

The best workers and the best management may not succeed if not equipped with the best tools and the best plants. Productivity is partly a function of workers working longer and harder, and also a function of better education and skills. But mostly, productive gains are obtained through constantly improving design and technology, and increased capital investment. We will remain preeminent as a manufacturing and agricultural country only so long as we have the best equipment, the best tools, and the best plant. And to get this, we need an economic and legislative environment which promotes capital formation and provides incentives for the investment of that capital. For too many years now we have not been devoting sufficient resources to investment in tools and plants as have other major industrialized nations. Over the last 20 years, fixed capital formation in this country comprised only some 14 to 17 percent of our gross national product, whereas in Continental Europe, Japan, and Canada it represented between 20 to 30 percent of the national GNP.

5. TRANSPORTATION

No modern economy can prosper if its transportation network is inefficient. A key ingredient for a healthy economy is a good distribution system. For example: India has almost as much land under cultivation as does the United States. Although its yields per acre are below those of this country, they are not all that bad. But because its systems of distribution and food processing are terribly deficient, a great deal of the value of India's production is wasted.

With archaic legislation, burdensome bureaucracy, and insufficient return on investment, our transportation system (and therefore our distribution system) is rapidly eroding. I need not tell this Committee about problems presently confronting the nation in the capital-intensive transportation industries—the airlines, railroads, shipping, and trucking. And, as an aside, I would also mention that the communications industry—such as the telephone, telegraph, and the Postal Service—is vital to a smoothly functioning economy.

With regard to transportation, I would respectfully suggest to this Committee that a case in point of major public policy import is the way we are handling the Penn Central situation in particular, and the northeast railroad network in general. The confiscation of creditors' rights in the Penn Central case, which has dragged on since June of 1970, can be likened to the capital destructive treatment accorded by some of the developing countries to private investment within their borders. We are speedily introducing into this country the concept of "sovereign political risk" with regard to investment in the so-called "public interest" companies. Unfortunately, the introduction of this concept will further drive away private investment in our vital transportation systems, and I personally would urge this Committee to make every effort to reverse this counter-productive development.

6. ENERGY

A vital ingredient in the expansion of the U.S. economy has always been the ready availability of ample supplies of energy. To some extent we may have been spoiled because we paid too little for our energy. We became careless in the use of that energy. But having said that, our economic success has been based on a higher consumption of energy than anywhere else in the world. If we lose that, we lose a cornerstone of our economic supremacy. Thus, except for the part that is wasted or inefficiently utilized, the answer is not an exhortation to use less energy, but rather affirmative programs to produce more energy and, thereby, to expand the available supply. We should not curb the incentives for oil and gas production, and we should make every effort to develop solar, thermal and nuclear energy production.

Because of regulations, a plant that could be constructed in four years now takes eight years. That not only means a delay in achieving energy self-sufficiency, but also a very substantial increase in energy costs. I would respectfully urge this Committee to encourage this country to use energy, but to use it wisely; and to investigate in detail the impediments that our utility and energy companies face in their efforts to expand the available supplies of energy.

Some have urged that we adopt a "no growth" policy. I suggest that this country has never and can never exist on a "no growth" policy. Our social structures depend on growth. If the basic genius of our society is the opportunity for rapid upward mobility, then a "no growth" policy is a self-destruct policy. Again, speaking personally, I applaud growth, and I urge this Committee to encourage policies which foster growth, which must start with amply available supplies of energy.

7. STABLE MONEY

No market economy can function efficiently without a reasonably stable and reliable medium of exchange. This holds both for the national economy and the global economy, and the two are interdependent.

I know the prevailing sentiment both within the Administration and within the Congress is to the contrary. But I respectfully suggest that a minority voice need not necessarily be wrong. In my opinion, if we live and compete in a world economy, we need a stable dollar which keeps its value relative to the other currencies, and which does not introduce the uncertainty into business and investment decisions of unpredictable and major changes in relative parities.

8. GOVERNMENT SPENDING

Perhaps the most corrosive element in our economy today is deficit spending that takes place at all levels of government—national and local. I won't take the Committee's time to go into detail. But I suggest that no nation, state, city, or political subdivision can live beyond its means, without ultimately facing financial collapse, any more than you or I or any family can live beyond its means and avoid financial collapse. To believe that deficit spending is sustainable is probably more dangerous than the act of deficit spending itself.

Deficit spending at any political level is a disease, like alcoholism or drug addiction, and the cure is also similar in that it is painful and must be largely achieved by the victim alone. There must be a desire, a determination, a willingness to accept a period of discomfort in order to be cured.

Deficit spending at the national level, where the power of the printing press resides, may be even more insidious. At least the states, cities, and political subdivisions have the discipline of the marketplace with which to contend. But all the Federal Government need do is to run the printing press. And every time the printing presses are run, the resulting expansion of the money stock is inflationary which, in turn, is a tax on each and every resident of this country, and the poor most of all.

This Committee is more familiar than I with the problems created by the necessity to finance the national debt, which is growing each and every year because of deficits. The average maturity of the national debt is constantly shortening, and the financing of the national debt is crowding out the private sector from the capital markets and raising interest rates in the credit markets. I suggest that there is no more important priority for this Committee than to promote economic growth without inflation, and that the most important step in promoting that growth would be to stop the deficits. I don't suggest that this can be done overnight. I don't suggest that it can be accomplished without eliminating many programs which, under other circumstances, we would consider vital. But the alternative is rapidly escalating inflation. And to permit inflation and a resulting tight money at a time when our unemployment rate is over 8 percent is, in my opinion, terribly wrong.

Chairman HUMPHREY. Thank you for your statement, and may I compliment you on its preciseness and brevity.

Professor Eisner.

STATEMENT OF ROBERT EISNER, WILLIAM R. KENAN PROFESSOR AND CHAIRMAN, DEPARTMENT OF ECONOMICS, NORTHWESTERN UNIVERSITY

Mr. EISNER. Thank you, Mr. Chairman, in view of the shortage of time, I will not read my prepared statement, but indicate the essence of it.

The mayor before me and the panel that appeared earlier emphasized very strongly the grievous problem of unemployment. They did it very well. The state of unemployment we have in this country, in the State, in the city, I consider a major disgrace. I should remind us that the Employment Act of 1946 mandates the Federal Government to achieve maximum employment, production and purchasing power. That mandate I would consider essentially defied or ignored. What that unemployment means is not only tragedy to the individuals concerned, it has meant a loss of current rates of some $220 billion of goods and services per year. That staggers the imagination. It's a figure greater than all we spent in our misadventure in Southeast Asia, as tragic as that was. It makes a mockery of what we say we need and cannot spend for housing, for education, for preserving the environment.

Now, what that means in the State of Illinois I can quickly remind you in terms of the State budget. We have had a great deal of difficulty in Illinois and considerable controversy over a call for $310 billion cut in general revenue expenditures made by the Governor. I don't know if it is generally realized that you can attribute that need for $310 million cut entirely to the national recession. I estimate that in terms of revenues we are losing about $180 million a year because of the recession. Some $80 million in the personal income taxes, some $60 million in corporate income taxes, some $40 million in the sales tax.

In addition, public aid payments, which are the responsibility of the State in Illinois, have risen some $400 million in 2 years and a major portion of that, of course, is due to the recession. Now, what about the administration policies to deal with this? I guess I would respectfully differ with both of our Senators from Illinois, both of whom I might add, I have supported.

Senator Stevenson suggested that perhaps the old-fashioned economic wisdom is getting out of date. I would submit that as this committee well knows both the bulk of professional economists that have come here have testified for programs which are vastly at variance with the policies being pursued in Washington. While economists can make no claim to perfect expertise, I do not believe that the major fault has been in what we have been advocating. It's rather a failure either because of different views of economists in the administration or a fact that views of economists within the administration are not being followed.

The basic issue or point that almost all economists can see is that unemployment can be traced to the fact that in the private free enterprise economy businesses do not find it profitable to produce all the goods that everybody wanting to work can produce. There is simply not sufficient spending, whether it's public or private spending. A buck is a buck. It makes no difference to a producer who is buying his goods.

I submit that what has happened is that this administration really has not been guided, if we can judge its policies, essentially by a concern for eliminating unemployment. The concern has been in many ways praiseworthy. There has been a desire to fight inflation. I think they have misconceived the nature of this inflation.

There has been a desire to reduce the role of Government, something which many of us can sympathize with, and there is a strong ideological base for either of these two policies, and these are the two policies apparently motivating the administration in its current tax and expenditure program, which has nothing to do with reducing unemployment. Again, the answer for reducing unemployment is simply there has to be more demand for the goods and services that workers can produce or there has to be more demand directly for those services by Government.

And we hear a lot about budget deficits. Our budget deficit is huge. Again in the Nation as in the State the deficit is attributable overwhelmingly to the loss in revenues due to the rescession and some increase in expenditures a source due to increased unemployment benefits which has to be paid out. We have the ironic situation that in order to reduce the deficit, if that is our objective, we have to really recall what the safety experts advise a person driving a car getting into a skid. It may look that way, but you have a better chance of controlling your car and getting out of that skid by steering in the direction of the skid than trying to steer against it. In fact, if we try to steer against that skid on the deficit that we have by trying to cut Government expenditures and or raise taxes, we'll simply deepen that skid and increase the problem of unemployment.

Economists again have it well worked out. We recognize that the stimulus to the economy cannot be measured in terms of how large the budget deficit is. You have to measure it in terms of what the Government is contributing by its policies to that deficit, and you can measure that much better by looking at what expenditures and revenues would be under conditions of full employment. We do that, as I think has been pointed out by one of the members of the committee earlier this morning, we find that in fact the revenues at full employment would exceed the expenditures of full employment given current tax and expenditure programs. That means for those concerned with the deficit the way to eliminate the deficit is to get back to full employment.

I might add, although this perhaps to the uninitiated is a difficult point to get across, the role of the Federal Government, unlike the role of an individual, a family or a city or State government, is not necessarily to balance its budget. The Federal Government controls the monetary system. It influences the economy to the extent that the Federal Government is running a deficit, it is giving more to the public than it's taking away in recession that is entirely desirable.

Now, of this inflation which is always thrown up at us as a reason why we cannot stop unemployment, the inflation as has been pointed out is largely the matter of higher fuel prices, higher food prices. Those are supply induced increases in costs. It is, as Senator Stevenson pointed out, also a matter of improper competition frequently, I should add abetted by Government with regulatory processes, including tariffs and regulatory authorities which prevent prices from coming down. But the way to fight that inflation is not to cut aggregate purchasing power. The real purchasing power of the public has already been cut by the higher prices they have to pay, particularly for the materials that they have to import from abroad. To cut purchasing power further by higher taxes or cutting Government expenditures in the guise of fighting inflation will simply reduce output all the more and lower employment all the more or cutoff our incipient infant recovery pretty much in its infancy.

Now, I should be evenhanded. I said I disagreed with the remark of Senator Stevenson implicitly blaming the whole bulk of conventional economists.

Chairman HUMPHREY. Can you just summarize it? You'll get your chance at him. I have to be the mean guy here.

Mr. EISNER. I should add as far as Senator Percy's remark on encouraging investment, it is important as well to encourage investment in human capital. If we want employment, the most direct way to get it and have private employment is to have an employment credit, not an investment credit, and that is something that the Joint Economic Committee has proposed, at least the majority, and I would warmly endorse it, an earned income credit.

I should add quickly in conclusion that our monetary policy is something also which I find considerably at fault. In order to return to full employment, even to get down from 8.3 percent ot 5.3 percent in 2 years, a modest goal, we would need an increase in gross national product in real terms of about 8 percent per year. Even with inflation of only 5 percent, and that is a minimal estimate, we find that we would need an increase in the money value of the gross national product of 13 percent. We have to increase total spending on goods and services by 13 percent. A money supply growing at only 7½ percent, as the Chairman of the Federal Reserve Board has said, is clearly in conflict with an objective, if that is really our objective.

I should add also that trying to reduce the rate of Government expenditures in that context to 7 percent to 6 percent, as I gather Mr. Simon is proposing with the President's new proposal for cuts in total spending, whatever is desirable from the standpoint of somebody who wants to reduce the role of Government is clearly undesirable from the standpoint of combating unemployment.

I should just close by reminding you it's important really to remember what the Employment Act of 1946 said and have a renewed commitment to that. I consider that vital to Illinois and vital to the Nation.

[The prepared statement of Mr. Eisner follows:]

PREPARED STATEMENT OF ROBERT EISNER

The Employment Act of 1946 mandates the Federal Government to achieve "maximum employment, production and purchasing power." That mandate has been defied.

It has been defied by policies that have created and accepted unemployment rates of 8.3 percent nationally and, by other measures, 10.2 percent in the Chicago metropolitan area, and 11.3 percent in the city of Chicago itself. It has been defied by policies which have brought total production to an annual shortfall of $220 billion. That is the amount by which GNP is currently below a normal four cent growth path projected from the relatively modest output of early 1973. It has been defied by policies which have brought about a massive loss of purchasing power, roughly corresponding to that loss of production, in city, state and nation.

Our current loss of output in one year is comparable to the cost over all the years of our tragic misadventure in Southeast Asia. It makes a mockery of claims that the nation cannot afford programs for health, education, mass transportation and protection of the environment. The tens of billions of dollars that might be added in these areas are dwarfed by the waste of our currently idled factories and underemployed labor.

In the State of Illinois, a direct consequence of the dereliction of Federal responsibility has been massive loss of tax revenues to State and local government. For as profits, wages and sales tumble, so do the revenues from taxes—on corporate and individual incomes and on sales—on which government depends.

The Federal Government can and should in a recession give to the public much more than it takes, that is, run a substantial budget deficit, in order to help bring the economy back to prosperity. The State of Illinois is constitutionally prohibited from doing so in its current operations. Thus we have the government of our fifth largest State forced, at a time when public needs are all the greater, to cut back on its programs and aid to all of its cities, large and small.

A rough estimate of what the recession has meant to the finances of the State of Illinois may be instructive. The Governor has found it necessary to call for a cutback of $310 million in General Revenue Fund expenditures. This has contributed to considerable anguish in this State, and to various intergovernment relations within the State. Of the $310 million, $180 million can be attributed to recession-caused losses in State revenues: some $80 million in personal income tax receipts, some $60 million in corporate income tax receipts and some $40 million in sales tax revenues. In addition, unemployment has contributed to a swelling of public aid expenditures, which are likely to be almost $400 million more in fiscal 1976 than in fiscal 1974. Hence the entire requested cutback in expenditures can be seen to stem from the combination of loss of revenue and that portion of increased public aid costs accountable to the National economic recession.

Unfortunately, current administration policies, on which the Congress appears thus far to have only limited impact, offer little ground for optimism regarding the economic outlook. These policies have little to do with providing for maximum employment. To the extent that they are to be taken seriously rather than as political gamesmanship, they are focussed on a misconceived effort to hold down demand, in the presumed interest of combatting inflation. Along with this apparently go certain ideological commitments to a smaller role for government, particularly in the provision of social services and in income maintenance for the less privileged and the less wealthy.

Whatever might be the justification for administration policies and some of its commitments at other times, they are now a major obstacle to the achievement of maximum employment, production and purchasing power. Reasonably favorable predictions of this committee and projections of private econometric models indicate that, even with extension of the current temporary tax cut and a somewhat more favorable monetary policy then is promised us, unemployment close to 8 percent will persist through all of 1976, and along with it the bulk of our shortfall in production. And forecasts still suggest price inflation in a range around 7 percent.

As this committee must well know, the antidote to unemployment is more and not less spending. The overwhelming cause of our current unemployment, unused capacity and slackened output is that producers cannot see or anticipate a sufficient demand for the goods and services that they can provide. A greater demand would remedy this. And that demand can be private or public.

For one of our elementary yet appropriate aphorisms is that a buck is a buck. A firm will produce, and hire labor to undertake production, whether its sales are to the private sector or to government. A paycheck is a paycheck, whether issued by the Treasury of the United States or by General Motors. And income tends to be spent whether it is received from a private or public employer or whether it is increased by tax cuts or by government payments for social security or anything else.

The newest administration program, attaching a demand for a major cut in government expenditures to an extension and modest net increase in the temporary tax reductions of 1975, may conform to certain political or ideological concepts. It makes no economic sense. And I may add that my criticism has nothing to do with the complaint, also political I suspect, that the Congress cannot pledge to cut expenditures until it is told by the administration which expenditures to cut. The economic fact is that, whatever the public or political prejudice on the matter, neither now or a year from now is the time when, given the information at hand, we should cut the total of Federal expenditures. If there are some wasteful Federal programs to be eliminated, the needs of the economy demand other spending to make up that loss. If the Congress and the President cannot agree upon other Federal expenditures, increased private spending must make up the difference.

In its mid-year review of the economy the majority report of this committee recommended tax reductions of $8 to $10 billion in addition to extension of the 1975 Tax Reduction Act. This, if current withholding reductions are continued, would roughly approximate in total amount the tax reductions just called for by the President. But these tax reductions were considered necessary, and I would take them as a minimum, to sustain the at best precarious infancy of recovery. And their adequacy is predicated on increased expenditures estimated at $5.5 billion for an emergency job program.

If this total of fiscal stimulus is about right—and I would judge it to be conservative—any accompanying $28 billion reduction in government expenditures would prove utterly destructive of economic recovery. Debate on where such cuts in expenditures should be made appears quite out of focus.

I share the view of many that current and projected military expenditures are excessive. Others would like to cut expenditures for "welfare" or social services provided by government. But as far as the issues of economic recovery, maximum employment, production and purchasing power are concerned, no cuts in government expenditures are in order.

If the Congress and the President were to hold down government expenditures by $28 billion we would need a tax reduction of an additional $28 billion beyond what either this committee or the President has recommended. In fact, as is widely agreed among economists, to the extent that a cut in government expenditures is a reduction in the direct demand for goods and services and a reduction in taxes causes a less than dollar-for-dollar increase in private spending, a greater than $28 billion additional reduction in taxes is called for.

In implementing further tax reductions or increases in government expenditures or both we may have to face up to the myths surrounding federal budget deficits. Our current and prospective deficits are accountable to the recession itself. The deeper the recession the greater will be the deficits. The slower the recovery the more persistent will be the deficits. The apparently simple way the administration proposes to eliminate the deficits, to cut government expenditures or, alternatively, to force taxes up again, however paradoxical it may seem, will aggravate the situation. It is like a driver in a skid who tries to stay on the road by turning his wheels against the direction of the skid. As safety engineers know well, he is more likely to regain control of his car and avoid disaster by initially turning his wheels in the direction of the skid. The current Federal budget deficit reflects the recessionary skid of our economy. To right ourselves now we must steer for a while toward greater deficits.

A serious by-product of our inflation is that it actually raises taxes automatically as prices rise, thus holding down the immediate deficit but holding down the economy all the more. Inflation has been swelling government revenues so much that the full employment budget, which balances the expenditures and receipts which would be forthcoming aside from the effects of the recession, is in substantial surplus. It is the full employment budget which indicates whether federal fiscal policy is actually stimulatory or depressing. With our current unemployment and inadequate demand, the full employment budget should be stimulatory, not in surplus but substantially in deficit.

A major cause of the current recession was a swing in the full employment budget from a surplus of $7.7 billion in the third quarter of 1973 to a surplus of $30.4 billion by the third quarter of 1974. The tax reductions of 1975 reduced that full employment surplus and turned it briefly to deficit. Yet, according to Council of Economic Advisers estimates of late May 1975, we were running a full employment budget surplus on national income and product accounts of $4.6 billion in fiscal 1975 as a whole. The Council estimated that the full employment budget surplus would rise to $12.6 billion in fiscal 1976! According to estimates made by the staff of this committee, the surplus in the full employment budget could be expected to rise by some $9 billion in annual rates from the first half of fiscal 1976 to the second half, and then a further $9 billion in the next 6 months.

Efforts to reduce the rate of inflation by tight fiscal and monetary policies are fundamentally misconceived. Such policies are intended to curb aggregate demand. But our current and recent inflation has been due very largely to increases in costs of petroleum and other raw materials, particularly agricultural products. These increases have clearly been caused by constraints or shortages in world supply. They are in no way due to excessive demand. Indeed, these very supply-induced or "cost-push" increases in prices have vastly reduced the real purchasing power of the American people and hence contributed sharply to the severity of our recession. Appropriate fiscal and monetary policy should have compensated by increasing purchasing power so that the higher prices would not result in lower real sales and output throughout the economy.

The battle against price inflation, like many other economic battles, should be waged without reducing employment and output. This means that price inflation is to be fought by restoring competition, by antitrust action, by removing the dead hand of government regulations, and by ending the policies of government agencies that take it as their duty and normal function to maintain or raise prices. It means removing protective tariffs, quotas and other interferences with free international trade. And this includes removal of import duties on petroleum, which have been themselves a significant contributor to inflation.

It means lowering and removing taxes which both reduce the supply of output and raise the cost of production. In this connection, the recommendation by the Joint Economic Committee of an "earned income" credit on the income tax returns of both employers and employees, with a cash refund to employees when the credit exceeds tax laibilities, is admirable. It would encourage employment, increase after-tax earnings of employees, and lower costs to employers, thus effecting increases in real income along with reductions in costs and consequently in prices. Obversely, the Administration's abandonment of the modest 1975 earned income credit for poor families is a cruel and inequitable move which would put more people out of work and on welfare.

It is hard to avoid some suspicion of hypocrisy, as well as confusion, in the oft-proclaimed anti-inflationary rationalizations of the administration's objections to measures for economic recovery. Occasionally the lack of concern for price stability in the face of other interests or policies apparently more central in administration preferences becomes rather glaring. What are we to make, for example, of the "Six Point Utilities Package" advanced by Secretary of the Treasury William Simon to the House Ways and Means Committee on July 8, and now attached to President Ford's October 6 tax proposals. For here, in arguing for further increases in the investment tax credit and other tax concessions to investor-owned electric utilities, it is insisted that ratemaking authorities avoid a situation where "the entire tax benefit would flow through immediately in the form of reduced utility rates for consumesr"; indeed by the administration proposal very little would flow through to consumers. If equipment tax credits are to be offered to electric utilities or any other firms it is to be hoped that the benefits would flow through. And for maximum stimulus to the economy they should be explicitly temporary, to induce spending now when it is needed. They should not become a new or enlarged permanent loophole in our already vastly distorted tax structure.

If we mean what we say about the importance of combating inflation, we need more than rhetoric in our support of free enterprise and free competition. We certainly must eliminate government policies designed to keep prices up. To the extent that prices move up anyway, removal of government regulations which limit or prevent the payment of interest on savings and demand deposits would go a considerable way to protect the average household. It could at least then be partly compensated for price increases, by higher earnings on its money. This compensation could well be supplemented by the issuance of government securities fixed in real terms, so that both interest payments and principal repayment would rise with the general level of prices. We could then move a long way, individually and through our pension plans, to safeguard our future in the face of inflation.

To sustain our still infant and precarious recovery and to return to full employment with something more than deliberate speed, we need a stimulatory fiscal policy and an at least accommodating monetary policy. Even if inflation were reduced to an annual rate of 5 percent, we would require an annual growth in the money value of gross national product of over 13 percent to reduce the average unemployment rate by 3 percentage points over the next 2 years. This would still leave unemployment over 5 percent at the end of 1977. Against this minimal need for an annual growth of 13 percent in GNP, what can we make of the up to 7½ percent per year growth rate of the money supply (M_1) projected by the Federal Reserve Board Chairman? It hardly seems adequate if our target is really a significant decrease in unemployment.

For even a modest rapid reduction in unemployment we need at least the tax cuts proposed this month by the Majority Report of the Joint Economic Committee. We need as well jobs programs which would make it a direct Federal responsibility to see to it that jobs are available in private or public employment for all those able and willing to work. And we need particular action in the way of tax relief or incentives or direct government expenditures to eliminate the massive unemployment among our youth. For this threatens the vital investment in human capital on which our prosperity—social, political and economic—depends.

A renewed commitment to the Employment Act's mandate to achieve maximum employment is vital. It is vital for Illinois as it is vital for the Nation.

Chairman HUMPHREY. Thank you very much, Professor Eisner.

Now, we'll hear from Milton Friedman. I think I have heard of you before. We welcome your testimony.

STATEMENT OF MILTON FRIEDMAN, PROFESSOR OF ECONOMICS, UNIVERSITY OF CHICAGO

Mr. FRIEDMAN. Mr. Chairman, members of the Joint Economic Committee, I am delighted to testify before you here in my home city of Chicago, instead of that isolated hothouse in Washington where I have seen you many time s before.

Chairman HUMPHREY. We prefer it here, too, as visitors.

Mr. FRIEDMAN. Come and stay.

In order to reconcile the wide range of topics that your letter of invitation inviting us to comment on with the brevity of time allotted to each of us, I shall state my views on several of those topics briefly and dogmatically, leaving more detailed discussion to several items I have appended for the record.

First, as to the economic outlook. Coming down here this morning I heard over the radio the announcement of new figures on the gross national product for the third quarter. Those figures were for an 11 percent per year rate of growth. The highest in 10 years. I find it very hard to reconcile those numbers I heard on the radio with talk I have heard here this morning by my good friend and colleague, Bob Eisner as well as by others who preceded him, that somehow or other the present programs are insufficiently expensive and that somehow or other we are faced with the serious problem of renewed recession. Everything is going slowly and so on. The facts don't support that.

Chairman HUMPHREY. Who gave those facts?

Mr. FRIEDMAN. This is a regular third quarter report on the GNP.

The facts are the economy is currently in a healthy and vigorous expansion. The rate of inflation has been coming down, employment has been rising and the rate of unemployment has been declining; however, this expansion differs in character from most other expansions.

Consumer expenditures are playing a much larger role. Housing and investment a much smaller role. The reason is the fiscal policy adopted by Congress. A deficit running at a current annual rate in the neighborhood of $100 billion a year and expected to total some $70 billion for the current fiscal year has drained funds from the capital markets, inhibiting housing and capital investment and has caused those funds to finance Government spending, including large transfers to consumers.

In my view, the current expansion would have been no less vigorous if Government spending and the Government deficit had been held to much lower levels. It would, in that case, have been healthier in the sense of permitting more private capital formation.

The future of the expansion depends critically on monetary policy. If the Fed sticks to its announced targets of a 5 to 7½ percent rate of growth in M1, 8 to 10½ percent in M2, the expansion will continue to be vigorous, but the rate of inflation will settle at something like 6 or 7 percent. That is the rate currently built into the economy as a result of past monetary policies.

If the Fed were to increase money more rapidly than its current targets, the expansion would become for a period somewhat more rapid but the main result would be, after a few months, rising interest rates, and by late 1976 or early 1977 a reacceleration of inflation into the double digit range. If the Federal Reserve were to continue the very low rates of growth of the past several months, that could abort the recovery and lead to a resumption of recession.

In my opinion, the right fiscal policy for the long view is a sharp reduction in Government spending, Government taxes, and the Government deficit, to enable the taxpayer to spend more of his own money according to his own values and to eliminate current distorting effects on saving and capital formation.

And I certainly join Bob Abboud in that belief.

The purpose would be to enable the taxpayer to spend more of his own money according to his own value and to eliminate the current distorting effects on saving and capital formation.

The right monetary policy is a steady rate of monetary growth, but at slowly declining rates over coming years. That would bring the rate of inflation down gradually while permitting steady growth and employment and output and steady reduction in the level of unemployment.

The chance that this correct policy will be followed, while I fear it small, has been substantially increased by the concurrent joint esolution of the Senate and the House requiring the Federal Reserve to specify its monetary targets for the coming year. I believe this resolution constitutes the most important change in the structure of monetary policy in nearly four decades. I commend Senator Humphrey for having played an important and constructive role in its adoption.

Chairman HUMPHREY. And now comes the boom.

Mr. FRIEDMAN. Yes; I have to call the shots as I see them. I will praise you for what you do well, and I must criticize you for what I believe you do wrong, and that brings me to the Humprhey-Javits bill.

As we all know, good intentions are not enough. Indeed, they sometimes serve as a paving on a well-known road. I share very much the intentions of the authors of the Balanced Growth and Economic Planning Act. But I believe that act would have precisely the opposite effect to those intended. The economic problems of this country do not arise from the absence of planning. They arise from the substitution of planning by civil servants supposedly in our behalf for planning by each of us separately in our own behalf. They arise from substituting planning by the visible hand of government for planning by the invisible hand of market.

Hardly any proposition is clearer from experience than the in efficiency of government. The failure of one government agency after another in this country, and every other country, to achieve its supposed objectives. We do not need yet another government planning agency piled on our present superfluity of planning and operating agencies to coordinate them. We need to move in precisely the opposite direction: The abolition of present government agencies, getting rid of interferences with our private lives and activities, cutting down the cancerous growth of government, not adding to it. The authors of this measure would contribute far more to their announced intentions if they were to replace it by a measure that would abolish the ICC, the FCC, the FTC, the SEC, the FPC, the FEA, and a host of other alphabetical monstrosities; that would open Postal Service to private competition; that would combine and simplify the overlapping agencies regulating banks; and the like.

Now, I come to the Hawkins-Humphrey Equal Opportunity and Full Employment Act. This is another measure, in my belief, the goodness of whose intentions is exceeded only by the badness of the results it would produce. It would in no way whatsoever add to employment. It would simply replace private employment by government employment.

The key fallacy in the approach it embodies is the failure to allow for the effects of financing guaranteed employment. If such employment is financed by higher taxes, the taxpayers have less to spend and they will employ fewer people. If financed by borrowing, the people who would otherwise have borrowed the funds would employ fewer people. If financed by printing money, the resulting inflation would impoverish potential employers. This measure is potentially attractive only because, as so often happens in governmental measures, the good effects are visible and easily seen. Who among us does not believe it desirable to reduce unemployment? But these good effects are overwhelmed by the much more serious bad effects which, however, are not seen because they are diffused and hidden.

In conclusion, the major problem facing this country is cutting down the size of Government and the extent to which it controls our lives. We have been creating a Frankenstein. We need to bring it under control. Let me urge the members of this committee to look at experience in this country and throughout the world and see how clearly it supports the view that beyond a rather modest scale, growing Government both retards economic growth and destroys human freedom. New York City today teaches that lesson no less than Great Britain, Chile, Argentina, and India. Thank you. [Applause.]

I am glad I have got one supporter back there.

Senator PERCY. That is the only one you have got, I think.

Chairman HUMPHREY. You are going to have some reasonably good response up here.

[The prepared statement of Mr. Friedman follows:]

PREPARED STATEMENT OF MILTON FRIEDMAN

In order to reconcile the wide range of topics that your letter of invitation asked us to comment on with the brevity of time allotted to each of us, I shall state my views on several of those topics briefly and dogmatically, leaving more detailed discussion to several items I have appended for the record and to responses to questions by the Committee.

1. *The economic outlook.* First, as to the economic outlook for next year, the economy is currently in a healthy and vigorous expansion. The rate of inflation has been coming down, employment has been rising, and the rate of unemployment declining. The expansion differs in character from most earlier expansions. Consumer expenditures are playing a larger role; housing and business investment a smaller one. The reason for this difference is the fiscal policy adopted by Congress. A deficit running at a current annual rate in the neighborhood of $100 billion and expected to total some $70 billion for the current fiscal year has drained

funds from the capital market, inhibiting housing and capital investment, and used those funds to finance government spending, including large transfers to consumers. In my view, the current expansion would have been no less vigorous if government spending and the government deficit had been held to much lower levels. It would, in that case, have been healthier in the sense of permitting more private capital formation.

The future of the expansion depends critically on monetary policy. If the Fed sticks to its announced targets of a 5 to 7½ percent rate of growth in M_1, 8 to 10½ percent in M_2, the expansion will continue to be vigorous, but the rate of inflation will settle at something like 6 or 7 percent. That is the rate currently built into the economy as a result of past monetary policy. If, under pressure from Congress and to help finance large deficits, the Fed were to increase money more rapidly than its current targets, the expansion would become for a period somewhat more rapid but the main result would be, after a few months, rising interest rates, and by late 1976 or early 1977 a re-acceleration of inflation into the double-digit range. If the Fed were to continue the very low rates of growth of the past several months, that could abort the recovery and lead to a resumption of recession.

2. *Desirable economic policy.* In my opinion, the right fiscal policy for the long view is a sharp reduction in government spending, government taxes, and the government deficit, to enable the taxpayer to spend more of his own money according to his own values and to eliminate current distorting effects on saving and capital formation.

The right monetary policy is a steady rate of monetary growth but at slowly declining rates over coming years: if 8 to 9½ per cent in M_2 for this year, then 6 to 8½ per cent the next, 4 to 6½ per cent the next, and down to a fixed steady rate of 3 to 5 per cent. That would bring the rate of inflation down gradually, while permitting steady growth in employment and output and a steady reduction in the level of unemployment.

The chance of this correct policy being followed, while I fear it is still small, has been substantially increased by the concurrent joint resolution of the Senate and the House requiring the Fed to specify its monetary targets for the coming year. I believe this resolution constitutes the most important change in the structure of monetary policy in nearly four decades. I commend Senator Humphrey for having played an important and constructive role in its adoption.

3. *The Humphrey-Javits Balanced Growth and Economic Planning Act.* As we all know, good intentions are not enough. Indeed they sometimes serve as the paving on a well-known road. I share very much the intentions of the authors of the Balanced Growth and Economic Planning Act. But I believe the Act would have precisely the opposite effects to those intended. The economic problems of this country do not arise from the absence of planning. They arise in recent decades from the continued and growing substitution of planning by civil servants supposedly in our behalf for planning by each of us separately in our own behalf—from substituting planning by the visible hand of government for planning by the invisible hand of the market. I would suppose that hardly any proposition was clearer from experience than the inefficiency of government, the failure of one government agency after another—in this country and every other country—to achieve its supposed objectives. We do not need yet another government planning agency piled on our present superfluity of planning and operating agencies to coordinate them. We need to move in precisely the opposite direction: the abolition of present government agencies, getting rid of interferences with our private lives and activities, cutting down the cancerous growth of government not adding to it. The authors of this measure would contribute far more to their announced intentions if they were to replace it by a measure that would abolish the ICC, the FCC, the FTC, the SEC, the FPC, the FEA, and a host of other alphabetical monstrosities; that would open postal service to private competition; that would combine and simplify the overlapping agencies regulating banks; and the like.

4. *The Hawkins-Humphrey Equal Opportunity and Full Employment Act.* This is another measure the goodness of whose intentions is exceeded only by the badness of the results it would produce. It would in no way whatsoever add to employment; it would simply replace private employment by government employment. The key fallacy in the approach it embodies is the failure to allow for the effects of financing guaranteed employment. If financed by higher taxes, the taxpayers have less to spend and they will employ fewer people. If financed by borrowing, the people who would otherwise have borrowed the funds would employ fewer people. If financed by printing money, the resulting inflation would impoverish potential employers. This measure is potentially attractive only because the good effects are visible and easily seen, the much more serious bad effects are diffused and hidden.

5. *Conclusion.* The major problem facing this country is cutting down the size of government and the extent to which it controls our lives. We have been creating a Frankenstein. We need to bring it under control. Let me urge the members of this Committee to look at experience in this country and throughout the world and see how clearly it supports the view that beyond a rather modest scale, growing government both retards economic growth and destroys human freedom. New York City today teaches that lesson no less than Great Britain, Chile, Argentina, and India.

Chairman HUMPHREY. Thank you for your statement. That is exactly what these hearings are for. We want to get your points of view.

The next is Reverend Riddick.

STATEMENT OF REV. GEORGE E. RIDDICK, VICE PRESIDENT, OPERATION PUSH

Reverend RIDDICK. Thank you very much, Senator. I will try to summarize my paper in terms of our position.

We essentially support the Humphrey-Hawkins or Hawkins-Humphrey full employment bill. We want to make that support very clear at this point. It is our feeling that excessive unemployment is wasteful and unnecessary in our society.

The economic analyst, Mr. Leon Keyserling, has estimated that during the 20-year period from 1953 to 1974 deficient economic growth in large measure triggered by high rates of unemployment cost this Nation some $2.1 trillion of total national production, and during this same period forfeited nearly 51.2 million man-years of productive employment opportunity.

Between 1969 and 1974 alone the Nation lost, in real terms, an estimated $447.7 billion in large measure attributed to waste, and some 13.5 million man-years of employment. That is just too substantial to continue, and unless we turn the corner by 1980 we can compound that by $266 billion of unemployment that will reach over 2.6 million more people that needs to be reached under a full employment economy.

We believe that unemployment is immoral, that according to a recent British study it shows very clearly that the loss of skills, the loss of a sense of selfhood, a loss of a sense of adequate self-image, to say nothing about the debilitation of one's response to the mechanics of the employment situation, is such that we cannot afford that in this society where we have the kind of technology and the kind of knowledge that exists for us. There is no need for it. Work, after all, is tied to the theological foundation of this country, so we must work on developing those programs that will in turn develop jobs.

We do not see the private sector offering a great deal of solutions to this particular problem. After all, during the 1974 period the private sector increased its sales 25 percent to some $843 billion, but at the same time dropped from its rolls 276,000 persons.

We feel that the bill offering useful paid employment, equal opportunity under useful paid employment gives us an opportunity for a planned type of program moving toward allowing people, particularly people in families, options on the future that they need to have in order to live in dignity.

Senator, we believe that a family that pays together and prays together stays together and, therefore, we are urging the passage of this particular legislation.

We feel it will come to terms with some of the meaningful kinds of conflicts that exist now that deal with some secondary issues, like the issue of seniority over against the affirmative action, because we feel that this issue has been in large measure distorted and misstated, but the truth of the matter is that as long as there are less than 2 percent of the blacks and minorities in the carpenters, ironworkers and asbestos workers unions, and less than 1 percent in the sheet metal and plumbers union, we are going to have problems.

The existence of a deficit of 14,700 black skilled workers here in Chicago, 20,600 black professionals and 10,300 black clerical workers, causes intense concentration on this particular matter. Only in an expanded economy, through full employment legislation, will we guarantee the kind of protection that will come to terms with this very factor. The unemployed in this Nation today constitute another America of economic deprivation, whose options on the Nation's future have been foresworn and garnisheed by the ravages of inflation and unemployment. We must ask very urgently then what will it cost if that alienated and subjugated mass should emerge as a fifth column seeking the destruction of a Nation that has too long left their dreams deferred and their promises unfulfilled?

We, therefore, call for the immediate enactment of the Hawkins-Humphrey Full Employment Act.

During the interim we would offer legislation similar to the Javits-Thompson employment bill, which should be passed immediately so that it can deal with the emergency of unemployment.

Third, any tax cut should be enacted with no strings attached relative to congressional expenditures. While few people advise encumbering the Nation with a larger deficit, it should be obvious that much of that deficit has been triggered by a top heavy defense budget.

Fourth, we urge also, and I don't think this is included, but we want to urge also measures to permit development of industry in the inner city. A recent study indicates that in the suburbs the employment growth has increased from 22 to 32 percent, while in the inner city, areas by and large are in an advanced stage of decline. In New York alone one-tenth of 1 percent decline is recorded; 1.9 percent in St. Louis, and 2.7 percent decline was recorded in Philadelphia.

Gentlemen, we appreciate the opportunity to testify on this matter. We feel that full employment means full involvement in our society for all people. [Applause.]

[The prepared statement of Reverend Riddick follows:]

PREPARED STATEMENT OF REV. GEORGE E. RIDDICK

Operation PUSH wishes to thank Senator Humphrey and the committee for this opportunity to testify on the issue of full employment. PUSH supports the Hawkins-Humphrey Full Employment Act.

There are over 8 million people unemployed in this Nation. Over 492,000 of them live in Illinois; some 130,000 of them in Chicago, a significant industrial hub of the Nation.

It is tragic that at a time when unemployment reaches so many—perhaps a total of some 21 million, uncounted and unnoticed, or otherwise classified, that there would be a serious debate over the wisdom of a full employment act. It is even more baffling to find that serious policy decisions are distorted by the so-called tradeoff between inflation and unemployment. Such a tradeoff, usually sacrifices and sells out the worker. Moreover it should be evident that we cannot effectively deal with the crisis of inflation unless we put our people back to work.

It is the position of Operation PUSH that nothing less than a full employment economy is adequate to meet the crisis gripping this Nation. Full employment legislation is needed if we are to assure that the largest possible number of Americans will live in dignity.

This year's theme for Operation PUSH is "Save the Family." We would submit that few matters are of greater consequence or of more meaning to that goal than providing protective legislation which provides for the dignity and options for planning and self-determination that employment permits. Again, we believe that the family that is able to pay together and pray together, will stay together.

Thus, Operation PUSH supports the Full Employment Act for the following reasons:

1. EXCESSIVE UNEMPLOYMENT IS WASTEFUL AND UNNECESSARY

Economic analyst, Dr. Leon Keyserling has estimated that during the 20-year period from 1953 to 1974, deficient economic growth in large measure triggered by high rates of unemployment, cost this Nation some $2.1 trillion of total national production. During the same period we forfeited nearly 51.2 million man-years of productive employment opportunity. He notes further that ". . . at existing tax rates we forfeited enough in public revenues at all levels of government to result in a deficiency estimated at $558 billion in Government outlays at all levels of goods and services . . ."

Between 1969 and 1974 alone, the Nation lost in real terms an estimated $447.7 billion in large measure attributed to waste. Additionally some 13.5 million man-years of employment opportunity were also sacrificed to the scrap heap of economic waste.

Unless the corner is turned at this juncture by 1980 our production gap will compound an additional $266 billion and unemployment will reach over 2 million more people than it reaches at present.

This is inexcusable considering the improved technology and skills which are presently available to us. It makes the waste criminal.

2. SECONDLY, UNEMPLOYMENT IS IMMORAL

It is our conviction that excessive involuntary unemployment is immoral. As Christians and ministers of the gospel, we take seriously a concept of stewardship, which calls for the proper care and allocation of resources. For us, the issue in this Nation is not one of husbanding scarcities, but of insuring proper distribution of available resources.

What is frequently overlooked is the grave consequences of unemployment for unemployed persons. A very recent British study, since corroborated by other studies in this Nation, has disclosed that the impact of long-term unemployment, something we presently see in vast disproportions, is to completely shatter the sense of self-determination and self-respect of the unemployed person. Again, the loss of skills and ability to cope with the mechanics of work situations has increasingly been observed in this debilitating process.

As an organization we maintain that life in community is most effectively fulfilled when one experiences the interacting forces of economic generation, spiritual regeneration and discipline. Work should enable one to contribute to a creative process thereby becoming integral to those processes.

We know too, that work is key to the theological premises which undergird the philosophy of the western world. When one witnesses unemployment reaching from 45 to 60 percent as is the case in black and many native American and Puerto Rican enclaves, he sees distention and distortion of this further accentuated by psychological conflicts experienced when a multibillion-dollar advertising industry screams out a message of product- and gadget-whetted prosperity, hour by hour.

PART II

The fact that the Full Employment Act calls for equal opportunities "for useful, paid employment . . ." reveals some legislative sensitivity to the needs of the dispossessed in this Nation.

It should also be stated, that only in an expanded economy will the Nation be able to deal with admittedly complex issues that needlessly throw workers into conflict over such issues as those related to seniority and affirmative action.

Affirmative action has become a dirty word to confused and beleaguered workers who see their jobs threatened by the closing jaws of an economic catastrophe. It is one thing, however, to state that the experience of workers, or their longevity on the job should be protected from the caprice of a cyclical economy and industrial planning which frequently surrenders jobs to machines or computers. It is quite another to defend an intransigent system against fair and equitable methods of opening doors to those who have historically been excluded because of their race.

Seniority can . . . and most often will prove effective. But segregation has seniority. The real issue in the seniority dispute against affirmative action is not the valid protection of workers but racial exclusion which has consigned 78 percent of America's black workers to the lowest paying job slots.

In the skilled trades it centers on the reality that fewer than 2 percent of the carpenters, iron workers, and asbestos workers and less than 1 percent of the sheet metal workers and plumbers are black.

It is the existence of a deficit of 14,700 black skilled workers (tradesmen) and 20,600 black professionals; 10,300 black clerical workers and 12,000 black salesmen in the Chicago area alone that puts the stakes so high in this confrontation.

We should not forget that the seniority system itself was an affirmative action measure for white workers subjected to an insensitive system of dealing with labor as though it were a commodity.

We believe that an expanded economy will make room for more persons at all levels of skills to participate. Full employment from that perspective means full involvement in the economic growth and development of the Nation.

Today, the unemployed in this Nation constitute, another America of economic deprivation whose options on the Nation's future have been foresworn and garnished by the ravishes or inflation and unemployment. We must ask very urgently, what will it cost if that alienated and subjugated mass should emerge as a fifth column seeking the destruction of a Nation that has too long left their dreams deferred and their promises unfulfilled.

The truth is, people, that it is not only New York that moves precipitiously toward default, but the Nation is defaulting on its most precious resource—its people—each day that this bill remains unenacted.

OPERATION PUSH RECOMMENDATIONS

1. We call for the immediate enactment of the Hawkins-Humphrey Full Employment Act. There is no priority of greater significance to Congress than full employment.
2. During the interim, legislation similar to the Javits-Thomspon employment bill should be passed immediately thereby committing the Nation to deal with the emergency of unemployment.
3. Any tax cut should be enacted with no strings attached relative to congressional expenditures. While few people adivse encumbering the Nation with a larger deficit, it should be obvious that much of that deficit has been triggered by a topheavy defense budget.

Chairman HUMPHREY. Thank you very much, Reverend Riddick. Reverend Jackson sent a very good substitute.

Stanley Johnson, president of the Illinois AFL-CIO. We welcome you, Mr. Johnson.

STATEMENT OF STANLEY JOHNSON, PRESIDENT, ILLINOIS AFL-CIO

Mr. JOHNSON. Thank you, Senator.

Senators, Congressmen of this Joint Committee, and your fellow folks back in Washington. I do not have a formal statement. Our State AFL-CIO is a branch of the National AFL-CIO. We have approximately 1 million members, and the unemployment situation has affected our membership just as much as any other segment within the State and the Nation. We do support national AFL-CIO policies as enunciated by President George Meany.

Now, within the State of Illinois we do have a complex society. We are aware of it. Sometimes our own folks don't fully understand that we do have an interplay with various economic segments. We are a great agricultural State as well as a great industrial State, and our farmers deserve a price so they can buy these manufactured items which come from steel, and all their farm machinery, their chemicals and their petroleum products.

You may recall, Hubert Horatio, when you and I appeared on this same channel back in January, we talked of the economic conditions. This was the night following President Ford's state of the Union message. I made the observation that this idea of self-reliance and restraint that we expect of the individual Americans; namely, the wage earners, and no restraints on our corporate entities, seems to me is out of proportion, and I suggested then the three basic industries, oil, chemicals, and steel, which are basic to the industries themselves throughout our Nation, but to farmers I don't have to go into detail; fertilizers, all their machinery run by petroleum; the chemical industry, with their insecticides, herbicides, also used in industry and steel, to hold the line, and it could be done.

Instead of that we see price increases, and yet we are told that wage increases are causing inflation. I can't buy the argument that government is the cause of inflation by deficit spending. I am aware that we have a tragic situation with ever-increasing burdens related to deficits.

Let me point out two individuals that I talked to in the last couple of days. First is the individual who has been out of work 5 months out of the past 9 months. He said, that, "You tell them—"I wanted him to come down and testify himself. He said:

> No; to hell with that. I will get balled up and I will start cussing. Tell them I am mad. My wife is mad at me, my kids are hollering for a quarter to buy something and I have to deny them, and my savings are used up.

He says, "Thank God for the food stamps," but he said also, "I hope I don't have to go to welfare. I went down and checked it," and he said, "It was embarrassing and it was degrading," so we have to have this emphasis on the unemployment, the poor, the distressed, and also our senior citizens, as well as the young, so it is this whole gamut that I come to that preceded me here relative to this thesis of individuals.

However, the Nation is made up of many individuals. Farmers are individuals, the small merchants, the small suppliers. Now; corporate management controls the huge industries, and I would suggest that along the line that we are talking about that some restraints would be used in that direction by our huge multinational corporations for some national interest; also that we can do something about taxes, tax reform.

I can't buy this trickle-down theory. It didn't work in the 1930's, with which I am quite familiar; I am a carpenter. I didn't pick up a hammer for two and a half years. If it hadn't been for my old dad putting my feet under his table, I wouldn't have been able to eat, and I had a place to sleep. Now; I was quite young then. Now I am a senior citizen, but I am still concerned over the whole gamut of people involved in this whole structure, so we have to have a combination of Government and have industry, labor, and all of our segments.

It is not simple. I have been listening to the learned professors and economists for the past several years, and I find more dissension among them, so I would guess anyone in this room has as good an idea about what to do as the next fellow, an it is this kind of a situation that we need, the emphasis on the people in distress first, then also be cognizant that we can't put business out of business. We are conscious of that, but certainly there has to be equity in taxation.

The other fellow I talked to is still working. He is working for a utility. He said he wasn't worried particularly about losing his job because of seniority, which we defend, on the job, but he said, "My $10,000 a year now I am having a tough time. I have got five kids, and I'm having to cut back." He says, "I can't make it now, and I want taxes reduced."

I might backtrack a minute. I asked the guy who was out of work, I said, "What about taxes?" He said, "Tell them I am willing to pay more taxes if I get a job," so we have the conflict of less taxes by one segment of our working force out of work, and those that are working want less taxes, so how are we going to finance it except through taxation, both Government, Federal, State and local.

I have been having a sort of a thankless job for the last 20 years in the State of Illinois, talking about taxes to our own people; always wanting more. I say that is the American way, whether it is business or labor. We want more, more out of this life.

By the same token, somewhere along the line it has to be paid for, so, therefore, if we want more we have to pay more taxes.

It is kind of hard to figure out a tax reduction and then in the next breath we come back and want you folks in Washington to spend $50 billion, and I am for a program of spending money, Federal, State and local, but it has to come out of taxation, of those that are working.

So, therefore, if we can get people back to work, by whatever method, whether private employment, of stimulus to them, the trickle-down theory, I don't buy that, but Government stimulus; pay some taxes, and then maybe they won't pay enough, but we will holler like the dickens if they don't pay the prevailing wage.

We are concerned over interest rates, exports, import. We are a great export State here in the Middle West. Sometimes we are No. 1 due to our agricultural products, yet we have thousands of our people out of work due to imports.

Some of our folks will be testifying today about the loss of their jobs. All in all, I could go on for a long time, but I will just leave it on that basis.

Our concern is for the total economy, not only our own wage earners, but also for our total economy, which means business, finance and employees.

I am asking those that are in the other sectors, don't always ask for self-restraints, self-reliance of the wage earner, without some exhibition of restraint on the part of big multinational corporations.

Chairman Humphrey. Thank you, Mr. Johnson.

Mr. Mayo, you will complete the panel, and we are very pleased to have you with us.

STATEMENT OF ROBERT P. MAYO, PRESIDENT, FEDERAL RESERVE BANK OF CHICAGO

Mr. Mayo. Thank you, Mr. Chairman, members of the committee. It is always a pleasure to be with you.

I intend now just to summarize a few points, if I may, on the performance of the Midwestern Committee, and the economic problems that confront us. They are serious problems. We fully appreciate the nature of the economic issues that affect us in the Midwest. We must remember that the Midwest is truly the economic heartland of the United States.

Our 12 States in the Midwest have an awesome productive capacity, an awesome production and, as a matter of fact, with one-fourth of the land area of the Nation, one-third of the farmland, one-fourth of the population, we produce half of the Nation's agricultural output. We account for half of the Nation's exports and produce one-third of the Nation's manufactured goods.

Nearly 7 out of every 8 bushels of U.S. corn, and 7 out of every 10 bushels of soybeans comes from midwestern farms. Over three-fourths of the Nation's inventory of hogs and over half of the cattle on feed are located on farms in our Midwest.

Manufacturing firms in the Midwest produce over three-fourths of all farm machinery, 70 percent of all motor vehicles and parts, and over half of the Nation's metal working and construction equipment. The bulk of the machinery and equipment needed to carry on manufacturing activity by this Nation, and indeed much of the world, is produced here in the Midwest. I am impressed that four of the five members of the committee that are here before me today are Midwesterners, like I am.

The performance of this massive agricultural and industrial economy obviously does not diverge from that of the national economy for any extended period of time, but there are often short run differences.

First, the impact of the recession in terms of underutilized capacity and human resources has tended to be more severe in some portions of the Midwest than in the Nation.

Second, the region in general has tended to lag behind changes in the national economy. We lagged on the way down. Cities in the Midwest area are showing greater prosperity than the rest of the Nation. We are now lagging, I submit, behind our impressive national recovery on the way up, and we are making an improvement in the national recovery even though it leaves many of us wishing for more faster. We will get there. This is largely as a result in the Midwest of our heavy dependence on durable goods manufacture. Durable goods and especially capital goods will recover more slowly. This is not a new or unique situation. Demonstrated strength in demand and business confidence and underlining the importance of business confidence in the sustainability of the upward trend, always precedes the decision to expand productive capacity.

In my view, the severity of the current recession is a direct outgrowth of our past excesses, and the resulting crippling effects of inflation. It has been an unfortunate experience, but it should at least convince us that continuing inflation is incompatible with the goal of full employment, which we all share.

Inflationary attitudes have taken on an increasingly prominent role in our society. It is a worldwide phenomenon with soaring oil prices and a crop of complicated—to attack the problem of inflation in every nation. There is additional—fiscal tools to stimulate the economy without significant price increases has indeed been blunted. If we focus successively, gentlemen, on the correction of short run unemployment problems, serious as though they are, without thought of the consequences on purchasing power, we will have failed to consider fully the priorities which our resources should meet. We will have failed the true goals of the Employment Act.

In the Federal Government until recently new program initiation was handled in a piecemeal fashion. The final total Government expenditures was the sum total of literally hundreds of inept decisions. We did not have an order set of priorities. Major new permanet programs often were initiated without a sober examination of long-term costs, we were so anxious to get going. If further recessions like the one from which we are now emerging, and even worse inflation, are to be avoided, we must evaluate our public priorities with great care.

Congress has already moved in this direction by developing new tools for its own planning, budget setting, and control mechanism. A step that I have consistently and strongly advocated both in and out of the Government. A good start has been made, I'm proud of what's happened.

But greater effectiveness will be needed in fiscal 1977 when the prices of programs, priorities and policies will be even more difficult. I am convinced that this is one of the major routes we must travel if we are to meet the goals of the Employment Act of 1946.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Mayo follows:]

PREPARED STATEMENT OF ROBERT P. MAYO

It is always a pleasure, gentlemen, for me to appear before your Committee to offer whatever assistance I can in your deliberations. Today, on the eve of the bicentennial celebration of the Nation's birth and the 30th anniversary of the Employment Act of 1946, it is particularly fitting that a review be undertaken of the performance of the Nation's economy under that Act.

I have always considered the Employment Act a major step forward in economic policy, not only because it recognized a duty on the part of the Government to act in the economic interest of its citizens, but also because it established the Council of Economic Advisers, the regular reports of the President and the Council, and last, but certainly not least, it initiated this Committee itself, which has offered a national forum for economists of all views to educate the public on economic issues.

The Act is not perfect and steps to implement its goals have sometimes had perverse effects, but no one can quarrel with the goals it espouses—maximization of employment, production, and purchasing power. Today, with the country's economy in the early stages of recovery from the most severe economic setback since the Act was passed, the progress that has been made since 1946 may not be the first thing to come to mind, but as one thinks back to the period between the two World Wars and the fears in people's minds that a repeat of the post-World War I behavior was due after World War II, the contrast between expectations and performance is truly amazing.

The inflation which began in the mid-1960s and which is still with us, though slowly ebbing; the recession from which we are just beginning to recover; the tremendous need for our agricultural products overseas; and the growing threat of energy shortages—all of these strongly suggest that it is essential that we examine what can be learned from what has gone wrong with our implementation of the Act, particularly in the past decade. We must restore the American economy to a non-inflationary, stable growth path, which can fulfill the average citizen's aspirations once more without the excesses we have witnessed.

THE MIDWEST ECONOMY

In order to assist the Committee in developing appropriate approaches to our economic problems, I would like to focus today on the extremely important role that the Midwest plays in the national economy, on the impact of the recession on the Midwest, and some of the particular problems which the area faces over the next several years.

In discussing the Midwest, I am referring to a much broader geographical area than the portions of the five states served by the Federal Reserve Bank of Chicago. In my mind, the Midwest consists of the twelve-state area designated by the Census as the North Central States. These are Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

This twelve-state region is, in many respects, the economic heartland of the United States. Indeed, it may be the economic heartland of the world! There is virtually no facet of the economic life of the nation that is not profoundly influenced by the contributions from one or more of these twelve states.

The Midwest occupies about one-fifth of the nation's land area and contains just over one-fourth of the population. In a typical year the residents earn an income slightly above the national average. Several of the states are thought of primarily as agricultural producers and, indeed, the region has awesome farming capabilities, including just over a third of the nation's total farmland, and accounting for nearly half of total farm sales. The region's manufacturing capacity is also immense, accounting for more than a third of the nation's output.

AGRICULTURE

Midwest agriculture is broad-based and large by almost any measure. It encompasses the vast wheat fields of the plains states and the Corn Belt in the heart of the Midwest that provide the bulk of domestic feed grain production. Virtually all of the states in the Midwest are major livestock producers. Moreover the Great Lakes region of the Midwest includes several major areas of specialized fruit and vegetable production. Seven of the twelve Midwestern states were in the list of the ten states with highest cash receipts during 1974.

Among major individual commodities, corn, soybeans, hogs, and cattle are most prominent in the Midwest. Nearly seven out of every eight bushels of the corn produced in the U.S. comes from Midwestern fields. At the same time, midwestern farmers produce more than 7 out of every 10 bushels of soybeans. Over three-fourths of the nation's inventory of hogs and pigs are located on farms in the Midwest. Although midwestern farmers own only two-fifths of the inventory of all cattle in this country, they are responsible for over one-half of the cattle on feed—the major source of the nation's annual beef production. Nationwide, cash receipts from the marketings of these four commodities account for nearly one-half the receipts from all farm marketings.

MANUFACTURING

No less awesome in the Midwest region's contribution to the nation's manufacturing output. From screws and fasteners to gigantic industrial and mining equipment, the panoply of manufacturing is represented in the Midwest. Importance of this activity must be measured not only by output itself—over a third of the Nation's—but also by the fact that the bulk of the machinery and equipment the rest of the Nation and, indeed, much of the world needs to carry on manufacturing activity is produced in the Midwest.

In major durable industry groups such as primary and fabricated metals, nonelectrical machinery and transportation equipment, the Midwest supplies between 40 and 50 percent of the Nation's total output. When finer industry breakdowns are considered, the Midwest is found to produce over three-fourths of all farm machinery, 70 percent of all motor vehicles and parts, and over half of all metal working machinery and construction equipment.

Not only is the Midwest strong in producer durable goods manufacturing, the region is also a major producer of consumer durable goods. In addition to motor vehicles, already mentioned, the region supplies more than one-half of the nation's television sets and household appliances.

EXPORTS

This combination of manufacturing and agricultural capacity has made the region a major factor in U.S. exports. In 1972, the last year for which complete data are available, over 40 percent of all exports originated in the Midwest. It seems likely that the increase in the value of farm exports since then has increased the proportion so that today about half the Nation's total exports comes from these twelve states.

FINANCE

Of course, there have to be sources of credit and other financial services to support this enormous business activity. Chicago is second only to New York City in possessing the attributes of a financial center. But the Midwest area boasts at least seven or eight other major cities that are able to provide sophisticated financial services to meet the needs of businesses, farms, and households. Because of the fluidity of money markets nationally, there need not be a close relation between the volume of activity and the volume of credit for a given region. Nevertheless, most individuals and businesses depend on nearby institutions for their financial services.

Aside from the sale of stocks and bonds by major business firms, the commercial banks of the region provide, either directly or indirectly, much of the region's own needs for credit to support both business working capital and consumer purchases. The region's savings and loan associations provide the backbone of mortgage financing. In both agriculture and housing finance, of course, the Government-sponsored credit agencies also play an important, although marginal role.

Almost half of the Nation's 14,200 banks and one-third of its S&Ls are located in these 12 Midwestern states. Midwest banks account for over half of the agricultural loans made by all U.S. banks, almost one-fourth of business loans and one-fourth of total deposits.

The growth in the use of credit since 1946 has been enormous. Commercial bank assets show a four-fold increase, but outstanding credits have multiplied by 17 on business and farm loans, by 18 on residential mortgages and by 35 on personal credits—all roughly in line with national trends. Growth in S&L mortgage portfolios was even more spectacular, largely because they started from a lower base. Besides this huge expansion in private credits, Midwest banks acquired almost $30 billion of state and local obligations.

Because of their vital function as custodians of the public's money and their ability to influence the allocation of credit, financial institutions are highly regulated. There are a number of important questions that must concern us as we review the thrust of this regulation in the public interest and within the spirit of the Employment Act. What kind of financial structure can contribute most to maximize income and restore full employment? To what extent should we encourage the flow of investment funds through intermediaries such as banks and S&Ls and how far should they be permitted to expand their noncredit services through the holding company route? How much should the various types of financial institutions be homogenized and freed from certain restraints on competition for funds and what they can be used for, as is implicit in the proposed Financial Institutions Act now under consideration by the Congress? The great Midwest, with its diversification of both activity and size of banking organizations, could well provide a testing ground.

INTERNATIONAL FINANCE

For much of the past 30 years, midwesterners have tended to use the trade-related international banking services of banks located in the port cities of the East and West Coasts. This was true even though exports played a major role in the Midwest region's economy. The decade of the Sixties, however, was a period of dramatic increase in foreign investment by Midwest-based corporations as they established one subsidiary and manufacturing branch after another overseas. Midwestern banks reacted to this growing internationalization of their traditional customers with a similar rapid increase in their ability to provide international credit and financial services. Head office capabilities were enhanced and overseas branches were established to service customers in foreign markets. Several Midwest banks have also established international banking facilities in New York and other coastal centers.

The development of these very significant capabilities to service the international banking needs of Midwest-based customers has not gone unnoticed by the major money market banks. Six coastal center banks have located international banking facilities in Chicago to compete for Midwest business rather than attempt to continue to attract them with services from their head offices. Foreign banks have also decided that a Midwestern location is now competitively desirable. Twenty-four foreign banks have located in Chicago to service the Midwest market. These banks bring to the Midwest a home country and other geographic area expertise which should prove extremely valuable to an increasingly internationally minded Midwest.

RECESSION IMPACTS

Over the past thirty years, the economic growth of the Midwest has generally followed the growth of the Nation as a whole, with periodic setbacks during the various recessions which have occurred. Per capita personal income of the region, for example, was almost four times larger in 1974 than in 1948—a rate of growth only slightly slower than that for the Nation as a whole.

Within the region there has been great variability in economic activity from state to state during economic downturns. Even within individual states, local economic conditions can be very different from the broad picture one gets from looking at the data for the entire country. In almost every instance, however, the big ups and downs in employment, in personal income, in output, or whatever measure you select to evaluate economic conditions has been the result of changes in the levels of manufacturing activity, and, particularly, durable manufacturing activity.

For the state of Michigan in general and the Detroit metropolitan area and its immediate hinterland, manufacturing activity and the automobile industry are almost synonymous. Unemployment in Michigan has generally tended to be somewhat higher than the national average. The only recent exception was during the 1967–69 period when Vietnam war production of vehicles and related equipment drew heavily on the State's capacity. But the influence of the auto industry is pervasive. In 1958, auto production dropped over 30 percent from the 1957 level and the unemployment rate in Michigan shot from an average of about 6½ percent to nearly 14 percent, and, on a monthly basis nearly tripled in a three-month period. The decline in production in 1974 from 1973 levels was almost as severe—about 25 percent. The burst in unemployment was somewhat slower in coming as the auto companies were late in adjusting to slower retail sales. As a result the peak unemployment of over 15 percent was not reached until last March. The decline in unemployment has been very sluggish since then even though auto production rates are increasing slowly.

In Illinois, economic activity also receded initially at a less rapid pace than in the Nation as a whole. For a variety of reasons, including the continued strength of steel manufacture as users' inventories were built up late last year, the fact that the machine tool industry, although faced with shrinking orders, was still working off a very large backlog, and continued strength in farm machinery production, the rise in unemployment lagged the national rise throughout the latter part of 1974 and early 1975. But in the last few months, unemployment in Illinois has started to rise more rapidly and is still climbing at last report. This is unusual since even in the most severe of the post-war recessions, Illinois has almost never experienced an overall unemployment rate above the national level and has usually been significantly below it.

Economic activity, especially in Michigan and Illinois, has also been affected by the changing fortunes of the various home appliance and consumer electronics industries. All segments of this group are strongly influenced by housing starts. In past recessions, housing has tended to be the spark plug of recovery, thriving when demand for funds was weak elsewhere in the economy. This has not occurred this time around. The boom in housing which preceded this recession, combined with the boom in mobile homes, and those units intended as vacation homes in resort areas, outraced demand by a substantial rate. At the same time, the rate of cost increase—in land as well as in construction—was so rapid that we have now reached the point where the typical prospective buyer cannot afford to buy the typical home, and this would be true even if the current mortgage interest rate were substantially lower. And the same kind of speculative overbuilding which engulfed housing has also occurred in commercial construction. No major city in the Midwest is without a glut of unoccupied downtown office space. At the same time, states and local governments, pressed for funds as receipts have tapered off and costs have accelerated, have slowed public construction.

PROSPECTS

The resulting pattern for the recovery of the economy of the Midwest and the industrial states of the area seems clear. The national recovery is likely to be moderate and without the stimulus commonly resulting from the whole construction industry. It is likely to develop along a broad front led by steady growth of consumer purchases of nondurables and services. This being the case, it seems likely that the lag in recovery here will be longer than usual on the upside, and those industries which lag the most, the capital goods industries, will be bringing up the rear once again.

For our big cities, and Chicago is a good example, the problem of slow recovery will be exacerbated by the continuing movement of employment opportunities from the city to a progressively wider area around the city. While Chicago is making a valiant effort to find ways to preserve manufacturing jobs within the city and even to find ways to expand these opportunities, the lure of easy access along the interstate highways, lower taxes, and encouragement of a wide variety of incentives from outlying communities will continue to draw away the job reservoir of the central city. This means that the central cities in the Midwest will tend to follow a slower recovery path than the total metropolitan areas; that the metropolitan areas will lag the performance of the state and regional areas; and that the entire Midwest will lag the national economy.

INFLATION AND UNEMPLOYMENT

If the severity of the current recession proves anything, it is that, over the long term, continuing inflation is incompatible with continued low levels of unemployment. While I am well aware that the shortage of energy and the dramatic increases in its cost imposed by OPEC, the sharp increases in demand for U.S. farm production, and similar problems have contributed to the amount of inflation during the past three years, a major cause has been the apparent inability of the Federal Government to control deficit spending. In the entire period since 1946, the Federal budget, computed on the unified budget basis, has been in surplus only seven times and the total of all seven of these surpluses has been exceeded in each of four different years.

I do not think that any economist, regardless of his theoretical or political stance, would deny that this continued large deficit level has been a major causative factor in the long period of accelerated inflation we have seen. For many years, the public, organized labor, the business community, and even many economists failed to recognize that the use of deficits to overstimulate the economy would eventually begin to destroy jobs, not create them. We have certainly learned our lesson with a vengeance, and I am not surprised that even with unemployment above 8 percent nationally and above 10 percent in many major metropolitan areas, one public opinion poll after another shows that inflation, not unemployment, is now viewed as our major economic problem.

While part of our deficit was accumulated as a result of failing to use more tax financing of the Vietnam war, significant portions are the result of focusing excessively on the correction of short-run unemployment problems without thought to the consequences on purchasing power and of failing to consider fully the priorities which our scarce resources should meet. Until recently, new program initiation has been handled piecemeal so that final total expenditures are the sum total of a group of independent decisions, not an ordered set of priorities. Major new permanent programs have been initiated without more than a cursory examinatiod of the long-term costs. If further recessions like the one from which we are only now emerging and if even worse inflation is to be avoided, we must have a long-term planning capability.

There has always been a strong prejudice among Americans against overzealous Government planning. And for good reason; we are all soundly convinced that the essence of our industrial strength, our agricultural superiority, and our high standard of living are all the products of an essentially free enterprise economy. We have no interest in a rigidly planned economy.

At the same time, we must be careful to distinguish between planning as it applies to a smothering of our basic freedoms and planning as it applies to the orderly and efficient management of those functions which Government is already convinced are proper to undertake. In those areas, we must match up long-term priorities with the long-term availability to finance them in the same way programs and funds are matched up on a short-term basis. We must begin to think in terms of reconciling conflicting goals and arriving at workable compromises.

Congress has provided itself with the tools for its own planning, budget setting, and control mechanism, a step I have consistently and strongly advocated. Although this year is only a trial run, I am pleased that the mechanism appears to be working. I am hopeful this effectiveness will be even greater in fiscal 1977, when the choices of policy and program may well be more difficult than they have been this year. I am convinced that such efforts to organize and match our priorities and resources are the major route we must follow if we are to acheive the goals of the Employment Act of 1946.

Chairman HUMPHREY. Well, I thank you, and I appreciate your abbreviating your statement. It's a very comprehensive statement. As a midwesterner, I might say I take a certain amount of pride in what you had to say. It's a good comprehensive document as to the industrial, financial, agricultural achievements in this part of America.

We are going to be brief because time is running, and I just wanted to say one or two things here.

First of all, to my friend Mr. Friedman. Mr. Friedman, I always enjoy your participation because you are a provocative, thoughtful man, and that's what this country needs. It isn't a question of whether we agree on every point. I have noted down, as we went down the line, what you had to say as you talked about the monetary policy. I said I don't disagree too much.

As a matter of fact, on monetary policy it may upset you to find out we haven't been too far apart. I hope this doesn't destroy your professional credentials.

Mr. FRIEDMAN. It pleases me very much.

Chairman HUMPHREY. When it comes to the Humphrey-Javits Balanced Growth and Economic Act, let me assure you of one thing. The prime purpose of that legislation was to focus attention upon what I really believe is the necessity for a better coordination of planning at the Federal Government level.

A government that spends $400 billion or $375 billion without any forecasting, without any long-time look, that to me, sir, is one of the most dangerous things I can think of.

I grew up in a family business, very small, little people, but we survived. We took a look down the road a little bit as to what we were going to do.

What I just heard here from Mr. Mayo is characteristic. For years government just went pellmell without regard as to what they are going to do. Let me give you a classic example.

The wheat deal with the Soviet Union. Now, when it took place we had a huge surplus of wheat. Some people said we got rid of the wheat surplus. Hurrah. But what this did to food prices at home, what it did to our economy was incredible. It knocked it into a cocked hat, as we say up our way. There was no thoughtful planning at all as to what that one economic act would do, and yet there's the Council of Economic Advisers, the Office of Management and Budget, Committees of Congress, the President and God only knows how many offices and agencies they control. No study of the impact. And here we go again on a national food policy without any program. We open up 65 million more acres, and I'm in a field, by the way, in which I know my business, so don't jump on me too quickly.

We open up 65 million acres of land without any contemplation of what the fertilizer needs would be, without ever informing the chemical companies ahead of the decision, even if they could have done something about it. Obviously, they couldn't do very much about it in the short period of time.

We tried to transport double agricultural production with fewer boxcars and less railroads and fewer trucks. Now, you know I believe in miracles, but they are all in the Bible. No planning. I don't want a planned society. I'm a free enterpriser long before you. You've got seniority on your job. Humphrey's Drugstore survives by profit or loss. If it's a loser, we are out.

I grew up in the merchandising business, not like my colleague to the right who is a corporate executive. But I'm just a little fellow in this business. All I'm saying is that you've got to have some idea of where you are going. And I want some forecasting, some looking ahead where you are going. And I want some forecasting, some looking ahead—not what we call mandatory planning, possibly indicative planning—possibly something like they use in the Federal Republic of Germany, possibly something like they use in Sweden.

And interestingly enough, as you come down to the Hawkins-Humphrey Employment bill, isn't it interesting that the Federal Republic of Germany imported a million workers from the outside, paid them prevailing wages in a high-wage economy, full employment, maximum utilization of plants and tools and had one-half the rate of inflation that we had.

Now, these are things that people like to gloss over.

Mr. FRIEDMAN. Excuse me, Senator. May I respond to those comments?

Chairman HUMPHREY. Please.

Mr. FRIEDMAN. In the first place, I have no disagreement with you about objectives. The question has to do with the means. Of course you want planning. But you want the right kind of planning by the right people.

The reason for the wheat deal and failure of the wheat deal was because of a bad agricultural policy before that. It was the result of long range planning and intervention in the marketplace by the Federal Government.

In the second place, as far as the planning by the Federal Government is concerned, of course it's been highly deficient, but it isn't because there haven't been enough agencies to plan and it will not be resolved by putting still another agency on top to produce further disorganization and discoordination.

So far as the Federal Government of West Germany is concerned, it is not the case that the Federal Government hired a million outside people. It was the case that business in Germany hired the outsiders, which outside people were not being paid from government spending. They did not require higher taxes.

My whole point is that we want to get a maximum of employment. Of course, we can have high employment without inflation. Unemployment is not a cure for inflation. In fact, the recent period of unemployment that we have gone through has been produced by inflation.

Chairman HUMPHREY. And it also produces inflation.

Mr. FRIEDMAN. Inflation produces unemployment.

Chairman HUMPHREY. And unemployment produces inflation under the current situation.

Mr. FRIEDMAN. I don't believe that's quite correct.

Chairman HUMPHREY. Well, I do. And I've got evidence to support it.

Mr. FRIEDMAN. I do think, Senator, that you will agree that the situation in Germany where private enterprise hired a million people from the outside is quite different from the situation in which government imposes taxes on some people to provide jobs for other people.

Chairman HUMPHREY. You missed the point. I was trying to cover another point. I was pointing out that the old classic argument that heavy demand increases prices didn't quite work that way in the Federal Republic of Germany. For what reason, I'm not quite sure. I happen to believe that it is better for a country to have people at work—I'm a midwesterner—than it is for them to draw unemployment compensation, food stamps, and welfare.

Mr. FRIEDMAN. Nobody disagrees.

Chairman HUMPHREY. How do you get them to work quickly? You can start building utilities. I'm for building plants and roads. These are things that I am for. The trouble is we can't get the Government to agree to it. I'm not talking about just a jobs program where you go out here and say let's see if we can find something to do. God only knows there's enough to do. In the city of Washington, a good part of which was burned down in 1968, it's still the same rotten place that it was in the areas around U Street and 14th. Not one brick has been laid, not one home has been fixed up. Not one thing has been done, and I'm amazed when we talk about work to be done and jobs to be fulfilled that we find no way to do it. We know there is work to be done here in Chicago, as the mayor has said.

We are 15 years behind in reforestation, Mr. Friedman, and we've got people sitting around picking their noses instead of planting trees.

Mr. FRIEDMAN. Why?

Chairman HUMPHREY. Private employment is not going to plant those trees.

Mr. FRIEDMAN. It's not because government hasn't spent money. Government spending has been so inefficient.

Chairman HUMPHREY. That is not the fact. We did not have a work program, sir, and the problem I see is that the American economy has become what I call the payoff economy. And this worries me. Namely, if you can just hand a person a check, he'll shut up. And we have done it in foreign policy and we are doing it in domestic policy.

I think it's much more important to become self-sustaining.

Second, I think it's more important to have people who are unemployed today have what Mr. Riddick talked about over here, a chance to work, to do something together, to make a productive contribution rather than just to get an unemployment compensation check.

So we'll take a look at all of this.

Mr. FRIEDMAN. You are setting up a straw man. No one disagrees with those objectives, and I object to ——

Chairman HUMPHREY. You don't want to pay for it.

Mr. FRIEDMAN. I believe they can be achieved far more economically by letting the citizen have more of his own money to spend than to create one Federal agency and finance it by high taxes.

Chairman HUMPHREY. Whose money do you think it is? Where do you work?

Mr. FRIEDMAN. I work at the University of Chicago.

Chairman HUMPHREY. You get some Federal money.

Mr. FRIEDMAN. And I started out as a youngster behind the counter of a small retail store.

Chairman HUMPHREY. The Federal money that you keep talking about—every State college, every high school, every elementary school and most of the colleges in this country get Federal money. It hasn't destroyed your character, Mr. Friedman. You are just as stubborn now as when I first met you.

And by the way, you are very effective.

Senator PERCY. I'd like to ask first about the city of Chicago. In the 1960's we lost, as I mentioned, 210,000 jobs. We gained 90,000 welfare recipients and we lost 140,000 private housing units. In that same period of time in the 1960's the suburbs gained a half million jobs, 350,000 housing units and gained 800,000 whites.

Is the lag in unemployment and the deepening of unemployment in Chicago a phenomenon just of this recession or is it symptomatic of of possibly underlying demographic and structural problems that we we have to face up to in Chicago and somehow solve?

Just a quick answer from anyone that would want to. Mr. Abboud?

Mr. ABBOUD. Senator Percy, I think like all of these questions there are three or four aspects to the question. There has been a movement outside of Chicago, there's been a movement moving out of the city because the jobs have moved away. The jobs have moved away because security has eroded and because the schooling system has not been adequate to hold the people here.

Now; we do have to have, as the mayor has indicated, we have to have transportation systems that are adequate to allow people to cross the city boundaries and go into the suburbs.

In addition, there has to be leadership at the local level. You are familiar, Senator, with many of the initiatives that have been undertaken in the Chicago area by labor, by private industry, by the mayor and by the political agencies.

Now; when the mayor called us together and said that we have a very high foreclosure rate in the city and we have abandoned houses and all of us have to combine together and do something about it, there was a response across the board and it was a response that was not limited to any one particular sector of the economy. And we are doing something about it.

When the mayor got us together and said we need industrial gardens in the city and we need to have enclaves of employment so people can live in the neighborhood and be proud of those neighborhoods in addition, he got a response. That's not being done by the Federal Government coming in here. In fact, it couldn't be done with Federal money coming in here. That's being done by talent and resource and initiatives at the local level, and it's being done because we have leadership by the Chief Executive Officer of the city of Chicago.

Senator PERCY. Reverend, I think you wanted to make a comment.

Reverend RIDDICK. I think that unfortunately many of the measures that are presently being taken started too late. I think that we knew in the 1960's that some of the trends that you outlined in hard figures were going to take place.

Why weren't there convocations of industrialists and Government people at that time to get the show on the road? You see, we have now allowed the inner city to become practically a disaster area, and then we talk about almost experimental units in which people can somehow gather and we can show that it can work. We knew it could work much earlier.

I feel that fiscal measures must take place to encourage industry to take that measure. That is not Government doing it or business doing it, that is the partnership between Government and business.

Seems to me that the Government is maligned too heavily by such simplistic arguments concerning whether one group as over against another. Seems to me that with sound judgment and with a view of partnership in trying to save the Nation, not to accentuate whether

Government or industry is best at taking a job, we would be able to approach these problems, and that's what I'd like to see happen. Because I can tell you when you see 40- to 60-percent unemployment in the inner city communities, you don't care whether it is an issue of Government as over against business, whether you are Kansan or Friedmanist. You care whether people are able to work or not and whether something will be done. [Applause.]

Mr. FRIEDMAN. I believe we do not solve problems unless we look at what causes them. The movement you have described, which is a real one, was produced primarily by the Federal Government action. By urban renewal and public housing programs that destroyed more units than they built.

By the Federal housing, FHA and subsidies to the building of such highways and expressways. That pulled people out of the city. And I think we have to recognize that has been the source of this problem and that the way to solve it is not by some more ill-advised programs.

Senator PERCY. Mr. Chairman, my last question. I'd appreciate just a one word answer from those who would want to. I ask this article in the Chicago Tribune, "Bankrupt Cities Don't Disappear," be inserted in the record at this point.

[The article referred to follows:]

[From the Chicago Tribune]

BANKRUPT CITIES DON'T DISAPPEAR

Washington [UPI]—Mobile, Ala., couldn't pay its debts in 1838, and became the first American city to default on its obligations—the course of action New York City is now fighting to avoid.

Since then, many municipalities, including President Ford's hometown of Grand Rapids, Mich., have suffered a similar financial plight. But cities which went bankrupt didn't disappear as businesses normally do.

In a large number of cases, the only real losers were city employes who had to take pay cuts or pay interest on borrowed money while they worked without wages. Given time, most cities were able to resume payments of principal and interest to investors and lenders.

In a nationally televised interview Sunday, New York Mayor Abraham D. Beame warned that if the federal government lets the city default, the effect on municipal services would be so devastating that "we'd have to close up the city."

Beame said that even under a favorable default procedure, which would give essential services priority over payments to creditors, the city would still have to make extreme cuts.

Beame also called for a federal takeover of welfare costs, noting that federal rules have virtually barred cuts in that area.

An authoritative study of city financial emergencies in America, published in 1973 by the Advisory Commission on Intergovernmental Relations, found there were few municipal bankruptcies in the early days when Mobile went broke.

Local indebtedness of any kind was frowned upon then, and few cities were borrowing money.

During the two decades before the Civil War, there were 19 local government defaults, caused mostly by tight money conditions and bank failures. All of them were for short periods.

The worst defaults in U.S. history came after the civil War.

During the depression of 1873 to 1879, about 25 per cent of the debts of major local governmental units were in default. Most could be traced to carpetbaggers who absconded with money and to railroad aid bonds which did not work out.

The next big spate of municipal bond defaults came in the 1929s, mostly as a result of land speculation. The collapse of the real estate boom in Florida brought widespread defaults in 1927.

Then the Great Depression dried up tax money for the nation's cities, and more than 2,000 were in default in 1933. At one point, 17.7 per cent of all municipal bonds were in default.

Size of the government unit provided no immunity from the financial crisis. Detroit went into default, and so did Grand Rapids. The study shows that Michigan helped by taking over all relief payments for Grand Rapids.

According to the study there was a "high incident of repayment of defaulted principal and interest in a comparatively short period of time" as cities recouped from the depression.

All 48 cities with populations of more than 25,000 that went bankrupt were out of default by 1938.

It took the smaller communities somewhat longer, but municipalities with populations of 10,000 and more had settled their default problems by 1945.

Since World War II, there have been few serious defaults.

A total of 431 were reported to the commission. But at least 306 were technical and temporary involving small municipal units where the debts were locally held. Defaults totaled less than .5 per cent of all municipal debts outstanding in 1970.

Senator PERCY. It points out Mobile, Ala., my father's hometown, went bankrupt in 1838. Mobile is still there. What happens is they don't disappear as Mayor Beame is trying to imply now. They have to adjust to something and they have to do something.

My concern is whether or not if we bail New York out too quickly at the Federal level, whether the line won't be from here to that wall with a list of the cities that will now say, "We are not going to have to discipline ourselves," and as Mayor Daley said, manage the budget when the Federal Government is going to pick up the check.

I don't know where we are going to get the money to pick up that check. If we go in too soon, my question is will the cities then discipline themselves and do these things such as New York is going to have to do ultimately? Mr. Abboud, and if you can just yes or no.

Mr. ABBOUD. As a banker, Senator, I would not put money in until I knew there was a going business there.

Senator PERCY. Mr. Eisner.

Mr. EISNER. It's not susceptible to a yes or no answer. But you cannot impose at this point a set of standards to which you can expect the city to adjust immediately without facing consequences.

I can't tell you exactly what they are, but if the city of New York will not disappear, if it cannot pay its bills, the consequences upon all of its vendors, its people that are selling to it will be tremendous. The effects upon banks that hold securities will be great, and I'm sure the Federal Government will then be called upon to meet the consequences.

Senator PERCY. But should they have a plan or be required to present a plan?

Mr. EISNER. I'm not going to defend any mismanagement in New York City as comparing New York City and Chicago. New York City meets its welfare costs. The State of Illinois pays it here. New York City meets their school costs. Unless we have a way of meeting the problem of national needs of people belonging to cities and looking for support, we can't simply say well, the city should take care of it.

It should take care, but it can't very well spend beyond its means. You have to recognize it is also not prepared merely to let people starve.

Senator PERCY. Mr. Friedman.

Mr. FRIEDMAN. I believe that no matter how many conditions you put on, you should not be like New York at all. I believe the problems in New York are New York problems. I believe that Bob Eisner's figures are misleading, that if you look at the figures you have in every category, in every category of expenditures, Chicago spends a great deal less than New York.

Senator PERCY. Mr. Mayo.

Mr. MAYO. It seems to me basically a State problem here, the mother agency of the city of New York, to quibble about whether the city or the school district pays certain parts of this, is all within the State of New York, or all within the State of Illinois.

There are many citizens that have a worse relief problem than New York does. This is a national problem.

I would hope that, and I share with what you have said, that there must be a viable plan if indeed we inevitably come to some sort of a rescue operation.

Senator PERCY. Mr. Johnson.

Mr. JOHNSON. My time is gone so I will have to limit it.

I was concerned about this question of the distressed folks, whether it is New New York City, Chicago, or elsewhere.

If we are going to save the economy, the economic situation is going to be at their expense, then we are thwarting the whole thing of taking care of people in distress.

Senator PERCY. Thank you very much.

Chairman HUMPRHEY. Congressman Bolling.

Representative BOLLING. I have no questions.

Chairman HUMPHREY. Congressman Long.

Representative LONG. I would like to go ahead and get some of the public participation in before lunch.

Chairman HUMPRHEY. I think a "straw man" has been set up here. Nobody is designing a plan for the relief of New York City that doesn't have very stringent provisions, including one, may I say, of the State losing its revenue sharing unless they supervise it properly, unless it is managed properly for the city.

We have been holding hearings on this. Nobody has planned to do this, and I might just quickly add that we didn't have cities disappearing even in France or Germany. We had a Marshall plan. The countries would still have been there, but you could have let them go without a Marshall plan. And you might have had Joe Stalin there, you know. It isn't all so simplistic. I think you just kind of have to give it another look.

Thank you very much.

On the next panel we have Lee A. Daniels, Mr. Harry Conlon, Mr. Jack Spiegel, Addie Wyatt, and Ted Smolarek.

We will go alphabetically. I think you know the ground rules.

We are just delighted that you could be here. You have been very patient.

I told our committee that I wasn't much for lunch hours anyway. I think what we need is a feeding of the mind rather than the body right now, but we do have a matter here of some problem with the television studio.

The first witness is Harry Conlon.

STATEMENT OF HARRY CONLON, EXECUTIVE VICE PRESIDENT, GRAPHIC ARTS UNION

Mr. CONLON. I am executive vice president of the Graphic Arts Union.

I know what the ground rules are. It is to set a limit, and then just don't limit them.

I am here representing a group of craftsmen, Mr. Chairman, who have been in the industry literally for decades, the graphic arts industry, skilled men and women who have spent a lot of time learning the trade, and now find themselves unemployed.

As a matter of fact, the unemployment rate in the graphic arts industry far exceeds the national average or city of Chicago. As a matter of fact, it is about 15 percent, and I am not here, Mr. Chairman, to be so presumptuous, like some of my predecessors have been this morning, to suggest to you that I have the panacea for solving the economic problems of our country. I think the people that we represent have a right to expect that from the people they elect to office.

I think when we elect somebody to Congress, we feel—and the White House, too, which we didn't elect in this instance—we have a right to expect those people to have the expertise, the experience, and the intelligence to effectively deal with our problems.

Many of the people I represent today don't feel that that is the case today. The people, as I say, have been working in this industry for years. They are highly skilled, and have been thrown out of work, and generally speaking all they hear is rhetoric, whether it is on the tube or in person, some fancy tear-provoking speeches, speeches that have moved mountains literally, and when they look around for answers, the answers aren't there. As Mayor Daley said, some of these people have been out of work for 6 and 8 months.

Every once in a while, almost monthly, as a matter of fact, we get a pronouncement from the White House to the effect that the economic situation is bottoming out, or there is a light at the end of the tunnel. Many people are beginning to recognize now that that light at the end of the tunnel is probably a locomotive coming our way at the rate of 100 miles an hour, and they expect something to be done about it.

I have been a union official for 13 years now, full-time, Mr. Chairman, and despite the many pluses of being a union official, there are a lot of minuses.

The primary minus used to be it was a headache. Now, when you confront people that had been in the industry for years and are out of work, and can't meet their mortgage payments, their automobile payments; they have to stop educating their children in college, they are eroding their life savings, many marriages have literally broken up in many cases, and when you confront people like that, it is more than a headache. It is no longer a headache, it is a heartache. It is frustrating and depressing to go to work these days and confront these people, and when they ask me as their elected representative, and our officers, what is being done in Washington, in Springfield, to deal with those problems, what do you say to them?

Chairman HUMPHREY. Damn little.

Mr. CONLON. Very little. You can say very little. I will just summarize briefly and live up to my time allotment.

I want you to take note of that, being in the graphic arts industry, we are very efficient, we think.

The leadership in our organization feels particularly, and the other graphic arts unions, feel that it is time that rhetoric has to come to an end. We have heard a lot of speeches this morning, speeches we have all heard before, opinions we have all heard before.

If you look at the bottom line of our economy, nothing is being done about it. I think the average American workers, black and white, male and female, young and old, that are unemployed today expect their leaders to get off their collective "bleeps," and do something to help them in their plight.

They built this country, they built our society with their skills, they made a cultural, political, and economic contribution to our society and now they need our help.

We think they are entitled to it, and the sooner they get it the better. [Applause.]

Chairman HUMPHREY. Mr. Daniels.

STATEMENT OF HON. LEE A. DANIELS, ILLINOIS STATE REPRESENTATIVE, 40TH DISTRICT

Mr. DANIELS. Thank you, Mr. Chairman.

My name is Lee Daniels, I am a member of the Illinois general assembly, and with deference to the previous speaker, I would like to point out to you that some of us in the general assembly in Springfield are doing just what he is asking; that is, that we are participating in this committee hearing right now to try to give you some of the problems that we have in Illinois.

Through my office, we have investigated certain problems dealing with the unemployment compensation office and discovered that the primary problem was dealing with our computer system in the State of Illinois.

Now, this overall problem goes to the matters that we are dealing with where people haven't received unemployment checks for 20 weeks in some cases. Some people received their first check, and then went another 18 weeks without receiving a check.

We find out that the No. 1 problem in the State of Illinois in processing those checks deals with the computer, yet, Mr. Chairman, and members of this panel, the Federal Government has made available a programing system through the unemployment insurance system design center in Baton Rouge, La., which is free to the State of Illinois. It is available to the State of Illinois, and technical assistance is available to it.

We question what is happening with the administration of this system in the State of Illinois. Also we find that there is a dire lack of management controls, and loss of thousands of dollars, hundreds of thousands of dollars, which should be available to our administration if it properly applied for the funds to the Federal Government and filled the vacancies that were experienced in the Illinois Bureau of Employment Security.

One of the local offices, when I walked in there with my staff, one of the ladies said to us:

> Representative Daniels, I am not asking you to give us additional money or to give us additional funds to run this office. All we want is the basic supplies that we can't buv at the dime store in order to process the plans.

So, Mr. Chairman, and members of the committee, it is one thing to talk about legislation that is needed; it is another thing to enact the legislation that is already passed.

We in Illinois are experiencing severe difficulties in enacting our legislation that has been passed.

Chairman HUMPHREY. You mean administering?

Mr. DANIELS. That's correct.

Mr. Chairman, we need your help. We are turning to you for help through the Department of Labor. You can give us that help, and we are asking you to help us in that regard. Thank you.

Senator PERCY. Mr. Chairman, because I have to leave for a previous commitment for 45 minutes, could I ask just one question?

Chairman HUMPHREY. Yes, Senator Percy.

Senator PERCY. Do all of you agree that this is one of the most annoying, heartbreaking situations, when we have provided the money, and a man is out of work and they have got to get relief because they simply can't get the check out because of the bureaucratic snafus?

Mr. CONLON. It is inexcusable.

Mr. SPIEGEL. That is not the fundamental thing.

Senator PERCY. No; but that is one of the things.

Mr. SPIEGEL. That is not the major one.

Senator PERCY. Thank you.

CHAIRMAN HUMPHREY. Thank you very much.

I think your point is well made in terms of the administration of the act.

Next, Mr. Spiegel.

STATEMENT OF JACK SPIEGEL, DIRECTOR, LAKE STATES DISTRICT COUNCIL, SHOEMAKERS UNION

Mr. SPIEGEL. I would hope that Senator Percy would stay a while because I'm going to say something that I may have to send you a letter about if you are not going to hear me.

Senator PERCY. I will stay and hear you.

Mr. SPIEGEL. I represent an industry that is practically one-third unemployed, talking about the shoe industry; 30 percent have lost their jobs.

Up to a couple of years ago importation was the big problem. Now people just don't have the money to buy shoes, and not because labor is getting a lot of it. The average wage in the shoe industry is less than $3 an hour—less than $3 an hour.

We in Chicago have been more fortunate. We have been able through our union to improve the wages, but certainly nobody can say that with $3 an hour the shoe industry should suffer the kind of unemployment that it has.

That is why it is very disturbing to hear some of the best minds that we have here in the 20th century tell us that the Government should have a hands off policy.

Gentlemen, we are glad that you are here because, very frankly, the issue today is that unless the Federal Government takes over and starts dealing with the problem, as I hope that you are here for that purpose; if the Federal Government does not do it, I think the slogan of New York is very appropriate, "If you don't send us help, you better send us some troops," because that is what is going to happen with 13 million unemployed. [Applause.]

I wanted to add one sentiment to what Mr. Johnson of the AFL-CIO said, because he said that the old theory, which is represented by this 18th century philosophy, of the trickle-down theory, is terribly wrong, because what that trickle-down theory amounts to is that if you feed the horses, the birds will eat. The funny thing is that we have been over-feeding the horses and they have indigestion and, therefore, they are not feeding the birds, and they themselves are incapacitated because they are overstuffed.

With the manipulated prices, with the whole military, industrial complex in our country, and with the effect that the tax situation in our country has to be overhauled, we are not going to be able to do it piecemeal in each village or in each city, but it has to be approached on a national basis.

Both Senator Humphrey and Senator Percy asked the question, where is the money coming from?

I would like to associate myself completely with the statement of Reverend Riddick. There are a number of places where money can come from, starting with taking away some of the excess profit from these manipulators of prices that have caused inflation, and you will have some money.

Then I'm going to say something that is not even popular in the ranks of the labor movement, Senator Humphrey and Senator Percy.

How much more money do we have to spend on the military budget? We already have enough hardware to kill the world 10 times over.

How much more money do we have to spend to build battleships, guns, bombs, and everything else?

I think that is where you can get the money to help the cities and to help the unemployment. [Applause.]

I think that what we have got to do is we have got to really look at the thing realistically.

I am glad you came here, Senator Humphrey, Senator Percy, and the rest of you. We support your bill. As a matter of fact, we even call it the H. and H. bill, Humphrey and Hawkins, or Hawkins and Humphrey. I'm sorry, but Senator Percy didn't put his name on it; otherwise we could have called it the H., H. & P., but the fact is it is a good bill. It is a good bill, but my trouble is to accept the idea that we have got to wait until June 1977.

In the meantime unemployment compensation will be exhausted. Even the people who have been getting 65 weeks are exhausted in their money, and, therefore, we appeal to you, all of you, to do something about extending compensation for the duration of unemployment, and to start off with the people who lose their job from the day that they are unemployed until they go back to work, and we also appeal to you to start considering the fact that for the last 30 years the hours of work of 40 hours a week have been obsolete with automation and increased production.

We just don't see the possiblity in the foreseeable future that the 13 million unemployed are going to be put to work. We think there ought to be a flexible approach on the question of the hours being shortened without loss of pay.

Let me conclude by saying this, Senators and Congressmen. We are very happy that you came here. Some of us came to see you on April 26. There were 65,000 or 70,000 unemployed and employed who came to Washington to knock at your doors, and we hope that it made some effect on the proposition of doing something about the 13 million unemployed.

I want to tell you that some of us are proposing another visit to come to Washington if something isn't going to be done very soon, not 60,000, but possibly 10 times over that number are going to sit on your doorsteps in Washington unless you get off your collective butts and do something about the 13 million unemployed.

Thank you very much. [Applause.]

Chairman HUMPHREY. Senator Percy, I believe you have to leave. You may want to make some comments.

Senator PERCY. Thank you very much.

I would like to say, Mr. Spiegel, let me offer a word of hope to you.

Senator Proxmire and I teamed up on the Democratic and Republican side to kill three programs; one the ABM, the SST, and the speed-up program on the Trident submarine. We have killed those programs at a net cost saving of about $80 billion.

That money can be put back, plowed back into programs that are far more useful, and I agree with you there is a lot of fat that can be cut out of the budgets. We have to do it, and I think your testimony has reinforced the fight that many of us are putting up.

Mr. SPIEGEL. Let me just say I was one of the very few unorthodox who supported you out of the labor movement because you took a different stand than some of the others who ran on a war program.

You were questioning the Vietnam war when others supported it, and I want to tell you I was one of the very few in the labor movement that got hell for supporting you, and it is encouraging that you are sensitive to these things, and I am not sorry I voted for you.

Senator PERCY. Mr. Speigel, I appreciate that very much indeed, and you are sitting alongside another man who took a lot of hell also when he supported me, but we stood toegther, and I do think that organized labor must work with us and both parties to find an answer to these problems. I think your testimony confirms that.

Mr. CONLON. I supported you and I am proud of it. I am not ashamed or sorry for it at all.

Chairman HUMPHREY. We are getting testimonials here. I want to tell you, Mr. Spiegel, you are the first one who has ever told me I wasn't for spending. I sure want to thank you for that. I have a reputation down there of being the No. 1 spender, and I never knew that I would ever hear from anybody that I am not.

Mr. SPIEGEL. You asked me where the money was coming from. I told you cut the military budget and the excess profits.

Chairman HUMPHREY. If you had been as helpful on tax reform in the past, or even a year ago, we would have been a long way ahead.

I joined with Senator Percy in not only voting against the ABM and the Trident and the B-1, I voted against them, talked against them, fought against them, sponsored the end of the depreciation allowance for 20 years of my public life. I have a pretty good record on those things.

Mr. SPIEGEL. You came in a little late on the question of the war.

Chairman HUMPHREY. I was Vice President of the United States, and I voted to end the war too, and I have no apologies.

Ms. Wyatt.

STATEMENT OF ADDIE WYATT, INTERNATIONAL REPRESENTATIVE AND DIRECTOR OF WOMEN'S AFFAIRS, AMALGAMATED BUTCHER WORKERS AND MEATCUTTERS UNION

Ms. WYATT. Thank you, Mr. Chairman, and the distinguished members of the Joint Economic Committee.

I am here today representing the members of our union who reside in the Midwest area. We appreciate very much the opportunity to share with you some of our opinions concerning unemployment.

If happy days are in fact here again, as some would have us believe, very few have been able to discover the meaning in this immediate area.

Our unemployment figures do not reflect the impact of one or two specialized industries. Our job losses have come from the steel industry, from the electrical industry, from the retail, trade, and from transportation. It is a decline, in other words, covering a representative cross section of all industry.

We are fully aware of the arguments of those who claim that we must choose between recession and inflation.

I can certainly assure you, Mr. Chairman, that labor and the people in Chicago want no more inflation. We all see the inflationary drive of profit-seeking corporations as the primary cause of our present recession.

Such administration price increases cut the buying power of millions of paychecks and brought stagnation to the entire economy. As much as we dislike inflation, we can see no cure for its evils in heavy doses of unemployment. Such medicine is not only ineffective, it is in itself worse than the disease it fails to cure.

Those who foresee heavy unemployment as desirable over the next 4 years ignore all facts of life. They forget the tragic human waste of unemployment.

I have spoken to our young people. I have heard a lot about the problems of women thrown off jobs which our union and other organizations won for them most recently.

I know, too, the defeat of the older worker whose layoff slip may mean the end of a productive life. From the little that I know I can tell you the feeling of defeat and frustration and bitterness are rising heavily. This is part of the human price this Nation can never afford to pay.

I do not agree with the President when he told us recently that unemployment was a problem only for the 9 percent of our people who were without jobs. The toll of unemployment reaches far beyond the fraction of our population officially enrolled in its army of suffering. If unemployment is personal tragedy for those directly affected by it, it is also criminal economic waste for us all. When we force millions of men and women into idleness supported by unemployment compensation or welfare checks, we also rob everyone else of the gains which might have come from their productive labor.

It is estimated that more than $200 million a year of output has been denied the American people by underemployment and underproduction this year.

There is this loss in outcome. What could make less sense than a policy which would deny both jobs and production to a society so urgently in need of progress? What is bitterly needed is healthy economic growth. Perhaps we shall ask for no great expansion in the number of automobiles wheeling over the streets of this city. Certainly we request no gain in the total volume of pollution, but we do know that in this city there exists gigantic human needs. Vast areas of this city are devastated as though by attack from heavy enemy bombers. Construction of decent housing is an urgent priority.

There are grim shortages in medical care in most parts of Chicago. Our educational system, our transportation network and our whole pattern of community services have been decaying steadily year-in and year-out. Chicago has been a national center of the railraod industry.

For the restoration of that industry and its equipment, the stimulation of private or Government investment is a burning need.

The problem here in Chicago is not in any shortage of skilled economic analyses, what is needed is an understanding that this root problem we face is the problem of income redistribution. That the rich recently have tended to become richer and the poor poorer. There are those in our society who are ready to welcome unemployment as a device for keeping workers quiet and humble. There are those who would seek to use recession for purposes of cutting back on wages, on human services, and the living standards of the average family. There are those who look for private gain out of this whole output of social misery.

We urge you, Mr. Chairman, and the Congress to look at the realities. If you are concerned about deficits, and I believe that you are, think of the deficit of jobs and of the crippling deficit in hope and the grossly false fates which are byproducts of this whole economic stagnation.

I represent people and I hear them everyday in the union hall, in the supermarkets, in the unemployment lines, in the churches where we go raising questions like this: Why can't our Government feed its hungry, its poor, its temporary poor?

Why can't the Government provide jobs for all who need them and are able to work?

Why can't our Government provide adequate quality and education and training for its people? So that they'll learn marketable, not obsolete skills that can be useful in earning a decent and an adequate living. Why can't the Government raise the minimum wage to a livable wage level so that those who work will not also be considered the working poor?

How long, Mr. Chairman, and committee, must our people, youth, the aged, live in despair and hopelessness with eroding spirits? How long?

Our people look to you for action. They look for moves by Government now to provide a real promise and a sincere promise of better things to come.

I conclude, Mr. Chairman, with a very profound statement that I heard you make some years ago at a conference of our international union, and I quote it.

"If this Nation can put a man on the Moon, why can't it put a man on his feet?"

I add to that statement, if this Nation can put men on the Moon, why can't it put men and women, young and old, why can't it put human beings on their feet?

Thank you very much. [Applause.]

Chairman HUMPHREY. A brilliant statement. Thank you very much.

Mr. Smolarek, you are with local No. 3745, United States Steelworkers?

STATEMENT OF TED SMOLAREK, PRESIDENT, LOCAL 3745, UNITED STATES STEELWORKERS

Mr. SMOLAREK. And I'm grateful for this opportunity to face this distinguished panel. I was handed a note here, or a note was placed here, and I wish it would have been imposed on some of our economists to be brief, because of the schedule. However, I will be brief, and I think we have been dealing with a lot of rhetoric here, and there are certain myths that have been perpetuated far long enough, and I want to address myself to that in relationship to productivity, wages, and Government subsidies. I'll try to be as brief as I possibly can.

Since I'm associated with the Steelworkers Union, I have some statistics from the Bureau of Labor, and I'll read as I have prepared this.

The United Steel and Metal Industries are the most productive of all capitalist countries in the world. This is due to speedup, a combination of jobs and cutting crew sizes as a result of new technology.

In 1950, there were 502,000 production workers in basic steel. In 1970, their number had fallen to 403,000, a loss of 189,000 jobs in 20 years.

In 1950, 167 tons of raw steel were produced per production worker. In 1970, 326 tons were produced per production worker. I think you can realize the significance of those statistics and the myth that productivity and the sweatshop that is trying to be imposed upon the workers, technology has only benefited those who have been instrumental in imposing technology.

Not that I'm against progress, but I'm for progress in the human form.

In regards to wages, again in 1962, the steelworker concluded contract settlements in basic steel and the can industries without a wage increase, or at least an appreciable wage increase. The chief gain was the 13 week vacation every 5 years after 15 years of service. This plan called EEP, expanded employment program, was supposed to add 20,000 new jobs when these people went on their EEP. It did not. The cost to the companies came to 2 percent a year. The cheapest contract settlement since the end of World War II.

At the same time productivity for workers rose almost 5 percent in steel between 1961 and 1964.

I'm going to touch on Government subsidies which has to do with our taxes or very inequitable situation. How the working people subsidize big business. We want some of our money back.

In 1962 the Federal Government increased depreciation allowances to the steel industry. It did this by reducing suggested life of equipment from 25 years to 18 years. Since depreciation had been running on an average of 23 years, this meant the companies could write off 22 percent more of their expenses against their taxes.

In 1962 this writeoff amounted to $144 million for the steel industry. That brought companies as much as a 3-percent boost in the price of steel. Besides this, the companies were granted investment credits. In 1965, for example, this brought $90 million into the net income of the industry.

Since the Government has provided new tax loopholes and incentives for big business, big business can writeoff foreign tax dollars for dollars acquired, taxes owed to the U.S. Government.

United States Steel paid not a penny of Federal income taxes in 1971. Not 1 penny. I wonder how many workers could say that.

It reported profits of $154 million in that year.

One gimmick used by the company to avoid paying U.S. taxes was arranged with Venezuela to bill the company for taxes instead of royalties due it for extraction and shipment of iron ore to the United States.

United States Steel told its stockholders no provision for taxes on income is required for 1971 due principally to statutory reductions associated with mineral production and investment credits and because of deferred tax credits on foreign earnings.

Using similar loopholes, Republic Steel paid no Federal tax in 1971 despite sales amounting to $1½ billion.

I don't think I should say any more for the sake of brevity. I think the system, the structure that we are under has been indicted sufficiently enough, and I hope that Congress and the Senate is going to act in a more humane manner than it has heretofore.

Theodore Roosevelt is long gone, and I think I would conclude by saying that I'm not very optimistic in the future economic upturn in the country because I think history in itself, the economic cycles in the United States dictate that the same, almost the same—you heard the learned economist, Milton Friedman, expound on philosophies that have been failing since the 18th century, and it's difficult for me to sit here with any kind of optimism. I'm optimistic in that some leadership will come from the Senate, if not from the President. Thank you. [Applause.]

Chairman HUMPHREY. We thank you very much.

May I ask any of you who did not have an opportunity to read your full statement, if you'll make it available to us, we'd like to include it as part of the record. We are going to break now very shortly for lunch.

Let me just say as sort of a wrapup for this morning, governments are human institutions, and like human beings they have weaknesses and they have limitations. But like human beings they also depend upon drive, purpose, and direction; leadership. You can watch people perform individually and you will see at times they do amazingly well. And at other times they don't do so well.

There's a concerted attack these days upon a number of Government programs, particularly at the Federal level. I have served at the State level and local level as well as the Federal level. I just want to ask this question, and this is not to say that these programs are perfect. To the contrary, they are not. They have been designed at other times. Many of them do change. Like anything else, you need to change with the times. But as I look back over the programs I ask myself this question: Where do you think this country would be today were it not for the programs that we have such as social security, supplemental security income, the food stamp plan, the unemployment compensation, welfare, even with all of its limitations and abuses—and it has that. Where do you think our education program would be today without the vast amount of federal funding that goes into education that is particularly for the less advantaged people?

I think we just need to keep it in perspective. There's a tremendous drive against what we call the Federal Government involvement. I have no particular taste for the Federal Government as such. I served as mayor of a city and I looked to people for help. I didn't care where we got it. We needed help. But I can assure you that without some of the help that has been coming and more that should come from the Federal Government, we would have been not in recession, but an economic collapse, a depression.

The problem is the enthusiasm of its direction. It makes a difference as to whether or not you want to make these programs work. And if you don't want to make them work, they are not going to work. If you are determined despite the kind of automobile you have, to drive poorly, you are going to be an accident-prone driver. And it doesn't make any difference how good a car you've got.

I happen to believe that the task of people in Government is not to downgrade that which we have, but to upgrade what we have and where you find it's not needed, to have the courage to get rid of it, to change it.

I repeat that there's a tremendous need today for some confidence in this country. And that confidence is not going to come about by people saying that if the Federal Government does this or does that, that somehow or another it's bad.

I grew up in the depression. I'm a depression man. I know that. And I'm undoubtedly afflicted and affected by it. But I can tell you I have never forgotten the time when Franklin Roosevelt said to us, "If you are going to lose your home, let me know." Something was done. He cared and the people cared.

The problem today about the Government is simply that no one has gone around and simply said, "Listen, I want results."

Now, that happens in Senators' and Congressmen's offices the same way. The mail is answered in a Congressman's office. If a Congressman says to his staff; "I want results, I've got constituents out here who want results." The same thing is true of the Senators' offices. That's why you get reelected. You don't get reelected because of people with your economic or political philosophy. You get elected because you produce results.

What we've got today is an awful lot of people going around saying it's no good, it doesn't work. We ought not to be involved. No wonder things don't work. We've got millions of people, hundreds of thousands of people who are supposed to make these agencies and governmental institutions work. And they can work, if there's somebody there running the store and telling them to work.

And the first time that they don't work, tell them that they can join the line of the unemployed. You'd be surprised how quickly they'll get interested in the economy if they feel that somehow or another that $35,000 or $40,000 job is going to be pulled out from under their noses because they didn't tend to business.

Those are just little simple Midwestern philosophies that I have. I'll let you go. We'll be back at 2 o'clock.

Senator PERCY. I have two brief questions I'd like to ask the panel. I'd like to defer to my distinguished colleagues.

Representative BOLLING. We'd like to defer to you, Senator.

Senator PERCY. I'd like first to say to these witnesses that I noticed one characteristic that they had. I didn't see a speechwriter's notes in front of anyone. They were all handwritten notes. I think they spoke from the heart, and that meant a great deal.

Arthur Burns has come around now to the government being an employer of last resort.

First of all you agree that for a person who wants a job and is able to work that we ought to be able to provide a job for them somehow, and the Government has to do it if no one else can do it; do you agree with that?

Mr. DANIELS. Yes.

Mr. CONLON. Yes.

Mr. SPIEGEL. Yes.

Ms. WYATT. Yes.

Mr. SMOLAREK. Yes.

Senator PERCY. Second, because I. W. Abel has been so outstanding in the Steelworkers Union in putting labor and management together, the House has a bill now for it to be passed in the Senate calling for a productivity center that will bring labor and management together.

Do you agree that that would be a desirable thing, to increase productivity and bring workers together with management, to work toward the common objectives, goals, and make them a part of the decisionmaking process?

Mr. SMOLAREK. Senator, I think my answer is in my statement, but I would say that productivity committees are not a ball of wax for the unions. Management runs the plant, and for us to be a part of a system that in the long run eliminates jobs is contrary to what trade unions are all about, and in this area I don't agree with I. W. Abel.

Senator PERCY. Mr. Conlon.

Mr. CONLON. I would like to take exception to that, Senator. Within the ranks of labor sometimes the word productivity becomes a dirty word. I disagree with the previous speaker.

I don't think productivity studies hurt anybody at all.

If the American worker in the shoe industry, in the graphic arts industry, were getting together with management to do a more productive, efficient job, to deal with the question of competition overseas, for example, produce more products that are sold in the United States, then I think it has a long-range beneficial effect upon the workers in our society, and I think that the intelligent labor official who sits down with management and sees how they can produce more to create more jobs is doing a realistic, farsighted, progressive thing for the people he represents, rather than using scare tactics of saying: "Don't get together with the employer because it is going to cost your job."

Mr. SPIEGEL. Mr. Chairman, I would like to comment.

Our industry, the shoe industry, is a piecework industry. It is highly incentive motivated, and my own experience has been with some manufacturers who are union minded, who don't want to bust up the union, it is possible to sit down and work out a fair program, but in most cases I have found that management uses it as a speedup and pulling workers out of jobs.

I would take a very hard look before I would say yes to the question of Senator Percy.

There are differences. Some unions handle it differently, but in our union the speedup has been detrimental to the jobs of the shoe workers in our country.

Senator PERCY. Thank you, Mr. Spiegel.

Chairman HUMPHREY. I might say as we leave, I am very pleased with your response on the Government being the employer of last resort. This is something that some of us have supported a long time. Let's not be deceived. I think we come here for an objective purpose.

While Arthur Burns reluctantly comes around to it, I want you to take a look at the wage scale he came to. Please read the fine print. I think that he has come to the concept, but he wants it below the minimum wage—below the minimum wage, that is number one.

No. 2, he doesn't design Federal policy. It is designed by Congress and the President. And we do not have two-thirds votes for it, and it takes two-thirds to override the veto. When you can convince Mr. Simon, Alan Greenspan, and Mr. Lynn of the OMB—Greenspan, Chairman of the Economic Advisers, and Mr. Simon, the Secretary of the Treasury—who in turn will convince Mr. Ford, President of the United States, we will have a program of the Federal Government as the employer of the last resort, because I think there is a majority for it. But we just have to face the facts. If you have time, write a letter to the White House, and maybe to the other two or three people I mentioned. It will help. Thank you.

We will recess for lunch at this time.

[Whereupon, at 1:45 p.m., the committee recessed, to reconvene at 2:45 p.m. the same day.]

AFTERNOON SESSION

Chairman HUMPHREY. We will open the hearing now with Mr. Charles Cicchetti, the director of the Wisconsin Office of Emergency Energy Assistance; Mr. Robert Johnston, director of region 4, UAW; Mr. Charles Killingsworth, professor of economics of Michigan State. And I would also like to ask Mr. Donald Jones of Local No. 1395 of the American Federation of Government Employees; and Mr. Frank Rosen, president of District 11, United Electrical Workers, to come to the witness stand.

We will proceed on the basis announced, with Mr. Cicchetti as the first witness, followed by Mr. Johnston, followed by Mr. Killingsworth, followed by Mr. Jones and Mr. Rosen. Thank you.

STATEMENT OF CHARLES J. CICCHETTI, DIRECTOR, WISCONSIN OFFICE OF EMERGENCY ENERGY ASSISTANCE

Mr. CICCHETTI. Thank you, Senator Humphrey, members of the committee.

First I would like to say, Senator Humphrey, coming from Wisconsin, it is certainly a pleasure to be before you. Many of us in Wisconsin have long viewed you as our third Senator, and we want to express that warm feeling toward you today.

Chairman HUMPHREY. Thank you very much.

Mr. CICCHETTI. Thus far the conversation has really been on the question of the state of the economy. I want to talk about energy and the role that energy plays in our economy and some specific issues that will make the attempts to get economic recovery quite difficult.

Many people are asking the question, "Where is the administration's national energy policy?" I am sorry to say that I think we have the worst possible national energy policy today, and that is we are achieving conservation through recession. I am afraid if we don't do something to resolve that issue, that the economy will become worse before it will become better.

One of the principal concerns I have is with the lack of leadership, particularly within the Federal Energy Administration, with respect to the national energy policy. I won't go into those. Instead I would like to get right to the heart of the critical issues that I see with respect to energy, particularly here in the Midwest. Our most immediate problem at hand in the Midwest is the national gas shortage, which is just beginning to surface.

We in the Midwest have come to rely heavily on natural gas for our factories, for our homes, and for our public institutions. We are expecting serious natural gas shortages in Wisconsin and most of the other States in the Midwest for the first time this winter.

The biggest problem we have today is that the FEA and the Federal Power Commission have not yet determined which of the various formulas that are available might be applied so that we don't really know yet just how bad our shortage will be, and howit will be allocated among the various States. Certainly that communication problem is one of the priorities we have.

Another problem is that the administration and through FEA has suggested eliminating the State set-aside program, and the petroleum products allocation programs. If we were just dealing with petroleum I wouldn't oppose those efforts; however, natural gas being curtailed, the only economic and environmentally acceptable alternative in the Midwest this winter will be petroleum products. Ending that State set-aside and petroleum allocation program at this time is absolutely ludicrous, given the natural gas and economic problems associated with it.

The second problem that we face in the Midwest is that many of our States, particularly your own State of Minnesota, and my State of Wisconsin, will be suffering crude oil and natural gas shutoffs from Canada.

I am not surprised by the actions taken by the Canadian Government. In fact, it wasn't too many years ago I appeared before the same committee and stressed the fact that one of the problems with building the Alaskan oil pipeline through Alaska for the Pacific markets is that Canada, which has been trying to have the United States build a joint pipeline through Canada and serve both the United States and Canada, was going to feel that they were being put in a position where they couldn't rely on their own arctic reserves, and because of that they were going to have to start cutting off Midwestern customers. The day of reckoning has come, and we are starting to face those problems in the Upper Midwest this winter.

We look at the natural gas situation. I am reminded of a deja vu because the Interior Department, once again, looking at the interest of the Nation as a whole, has come up with a conclusion that it is indifferent between building a gas pipeline through Alaska or to provide the gas down to the Midwest.

While the Midwest is facing the most severe economic crisis that I can imagine because of these gas shutoffs, coming this winter, how the Interior Department can equivocate to the point of saying it doesn't matter whether we bring the gas out to the Pacific or to the Midwest, I just can't believe that set of statements coming out of them.

The last problem that I see facing us in the Midwest is a problem really facing the Nation as a whole, and that is as we begin to hear some economic news that maybe in the next few years we will have an economic recovery, and maybe inflation is coming under control, the administration has proposed ending the price control program for oil products and for crude oil. I can't believe that a healthy economy could withstand the shock of such price decontrol of crude oil since our economy is far from healthy. We would be bringing to ourselves a cure which is at least as bad as the initial illness brought on by the OPEC blackmail of just 2 years ago almost this week. How we can, with economic recovery far from here, with inflation far from under control bring that same set of actions upon ourselves, I will never believe.

Having stated my opposition to immediate price control, let me emphasize that I distinguish between actions with respect to prices and actions with respect to the old crude oil allocation and entitlement programs that the FEA administers. Those programs, as ironical as this may sound, encourage the importation of foreign oil and discourage domestic production.

What we have to do is separate the pricing issue and the old oil entitlement allocation programs, because if we don't, we will find that the producing States of this country will stop producing. We will find that our dependence upon foreign oil will be even heavier than it has been, and we will find that the inflation and the recession brought along with it will be far worse than we are experiencing today.

I haven't been very optimistic in my statement, but viewing things from the State level, and trying to deal with the FEA as I see it, leaves me far from being optimistic, despite the fact that I am an economist and that makes me a member of the dismal science profession.

[The prepared statement of Mr. Cicchetti follows:]

PREPARED STATEMENT OF CHARLES J. CICCHETTI

Senator Humphrey, members of the committee, I appreciate the opportunity to appear before you today to express my concern about our growing energy crisis and its impact on midwestern economic recovery. I am currently Director of the Wisconsin Office of Emergency Energy Assistance. In addition, I have written several books of the problems of oil, natural gas and electricity pricing policies. It is with that mixed background that I come before you to express my grave concerns about what I believe will be serious energy and economic problems in the months ahead.

One of my principal concerns is the current administration's leadership in energy policy, or to be more precise the lack of it at the national level. We in state energy agencies have given up trying to look to the Federal Energy Administration as a source of clear thinking, straight talking leadership in dealing with our worsening energy problems. Let me get specific for a moment and tell you about two suggestions I have recently received from FEA. I suppose these are suppose to help us in state government avoid the serious energy problems that are upon us. My first example is that FEA recently sent me an "Energy Ant Coloring Book." Yes, Senator, I said "coloring book." This was prepared by FEA for children, who can afford to spend about $1.50, as I recall, to learn the importance of energy conservation at an early age. I wonder how and why the FEA thinks that will work and I wonder still why it is that private coloring books can be put on the market for 29¢ while the FEA comes up with a price 500% times that amount. I must wonder if as much thought has gone into the recently announced $100 billion oil industry subsidy plan announced by the administration.

A second item is equally outrageous. We frequently receive unsolicited mailings from FEA that are supposed to help us promote energy conservation at the state level. Recently, we received six different bumper stickers that are supposed to help remind people of the energy crisis by posting them on their cars. One of them, I find outrageously inappropriate in both its meaning and implication. The bumper sticker reads, "I'm 55, Drive Me". The only meaning that I have been able to attach to such a bumper sticker is the disparaging comment used by a major airline which carried the expression, "I am Jane or Sarah or Sally or whatever, fly me." While some may see humor in the tie in of such a bumper sticker, I do not. I am also unable to explain why or how such a bumper sticker is suppose to help people save energy either directly or indirectly. I have recommended to FEA that they replace this bumper sticker with one that reads, "The dumber we are, the richer they get."

These are two examples, glaring and perhaps worse cases, of the lack of executive leadership at the federal level with regard to short term as well as long term energy policy. They both point out to me very strikingly that we in state government must come to depend upon ourselves to solve energy problems because the FEA is either unwilling or incapable of doing same.

Now let me turn to the specifics of the energy problem of the Midwest as I see it. Our most immediate problem at hand is the natural gas shortage. We in the Midwest have come to rely heavily on natural gas for our factories, for our homes and for our public institutions. We are expecting serious natural gas shortages in many parts of the Midwest for the first time this winter. We are trying to plan ways to deal with that natural gas shortage in the various state agencies by finding alternative sources of energy that can be used to replace the lost natural gas supply. These problems are compounded further by a failure on the part of both the FEA and Federal Power Commission to decide exactly how the natural gas shortage will be shared or allocated to each of the various states in the nation.

A related problem is that the FEA favors ending the State set aside and petroleum product allocation programs and has actively argued this position before the Congress with White House support. I have felt that if FEA was as good at ending our energy crisis as they seem to be at blocking legislation we would not be here today discussing our growing energy problems. I think ending either programs would be absolutely ludicrous, It is true that petroleum products are currently in relatively good supply, compared to historic levels of demand, However, the natural gas shortage coming to the Midwest and East is staggering. Fuel oil is our most economic and environmentally acceptable alternative to natural gas. We simply don't have the trains, storage or the time to receive air pollution variances associated with coal. However, FEA doesn't quite know when it will be able to tell us exactly how bad the problem will be but almost blindly is making the problem worse. It wants to eliminate our main tool for dealing with the natural gas shortage at the State level; our State set-aside programs.

The second immediate energy probem for the Midwest is related to the expected loss of Canadian crude oil and natural gas in the years ahead. I am not suprised by the actions and steps taken by the Canadian Government in this regard. In fact, I appeared before this same Joint Economic Committee some three years ago and I stressed the fact that one of the implications of building an oil pipeline that would bring Alaskan oil directly to Pacific markets is that the Midwest would be facing growing energy supply problems. I suggested an economically and environmentally superior all-land pipeline through Canada.

At that time, I noted that the Canadian Government was interested in making such a pipeline for oil, as well as a parallel natural gas line, a joint venture. If we made the right decision then we would have made it possible for both Canada and the United States to plan together how to deal with a worsening natural gas and oil supply problem in the months and years ahead. In rejecting the Canadian Government's interest in this regard and going full steam ahead on the oil pipeline through Alaska we have put ourselves in a position today where we now find Canada considering to go it alone. Who can blame them after we fail to heed their early warnings.

Looking at the natural gas situation today with respect to Canada, Alaska, and the Midwest reminds me of a *dejà vu.* The reason for this is that once again the United States is looking towards its Alaskan gas and trying to determine the best way of bringing it to market. Based upon a recent Interior Department study we are once again concluding that an Alaskan gas line built along side the crude oil line *or* an all-land line through Canada are about equal from an environmental and energy standpoint, Such a conclusion is perposterous in my opinion.

Currently, the Midwest is facing the most severe economic crisis since the great Depression because of the expected natural gas shortage. At the same time, the entire city of Tokyo's natural gas supply is imported from Cook Inlet, Alaska. The need for Alaskan gas in the Midwest is enormous.

Yet, the Department of Interior concludes that it is a toss-up bringing Alaskan gas out to Pacific markets versus to the gas short Midwest and East coast markets. I do not know how such conclusion or such equivocations can be stated by responsible public officials in Washington.

One again, Canada which has natural gas reserves in its Artic provinces and territories and would, in my opinion, be interested in developing a joint natural gas delivery system to meet the needs of both Canadian and U.S. natural gas consumers. They have further determined that without such a delivery system Arctic gas reserves cannot be counted on to meet domestic Canadian needs so exports must be reduced.

I believe that if we fail to avoid the mistakes we made three years ago with respect to oil, when it comes to making decisions on natural gas that the economic consequences on industry, manufacturing, farming, and jobs in our Midwestern heartland will take many, many years to recover from. In concluding my comments on natural gas, I must hasten to add the fact that even with natural gas coming into the Midwest from Alaska, we could not expect to eliminate our natural gas shortages. Even with a natural gas line to the Midwest, it would only mean that our declining gas supplies would stabilize in the early 1980's rather than continue to deteriorate. My main point then, is not that resolving the Alaskan gas situation for the Midwest with Canadian cooperation will end or turn around our natural gas problem, it is that failure to do so will only worsen an already grave economic situation.

The last of the problems that I would like to discuss with you today cuts across the entire economic spectrum for the Midwest as well as the nation. As we begin to hope that some of the recent mixed economic news indicates that economic recovery may be under way and at the same time the fires of inflation may be cooling, I personally, and I think this view is is shared by the heads of many of the other energy agencies in the Midwest, cannot understand the position taken by the administration with respect to eliminating price controls on petroleum and natural gas products.

I will never be able to understand how the President and his advisors at FEA can recommend curing our energy and economic problems by bringing to the United States from within a cure that is at least as bad as the illness brought on by the high prices of the OPEC Cartel. A healthy economy would have a difficult time absorbing such a "cure", and our sorely depressed economy is far from ready to withstand such treatment. In my opinion, economic recovery and inflation would be set back at least for a one to three year period if sudden price decontrol is allowed to take place.

Having stated that I am opposed to sudden and immediate price decontrol, let me add that I believe the President and FEA are correct in opposing a continuation of the Federal Energy Administrations Crude Oil Allocation and Entitlement Programs. The irony of continuing these programs is that both programs reward the U.S. oil producer who leaves his oil in the ground and turns to the foreign market to replace that crude oil left in the ground. That's right, Senator, I am stating that the President's programs are encouraging a reduction in domestic oil production and at the same time encouraging and rewarding those that import foreign crude oil to replace it.

I cannot quarrel with the Administration's desire to end this foolish program. My quarrel is that they have not separated this program and reform from price controls and instead have tied it to a decision to surrender the U.S. economy to another round of rapidly escalating energy prices. What we must do is to end the multi-tier price system and find a single crude oil price that we can live with as a nation and which our economy can afford. We must end these foolish incentive programs that encourage imports of oil. We might have to consider letting that new single price for crude oil increase each year by a fixed percentage.

My recommendations with respect to sudden decontrol of natural gas prices is similar but more complex in some ways. I do not believe that sudden decontrol of natural gas prices will be able to avoid the natural gas shortage expected this winter. In fact, if I believed that this were possible I would be outraged at the blackmail that would be implied by gas producers, who would then have the ability to avoid our expected economic catastrophy, but who are unwilling to do so.

As a long term solution to the natural gas problem I also recommend eliminating "Two Tier" pricing of natural gas, which means that intrastate prices are several times the price of natural gas sold for the interstate market. Once again, I think we must find a single price which falls between the two tiered prices that currently exist and once again if we find that we must raise those prices over time then I believe we should do so in a predetermined manner. We must avoid above all else making decisions with respect to natural gas in response to any political blackmail of the United States Congress and the American people.

In conclusion, I have tried to speak bluntly and directly about the serious economic and energy related problems that I think we face in the Midwest, in the nation and in my home state of Wisconsin. I have not been able to find much reason to be optimistic in recent months. And that is a partial explanation for the straightforward, frank manner in which I have vented my frustrations. I shall be happy to answer any of your questions at this time. Thank you, and good day

Chairman HUMPHREY. Thank you very much.

We had a hearing in Minnesota just a week ago on this energy matter, and the documentation supports pretty much what we were told there by our own energy people from the FEA and our State.

STATEMENT OF ROBERT JOHNSTON, DIRECTOR, REGION 4, UNITED AUTO WORKERS OF AMERICA

Mr. JOHNSTON. Senator, I am happy to be invited to testify because since the passage of the Employment Act of 1946, there was a time when party leaders and party platform were committed to full employment.

In the last 27 years we have had six depressions, including the one we are in now.

We believe that one of the problems is the total commitment of this country to problems of full employment and related problems to America, and we made a full commitment in World War II to win that war. We didn't ask where the money was coming from. Our priority was winning. No force in the world could have turned American forces around because this country made a total commitment to that war.

When John Kennedy said, "We are going to walk on the Moon in this decade," this country made a commitment and turned out thousands of scientists and technicians, and in 1969, Americans walked on the moon.

I think that is one of the approaches we must take because I think time runs out on the economic system that we live in, because I think in the next 5 years we are going to be faced with great challenges in this country, because we can't live with an oil industry that is making millions of dollars in profits and 10 million unemployed.

Millions of Americans are underemployed and millions of Americans are on welfare. That system somehow is out of balance, and I think we have to look to the leadership of Washington to correct that imbalance in this kind of a system.

In 1958, the auto industry and Walter Reuther at that point encouraged the industry to build a small car that had a great gas mileage capacity. At that point in time, Senator, there was 3-percent imports in this country, mainly Volkswagens.

Walter Reuther went to the companies of America and the automobile industry. They were not interested, and in our opinion, because 3 percent was not enough of the American market on imports for them to divide up. Today that is 20 percent or more. The imports are coming into this country. And our position has been while the auto workers are for free trade, we believe it also ought to be based on fair trade; and dumping of automobiles at a cheaper rate in America than what they sell overseas where they are made ought to be an issue that America ought to take a look at in the question of free trade and fair trade as it ought to be tied together.

One of the things that we are for, Senator, is the Humphrey and Hawkins bill, and the question of commitments of full employment and planning of this whole concept because without the planning and without a total commitment, this kind of legislation will drift by the wayside. And I encourage you to give the leadership in America for this kind of commitment. These kinds of commitments ought to be to expand this economy. Right now we are fighting over the scarcity of jobs. We are not trying to expand this economy, and that's what this American Government has to be committed to. Because this whole question of energy and mass transit systems, all of the big priorities of America have to be tied into the question of full employment. It's an inescapable problem.

And if we are going to create an employment climate that is economically sound, then we have to have the same kind of planning on energy and mass transit systems across America and the whole question of what kind of a life Americans are going to live. And I submit to you, Senator, that I have been in meetings of great Americans like Robert Kennedy and Walter Reuther who said we are not the policemen of the world. And we are going to solve these problems of America by making total commitments.

And I believed them then and I believe that's true now. And I would encourage you as a Senator of the United States to continue to lead the fight for full employment in these kinds of legislative halls.

[The prepared statement of Mr. Johnston follows:]

Prepared Statement of Robert Johnston

It is nice to be here to see old friends and to tell them that I hope that the Joint Economic Committee will put full employment back on America's agenda. Too many people in power have stopped talking about it.

There was a time after the passage of the Employment act of 1946 when party leaders and party platform made forthright commitments to full employment. The big American dream was going to come true. It didn't. In the last 27 years we have had six depressions including this big one. We have retrogressed from talking about keeping factories open to worrying about keeping cities operating.

In the meantime a new concept of what constitutes full employment has developed. Some economists now describe full employment as being 5 percent unemployment. The Ford administration promises to try to get the percentage down to 8 or 9 percent in two years. At present we are bumping along on what some say is the bottom of the great recession with ten million unemployed, more millions under-employed and 22 million on welfare. I think the situation is intolerable. I don't think large scale and permanent unemployment should become as American as apple pie.

I think the clock is running on our economic system and that trying to turn it back is no solution. We can't go back to Herbert Hoover and try to revive the economy by making things better for big business. That's how we got where we are at. Nor is the answer trying to duplicate Franklin Roosevelt's programs. Most of them are built into the system anyway.

What is needed are new programs that are as corrective in our times as the New Deal was in its day.

I can tell you, however, that I think this committee should make the same judgement about the problem that Roosevelt did. He told big business that the system was in trouble, that he was going to save it from its own stupidity, and that he wouldn't take no for an answer. Our problem is that we have been taking a lot of no answers from corporations.

For example, Walter Reuther in 1958 urged the auto industry to develop a small, low cost, high mileage car. The companies said no because they were making more money on big cars and because they produce for profit today without regard to tomorrow. Now the exports have over 20% of the market and 100,000 auto workers aren't around anymore. President Leonard Woodcock has been urging the auto companies for years to use their political clout and their manufacturing facilities to push modern transit systems. They haven't. So the air gets worse, our railroad systems go to grass and our cities are parking lots for commuting suburbanites.

It all gets back to what Roosevelt understood—that people in power and their policies cause depressions and recessions. The people who work on the assembly lines and in the mines and mills don't create unemployment.

If we are going to find a cure for unemployment the corporations are going to have to tighten their belts. They are periodically going to have to accept less in order that the people can have more. They will not do this voluntarily on their own. At least they never have. This exposes the phoney slogan that President Ford is using about getting government out of business. We are in trouble because Big Business has become government. particularly Ford's administration, and I don't see any sign that he and his cabinet intend to get out—not voluntarily.

In the search for new programs that meet the needs of our time a considerable body of proposed legislation has been developed. Some of it has been expediency legislation seeking to create jobs and expand social programs, all of which the UAW supports and most of which the President has vetoed. Fortunately, some were overridden. Other legislation combines longer-range full employment objectives with immediate action.

The Humphrey-Javits Economic Planning Act and the Hawkins-Humphrey Equal Opportunity and Full Employment Act embody a concept that the UAW supports—commitment to full employment and government planning to achieve it. Senator Humphrey and those who are sponsoring this kind of legislation have performed a great service to the people.

I am concerned, however, about what policies would guide such planning and who would administer them.

Full employment is related to energy use, farm production and markets, expanded world trade with all countries, tax reform and social programs including education, health care, social security, welfare and unemployment insurance. Given the present political situation, the conservative leadership of the Republican Party and the spokesmen for big business are hardly in agreement with the Democratic leadership or Liberal Republicans over what should be done about the issues that relate to full employment. A watered down consensus reflected in a program for full employment that uses old ideas that aren't working wouldn't be of much value.

If conservative Big Business leaders supported by like minded public members are to dominate the top economic planning councils where are we going to get the bold, new programs that we need? President Ford is demanding that Congress cut $20 billion dollars out of programs as the price of a tax cut; this is a plan for disaster.

In my opinion, a program for full employment has to be presented to the people as a total package covering all necessary legislation. For example when energy legislation comes up the voters don't relate energy to full employment. Left as a single issue, the voters see energy legislation as only higher fuel prices and higher company profits. Somebody has to put all the needed legislation together so that the people will buy it. They don't want a consensus; they want a program they can understand and support. They have enough trouble now trying to decide which is Democratic or Republican legislation. Such a total program is the best way to build public support for passage of planning for full employment legislation.

If I were putting such a full employment package together it would include some ideas of some old friends:

I stood on the platform with Robert Kennedy at the last UAW convention he attended and heard him say that America can no longer afford to be the policeman of the world. I agree. Walter Reuther told me many times that what we need is a world competition to build better societies; not a competition to build bigger bombs. I always agreed. We can make a new start towards making the greatest nation fullfill its potential by building houses and schools, by modernizing our railroads, by developing transit systems, by saving our environment, and by developing full farm production with guaranteed markets. If Big Business can't or won't do these things, then government is going to have to do them. There is nothing wrong with government being in business for people.

To sum up: I believe that legislation should be adopted giving Congress the power to assure full employment by planning and acting both in the public and private sector. Congress is always being asked to save countries, cities and industries. Saving our system by acting to guarantee full employment means putting the priority where it belongs.

Chairman HUMPHREY. Thank you very much, Mr. Johnston and Mr. Killingsworth.

STATEMENT OF CHARLES C. KILLINGSWORTH, PROFESSOR OF ECONOMICS, MICHIGAN STATE UNIVERSITY

Mr. KILLINGSWORTH. Thank you.

Mr. Chairman, I prepared a quite lengthy statement for this hearing. I will not read it.

Chairman HUMPHREY. We shall, of course, include it all as part of our formal testimony.

Mr. KILLINGSWORTH. Thank you. I want to make it clear that I prepared this statement before I had had an opportunity to read the midyear economic report of the committee. The reason I want to emphasize that is because some of the passages in my statement read very much as if they had been copied from the midyear report of the committee.

Chairman HUMPHREY. We feel honored that your testimony would support it.

Mr. KILLINGSWORTH. I find myself in substantial agreement with virtually all of the Joint Economic Committee midyear review. I would go a little beyond the committee's observations and program and that is the matter that I would like to emphasize rather than trying to summarize my entire testimony.

It's my view that we are confronted with our unemployment problem. We are confronted not only with a business cycle problem, we are confronted with a longer range kind of problem as well.

In my own research and writing I have emphasized the structural problems in the economy that have given rise, I think, to a particularly stubborn kind of unemployment, and I think that this kind of unemployment calls for remedies that are somewhat different from and in addition to the kinds of remedies that we use for the cyclical unemployment.

Obviously we are heavily afflicted today by cyclical unemployment as well as structural unemployment. But if I might recommend some extension of and addition to the proposals of the Joint Economic Committee in its midyear report, I think it would be in that area.

Chairman HUMPHREY. Thank you.

Mr. KILLINGSWORTH. Let me just illustrate rather than try to deal exclusively with the longer range type of problem that I have in mind. In my prepared statement, chart 1, which is entitled, a very long title here, "Changes in the Unemployment Rate for the Civilian Labor Force in the Months Following the Trough of Five Postwar Recessions."

The whole point of that is that we have had a tendency over the past decade or more for the unemployment rate to remain higher in each of our prosperity periods following a recession. The highest line of all here is the one following the 1969–70 recession.

Chairman HUMPHREY. Sort of a creep-up.

Mr. KILLINGSWORTH. Sort of a stairstep sort of effect. So that we have persistent high level prosperity unemployment. And that is what I have in mind when I speak of the structural problems and the structural aspect of the unemployment problem.

You have mentioned a particular interest in the automobile industry and I have another chart, if I may impose on your patience. This is chart 2 in my prepared statement and I think this illustrats one of the problems——

Senator PERCY. Mr. Killingsworth, I wonder if you could hold that chart so it can be seen readily by the television audience.

Mr. KILLINGSWORTH. This illustrates one of the current problems of the automobile industry. Ten years ago we had less than —10 years ago really we had about 50 million automobiles registered in the United States. That has more than doubled in the past decade. We've got more than 100 million registrations of automobiles in the United States.

This other line shows the relationship between automobiles and people. Today we've got one automobile for every two men, women, children and infants in the United States.

The point that I'm making is that the market is not unlimited. And I think that the automobile industry has been pressing against an upper limit. It will not, it cannot expand indefinitely. It cannot continue to grow at the rate at which it has grown over the last 25 years. We have to anticipate. I think, a slowdown in the automobile industry, and that slowdown is going to be accelerated by these enormous price increases, many of which are completely beyond the control of the industry, by the increases in energy costs and by some changes in attitudes.

I read somewhere that it may be that the new status symbol is a five-year old car with 85,000 miles on the clock. I think that we see the beginnings of a change in this longtime love affair of the American with the automobile. And I think that's going to affect the market as well.

I mentioned some other industries in my statement. Education had a golden era in the 1950's and 1960's. In the 1970's we have been doing much less well. We have been getting a declining percentage of the gross national product for education. And we have had some decline in enrollments, but nothing like the decline in our share of resources.

Health care is an industry that specialists tell me is likely to level off. It has been one of the great growth industries, of course, in the last 10, 15 years. It is now leveling off. That can be seen also in the distribution of the gross national product.

The construction industry has some problems that are very deep-seated. They are not going to be solved overnight.

And finally what I call the war industry is another one that is declining in its relative importance in our economy.

In the last calendar year the proportion of gross national product that was going for defense in all categories was the lowest since 1950. I don't think many people realize that. In the past, in the last 15 years, defense production plus military services has provided many, many jobs. Now, whether we agree or disagree with the cutback in defense production, the result is perfectly clear. It's a shortage of jobs in certain industries and certain areas. And that, I think, is the essence of what I call the structural problem of employment. It is a necessity for a large-scale redeployment of hundreds of thousands of workers, workers who have lived perhaps all their lives in Detroit or in Pittsburgh or in Chicago, and whose lives have been devoted to a particular industry, and when they get to middle-age, they find that industry no longer needs them because the tastes of the country have changed, the priorities of the country have changed.

And so these people in times past have had a particularly difficult problem of coping with change, and I think that our Government programs have been deficient in many respects so far as these people, these victims of structural change are concerned.

So I would urge that more attention be given to help for these victims of declining areas and sick industries. We have some weapons. Manpower training is one of the remedies that in my judgment has worked relatively well. It's being cut back today. I think we should revive and expand this manpower training effort.

We have had some experimentation with mobility allowances. They have been fairly promising. We are doing nothing, literally nothing in that area today. We have had some very small experimentation. Other countries have had more experience with efforts to induce new industries to locate in those areas that are afflicted with declining industries. We have done very little with that.

I think there are some real possibilities there. We need a great deal more research. We have some weapons that we know will work. We can develop some others, and I would like to close simply with the observation that the one weapon that we can be absolutely sure will not help is benign neglect. Thank you very much.

[The prepared statement of Mr. Killingsworth follows:]

Prepared Statement of Charles C. Killingsworth [1]

How Much Unemployment Do We Need?

In 1960, the Bureau of Labor Statistics reported that the average number of unemployed workers was 3.9 million, which was 5.5 percent of the civilian labor force. In the Presidential campaign of that year, John Kennedy made unemployment one of the major issues, and promised to "get this country moving again." After Kennedy won the election, there was a national debate about how

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best to reduce unemployment; but scarcely anyone questioned the basic proposition that an unemployed total of around 4 million workers was intolerable.

In the first nine months of 1975, the total number unemployed (again according to the BLS) averaged 7.9 million workers, or 8.5 percent of the labor force. Yet the public discussion of the unemployment problem was strangely muted, except for the predictable outcries from union leaders. The national administration was reported to believe that no measures to reduce unemployment beyond those already in place were necessary or desirable, and its actions confirmed that report, although members of the administration "projected" unemployment rates well above most postwar recession highs for most of the rest of the 1970s. With only a few notable exceptions, most nationally-known political figures had little to say and less to propose about unemployment. The general public was reported to believe that the most important national economic problem was not unemployment, but inflation. True to the old American advice to make a virtue of necessity, some people argue that we need high levels of unemployment, at least for a few years, in order to end inflation.

In the euphoria of the mid-1960s, it was fashionable to say that never again could a democratic government permit high levels of unemployment for extended periods. Today, almost any proposal to reduce unemployment—even to the 5 to 6 percent range which used to be considered intolerably high—invites the accusation that the proposer is "in favor of inflation." Many economists and most political figures shun that label like the plague. The present checkmate is largely a product of the view, which has become widely prevalent in the past decade, that there is a "trade-off" between unemployment and price stability—if you want less of one, you must accept more of the other. It is time to take a critical look at this proposition as applied to the current situation in the nation. This statement approaches the task by undertaking to answer five questions, as follows:

1. How much unemployment do we have now?
2. What is the outlook for unemployment?
3. Is there a "trade-off" between unemployment and inflation?
4. What are we doing now about unemployment?
5. What additional steps should we take to deal with unemployment?

1. How much unemployment do we have now?

Table 1 shows recent changes in the official count of employment and unemployment. Employment peaked in July, 1974, at 86.4 million persons, and dropped to 83.9 million in March, 1975, a decrease of 2.5 million. Since March, total employment has increased by 1.5 million; in other words, it would appear that about 60 percent of the job loss has been regained. These figures are almost universally regarded as a measure of the performance of the *market* economy, and the apparent 60 percent recovery of the job loss in this period of sharp recession is generally interpreted as one indicator of fairly rapid recovery. This interpretation of the figures is misleading, at least with regard to the experience of the past 15 months. What is generally ignored is that the employment figures have been affected by the rapid expansion of Public Service Employment under the Comprehensive Employment and Training Act since early in 1975. Enrollees in that program (and its predecessor under the Emergency Employment Act of 1971) are counted as "employed" in the labor market statistics. But the jobs involved are not "market-generated" in any generally-accepted sense of that term. They are filled only by workers who have had a substantial period of unemployment and have been unable to find jobs in the normal labor market. These manpower program jobs are designed to offset, to some degree, a job shortage in the normal labor market. If we adjust the total employment figures by excluding the manpower program jobs, we get a somewhat different result from the July-March-September comparison. With this adjustment, the July to March decrease in employment becomes 2.7 million jobs, and the March to September recovery becomes 1.4 million jobs. In other words, the decrease in market-generated jobs was actually somewhat greater than the official figures show, and the recovery is somewhat less. Only about half of the actual loss has been offset.

TABLE 1.—EMPLOYMENT, UNEMPLOYMENT AND PUBLIC JOBS PROGRAMS, 1974-75

[In thousands, seasonally adjusted]

Month and year	Total employment	Unemployment		PEP and PSE enrollment
		Number	Rate	
1974:				
January	85,800	4,665	5.2	73
February	85,861	4,690	5.2	63
March	85,779	4,602	5.1	58
April	85,787	4,537	5.0	49
May	86,062	4,691	5.2	43
June	86,088	4,769	5.2	36
July	86,403	4,880	5.3	33
August	86,274	4,925	5.4	33
September	86,402	5,303	5.8	41
October	86,304	5,540	6.0	49
November	85,689	6,019	6.6	55
December	85,202	6,601	7.2	64
1975:				
January	84,562	7,529	8.2	77
February	84,027	7,484	8.2	94
March	83,849	7,980	8.7	168
April	84,086	8,176	8.9	235
May	84,402	8,538	9.2	275
June	84,444	7,896	8.6	305
July	85,078	7,838	8.4	315
August	85,352	7,794	8.4	315
September	85,418	7,773	8.3	315

Sources: Cols. 1, 2, 3—Published reports, Bureau of Labor Statistics; col. 4—Unpublished data, Manpower Administration and estimates.

The unemployment figures are also somewhat misleading, in part because of the manpower program job and in part because of the marked increase in the number of "discouraged workers" in the past year. In the second quarter of 1974, the BLS reported a total of 652,000 discouraged workers (those who would be actively seeking jobs, and hence would be counted as unemployed, except for the fact that they think they could not get a job). In the second quarter of 1975, the discouraged worker total was 1,153,000 persons. The expansion of manpower program jobs and the increase in the discouraged worker total both contributed to a substantial understatement of number of people who wanted jobs in the regular labor market but could not find them. If we adjust the May, 1975 official unemployment rate for both of these factors, we get a recalculated rate of 10.0 percent rather than the 9.2 percent rate that was reported by the BLS for this month. The point, simply put, is that what we really want to measure is the performance of the regular market economy, and the 10 percent unemployment rate is a more accurate measure of that performance than is the 9.2 percent official figure. The official unemployment rate for September, 1975, was 8.3 percent. When this figure is adjusted as above for the recent increases in discouraged workers and manpower program job slots, it becomes 9.2 percent. In other words, by a conservative estimating method, it is clear that we have at least 8.6 million people who want jobs and cannot find them in the regular market economy.

Much could be written about the *distribution* of unemployment—that is, the large differences between various sub-groups of the labor force. It is probably true that the higher the officially-reported rate, the greater the understatement of unemployment, because the most disadvantaged groups are disproportionately represented in manpower jobs programs and in the discouraged worker count. Nevertheless, the officially reported figures suggest the magnitude of differences. In September, when the national unemployment rate was reported as 8.3 percent, married men with spouse present had a reported rate of 5.3 percent, while black teenagers had a rate of 37.2 percent. Professional and technical workers had a reported rate of 3.3 percent, and nonfarm laborers had a 15.2 rate. The rate for government workers was 4.2 percent, and that for construction workers was 19.2 percent. Other striking differentials could be cited, but these examples perhaps suffice to make the point that the national unemployment rate averages together very large differences in unemployment among various groups in the labor force. And the greatest difference of all is hardly ever mentioned. Whatever the national unemployment rate is said to be, the individual without a job has a personal unemployment rate of 100 percent.

One final aspect of the reported unemployment figures needs no comment.

In September, 1975, the BLS reported, the number of workers unemployed for six months or longer rose to a total of 1.6 million, which was the highest total in the post-World War II period.

2. What is the outlook for unemployment?

When the BLS announced, early in October, that the official unemployment rate had dropped from 8.4 percent in August to 8.3 percent in September, some official spokesman in Washington professed to be encouraged by this change. The sense of their comments was that the economic recovery is progressing well Running the published figures through a pocket computer reveals that the August to September change was actually from 8.36 percent to 8.34 percent. The chances are approximately 100 out of 100 that this change of two-hundredths of one percent was due entirely to sampling error. That this minute jiggle of the numbers should be taken as encouraging is one indication of the slowness of the improvement in the unemployment situation in recent months.

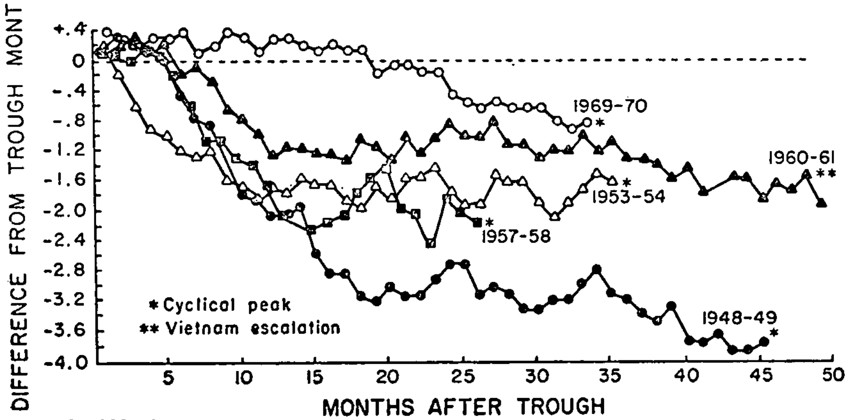
It is true, of course, that unemployment is one of the "lagging indicators" in a recovery period. The unemployment rate has a historical tendency to recover more slowly than other measures of economic activity after a recession has bottomed out. As this is written (mid-October), it is perhaps still too early to say that a clear pattern has emerged. And the consensus of economic forecasters has been so wrong so frequently in the recent past that a certain wariness commends itself when current forecasts are mentioned. Nevertheless, for what it is is worth, scarcely any forecaster now predicts a return to pre-recession unemployment levels within the next 12 to 18 months. The consensus appears to cluster around an official unemployment rate of about 7.5 percent by the end of 1976.

Many, perhaps most, economic forecasts nowadays are based upon computer simulations of the whole economy. There are other, less mechanical ways to analyze the outlook for unemployment. One is to consider the behavior of the unemployment rate after the trough month of each of the five post-war recessions. Chart 1 provides the necessary data. Examination of this chart shows a pronounced tendency over time for the unemployment rate to recede less and less from the recession high after the economy as a whole has begun to recover. This tendency is particularly apparent in the last two recovery periods. During the most recent recovery period, the unemployment rate remained very close to the recession high throughout the economic expansion.

When a rise in unemployment began in early 1970, Chairman Stein of the Council of Economic Advisors asserted that this was a "transitional" problem. In the light of hindsight, it seems unmistakably clear that it was the low unemployment rates of the late 1960s that were "transitional," and that the chronically high unemployment rates of the 1970s reflect the reappearance of some basic im-

CHART 1

CHANGES IN THE UNEMPLOYMENT RATE FOR THE CIVILIAN LABOR FORCE IN MONTHS FOLLOWING TROUGH OF FIVE POSTWAR RECESSIONS



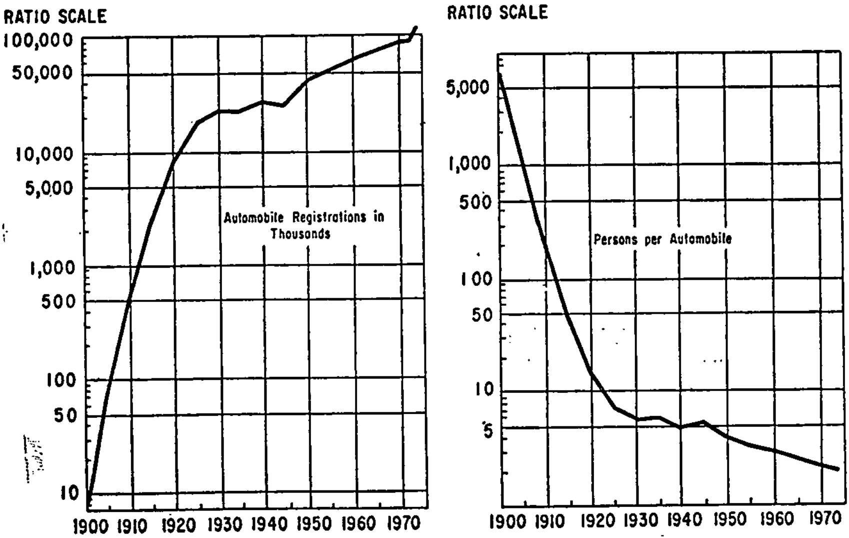
balances in the economy that were temporarily masked by the effects of the Vietnam War. Furthermore, there is increasing evidence that the lingering effects of the some employment problems of the 1950s and 1960s will be overshadowed by some new problems in the late 1970s.

The disturbing fact is that some of the industries that contributed substantially to the growth of employment throuhout the years since World War II now show signs of stagnation or decline.

(*i*) *Automobiles.*—Chart 2 shows two striking aspects of the growth of the automobile industry of the United States in the twentieth century. The automobile population was growing much more rapidly than the human population throughout most of the century. The chart illustrates the point that, in the most recent years the growth of this industry has been pressing against an upper limit. The latest figures available indicate that we now have one car for every two men, women, children and infants in the United States. Recent developments have sharply accentuated the long-run trend toward slower growth in this industry. Hugh price increases, even if largely caused by forces beyond the control of the industry, have adversely affected sales prospects. Past and anticipated increases in the price of gasoline, insurance, financing, repairs, and so on have contributed to slower sales. There has been an intangible but not umimportant shift in cultural values as well. It is no longer as fashionable as it once was in middle-class America to have a new car every year or two. There has been a suggestion that a five-year-old car with 80,000 miles on the odometer may be the new status symbol. None of these are transitory influences.

CHART 2

AUTOMOBILE REGISTRATIONS AND PERSONS PER AUTOMOBILE IN THE UNITED STATES, 1900-1973



SOURCE: *Statistical Abstract of the U.S.*, and computations. Registration figures since 1930 include passenger cars and taxis; in prior years they also include busses.

In the early 1970s, the automobile industry was getting about 4 percent of total disposable personal income for its products. In 1975, it is getting about 2.5 percent of a smaller total. In 1973, the industry employed about 950,000 workers; in 1975, the average for the year will probably be about 200,000 less than that. Professor Wassily Leontief has estimated that for each 10 workers in the automobile and parts industry, there are about 15 workers in other industries supplying raw materials—glass, rubber, steel, textiles, copper, and so on. This estimate implies a loss of another 300,000 jobs in the raw materials industries because of the slump in autos, or a total of 500,000 in 1975. Some of this job loss is temporary. But it seems highly doubtful under present circumstances that the automobile and related industries will ever again provide regular jobs for as large a proportion of the labor force as in the 1970–73 period.

(*ii*) *Education*. From 1950 to the 1970s, this nation increased its spending on education at all levels almost ten-fold—from 8.8 billion dollars in 1950 to 83 billion dollars in 1972. The percentage of Gross National Product going to education increased from 3.4 percent in 1950 to 7.9 percent in 1972. Since 1972, the share of education in GNP has been going down rather than up. Enrollments are down also, but by much less than the decrease in the share of GNP. No single factor can completely explain this rather sudden reversal. However, there has undoubtedly been some public disillusionment with education as the purported best road to the good life, and education has fared rather badly in the increasingly tough competition for tax dollars.

The sudden sharp reduction in demand for teachers has had an adverse effect on the labor market for all college graduates. In recent years, the largest single source of employment for them has been education. The sudden change in this sector of the labor market has to some extent contributed to the devaluation of the college degree as a ticket for a job; and thus we have a self-reinforcing process The decline in the prospects for this industry contributes to a further decline in its prospects. In the years ahead, the likelihood is that education will be taking less than its former share of a growing labor force, rather than a growing share as in the past two decades.

(*iii*) *Health care*.—Another of the great growth industries since World War II has been health care. The nation spent 12 billion dollars (4.6 percent of GNP) on health care in 1950; the expenditure in 1973 was 94 billion dollars (7.7 percent of GNP). Employment in health fields increased by about 50 percent (from 2 million to 3 million) from 1960 to 1970. As the use of health care personnel and facilities has increased, costs have increased even more rapidly. This industry has contributed significantly to the general price inflation of the past ten years. And now the growth of his industry has slowed markedly; from 1972 to 1973, the percentage of GNP going to health care was unchanged, after two decades of substantial increases. Experts on the economics of the industry expect little more expansion in the years ahead. The labor market implications of this levelling-off may not be entirely obvious. The greatest expansion in employment in this industry from 1960 to 1970, both in percentage terms and in absolute numbers, was at the lower skill levels. Thus, the increase in physicians, dentists and related practitioners was only 17 percent; the increase in health service workers (assistants, aides, etc.) was 67 percent. If the labor requirements of the health care industry diminish to the replacement level, this will have a significant effect on the supply of new jobs in the economy with a relatively short training period.

(*iv*) *Construction*.—The construction industry has the highest unemployment rate reported for any of the standard industry classifications—19.2 percent in September, 1975. This is a cyclically sensitive industry, of course, but its present difficulties have deeper roots than the recent recession. In the consumer market, construction costs have far outstripped the growth in disposable personal income in the past decade. In the government market, the great boom in education construction has ended; the great national network of freeways is virtually completed; and proposals for other kinds of public structures must compete with other rising claims on tax dollars. From 1950 to 1974, the percentage of the labor force employed in construction decreased somewhat, but in absoluse numbers the industry provided 1.2 million more jobs in the latter year than in the earlier. With 700,000 of its present work force now unemployed, construction is not likely to offer large numbers of new jobs in the next few years.

(*v*) *War*.—Over the past 40 years, wars and preparation for wars have had larger effects on the labor market figures than most analysts recognize. Large increases in the size of the armed forces reduce the number of young men in the civilian labor force. Large orders for conventional weapons and other equipment such as wheeled vehicles, ammunition, helmets, and so on, create large numbers of assembly-line jobs for semi-skilled workers. During the period of heavy production for the Vietnam War from 1965 to 1968, defense industries provided 48 percent of the new blue-collar jobs in the economy. Now war appears to be a likely candidate for listing among the declining industries. The number of persons now serving in the Armed Forces is the lowest since 1950. In the past five years, national defense expenditures as a percentage of GNP have marched steadily downward—from 9 percent in 1969 to 6 percent in 1974. Some of this reduction may be attributed to the U.S. withdrawal from Vietnam; but the GNP percentage for 1974 is the lowest since 1950.

There are, perhaps, other industries that belong on the list of "endangered species," but this listing is intended to be ilustrative rather than exhaustive. The basic point of this discussion is not that the country is headed for another depression like the one in the 1930s. The market will again generate a growing total of jobs, and there will be new growth industries. Most people will live lives of comfortable affluence. But we will face a massive problem of redeployment of our labor force—a problem that is likely to equal or exceed the comparable problem of the 1950s and early 1960s.

We never really solved that problem, although the effects of the Vietnam War led some people to believe for a time that we did. The Vietnam War removed about a million young men from the civilian population (most of whom would have been in the labor force except for the war); and war production provided a large number of temporary jobs for blue-collar workers. The growth of manpower programs during the late 1960s, and the classification of many of the enrollees as "employed" in labor market statistics, also contributed to the appearance of full employment.

The war ended; war production was sharply cut back; hundreds of thousands of former draftees were returned to civilian life; manpower programs levelled off or were, in some instances, reduced in size; and the labor force resumed its normal rate of growth. The forces of change in the American economy left large numbers of workers stranded in the wrong occupations and the wrong cities. Monetary policy was directed toward the control of inflation, and fiscal policy did not avert the deepest recession since the 1930s. The recession aggravated the displacement effects of structural change while leading many analysts to believe that all of the unemployment was caused by the business cycle and the fight against inflation.

The question now is whether we must accept, for the rest of the decade, unemployment rates that were generally regarded as intolerable only a dozen years ago, or whether some combination of manpower and fiscal policies can avert the loss of hundreds of billions of dollars worth of production and prevent the ruin of millions of lives to which some of our national leaders appear to have resigned themselves.

3. Is there a "trade-off" between unemployment and inflation?

In 1958, Professor A. W. Phillips published an article entitled, "The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861–1957." His findings were not entirely free from ambiguity and, at least by contemporary standards, his methodology was not impeccable. But almost immediately the so-called "Phillips curve" became a major factor in employment policy. Many economists, with varying degrees of success, tried to determine whether the Phillips curve relationship was applicable to American data. Some analysts found little need for data. The relationship was so logical and so consistent with economic theory that, if the data did not plainly show it, there must be something wrong with the data. With the passage of time, the relationship became one between the level of unemployment and rate of inflation.

The teaching was clear. In the most widely-used economics textbook of modern times, the one by Paul A. Samuelson, the matter was stated as follows:

"Experience suggests that in the short run there is a trade-off between the intensity of unemployment of men and capital and the intensity of price increase. . . . One must not exaggerate the exactitude of the Phillips curve but nonetheless it is one of the most important concepts of our times."

Stated a bit more directly, the doctrine is that if you want less unemployment, you must accept more price increase; and if you want less price increase, you must accept more unemployment.

The data invoked to provide empirical support for this concept have turned out to be fractious. The alleged relationship cannot be demonstrated in any straightforward manner. On the simplest level, for example, the data show that the United States had quite low unemployment rates through most of the years 1951, 1952 and 1953; yet, coincident with unemployment that at times was less than 3 percent, we also had very low rates of price increase. There were wage and price controls during part of this period, but their abrupt removal early in 1953 made no differences. On the other hand, in the last three years, we have had unemployment rates that were extremely high by postwar standards and very rapid price inflation as well. Various strategies have been followed to overcome such fractiousness of the data. Leads and lags of varying duration have been tried. Additional variables have been thrown into the equations, often with little effort to justify their use except for the fact that more satisfactory results were thereby produced. Some analysts, like Samuelson, say that the Phillips curve describes a shortrun relationship; others say that it describes a long-run relationship. If all else fails, or seems inadequate, there is the useful notion of a shifting Phillips curve—that is, a relationship that changes from year to year.

Despite these difficulties, the Phillips curve has gained increasing influence in policy-making. When men in high office tell us that we must accept high unemployment rates for years into the future in order to bring inflation under control, they are echoing the Phillips curve doctrine. But, as so often happens, as the acceptance of the Phillips curve among economic policy makers has spread, skeptics have arisen among the professional economists. And the skepticism is not confined to the "liberals" in the profession. Some persons whose conservative credentials are unquestionable have recently joined the skeptics—for example, William Fellner and Arthur F. Burns. The Burns formulation is especially pertinent. In effect, he says that whatever may have been the validity of the Phillips curve concept in the past, it is clear that it is inapplicable to the present unemployment-inflation situation. Others have pointed out that to a large degree, recent increases in the price level have obviously been caused by factors that are wholly unrelated to the state of the labor market—the outstanding examples being world-wide crop failures, the unilateral decisions of the Arab oil cartel, and the tightness, in the recent past, in world markets for raw materials.

Forty-five years ago, there was general agreement among the world's leading economists that the only way to reduce unemployment was to reduce wages. One of the great achievements of J. M. Keynes was to demonstrate the fallacy of this doctrine. Cutting wages might induce some employers to hire more workers, he said, but he pointed out that that was certainly not the only way or the most effective way to reduce unemployment. Like the insistence on wage-cutting, the Phillips curve concept surely has a kernal of truth in it. Some approaches to the reduction of unemployment would be very likely to generate upward pressure on the price level. But there is really no convincing proof of the widely-accepted belief that any reduction in unemployment, no matter what its level is and no matter what means are employed, will cause more inflation. It is true that few, if any, professional economists would state the doctrine quite so crudely. But many, perhaps a majority, would certainly accept the Samuelson dictum that there is some kind of "trade-off" between inflation and unemployment. The notion that there is such a trade-off has become an important barrier standing in the way of a substantial reduction in unemployment.

4. What are we doing now about unemployment?

In terms of numbers of workers involved, by far the largest program for dealing with unemployment is unemployment compensation. Table 2 shows the main programs; there are other, smaller ones not shown. As is apparent, what has developed is a kind of ad hoc jumble of programs with some variation in financing arrangements and duration of benefits. In general, the maximum duration for any recipient is 65 weeks, or approximately 15 months. By the best estimates available, it appears that we spent a total of 13 billion dollars on all of the main unemployment compensation programs in Fiscal Year 1974–75, and it is estimated that we will spend another 19 billion dollars in Fiscal Year 1975–76. During most of the present calendar year, between six and seven million workers have been receiving benefits. In recent weeks, the number of claimants appears to be showing a downward trend.

In terms of numbers of dollars, the biggest effort to date against unemployment is tax-cutting. The total value of tax cuts, personal and business, and rebates in 1975 is estimated at approximately 22 billion dollars. As will be discussed shortly, the tax cuts were not motivated solely by benevolence toward the unemployed. However, the reduction of unemployment was said to be one of the intended benefits of the tax cuts. It is difficult to estimate how many jobs were or will be created by the tax cuts. Secretary of Labor John T. Dunlop, who is an economist, was reported to have estimated some months ago that about 900,000 jobs would be created by the tax cuts and rebates by the end of the calendar year.

The Public Service Employment program is currently financed at a level of about three billion dollars per year, and Manpower Administration estimates place the current number of enrollments at about 315,000 (see Table 1). As presently established, this program (somewhat like the unemployment compensation program) operates under a variety of legislative authorizations, mainly under the Comprehensive Employment and Training Act (CETA). The day-to-day administration of the program is delegated to many hundreds of "prime-sponsors"—primarily state and local units of government—around the country.

There are other programs that aid the unemployed, such as food stamps, general relief, and so on, but the amounts going to the unemployed cannot be determined with precision. There are also many private programs, such as Supplementary Unemployment Benefits in automobiles, rubber, steel and some other industries.

In some companies, the reserve funds have been depleted and payments have been reduced or terminated.

5. What should we be doing about unemployment?

It is far easier to point out what is wrong with what we are doing now about unemployment than it is to say what would be better. But both matters must be considered.

TABLE 2.—UNEMPLOYMENT INSURANCE PROGRAMS IN A NUTSHELL

Program	How financed	Maximum number of weeks	Expected expenditures in fiscal year [1] (billions) 1975	1976
1. Regular unemployment insurance	State unemployment tax on employer payrolls finances benefits; Federal unemployment tax moneys used to cover State administration costs and to maintain a loan fund.	26	[2] $9.5	[3] $12.7
2. Federal-State extended benefits	50 percent from State unemployment taxes 50 percent from Federal unemployment tax.	13	1.4	2.9
3. Federal supplemental benefits (FSB)	Federal unemployment tax, at this time financed by repayable advances from general revenues.	26	.7	1.6
4. Supplemental unemployment assistance (SUA) (covers workers not covered by 1, 2, and 3 above).	General Federal revenues	39	1.4	2.1
Total			13.0	19.3

[1] These figures come from the statement of Lawrence Weatherford, Unemployment Insurance Administrator, to the Federal Advisory Council on Unemployment Insurance on March 5, 1975 in Washington, D.C.
[2] A minimum of $500,000,000 for fiscal year 1975 will come from the loan fund.
[3] Between $3,000,000,000 and $5,000,000,000 in loans is expected for fiscal year 1976.

Unemployment compensation has always been considered "the first line of defense" against unemployment. Therefore, the salient features of the system have always included limited duration of benefits, a relationship between wages previously earned and the size of the benefit amount, employer experience rating, and so on. The present use of this system to cope with very long-term unemployment threatens to change the system itself in rather fundamental ways, and it is creating future problems for the states that now have the highest levels of unemployment.

As of October, 1975, eleven states had found it necessary to borrow funds from the federal government to continue to pay unemployment benefits. By the end of the current year, the number is expected to rise to 15; and by the end of 1976, it is likely that 30 states will be borrowing money to pay benefits. Those states that exhaust their reserve funds and borrow will have to tax the employers in their boundaries more heavily to repay the loans than will the states that have been more fortunate. The states with the largest unemployment problem will have a competitive disadvantage as compared with the states that have been less affected.

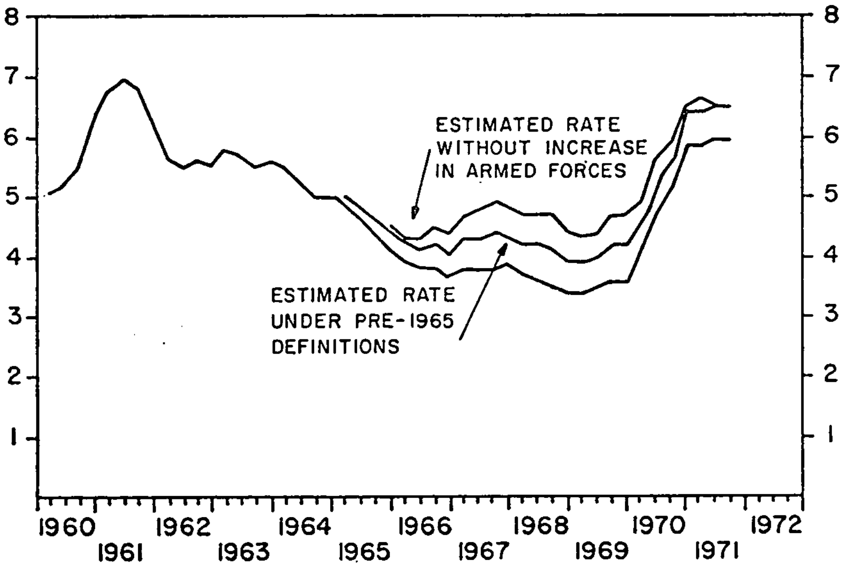
The greatest shortcoming in such heavy reliance on unemployment compensation is that this program pays very large aggregate sums of money to millions of people for doing nothing and going nowhere. When we are dealing with relatively short-term unemployment, the unemployment compensation system functions well. It is not perfect, but it is a most useful social invention which has probably contributed significantly to the moderation of the business cycle, and has alleviated much hardship. It is much less defensible as a program to deal with a high level of long-term unemployment, particularly when structural changes in the economy are contributing to the unemployment. This approach contributes nothing to the solution of such structural problems—aside from income maintenance. If we want to meet some part of the very long-term unemployment problem with a minimum income guarantee, we can devise a more rational and more equitably financed system than the present patchwork of add-ons to the existing unemployment compensation system. Under the present system, many people who are not in need are eligible for benefits; others who are in need are ineligible. UC payments do not encourage preparation for a change in occupation or place of residence, which will be required of many people if they are to adjust to the effects of structural change. Secretary of Labor Dunlop has stated the opposition of the administration to further extensions of unemployment benefits, and this is a position that deserves support—provided that other programs are developed to meet the needs of the long-term unemployed.

Tax-cutting is perhaps irresistibly seductive for politicians. Hardly anybody ever objects to paying less taxes. Many Keynesian economists join with conservative opponents of "big government" in proclaiming the virtues of tax-cutting. Yet the effectiveness of tax-cutting as a remedy for unemployment is more a matter of faith than demonstrated fact. The main evidence on this point is often said to be what happened in the late 1960s. We had a 14-billion-dollar tax cut in 1964, when the unemployment rate was around 5.4 percent; by 1968, the unemployment rate was down to 3.6 percent (annual average) and in 1969 it was 3.5 percent. Many economists have attributed all of this reduction in unemployment to fiscal policy (a few would give some of the credit to monetary policy as well). This interpretation rests upon a fallacy that is easily revealed. Chart 3 makes the point. The definition of unemployment was changed twice during the relevant period (1965 and 1967), and the definition changes in combination reduced the reported unemployment rate by about 0.7 percent. The Vietnam War, as already noted, reduced the size of the civilian labor force significantly; a conservative estimate of the effect on the reported unemployment rate is a reduction of 0.5 percent. There were other factors in addition to these, and equally unrelated to fiscal and monetary policy, that contributed to lower unemployment during the late 1960s. But considering only the definition changes and the Vietnam War effects, in combination they contributed about two-thirds of the reduction in the reported unemployment rate in the second half of the 1960s. To attribute the entire reduction to monetary and fiscal policy imputes to such policy about three times as large an effect as is justified by the facts. The point is not that tax-cutting has no effect on unemployment; rather, the point is that the magnitude of the effect has been substantially exaggerated.

Three other disadvantages of tax-cutting should be noted. The experience of the 1960s shows that this remedy for unemployment apparently does the least for the most disadvantaged members of the labor force. Despite the tax cut, and despite manpower programs which focussed disproportionately on the disadvantaged, black teen-age unemployment (for example) did not decline at all during the great boom of the 1960s. Furthermore, tax-cutting is apparently a very expensive way to create jobs. If Secretary Dunlop's estimate that 900,000 jobs will result from the tax cuts and rebates of 1975 is accurate, the cost will be approximately $25,000 per job. Finally, there is general agreement that tax-cutting cannot contribute very

CHART 3

U.S. UNEMPLOYMENT RATE BY QUARTERS
All Workers, Age 16 and Older
1960 to Date, Seasonally Adjusted



much to the solution of structural problems. In the debate on employment policy in the early 1960s, there was disagreement about how much structural unemployment there was then; but there was general agreement that tax-cutting, and fiscal and monetary policy generally, are not the most effective tools for dealing with structural unemployment. Indeed, Keynes himself, in the 1930s, took the position that expansion of aggregate demand could not by itself remedy structural imbalances.

For a time a few months ago, it seemed that Public Service Employment was almost everyone's favorite remedy for unemployment. More recently, there has been a reaction—or overreaction—against the earlier enthusiasm. The criticisms are numerous and varied: The PSE jobs are not going to the right people. There are "leakages" that reduce the anticipated impact of the nominal job slots by 50 to 90 percent. It doesn't make sense to have cities hiring new people with federal money while they are laying off their regular employees. And so on.

Few informed people would argue that the existing PSE program is the best of its kind that could be devised by the mind of man. The present program was the product of legislative compromise and urgency, plus an effort to fit the program into the untried framework of state and local administration that is provided under the Comprehensive Employment and Training Act. Improvements can and should be made in the program. Tighter eligibility requirements should be enacted and enforced. The "leakage" argument rests far more on speculation than on hard evidence; and such leakage, at its worst, would not render the program less effective than tax-cutting. But if convincing evidence of a serious leakage problem does emerge, the obvious solution for it is federal administration.

The most valid criticism of the PSE program is that it is far too small to make a real dent in unemployment. Currently, the number of job slots that have been funded equals about 4 percent of the total number officially counted as unemployed. In the years of the Great Depression, we provided jobs, under roughly equivalent programs, for 30 to 35 percent of the unemployed. Today, a program of comparable size would provide 2.3 to 2.7 million job slots, or eight to nine times as many as are now funded.

Now that the PSE program is increasingly subject to criticism, including some that is not justified, it seems important to emphasize two advantages of basic importance.

(i) It is better for society in general and better for the individuals involved to pay them for working than it is to pay them for not working. Society gets the benefit of the goods and services thus produced, and the individual has a better chance of hanging on to his or her self-respect and ability to work.

(ii) A PSE program is a much more cost-effective way of providing jobs for the unemployed than is tax-cutting. If the gross pay of the average PSE job is $10,000 per year, the net cost is probably about half of that amount. Unemployment compensation payments that the worker would otherwise receive must be deducted from the gross cost; and the PSE worker will pay taxes on his earnings (he pays none on unemployment compensation). Therefore, the *net* cost may be roughly estimated at about $5,000 per year. In a broader kind of cost accounting, that net dollar cost must be set off against the value of the goods and services produced by the PSE worker. A careful analysis of experience under the 1971 Public Employment Program concluded that tne great majority of the enrollees performed work that was as useful as that of regular employees of state and local governments.

There are indications that one consequence of the popularity of PSE programs at the local level has been a sharp cutback in expenditures for manpower training programs. Such a cutback is surely shortsighted. Obviously, it does not make sense to train people for jobs that are not available, and manpower training has had a bad press on this point. It has also become faddish to assert that manpower training has been shown to be a "failure." This assertion is reiterated reflexively by some persons who appear never to have examined the available facts. Some programs is some locations have "failed"; it is nonsensical to generalize from such incidents to a sweeping conclusion. The fact is that the great majority of careful studies of manpower training programs show positive rates of return for the investment in training. Some critics have raised questions about the methodology of such studies, and some of the methodological criticisms are justified. But the reality is that in the social sciences me hodologically impeccable experiments are more of a Utopian vision than a practical possiblity. At the present writing, the weight of the evidence decidedly supports a finding that manpower training has been successful. Hard evidence of "failure" is virtually non-existent. Given this state of affairs, policy should ignore the mythmakers and revive manpower training, while continuing careful evaluation studies.

Finally, we need some new approaches to the old problem of depressed areas and sick industries. Perhaps it is not excessively pessimistic to say that our previous efforts in this area have accomplished little more than to show us what does not work. Of course, there are exceptions. For example, during the 1960s, there was experimentation with programs to increase worker mobility, and some of the programs reportedly were relatively successful. Yet we have no federal programs of this kind in operation today. This body of experience should be reviewed and consideration given to substantial efforts in this area.

Americans have sometimes seemed to have an excessive fondness for simple answers to complex problems. For a decade or so, many analysts believed that employment policy was virtually synonymous with fiscal and monetary policy—or, to simplify even further, that if you want to reduce unemployment you need only to reduce federal taxes. The ultimate illusion was that government had mastered the unemployment problem and all that remained was to master the technique of "fine-tuning." The development or persistent and excessive unemployment after U.S. withdrawal from Vietnam, and the catastrophic rise of unemployment in the current recession, may have corrected the complacency of the 1960s and the early 1970s. But we now have a virtual paralysis of employment policy. The source of the paralysis is a new simplism: that the country needs to have seven or eight million unemployed workers at least for the next few years in order to bring inflation under control. The point of this statement is that this "need" is but another illusion. It is certainly possible to find ways of reducing unemployment that would make the inflation problem worse. But the rate of unemployment does not uniquely determine the rate of inflation. And unemployment can be reduced far below seven or eight million without aggravating inflation. We have some weapons at hand that can be effectively utilized, and we need to invent some new ones. But the one weapon that will not help is benign neglect.

Chairman HUMPHREY. We thank you very much, Mr. Killingsworth. I know that you are from Michigan State. You have given a good deal of attention to some of these structural problems that afflict the automobile industry. Your charts were very, very helpful, and most revealing.

Mr. Jones, we decided that you and Mr. Rosen should participate on this panel. You were in the audience participation section, but I think it would be well to have you with these three gentlemen.

You are with the Government Employees Union, American Federation of Government Employees, and chairman of the Chicago chapter and the National Coalition Against Inflation and Unemployment; is that correct?

Mr. JONES. Yes, sir.

Chairman HUMPHREY. Proceed, if you will.

STATEMENT OF DONALD JONES, LOCAL 1395, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES AND CHAIRMAN, CHICAGO CHAPTER, NATIONAL COALITION AGAINST INFLATION AND UNEMPLOYMENT

Mr. JONES. Thank you, Mr. Chairman, for this opportunity to present our views to the committee.

First may I say that those overqualified, overworked, underpaid Federal employees are entitled to legislation that would bring their wages comparable to the wages of the workers in the private sector, rather than what has been presented to them so far, which has rendered them a second class citizen's role.

May I say at this time, too, that the National Coalition to Fight Inflation and Unemployment is a coalition that has collected hundreds of thousands of signatures across the country indicating the feeling of employees and of nonemployees across this country.

Here we have some of those signatures which have been collected around the Chicago area, which we'd like to be made a part of this record.

Some of that mail is preview mail to Senator Percy.

Chairman HUMPHREY. I will share this with our esteemed colleague, Senator Percy, and I see also Senator Kennedy is here. So you will want to write each of these.

This will be made a part of our record by reference. We'll keep it on file and make notes in the official transcript of the record of the petitions that are here, and also the comment or the purpose of the resolution.

Mr. JONES. Yes, sir.

Now, I'd like to say I'm here to——

Chairman HUMPHREY. By the way, how many signatures do you judge are in this body?

Mr. JONES. Several thousand at least. The attitudes of the persons when they signed was, I understand, the attitude of hopelessness. They said:

> Well, we want this thing to come about, but we are not sure if it's going to ever happen, whether or not inflation is going to be reduced, whether we are going to obtain full employment in this country.

And so many of the citizens of this country seem to have lost almost all hope. They have become turned off.

At this point, let me say, I'm here to state our support of the Hawkins-Humphrey full employment bill, and its main features.

Just 2 weeks ago, headlines in Chicago newspapers glared out that unemployment in the metropolitan area had reached 10.2 percent. In fact, within Chicago, itself, unemployment has topped 11 percent.

This, for us, is only the tip of the iceberg, for we are aware of the shortcomings of the official figures. The figure is higher for Chicago proper because of the higher rate of unemployment among black and Latino citizens of our community. We regret to say that we believe the unemployment figures for black and Latino communities are probably much higher, particularly among the youth who have given up hope of ever finding a first job.

In the depression of the thirties, we were often told that prosperity was just around the corner. Now, they tell us not to worry, that this depression that we are in now has bottomed-out. Well, we have looked around many of the corners in Chicago, and what we see is not prosperity, but despair and growing anger.

We don't know if this depression has bottomed out, but there are a lot of people whose lives have bottomed out. The city of Chicago is a powder keg of growing resentment and anger of the unemployed. The fuse is lit and burning. We cannot sit by idly as it burns towards its ultimate destination. We can only express our amazement that such discontent did not find expression in the streets of violence during the summer. We can only ask how long can the unemployed be expected to sit and take it?

We feel that H.R. 50, the Hawkins-Humphrey bill, is a major step towards dealing with the crisis of unemployment. It is useful, it is a needed remedy. We need it now.

We are concerned that the bill itself postpones the remedy rather than going into effect at some later date, it should have immediate effect. We cannot express too much the urgency of this bill.

We also see some problems in the bill. The bill allocates no money for the public works it envisions. It leaves that to Congress annually. This means that there be a constant political battle over the amount to be spent, the wages to be paid by the job core and the kinds of projects to be established.

There is no guarantee that such allocations will be made each year. This bill can easily be funded by diverting money from extremely wasteful military budgets. Contrary to popular and long-held beliefs, a high level of military spending creates unemployment. An analysis of 4 given years when the military budget averaged $80 billion indicated results in a nationwide job loss of 840,000 jobs. We cannot keep spending growing amounts of money for war and expect to keep peace in our cities.

The war in Indochina is over. We now have the responsibility through detente to ease the danger of military conflict. The American people feel that the time has come to beat some of those swords into plows and work tools. We don't want to belabor the point, but we feel it is appalling to spend billions of dollars for destruction while starvation is winning the war on poverty.

We want to see this bill passed and passed now. We want to see that it is adequately funded so that it doesn't become a political football every year. The coalition further strongly recommends that a congressional hearing be immediately set up in Chicago, specifically, on the full employment bills.

We applaud Congress' action on the school lunch bill. We thank Senators Kennedy, Percy, Humphrey, and Mayor Daley, and other members of the committee for showing deep concern for the people's problems. We want to see them roll up their sleeves and do the same with the Humphrey-Hawkins bill. The time demands nothing less than to unite now, against our No. 1 public enemy, unemployment. Thank you. [Applause.]

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

Mr. Frank Rosen, president of district 11, United Electrical Workers.

Mr. Rosen.

STATEMENT OF FRANK ROSEN, PRESIDENT, DISTRICT 11, UNITED ELECTRICAL WORKERS

Mr. ROSEN. Senator Humphrey, I want to thank you for the opportunity to appear before this committee. My members in this district of our union work in Illinois, Minnesota, and Wisconsin, and are concentrated in capital goods industries.

At present, we have lost over 20 percent of our members since last January, and we are continuing to have layoffs take place in our plants. Most of the companies with whom we have collective bargaining agreements now have their time-study experts and their industrial engineers busy increasing productivity. To us, this means more production and more profits with less workers.

Under present conditions, we see no way in which all of our laid-off members will be able to return to work in the plants from which they were released.

President Ford's so-called solutions to the problem of unemployment and inflation will only give more to the wealthy and the corporations at the expense of the working people of America.

Big business has started a massive propaganda campaign about a capital shortage, and they propose to solve this phony shortage by taking money from the people and giving it to the corporations.

Unfortunately, the veto-proof Congress has not been much help in protecting us against the growing improverishment of a large excess of the American people for the benefit of the wealthy, large banks and corporations, and especially the oil industry.

UE welcomes the Joint Economic Committee in going to the people to learn firsthand, what they are saying and thinking. We particularly welcome the initiative of Senator Humphrey along with Congressmen Hawkins and Reuss in introducing Equal Opportunity and Full Employment Acts.

We hope that speedy passage of this bill can be achieved, along with other measures such as the $5 billion public works bill passed by the House which is now bottled up in the Senate.

The House label on it was H.R. 5247.

The UE believes that far more is needed if we really are going to put America back to work.

It will do no good to pass the Humphrey-Hawkins-Reuss Act if the money to finance it is going to come out of the pockets of Americans who are working and struggling to make ends meet. It will do no good to pass a massive public works program if working Americans will have their purchasing power reduced by taxes needed to pay for public works.

It is necessary to shift the tax burden onto those most able to pay—the wealthy and the corporations. We must reverse the trend to regressive taxation that has been undermining the purchasing power of the American people for a good many years. All taxes must be based on the ability to pay. All income below the amount necessary for a moderate standard of living which is $13,712 for a family of four in July 1974—should be tax free. All tax dodges for the wealthy and the corporations must be eliminated, and all of their income must be taxed on a progressive tax rate schedule.

Senators, young people are becoming nonexistent in many of our plants. Our older members are now seeing their children unable to find work. It is our opinion that there is no way to reach the 3 percent unemployment goal of the Humphrey-Hawkins-Reuss Act without reducing the work week to 35 hours, with very strong restrictions on the use of overtime.

In 1944, President Franklin D. Roosevelt proposed an economic bill of rights, including:

> The right to a useful and remunerative job in the industries or shops or farms or mines of the Nation;
>
> The right to earn enough to provide adequate food and clothing and recreation;
>
> The right of every family to a decent home;
>
> The right to adequate medical care and the opportunity to achieve and enjoy good health;
>
> The right to adequate protection from the economic fears of old age, sickness, accident and unemployment;
>
> The right to a good education.

Thirty-one years have passed in which very little has been done to implement this proposal by the man who was able to convince the

American people that the Federal Government was their friend. Today, most Americans no longer see the Federal Government as a friend—rather, they see it as one of their problems. Further growth of unemployment, or continued unemployment at present levels, with far more serious unemployment levels among blacks and other minority groups, is going to lead to large scale social and political chaos in our country. Such chaos would be a far graver threat to our national security than any external threats to our country. The UE believes that it is time to stop allowing the military-industrial complex to drag down the American economy. The military budget should be slashed, with the tax savings first applied to convert affected industries to peacetime use and the remainder of the tax savings applied to provide Government programs to benefit the economic and social needs of the people.

In closing, I might add that if the Congress is serious about slowing down inflation there is no better place to start than with run-away medical costs, and at our reading there is only one piece of legislation before the Congress at this time that makes a serious effort to bring medical costs under control, and that is the Kennedy-Corman bill, and we think that any serious attempt to bring inflation to a halt in this country has to include legislation of this nature in addition to the other things that I have mentioned.

I want to thank you for the opportunity to appear before the committee.

Chairman HUMPHREY. Thank you, Mr. Rosen, for a very persuasive and powerful statement.

Let me ask Congressman Bolling now if he has any questions he wishes to ask this panel.

Representative BOLLING. I have one small question I would like to ask Mr. Killingsworth, and then I would like to comment on what Mr. Rosen said.

Mr. Killingsworth, based on your statement, and I have read your whole statement, not just your summary, but based on your statement about the relative effectiveness of tax cutting as a remedy for unemployment, what is your opinion of the administration's proposal of the combination of equal tax cuts and spending cuts of $28 billion as a remedy for unemployment?

Mr. KILLINGSWORTH. I think it is accurate to say, as President Ford does, that the long-term net impact of a large tax cut, accompanied by a reduction in spending of equal size, this would cancel out. The timing, of course, of this particular proposal makes a big difference.

As many people have pointed out, there would be a period of very great stimulation from January to about October; then when the cuts start biting, we have a reversal of that process.

Mr. ROSEN. After the election.

Mr. KILLINGSWORTH. After the elections are over, and in effect as of the time that the reduction is taking place we would be offsetting the tax reductions of 1975 earlier this year, so that we would have, I think, a very powerful jolt of restriction.

I believe that you can certainly stop an economy from growing; you can certainly stop the recovery that has started, although it is easier to do that than it is to stimulate employment and to wipe out the unemployment by purely fiscal and monetary policy. Somebody once compared monetary policy to a string. You can pull on the string pretty well, but pushing on the string you don't accomplish very much.

Representative BOLLING. Thank you very much.

Mr. Rosen, I am glad you read that quote from the speech by Mr. Roosevelt. I happen to have come across it again just the other day in a book on Mr. Roosevelt's last year, and I think it is important to put in perspective what we are seeking, those of us who are working on full employment, planning bills now, because in a rather curious way we have a little history of an imperfect attempt to implement a full-employment bill.

As you know, not long after Mr. Roosevelt's death an attempt was made to pass a full employment bill. It actually passed the Senate. It was defeated in the House of Representatives, and the final result became the Employment Act of 1946, and these hearings, of course, are a part of a whole series of efforts to modernize that Employment Act, and the Humphrey-Hawkins bill and the Humphrey-Javits bill, and other bills that are in the making, are all designed to try to come up with the best approach to make a commitment to full employment.

I think it is important to try to put that in perspective too, because we made a great deal of progress in the 20-odd years after the Employment Act of 1946.

We couldn't have made the social changes that we made; we couldn't have brought so many people into, at least temporarily, the middle income group as we did if there had not been a major commitment to maximum employment, and I wonder if you would agree that there is very little possibility in the future of this society dealing with all the varied problems that it has, including those abroad, and we certainly have some problems abroad that we need to attend to; we don't want to become isolated in the world—unless there is an opportunity for every person to feel that there is a real probability that he will have a useful job and a useful career?

Isn't that underpinning the absolute essential to the solution of virtually every other problem that the country has?

Mr. ROSEN. I think that is certainly a very major problem.

We have millions of minority youth today that are absolutely without hope, and I think they are joined now by many white working class youth who are also going to be without hope in terms of finding any kind of a job that will create full employment for them at wages where they have some independence in their lives.

I also think that for a long time the growth in employment, in income, that did take place after World War II was in part based on the military spending and two wars, which did for a time create an upturn in the American economy, and that was a terrible price to pay in many ways for our country to create employment, and I think what has happened now is that this type of activity has become counterproductive, and we are going to have to face up to some redistribution of wealth so people have some purchasing power, to keep generating a demand for the goods which our country obviously has a capacity to produce.

Representative BOLLING. Thank you. That's all.

Chairman HUMPHREY. Senator Percy.

Senator PERCY. I would like to defer for a moment to Senator Kennedy, who wasn't with us on the last round of questioning.

Senator KENNEDY. I regret I was delayed in getting back to the hearing, but I had a chance during the course of the testimony to go through Robert Johnston's testimony, as well as that of Mr. Rosen.

I think they reminded us of some of the really unmet agenda which is before this country, putting obviously the priority on matters which I think are of most concern to members of this committee, and that is the jobs, the restoration of our economy, but not losing track of these other issues and questions the health care system, and the problems on housing, education, construction, and the other issues that are raised.

When we see what is actually being wasted now in the health area, it is interesting, and, Mr. Chairman, I won't take any more than another minute or so on this particular issue, but the recent statistics show, for example, that the children on MediCal in California have five times as many tonsillectomies; about the same number of hysterectomies, for women, and generally the same kind of figures in terms of other medical procedures as the norm of California, those that are in prepaid group practice have half as many as the norm, so anywhere from 8 to 9 times of medical procedures are on poor people in California. That is repeated all over this country.

We are just wasting hundreds of millions and billions of money, and that is being done through Federal decisionmaking.

You have got the $2 billion that are being spent on keeping open 67,000 hospital beds. It is just billions and billions of dollars, and as Mr. Rosen and Mr. Johnston point out, are gathered through the tax system which puts an undue burden on the working people, with all of these kinds of implications in terms of loss of hope, despair, and spinning over into other economic issues, and it is really an attempt to bring these issues back into some kind of harness that you are challenging us, and I think this panel has really pointed out in a dramatic way the importance of our getting back almost to Washington, getting back about the public's business on some of these matters, but I will say, Mr. Chairman, as I mentioned before, you get a frankness and a candor and openness about the kind of testimony we have heard from these individuals who are every day in those plants and factories and talking to people, which sometimes is missed in the committee hearing rooms of Congress.

I just wanted to thank the whole panel for their message that they brought to us.

Chairman HUMPHREY. Thank you, Senator Kennedy.

Congressman Long.

Representative LONG. Mr. Cicchetti, would you review in just a minute what you were speaking of about the relationship of the difference, I guess, really between the pricing policies with respect to those being followed by the administration and the allocation problem policies being followed by the administration?

Mr. CICCHETTI. Yes, Representative Long.

The allocation program for crude oil was put into effect at the time when we had a national energy shortage, and during that national energy shortage oil companies that were producing oil were asked to share some of that oil with companies that had lost their foreign inputs, and the contract for the exchange was that the price that would be charged would be $5.25 a barrel.

Today when we no longer have a worldwide oil embargo, if an oil company continues to produce oil at $5.25 a barrel, it is required to still share that oil with oil companies who are importing oil without an embargo.

Because of that inclusion, the losers want to join the winners and stop producing oil at $5.25 a barrel and start to become an importer.

In addition to that, to get rid of this pricing problem, the entitlement program was set up where besides having to give up the oil to competitors and dropping his price and raising your price, you now have to pay $7 a barrel to have the right to produce the $5.25 oil in this country.

Both of those programs, I think, are primarily responsible for an import system that was 10 percent of our total crude oil in 1973 and is now something like 40 percent.

I think we can end old oil allocation entitlements and pick up a single price instead of this multiprice that is something that the producing States and the consuming States and the economy can afford and not go to the single price that the OPEC nations are dictating, which is far above what the economy can withstand.

Representative LONG. I was very interested in this, coming from an oil-producing State, and never having been particularly close to the major oil companies; in fact, just to the contrary quite often, as to how you could work out something looking at it from relatively speaking afar that would continue to encourage domestic production, and yet at the same time not cause harm to the economy of the United States, what you express and which I agree with you on, perhaps a severe repercussion by allowing a substantial increase in the price of old oil which has been advocated by the Ford administration to a degree that absolutely frightens me, and you are of the view that by a combination of this allocation program and with a modest price increase, that you could accomplish this without this severe impact upon the American economy at the present time?

Mr. CICCHETTI. I think the way to do it is to take a price between the two prices that we are currently paying, and set that up as a single national price, something like, for example, $7.50 a barrel.

These are proposals that have been considered in the House, and certainly in the Senate as well, and that if it is necessary to let the price continue to rise each year, let it go up each year if the economy can withstand such a price increase, but I think that letting the price go to $12, $13, or even $14 a barrel, the only explanation I can come up with on that is that the current program has oil companies that are winners and oil companies that are losers.

Representative LONG. The danger, of course, being to the degree that we cut production in the United States, domestic production at all, we end up with paying the world price for it.

Mr. CICCHETTI. That is absolutely correct.

Representative LONG. Really, it is a Catch-22 type of a situation that we find ourselves in?

Mr. CICCHETTI. Not only is that true, but the proposal to phase out these programs over 30 or 40 or whatever month program would reward the company that chooses to import and gets higher prices.

Representative LONG. That is again a Catch-22 situation. Thank you very kindly.

Chairman HUMPHREY. Senator Percy.

Senator PERCY. Thank you.

Mr. Cicchetti, you have a gloomy outlook, but looking at it in Illinois, and having checked with Commonwealth Edison and the Peoples Gas Co., I find that this winter they expect to be able to supply the existing customers, without being able to add many new customers, but I think with proper restraints we do not face a crisis in energy this winter in Illinois.

Would you concur with that?

Mr. CICCHETTI. I think probably from the basic information I have that is true as long as the Federal Energy Administration doesn't find a way of sharing your wealth with the neighboring States that are going to be in much worse shape, and the biggest problem we have in Wisconsin is that we will be hit a little bit harder than will Illinois, but not as bad as some other States.

We can't plan just how bad things are going to be. We don't know what the final situation will be with the sharing of the natural gas shortage nationally, taking away our natural gas and not letting us keep our allocation. We will probably be double losers.

I certainly sympathize with States like Ohio and Minnesota that have a much more serious natural gas shortage, but they can't take away Wisconsin and Illinois petroleum allocations at the same time or we will all be losers.

Representative LONG. May I interrupt, Senator Percy?

Senator PERCY. Yes.

Representative LONG. I understood you to say that this policy of distribution and allocation by the Federal Energy Administration has still not been determined, and that you have not been advised as the person responsible for that in Wisconsin as to what the formula is going to be?

Mr. CICCHETTI. We have been told by pipelines what the curtailment schedule for natural gas will be, and the Federal Power Commission has indicated informally what they think their position will be, but we also hear that the Federal Energy Administration is trying to come up with an arrangement whereby some States which don't have quite such a bad shortage will share with other States in order to offset that shortage.

Representative LONG. Would this in turn affect what Senator Percy was speaking of and the information he has?

Mr. CICCHETTI. Yes.

Representative LONG. Thank you.

Senator PERCY. Would you concur that we have enough of a crisis there that we ought to keep the heat on conservation measures and not let up one bit?

Mr. CICCHETTI. The best and most graphic way I can explain our shortage in Wisconsin is that it will be 7½ percent in the best case. If people who have turned their thermostats down feel that the energy crisis is over, our shortage in Wisconsin will go up to 15 percent.

That is how much conservation even in the home matters, and if we are facing 15 percent loss of natural gas we are going to be shutting down factories and schools this winter in Wisconsin.

Senator PERCY. Thank you.

Mr. Johnston, you mentioned Walter Reuther, a man for whom we all have had a great deal of affection and very, very high regard.

Leonard Woodcock has taken some very forthright positions; for instance, he came down and testified in support of the concept which a few of us believed in, really converting highway trust funds into transportation trust funds to give us a balanced fund to create a balance in the transportation system, not just have it all in the one mode of transportation, that would make it easier for us if we could do that.

Do you feel that your own regional management and union membership in Iowa and Illinois that you represent support that principle, that we ought not to just look at the highway trust fund and pile money up in there, the unspent funds now reaching $8½ billion, and starving mass transit, starving bankrupt railroads, and leave us as a country dependent only on one means of transportation?

Mr. JOHNSTON. Senator, I certainly agree with your statement, and I know that Leonard Woodcock, as president of the UAW, that it is his position and the UAW International Executive Board, of which I am a member, and the reason I am interested in this is that you can't escape that full employment has to be tied to energy use, and all the other problems related here.

Let me give you a specific example of why Leonard Woodcock makes the kind of statement that the highway trust fund is just a fund that ought to be used for a mass transit system.

You can go down the expressways of this great city, the Kennedy, the Eisenhower, the Dan Ryan, any morning of the week, and you will see automobiles bumper to bumper with one driver.

The reason for that is that there is no adequate mass transit system in this whole regional area.

You can take that into any major city of America and the waste of energy for one individual driving a 2-ton automobile on the expressways of this great city trying to get to work is one of the greatest uses of energy. We ought to work at a mass transit system that would put hundreds of people to work.

And the same reason that we ought to get into the trust fund is that we ought to have a planning. You can't escape the planning in America. It has to come. Because you can go to O'Hare Field right now or any day of the week and you want to go to Los Angeles, San Francisco, or New York, you can have a choice every hour on the hour of four or five different airplanes to go there, and the planes are about half full. Someone has to bite the bullet on these kinds of hard decisions in America, because we waste more energy than Japan uses.

And these kinds of decisions cannot come unless they are planned priorities of America to put this country back to work.

Senator PERCY. I thank you very much, indeed. I wish the gun lobby would get that same attitude that we don't have to create employment by manufacturing millions of guns that are going to kill thousands of people in this country. I hope we can bust the gun lobby just as effectively. I think right from within the so-called highway lobby we have now enlightened educated people such as yourself, and I might say that Henry Ford takes the same position as Leonard Woodcock, that we've got to bust that lobby.

We'd have to have highways 90 lanes wide in order to get our traffic in and out of Chicago if we didn't have a CTA. So we better take into account the convenience of automobile drivers when we consider that.

Mr. Chairman, I just would like to comment to Mr. Killingsworth that I think your statement that we don't inevitably have to have unemployment and high unemployment in order to beat inflation is one of the finest pieces of testimony we have had. An insight and a hope for the future. I hope we'll keep that as a star ahead of us.

Mr. Rosen, I hope that your industry is going to have a shot in the arm now that Carla Hills has just released the $235 million and $250 million. We have been fighting that decision of the Nixon administration to shut down that homeownership program for lower income people for 3 years now and finally they have released those funds, and I hope you'll get the shot in the arm that your industry needs.

Mr. Jones, I think we should just comment on these petitions. I don't know what batting average Senator Humphrey would get on this, or Congressman Bolling, but I'd have to take an 80 percent on it. One of them I can't agree with.

Tax reform, I'm right with you. Close the loopholes. Absolutely, beginning with oil companies, and we have outlined how it must be done.

Cut the military budget, eliminate waste, absolutely. Provide employment by building houses, schools, hospitals. Of course we must do that.

I'd say roll back and freeze prices to the August 1, 1971 level is one that realistically I wonder really whether you and your petitioners would want to do that. We tried it with meat. I didn't, I voted against it. I knew what would happen. We had the black market introduced inside of 3 or 4 weeks. No one would send cattle to market if they were frozen.

I just wonder what would happen if we rolled corn back to a dollar and a quarter a bushel. What would happen? Would he then send that corn to market? Would he plant next year? Of course not.

Fertilizer prices, energy prices have all gone up. So what you create by that tinkering with the economic system through legislation to roll back those prices in law would be that you create the biggest shortage of food, energy, clothing, everything else that you'd have and that would drive prices up or put it all under the counter instead of on top of the counter.

If you would change that one word to sort of bring prices back, that would then give us leeway to stimulate production which then always brings prices down when you've got more production than demand. Encourage productivity. That one word change I think would help us, and I'd be 100 percent. This way I'd only have to be 75 percent.

VOICES. Change it.

Mr. JONES. Well, I think that was the intent of the persons who signed the petition, Senator. They only meant that something should be done and rather than as has been going on recently. We just don't know what to do. They said we'll do this and we agree with you, it should be changed.

Senator PERCY. With that clarification, I think we are right on target.

Chairman HUMPHREY. Gentlemen, I want to conclude this panel with you. May I say to Mr. Killingsworth that the emphasis that you have made here, which I think is the most important out of your testimony, is the ever-rising threshold of residual unemployment following what we call the cyclical movement of the economy. Put in these more professional terms, the structural problems are here. But what really happens is every time somebody says we have recovery, it ends up there's a larger number of people who are not working in the system. And the danger of this is not only the economic loss, but the simple fact is we start to divide people on the basis of a class system. Those who are employables and employed and those who are left out. And those who are left out in ever-increasing number may not be big percentagewise. They may only be a half a percent or 1 percent. That group starts to develop a whole new lifestyle of its own. They are not going to perish; they are going to survive. In the process of surviving they learn ways of doing things which are considered by the majority to be undesirable and illegal. There isn't any doubt but what high unemployment rates promote high crime. There isn't any doubt but what continuing high unemployment rates promote a whole different set of values, and more importantly as somebody indicated earlier today, a part of the health of a human being is the feeling that they are capable of doing something that is constructive and making a contribution. That's why some of us feel while the bills that we introduce may be imperfect, and I think they are, that they are directed towards the right objective.

We are fortunate to have public television here today, public radio. The biggest job in America is one of public education.

When we introduce a piece of legislation such as the Hawkins-Humphrey bill or the Percy bill or the Bolling bill or the Long bill, or whatever else it is, we know that that legislation is not all that it should be. But we have to get at something. If you wait for the perfect instrument, you will never get it done. Plus the fact we get people to focus attention upon it and get the benefit of other people's views. Because after all, our legislative proposals are frequently the result of limited experience and limited advice and understanding. And once we are able to design a piece of legislation that attracts a little attention, we get those who are against it, those who are for it. And by the process you generally come out with something that is a much better document than you have prepared.

I hope that we can keep that in mind because I'd hate to be in a country where any one Congressman or Senator or President can say, "This is it. This is the way it's going to be."

We don't operate that way, and it does take a little longer.

The other point that you have raised, Mr. Killingsworth, that I noticed in your testimony, and I want to put it on the record once again, is the importance of public service employment. Every other proposal takes more time to get beneficial effects.

Now, I believe——

Mr. KILLINGSWORTH. And costs more money.

Chairman HUMPHREY. I believe in fiscal stimulation. You said you read our midyear report. I think that part of the report was unanimously approved insofar as the fiscal stimulation part was concerned. But it takes time.

In the meantime unemployment compensation benefits run out. In the meantime families are destroyed. In the meantime mortgages come due that can't be paid. In the meantime shops close up because customers no longer have income. In the meantime Federal deficits grow and if we get one thing out of this hearing, Federal deficits are not just the result of somebody in Washington figuring out how to spend money. Federal deficits are the result of a compound.

Yes; there is some wasteful spending. No doubt about that. There's wasteful spending in every household, with few exceptions. And after all, we are representative government, you know. We translate and transmit some of our bad habits right into government. It doesn't mean we shouldn't try to improve. But deficits are primarily the result of two things, the lack of revenues that come in when you have high unemployment, and recession. That's the first thing. And No. 2, the soaring social costs that come with taking care of the victims of recession and inflation. And when you add those two up, the figures are questionable, but not less than $16 billion a year for every 1 percent. So that when you heard about the budget that the President presented this year—the budget message came to us in late January and the figures generally under the overall figures were talked about the last part of January—the people who prepared that budget were talking about an unemployment rate of possibly 8 percent. That unemployment rate ends up at 9.3, and it really went up to 12 by the time you took care of the part-time employed who wanted full-time work and those who dropped out of the labor market because they couldn't find any job and, therefore, were no longer considered a statistic.

Now, that's the deficit. And some way, somehow, somebody's got to start putting it on the line. The bulk of the deficit in Government financing today is due to a recession.

Now, there are other items of overexpenditure. Then there are members here of this committee who have voted to cut the defense budgets billions of dollars, as we have said here. We have a congressional budget process. We voted to hold down spending among some of our own projects. But I consider that money expended for public service employment or public works, I do not consider it what I call spending. I consider it investing. And it provides income, it provides a product, and it provides revenues, and somehow or another we have simply got to get our minds clear that you do not get out of a ditch by throwing dirt on yourself. You've got to start building ladders and walkways to get out.

Thank you very much.

Mr. KILLINGSWORTH. May I respond very briefly, Senator.

As you know from reading the opening of my statement I observed that many people in public life are thoroughly intimidated on this issue of full employment. Anyone who's in favor of full employment runs the risk of being accused of being in favor of inflation. I think that is nonsense. But a great many people in public life have fallen for it.

I think that the Joint Economic Committee is performing an extremely vital function by emphasizing to the public that we can reduce unemployment. We can reduce our unemployment problem to half its size without any serious stimulation of inflation. I think that is a message that is extremely important to get across to the country, and that's what this committee is engaged in, and I'm honored to have had a part.

Chairman HUMPHREY. Thank you very much.

Mr. JOHNSTON. Senator, if I could just say just one word, that the American that is willing to tell the American people what is wrong, what has to be done, is the American that's going to lead this country. He could very well be sitting on that panel.

Chairman HUMPHREY. Well, fellows watch out.

Thank you very much.

A VOICE. Senator Humphrey, are you taking any questions from the audience?

Chairman HUMPHREY. Later on we are going to have audience participation. We have another panel on agriculture and food prices.

Mr. Carpenter, Mr. Tony Dechant, Mr. Richard Sandor. I understand you, sir, have a time problem. So we are going to let Mr. Sandor speak first.

Gentlemen, Mr. Sandor is vice president of the Chicago Board of Trade.

Mr. Tony Dechant is president of the Farmers Union, and Mr. Carpenter is vice president, Midcontinent Farmers Association.

We welcome you gentlemen and I want you to know that the Joint Economic Committee has included American agriculture in its economic deliberations. You may recall that some years past this didn't always happen.

Mr. Sandor.

STATEMENT OF RICHARD L. SANDOR, VICE PRESIDENT, CHICAGO BOARD OF TRADE

Mr. SANDOR. Thank you very much, Senator. I am grateful for the opportunity to present my views to the regional hearings of the Joint Economic Committee.

In response to the overall theme of the hearing, subsequent remarks will be devoted to a simple discussion of both the macroeconomic aspects of agricultural production and the impact of farm product prices on retail food costs in the context of the goals of the Employment Act. It is the objective of subsequent remarks to describe the facts regarding the performance of the price system and recent policy on our general economic well being and dispel some of the myths regarding rising food costs.

In response to increased demand for food, commodity programs were changed in 1973 to stimulate production. This marked a sharp departure from agricultural policies pursued in the past. During the 1950's, 1960's and even the early 1970's, the thrust of these policies was to hold down production of most major crops, and dispose of accumulated Government stocks, in order to support farm income.

After years of gradual decline, the number of crop acres jumped in 1972. There was a second big jump in 1974, and further increases in 1975. Set-aside and conservation base requirements were eliminated for the 1974 and 1975 crops, and marketing quotas were removed for the rice crop. These changes released nearly 60 million acres of land for production. The increases in wheat and corn acreages were stimulated by sharp price increases as well as by program changes. The impact of this increased output on our economy is worth noting.

U.S. exports, of wheat, rice and feed grains almost doubled to 77 million tons between 1972 and 1975. In value terms, the exports of these specific commodities soared from $3 billion in 1972 to $11½ billion in fiscal 1975. Total U.S. farm exports in fiscal 1975 maintained the $21 billion value record of 1974, although the volume receded.

Agriculture's contribution to our balance of trade has increased substantially in recent years. Net exports of U.S. farm products have increased from $1 billion in fiscal 1970 to $12 billion in the fiscal year just ended. During fiscal 1975, net exports of agricultural commodities more than offset a $10 billion deficit in nonfarm items, resulting in a $2 billion net balance of trade.

Coupled with record large crops exports have provided a significant impetus to the general economic recovery. Though the direct value of exports was $22 billion, in calendar 1974, these agricultural exports required total business activity of about $43 billion, based on estimates. Thus, each dollar of agricultural exports stimulated an additional 96 percent of output in the U.S. economy—a multiplier effect of almost 2.

Therefore, supporting activity required to produce the goods and services exported in 1974 generated an additional $21 billion worth of output. These additional activities included $6 billion in the farm sector, $2 billion in the food processing sector, $5 billion from other manufacturing services, $2 billion in trade and transportation, and $6 billion from other services. Around 70 percent of the additional economic activity occurred to nonfarm sectors of the economy.

Thus, while the direct economic effect of our $22 billion in agricultural exports was concentrated in the farming, food processing, trade, and transportation sectors, the benefits of supporting activity were well dispersed through the economy.

The direct benefits of this increased production and exports on farm incomes is especially worth noting. In 1973, farmers received record receipts from marketings, and despite the highest production expenses, earned record realized net farm income totaling $29.5 billion, some 70 percent above the previous high of $17.5 set in 1972.

Net farm income totaled $27.7 billion in 1974. Inflation has abated somewhat and improved crop prospects have pulled down agricultural commodity prices. However, the prices of agricultural inputs have continued to rise.

The former discussion suggest that the macroeconomic benefits of the performance of the agricultural sector with respect to balance of payments and income have been substantial. It is now appropriate to inquire into whether these benefits have been achieved within the context of reasonable price stability.

Through the 1960's, wheat prices ranged between $1.25 per bushel and $2 per bushel; corn prices varied between $1 and $1.25 per bushel; and the price range for soybeans was $2–$3 per bushel. Over the whole decade, prices of these major commodities fluctuated by less than $1 per bushel.

In contrast, the 1972–73 period witnessed unprecedented price movements—wheat prices quadrupled; corn prices tripled; and soybean prices more than tripled.

In the recent 2-year period, prices jumped by nearly 300–400 percent. However, it is important to emphasize that the farm price hikes of 1973 and 1974 have either slowed or reversed in 1975. Good

1975 crop prospects and slackened demand for agricultural commodities were reflected in U.S. farm prices, which stood at an index of 187 in August.

Despite the higher record receipts in farm marketings, the farmer's shares of retail costs did not change significantly. This is a point which should be emphasized. The farmer's share of a dollar spent in retail food stores was 42.8 cents in August 1975, and 43.1 cents a year earlier. This compares with a share of 38–40 percent through the 1960's.

The farm retail spread which represent charges for assembling, processing, transporting and distributing market basket foods, has continued to widen. Prices and costs of goods and services in the nonagricultural sector of the economy largely determine trends in price spreads for food products.

It is not necessarily the farmer who has been responsible for rising food prices. During the past 2 years, large increases have occurred in costs of packaging, transportation, energy, and most other inputs used by food marketing firms.

It seems reasonable to infer from the previous discussion that the agricultural sector has responded extremely well to changes in world demand. Increased production and exports have resulted in greater levels of net farm income, an improved balance of payments position as well as producing valuable secondary effects on GNP through a multiplier effect. In addition, higher and unstable prices have been diminished while the absolute level of the latter has had a relatively minor effect on retail food prices. Self-correcting forces of the free market in the agricultural sector have contributed substantially to the goals of the Employment Act.

A continued reliance on the market system coupled with an improved dissemination of information, should result in an even improved performance of the agricultural sector in the balance of the decade.

[The prepared statement of Mr. Sandor follows:]

Prepared Statement of Richard L. Sandor

My name is Richard L. Sandor and I am Vice President and Chief Economist, Chicago Board of Trade and Visiting Professor of Finance, Graduate School of Management, Northwestern University. I am grateful for the opportunity to present my views to the regional hearings of the Joint Economic Committee.

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After years of gradual decline, the number of crop acres jumped in 1972. There was a second big jump in 1974, and further increases in 1975. Set-aside and conservation base requirements were eliminated for the 1974 and 1975 crops, and marketing quotas were removed for the rice crop. These changes released nearly 60 million acres of land for production. The increases in wheat and corn acreages were stimulated by sharp price increases as well as by program changes. The impact of this increased output on our economy is worth noting.

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Agriculture's contribution to our balance of trade has increased substantially in recent years. Net exports of U.S. farm products have increased from $1 billion in fiscal 1970 to $12 billion in the fiscal year just ended. During fiscal 1975, net exports of agricultural commodities more than offset a $10 billion deficit in non-farm items, resulting in a $2 billion net balance of trade.

Coupled with record large crops exports have provided a significant impetus to the general economic recovery. Though the direct value of exports was $22 billion, in calendar 1974, these agricultural exports required total business activity of about $43 billion, based on estimates. Thus, each dollar of agricultural exports stimulated an additional 96 percent of output in the U.S. economy—a multiplier effect of almost 2.

Therefore, supporting activity required to produce the goods and services exported in 1974 generated an additional $21 billion worth of output. These additional activities included $6 billion in the farm sector, $2 billion in the food processing sector, $5 billion from other manufacturing services, $2 billion in trade and transportation, and $6 billion from other services. Around 70 percent of the additional economic activity occurred to non-farm sectors of the economy.

Thus, while the direct economic effect of our $22 billion in agricultural exports was concentrated in the farming, food processing, trade, and transportation sectors, the benefits of supporting activity were well dispersed through the economy.

The direct benefits of this increased production and exports on farm income is especially worth noting. In 1973, farmers received record receipts from marketings, and despite the highest production expenses, earned record realized net farm income totaling $29.5 billion, some 70 percent above the previous high of $17.5 set in 1972. Net farm income totaled $27.7 billion in 1974. Inflation has abated somewhat and improved crop prospects have pulled down agricultural commodity prices. However, the prices of agricultural inputs have continued to rise, putting a squeeze on farm income.

For 1975 as a whole, a decline in total cash receipts in the face of further increases in production expenses may leave realized net farm income in the mid $20 billion range, compared with $27.7 billion last year.

The former discussion suggests that the macroeconomic benefits of the performance of the agricultural sector with respect to balance of payments and income have been substantial. It is now appropriate to inquire into whether these benefits have been achieved within the context of reasonable price stability.

Through the 1960's, wheat prices ranged between $1.25 per bushel and $2.00 per bushel; corn prices varied between $1.00 and $1.25 per bushel; and the price range for soybeans was $2–$3 per bushel. Over the whole decade, prices of these major commodities fluctuated by less than $1.00 per bushel.

In contrast, the 1972–74 period witnessed unprecedented price movements—wheat prices quadrupled from around $1.30 to $5.50 per bushel; corn prices tripled from $1.20 to $3.50 per bushel; and soybean prices more than tripled from $3.00 per bushel to over $10.00 per bushel. In the two year period, prices jumped by nearly 300–400 percent.

The farm price hikes of 1973 and 1974 have either slowed or reversed in 1975. Good 1975 crop prospects and slackened demand for agricultural commodities were reflected in U.S. farm prices, which stood at an index of 187 (1967=100) in August 1975, almost unchanged from last year. Although prices have stabilized they are currently at higher levels and it is appropriate to inquire into the impact of the latter on retail food costs relative to the other components of food costs.

Despite the higher record receipts in farm marketings the farmer's share of retail costs did not change significantly. The farmer's share of a dollar spent in retail food stores was 42.8 cents in August 1975, and 43.1 cents a year earlier. This compares with a share of 38–40 percent through the 1960's.

The farm retail spread which represent charges for assembling, processing, transporting and distributing market basket foods, has conntiued to widen. Prices and costs of goods and services in the non-agricultural sector of the economy largely determine trends in price spreads for food products.

During the past 2 years, large increases have occurred in costs of packaging, transportation, energy, and most other inputs used by food marketing firms.

However, price increases for some inputs slowed in the first half of 1975, as inflationary forces in the economy eased.

Prices of intermediate goods and services purchased by food marketing firms went up about 5 percent from the fourth quarter 1974 to the second quarter 1975, compared with almost 11 percent for the same period a year earlier. Prices of packaging materials, which account for almost a tenth of total marketing costs, held almost steady following the substantial boost last year. Energy costs continued to go up, but the rate slowed markedly. Interest rates on short term loans declined during the first half of the year but appear to be headed up again this fall, raising the cost of financing inventories and other capital outlays.

The largest expense of food marketing firms is direct labor costs. Increases in hourly earnings of food processing, wholesaling, and retailing employees the past year have been about 9 percent, compared with an average annual rate of a little over 6 percent since 1970. The rate of increase in earnings slowed slightly in the first half of this year compared with a year earlier, but rising labor costs continue to exert upward pressure on farm-retail spreads.

Higher operating costs account for most of the increase in farm retail spreads over time. Profit-to-sales ratios for leading food chains the first half of this year, excluding one which has a large write-off due to store closings, were almost unchanged from a year earlier at 0.85 percent of sales. However, profit ratios for food manufacturers averaged slightly higher in the first half of this year than a year ago, and the second quarter ratio 3.3 percent of sales was substantially higher than a year earlier.

It seems reasonable to infer from the previous discussion that the agricultural sector has responded extremely well to changes in world demand. Increased production and exports have resulted in greater levels of net farm income, an improved balance of payments position as well as producing valuable secondary effects on GNP through a multiplier effect. In addition, higher and unstable prices have been diminished while the absolute level of the latter has had a relatively minor effect on retail food prices. Self correcting forces of the free market in the agricultural sector have contributed substantially to the goals of the Employment Act.

A continued reliance on the market system coupled with an improved dissemination of information, should result in an even improved performance of the agricultural sector in the balance of the decade.

Chairman HUMPHREY. Mr. Sandor, I want to thank you for a very thoughtful and most helpful presentation.

We will go down the line here. Mr. Dechant. Then Mr. Carpenter.

Mr. Dechant, do you have any time problem?

Mr. DECHANT. No.

STATEMENT OF TONY T. DECHANT, PRESIDENT, FARMERS UNION

Mr. DECHANT. Mr. Chairman, members of the committee, thank you very much for the opportunity to participate in these hearings.

Mr. Chairman, I want first of all to commend you for the great leadership that you have given in economic affairs, not just as chairman of the Joint Economic Committee, but over the years in your career in public life. I want to say at the outset of my remarks that I believe that two of the most pressing needs of our Nation are sensible food policies and a workable energy policy.

I am disappointed over the apparent obsession with the energy policy, important as it is, for if either the food policy or energy policy wins our attention at the expense of the other, it will be a tragedy for this Nation. These hearings will, I believe, be widely applied. Americans are worried, they are puzzled over the erratic, uncertain and ineffective economic policies of the present administration.

It is appropriate that you have focused these hearings on the Employment Act of 1946. More than 30 years ago the Farmers Union was in the forefront of the movement that gave birth to this act. We wanted it then. We want it now to be a full Employment Act.

Truly, Mr. Chairman, the time is here when this committee, which was created as a result of that act, must chart the course of putting America back to work.

Our economy works best when we are consuming in all sectors at a high level. On the other hand, high employment brings about stagnation. We must begin to look at some of the untouchable areas of economic policy. The strangling of economic growth by the Federal Reserve's tight money and high interest rate policies must come to an end. We certainly concur in your recent proposal to give labor, agriculture, consumers and small business each one a seat on the seven-member Federal Reserve Board.

As has been said several times today, we are a work-oriented society. Working at a decent job provides both the material and the psychic rewards that our people want and need. It confers purchasing power and the right to eat, to be sheltered, to be clothed, to support a family. It also confers dignity. It is indispensable for full stature as a citizen and a respected member of our society.

Fair prices should be accorded a priority that is parallel with full employment in our national economic policy. High prices in the industrial and service sectors are in no way related to classical inflation. They are high because somebody has the power to set them high.

The conventional wisdom of high interest rates, tight money and restricted government outlays do not achieve the results of reducing prices. They only make unemployment and recession worse. Direct public intervention is needed to curb higher prices in the industrial and service sectors of our economy. There are two choices; government regulation and measures to assure effective competition. We must use both. Other kinds of intervention needed will include continued strict regulation of some natural monopolistic industries, like utilities.

Prices in the agricultural sector are another matter. Agriculture is the only major sector in which supply and demand are the primary price setting forces. There is a food shortage in the world. There is a less conspicuous but nevertheless dangerous food shortage in the United States.

Twenty years of low farm prices have driven millions of farmers off the farms. As a result we now have an outright shortage of milk and corn. Our beef industry is slowly being liquidated.

I said the other day——

Chairman Humphrey. I don't think people really understand that, Mr. Dechant. I think it is worth repeating, particularly in a great urban center like this. Just repeat what you had to say about milk, pork and beef, because this is something that is not understood, and you might just as well be the prophet in here. You may get your head chopped off, but be a good prophet.

Mr. Dechant. Let me take an example out of milk. If we had full or a high level of employment right now we would have an acute shortage of milk because for 10 years we have been moving our milk supply down. It is down at a very low level, and the only reason that it has kept any pace at all is because we used to feed milk to pigs, to calves, and to hungry people. The Public Law 480, in forms of powdered milk, this is pushed aside now and we are producing milk at a level that if people in this country had money to buy it, if there was full employment, we would have a shortage of milk.

That is because chronic low farm income in the livestock sector, the hog sector, and the dairy sector, has just driven so many farmers out, and it is absolutely essential. This is why I put so much emphasis on having a food policy for this country as well as an energy policy. They have to go hand in hand. Well, the remedy can be remarkably simple and remarkably economical.

Prices at parity—that criteria of fairness for the American farmer, that relationship to the rest of society, the rest of the segment of our economy, if we had that parity we would turn things around.

It would bring about stability for both farmers and consumers, and then we should have one thing that has been dear to our hearts for many, many years, Mr. Chairman, and that is a streamlined and an improved ever-normal granary system of reserves, and I want to hurriedly say that the cost of the Government would be nominal.

Surplus and shortage years would tend to offset each other. The cost to the national economy and to the public welfare would be far below the staggering toll of economic disruption, the waste, the alienation of export customers, profiteering by the speculators, and food price gyrations such as we have experienced in the last 3 years. Thank you, Mr. Chairman.

Chairman HUMPHREY. Thank you, Mr. Dechant, and I want to say your full prepared statement, of course, the original text, will be placed in the record.

[The prepared statement of Mr. Dechant, together with an article entitled "Views Presented to the Presummit White House Conference on the Economy" follow:]

PREPARED STATEMENT OF TONY T. DECHANT

"AGRICULTURE, FOOD, AND PRICES"

The people of the United States are deeply worried about the condition of the national economy, and they are worried about the capability of their government to cope with it.

The present Administration's economic performance has been erratic, uncertain, contradictory, fumbling, and confused. There is a deepening dismay among the people as their apprehension grows that their leaders lack the wit and will to deal competently with the grave problems that beset us.

Less than 12 months ago, President Ford was demanding that Congress enact a heavy increase in federal income taxes. The remedy for our problems, he declared, was *to reduce the purchasing power of the people* by taxing away a larger share of their incomes. He mounted a vigorous public relations campaign, with "win" buttons and other public relations promotional gimmicks, to bring pressure upon Congress to *raise taxes*.

Suddenly the direction was reversed. Suddenly the Congress, which President Ford had belabored for refusing his demands to *raise taxes*, was belabored from the other side to *reduced taxes*.

The Farmers Union welcomed and applauded that switch in signals, as did most of the responsible leaders in Congress. Indeed, we had been advocating just that for many months. I did so, among other recommendations, in my statement at the Pre-Summit White House Conference on the Economy that was held in this very city just 13 months ago. These recommendations of the Farmers Union have stood up under the test of time and the switches in direction by the Administration, and are still valid today. I am submitting a copy of that statement for your Committee's consideration. It provides, in more detail than time allows today, a realistic assessment of our economic situation and remedies for our problems that bear continuing consideration today.

But we soon found that the Administration's change in direction did not represent a complete embrace of reality. True, the Administration early this year gave support to those who had been advocating a *tax reduction* so as to *increase the* *purchasing power of the people.* But at the same time it has moved in the contradictory direction of slashing the purchasing power of those people who are most in need, who are suffering most acutely from unemployment and economic recession.

The Administration has sought, for example, to slash drastically the funds provided for food stamps and for school lunches and child nutrition. At the same time, it has tried with equal vigor to relieve the oil monopoly from price controls, unashamedly proposing that the American people be forced to pay the quadrupled prices imposed by the foreign oil cartel for the oil and gas from our own sources as well.

Now we have still a different direction. Now President Ford is proposing to go both directions at once—to *increase purchasing power* by cutting taxes, while *decreasing purchasing power* by reductions in aid for education, for school lunches and food stamps, and medical care and other programs that benefit ordinary citizens.

There is, we believe, a pattern of logic in these seeming contradictions and shifts and switches.

That pattern—and it is consistent throughout—is to favor and strengthen the rich and powerful, and to weaken and diminish the standing of those who are already weak and poor.

The Farmers Union is unalterably opposed to such economic and social logic as this. In the first place, family farmers fully appreciate that they are themselves economically weak and poorly rewarded for their labors and investments. In the second place, the Farmers Union understands very well that the farmers' customers must have jobs and must earn good incomes in order to buy and eat the abundance our farms can produce.

That is why the Farmers Union more than 30 years ago was in the forefront of sponsors and supporters of what became the "Employment Act of 1946".

We wanted it to be the "*Full* Employment Act". We still want it to become a "full employment act" and we want to see the goal achieved of *full employment* in our own national economy, and in the world.

The time has come, Mr. Chairman, when this Committee, which was created by the Employment Act of 1946, must chart the steps that our country should take to make full employment a reality in America.

Full employment is a long-range goal of the Farmers Union, and the time has come when it must be made a reality, at last. It is also the proper and highest-priority objective that should be sought in solving our immediate problem of recession.

Full employment—the provision of jobs at decent wages for all Americans who can and want to work—is the way to achieve the production of maximum wealth in goods and services for all of us to share. It is also the way to achieve the fairest and widest sharing of our wealth.

We Americans are a work-oriented society. In our society, working at a decent job confers both the material and the psychic rewards that our people want and need. It confers *purchasing power*—the right to eat, to be sheltered, to be clothed, to support a family. It also confers dignity; it is indispensable for full stature as a citizen and a respected member of our society.

There are a few, of course, who cannot work—a few who must be dependent upon others, either temporarily while too young or after they have become too old, or permanently because of their personal disabilities. We should and easily can afford to provide decent care for them.

There is no limit to the needs we have for more work to be done. We need to rehabilitate our railroads and reconstruct the mass transportation systems in our cities. We need a millon man-years of work in our public and private forests to insure the timber supplies we will need during the decades ahead. We need massive efforts by scientists, engineers, managers, and laborers alike to develop new sources of economic energy. These barely begin the list of jobs that have been delayed too long. The list is endless of still more jobs that must be started soon.

We are not at all reassured by current reports of some increases from recent shockingly low levels in total output and total employment. We have a growing population, and the total employable labor force is disproportionately large because the post-war "baby boom" is still providing a heavy influx of potential workers. The fact is that more than one out of eight potential workers in America today still lacks a full-time job, and that industrial production needs to be increased by nearly 50 percent to reach full capacity.

And even more significant is the fact that the Administration itself projects continuing unemployment at close to present levels throughout the rest of this decade, and is pursuing economic policies that will maintain unemployment at just such levels, which are higher than any experienced in the quarter-century up to 1970. It is entirely possible to have cycles of slow economic growth followed by cycles of deeper recession in a long-range pattern of economic stagnation. That is exactly what the Administration's economic policies seem to be designed to achieve, and it is not good enough.

Fair prices should be accorded a priority that is parallel with full employment in our national economic policy.

First of all, we need to recognize that the problem of "high prices" is not caused by anything that can properly be defined as "inflation". It is nonsense to mistake the cause of high prices in the industrial and service sectors as being "too much money chasing too little goods." Practically all of the high prices in the industrial sector are high because someone who has the power to do it has set them high, and they go on rising because those who have the power to do it raise them. The amount of money chasing the goods has only marginal influence. Therefore, the conventional remedies of high interest rates, tight money, and constricted government spending do not achieve the results of reducing prices, but they do make unemployment and economic recession worse.

Some kind of direct public intervention is needed to cure the high prices in the industrial and service sectors of our economy. We need economic or political measures that will force the price-makers to set their prices down, instead of up. Our basic choice lies between government regulation, or effective competition.

Positive and deliberate government action will be needed to make either regulation or competition do the job of controlling prices.

We may need effective antitrust action;

We may need increased imports of competitive goods;

We may need government-sponsored "yardstick" competition in highly concentrated industries;

We may need government action to sponsor and promote new competitors in highly concentrated industries;

We probably will need some of all four to make truly competitive pricing a reality in our major industries. In some "natural monopoly" industries like utilities, strict regulation needs to be continued. General government price and wage ontrols are a last and least-desirable choice.

In two vital sectors—energy and food—our price problems arise basically from shortages. In both cases, we may have to adapt to the necessity for paying higher cprices than we have been used to in order to get the increaseds upplies we need. This, of course, makes it all the more important for us to take forthright action to bring under control those prices which have been set at unreasonable levels by monopolistic industries which have been operated without either effective public regulation or truly effective competition.

The Ford Administration's solution to the energy shortage problem seems to be to throw a huge gob of money at it—to put up $100 billion of the taxpayer's money for the benefit of the big oil companies to enable them to gain control over other sources of energy as well as petroleum and gas.

Here is the prime example of the need for a firm public policy that demands positive control over prices in the public interest. Either we must have genuine competition to protect the public, or we must have effective public regulation of prices. We cannot tolerate dependence upon the dictates of a private oil cartel of a few huge oil companies any more than we can tolerate dependence upon the dictates of the cartel of foreign oil exporting countries. The proposal by Senators Hart of Michigan, Hart of Colorado, Nelson of Wisconsin, and Abourezk of South Dakota to require the major oil companies to divest themselves of their vertical control over the various stages from production and refining and marketing of petroleum products is a welcome initiative in the necessary direction.

Agricultural prices are a different matter. Agriculture is the only major sector in which supply and demand are the primary price-setting forces.

But here the problem is not "too much money"—it's "too little goods". It is not necessary, and indeed it is a ghastly misfeasance, for the Administration to pursue its present policies of curbing demand for food ("too much money") by shrinking the economy and promoting joblessness.

It is true that unemployment does weaken farm commodity prices, but the cure is worse than the disease. Indeed, the "disease" in this case is mis-diagnosed. The disease is *food shortages* and higher prices are *the cure.*

There is a food shortage in the world. There is a less conspicuous but nevertheless dangerous food shortage in the United States as well.

Right now we have extremely small supplies of pork, an absolute shortage of milk, and our beef cattle herd is in the process of slow liquidation. Moreover, the "production pipeline" is severely depleted and badly dented. We're on the brink of a nutritional disaster. A sudden return to economic prosperity and high employment would plunge us over the edge.

There is no room for comfort in the fact that we produce 200 percent more wheat, 100 percent more rice, 75 percent more soybeans, and 30 percent more corn than we need at home. Our country needs all the agricultural exports we can attain. To the extent we ever have to "fall back" on the stocks that are grown for export to feed domestic consumers, we would court economic disaster in respect to our ability to import and pay for essential raw materials and other goods.

For another thing, export crops cannot be converted immediately and cost-free into the specific foods we need and want. We must have farmers on the job, with highly specialized and exacting skills, costly and extensive facilities and equipment, and billions of dollars worth of operating capital to produce meat and milk, the mainstays of our American diet.

Twenty years of low farm prices were the critical force that has driven millions of farmers out of farming and, by 1972, had reduced our harvested cropland to the smallest total acreage in this century. Millions of acres of potential cropland still remain untilled. Farm prices that are still too low, reinforced by price prospects that are too uncertain for either farmers or their bankers to risk the necessary investments, are still preventing the full increase in food production that the nation needs.

The remedy can be remarkably simple, and remarkably economical. Farmers love their work; those who remain have stuck to it in spite of two decades of far lower money compensations for their labor, investment, management, and risk than those received for comparable resources in other industries.

Prices at "parity"—the same purchasing power for their products that farmers last actually received in 1952—would turn the trends around from worsening shortages to enough to eat. This would represent a one-time increase from present levels of about 20 percent, with annual adjustments thereafter in line with general price changes in the economy. Stability for both farmers and consumers should be guaranteed by an improved and streamlined "ever-normal granary" system of grain reserves to protect farmers from the price-busting consequences of "surpluses" in the good years, while protecting consumers from shortages and skyrocketing food prices in the lean years.

The cost to the government would be largely reimbursable as "surpluses" and "shortages" offset each other from year to year. The cost to the national economy, and to the public welfare, would be far below the costs in economic disruption, waste, alienation of export customers, profiteering by the speculators, and food price gyrations that have been experienced during the past three years.

And they would be lower by an infinite measure than the cost of having no food reserves and a crippled agriculture in the face of a world famine disaster or an international military or political emergency.

Views Presented to the Presummit White House Conference on the Economy

1. MAIN CAUSES OF INFLATION

It is unfortunate that the word "inflation" is used to identify the economic problem which is causing today's public concern. "High prices" is a more accurate name for it. General use of the term "inflation" leads many to misunderstand the true nature of the phenomenon, and thereby to accept wrong and fruitless approaches to solving the problem. This confusion is particularly serious among laymen, including many who bear important responsibilities for dealing with the problem. But some professionals also seem either unclear about the distinction, or to be making rhetorical use of the inaccurate term "inflation" as a way to so define the problem that it will seem to justify courses of public policy and action which they favor or to head off others which they oppose.

The general understanding of the term "inflation" is that "too much money is chasing too few goods", so that prices of the goods are caused to rise. But this is not the cause of today's problems of high prices. The actual situation in the economy generally is the reverse of classic "inflation." Most industries are operating at far less than full capacity, and unemployment is higher in the United States than in most industrialized countries, higher than in most periods since the 1930's, and it is rising.

The supply of most goods and services, coupled with the unused capability to produce, is greater than there is purchasing power to absorb, leading to cutbacks in employment. Demand is actually *depressed*, rather than *inflated*, and this depression of the economy is adding to the people's distress and suffering.

"High prices" not caused by "inflation"

It is an appropriate remedy for "inflation" to shorten the supply of money that is available for spending by restraining both public and private borrowing, and by raising taxes. But this medicine only worsens the overall sickness of the economy when it is applied in an effort to cure high prices that originate from either of the two causes that do account for today's major problems.

One of these causes is *power pricing*. It was political, not economic, forces that caused the price of petroleum to triple or more in the space of a few months. Specifically, it was the political decision of a dozen governments which control the supply of exportable oil. Similar price-raising mechanisms are working with varying results to raise prices of other raw materials, including bauxite, copper, iron ore, wood pulp, and phosphoric rock. Political, diplomatic, or military pressures might reverse or modify such *power pricing* decisions. But fiscal and monetary measures such as high interest rates and curtailed government spending in the U.S.A. aren't likely to make much difference.

The situation is basically the same in many large manufacturing industries. General Motsor Corporation recently announced increases of around $500 in the price of cars, lay-offs of employees, and reduction in auto production, almost simultaneously. It was the decision of the corporation's board of directors, not the escalating bids of too many auto buyers for fewer cars than could be made, that caused prices to go up.

Power pricing prevails in a large part of our economy. This accounts for the fact that prices could increase by 12 percent during the past year, enabling corporate profits to increase in the face of actual reductions in industrial production and the gross national product. Depressing the buying power of the public will intensify public suffering and distress, but it won't have much influence upon the *power pricing* decisions of corporation managers.

Essentially the same is true of the collective bargaining decisions concluded between these same corporation managers and the labor unions. Wage rates and fringe benefits do not decline as the "supply of labor" increases, as it is marked by rising unemployment. Labor income may go down some as work-weeks are shortened and unemployment compensation substitutes for wages for workers who are laid-off. But there is no reduction in manufacturers' labor costs that can be—much less would be—passed on to consumers in price reductions.

Shortages Another Cause of "High Prices"

The second main cause of today's price increases is *shortages of basic raw materials*, including foodstuffs and other agricultural commodities.

There are finite limits to the supply of non-renewable resources like metals and fossil fuels. Supplies of renewable resources like agricultural commodities, forestry products, and seafood are limited at any specific time by the capability to exploit the finitely-limited sun energy, soil, water, and mineral fertilizer resources of the earth. But none of the present-day shortages arise from imminent exhaustion of resources. Instead, we have shortages today because the world economy has failed to grow enough to keep ahead of rising demand.

Farmers plant and harvest less than one-third of the world's potential cropland each year. Harvested cropland in the United States dropped to 280 million acres during the Nixon Administration, the lowest since before the turn of the Century 74 years ago. This is 80 million acres below the peak, reached around 1930.

The potential for increasing world food production is enormous. But the *need for food* has not been reflected fully in the market as *effective demand for food*, so that it has not been able to influence the world's food market economy to expand sufficiently to accommodate the sudden new surges of demand.

This failure of the world economy is fundamentally different from ordinary economic phenomena. Indeed, it arises primarily from the fact that a large part of the human population has been effectively excluded from the world's trade and money economy. The reasons for this exclusion are military, political, and cultural. Much of the Communist bloc has been all-but-isolated, by mutual consent, from the non-Communist world economy. Much of the economically deprived population of the world is culturally unadapted or indisposed to participate in the world economy.

Hungry are barred from market

But the isolation of the poor countries is not at all one-sided. The abundant labor that comprises their major comparative economic advantage is almost entirely barred from competing in the world economy by the barriers against imports of labor-intensive goods into the markets of rich countries. Import duties raised against such goods are the highest barriers to trade that exist, mounting as high as 300 percent and more of the value added by labor. The characteristically-depressed prices for agricultural commodities and other raw material exports of the poor countries likewise have tended to suppress the growth in demand among their large part of the world's population.

But the economic isloation both of the Communist bloc and the poor countries is breaking down. The "Russian wheat deal" is one illustration. Whether it will prove to have been only an opportunistic raid on Western resources, or to reflect a commitment to long-term economic interdependence, remains to be seen. Reductions of trade barriers over the past 20 years have increased economic interdependence and total demand among the industrialized non-Communist countries. But its effects have gone beyond that. Prosperity in North America and Japan and Western Europe has drawn peripheral populations in Asia and Africa into the world economy with not-well-foreseen results, particularly in terms of demand for foodstuffs. The *power pricing* feats of the oil exporting countries, which have accomplished a massive change in the pattern of the distribution of income in the world, have already further enlarged world market demand for food in their zones of political and economic influence. These new sources of demand for foodstuffs are part of the cause of sudden shortening of world food supplies.

U.S. has cut food production

Another factor has been the massive shift in U.S. food and agricultural policy during the past half-dozen years. The volume of food provided as "Food for Peace" shipments has been drastically reduced, and expenditures for paying farmers to cut food production have been sharply increased. The result was double-barrelled. The vulnerability of poor countries' populations to sudden food shortages was increased, while reserves available in the United States for meeting emergency needs were depleted. When bad weather and crop failures occurred, as surely was foreseen and should have been provided for, the world was caught in a desperate food shortage which is growing increasingly acute.

For the most part, the so-called "high prices" for agricultural commodities that have been engendered by the world shortages are the *solution*, not the *problem*. (This will be spelled out in more detail in paragraph numbered 3 below.) The principal *problems* are the dislocations and disruptions in the food and agricultural economy that have been caused by violent price and supply instability. These have caused serious waste and losses, particularly in the livestock, dairy, and poultry industries, and they have made the shortages worse and interfere with prospects for overcoming them. High interest rates and "tight money," the classical cure for "inflation," likewise interferes with correction of food shortages rather than helping it.

2. MAIN CONSEQUENCES OF INFLATION ON AGRICULTURE AND FARMING

The primary problems of farmers in the present situation are (1) uncertainty that returns on farm commodities will be sufficient to reimburse farmers for their swiftly rising production expenses, much less provide a reward for risk and management and family labor; and (2) unreliability or lack of supplies of production requisites.

The index of farmers' production costs has increased by 15 percent during the past 12 months. During the same period the index of prices received by farmers has dropped by 13 percent. The purchasing power of farm commodities (parity ratio), which is the true measure of the farmers' ability to pay their bills and support their families, has plunged 24 percent in the year's time. Farm prices in August 1974 averaged only 78 percent of parity.

But the real seriousness of this situation is masked by the accident of the drought which seared the corn belt and great plains production areas in midsummer. If the draught had not intervened, creating a food shortage disaster for the nation and mankind, farmers would have been ruined in an economic disaster of collapsing grain and cotton prices to accompany the disastrously-low livestock and dairy prices that already prevail.

The present farm programs offer no meaningful protection to farmers against a price collapse if supplies should over-balance immediate demand by a significant margin. The price support loan rates now in effect for basic farm commodities are compared below with current parity prices:

Commodity	Price support loan rate	Parity price Aug. 15, 1974	Price support as percent of parity
Wheat (bushel)	$1.37	$4.05	34
Corn (bushel)	1.10	2.68	41
Cotton (pound)	.25	.73	34

Note: Farmers are eligible for payments on about half of their actual production in 1974 of the difference, if any, between average market prices received and the "established price" for the respective commodities. The "established prices" for 1974 are, for wheat—$2.05 per bushel; for corn—$1.38 per bushel; and for cotton—38 cents per pound.

The probability that farm prices will plunge back to the levels of two years ago if farmers produce a normal crop is a serious damper on their ability to expand, or even to maintain, their farm production capability.

The unreliability or outright lack of such production requisites as fertilizer, baler twine, fuel, herbicides and insecticides, barbed wire, irrigation pipe and equipment, spare parts, and other items, coupled with black market levels ofprices for much of what supplies can be found, is an additional handicap to farmers' ability to achieve full production.

3. GOVERNMENT POLICIES AND ACTIONS TO CONTROL INFLATION

Our analysis of the causes of current "high prices" (set forth in paragraph 1 above) indicates that:

A. Demand is *generally depressed* in many sectors of our economy, rather than inflated, and this is causing serious present suffering and distress;

B. Some recently-raised prices are subject in the main to external control by exporting country governments, and cannot be affected, at least in the short run, by action of the U.S. Government;

C. Some recent price increases, including those for some agricultural commodities, are the appropriate and necessary remedy for shortages and should be maintained and reinforced rather than reduced;

D. Some continuously-upward-spiraling prices of both goods and services are fixed by *power pricing* mechanisms which operate in defiance of conventional economic theories of supply and demand.

Obviously problems of such widely varied origin and structure cannot be attacked by any single, simple solution. On the contrary, one of the primary necessities is to correct the simplistic and misleading view of the situation that is conveyed by the term "inflation." Each aspect of this varied economic problem needs to be tackled directly and positively, and in a manner that comes to grips realistically with the public's real interest.

Must prevent depression

First and foremost, it is essential to maintain full employment, high production, and stable consumer purchasing power. *The greatest danger to the nation is the possibility of financial and economic collapse and general depression.*

A depression in the United States would quickly spread throughout our trading system and to the underdeveloped countries. By the same token, a financial crash anywhere within our trading system would gravely undermine our own economic stability. A worldwide economic collapse would plunge the world into social and political chaos more profound than occurred in the 1930's.

Accordingly, we recommend:

An immediate program of public employment, offering to every person over 18 years of age a job in useful work at not less than the legal minimum wage;

Reduction of the burdens of federal income and social security taxes upon low-income persons, with the object of restoring real purchasing power for life's necessities to the average level prevailing in the 1960's;

Strengthening of social security, welfare, and food stamp benefits for the elderly, dependent children, and the disabled;

Immediate allocation of credit, at reduced and reasonable interest rates, for agriculture and other productive enterprises, and for housing construction.

* * * * * * *

Revive international cooperation

The *power pricing* action of the Organization of Petroleum Exporting Countries (OPEC) has brought home rudely the fact of the economic interdependence of all the countries, both industrialized and less-developed, in our non-Communist trading system. The United States pioneered and led in the practice as well as theory of international cooperation in the decades following World War II. Unfortunately, the U.S. Government torpedoed the outstanding example of international cooperation in raw materials trade when, in 1969, the U.S. Department of Agriculture forced down the price of U.S. wheat in world trade by 30 cents a bushel below the International Grains Agreement minimum. This was done by paying export subsidies to the grain exporting companies. The result was to drive world market wheat prices far below its true value, as later developments soon showed. In any event, the U.S. officials failed to support use of the procedures specified in the Agreement for adjusting prices, and instead took unilateral action.

Other international commodity agreements were similarly downgraded by the Nixon Administration's neglect, opposition, and lack of cooperation. Ironically, this pattern of hostility toward international commodity agreements had virtually eliminated from international affairs the very principle which Secretary of State Kissinger later sought to have applied in dealing with the energy crisis arising from the OPEC pricing action.

Widespread support for the principle of international cooperation in commodity trade problems continues to exist in other countries throughout the world. We recommend:

Immediate initiatives by the United States to revive the principle of international cooperation by negotiation of a new International Grains Agreement, International Sugar Agreement, and International Dairy Agreement;

Parallel initiatives by the United States to develop international commodity agreements for trade in petroleum, and other extractive raw materials and tropical agricultural commodities of which the United States is a major importer;

Parallel initiatives by the United States to develop, in cooperation with other countries instead of on a basis of "self-sufficiency", other sources and other forms of energy so as to reduce dependence upon petroleum.

Farmers face "boom and bust"

The productive capacity of agriculture, both worldwide and in the United States, is far below real needs for the maintenance of human health and productive lives. Yet modern farmers, dependent as they must be upon high technology, purchased off-farm inputs, and other cash-demanding requirements, constantly face the prospect of collapsing prices and returns falling below their costs of production.

The present-day prospect of widespread starvation deaths within the coming 12 months demonstrates that world agricultural production is already deficient. But there is now way that agricultural production can be expanded sufficiently to keep pace with prospective peaks in demand, much less with the growth in real needs, unless farmers' income prospects can be assured and stabilized.

The prices farmers have received during the past two decades do not afford a reliable guide as to the price levels that would be needed in order to achieve an expansion of the agricultural production plant. In order to appraise the price levels that would be needed to expand basic agricultural production capacity, it is necessary to understand the nature and meaning of the internal adjustments that have been going on.

Apparent increases in *agricultural productivity* have been achieved by the substitution of capital and purchased non-farm in-puts for the farmer's labor and farm-produced resources. The modern farmer kills weeds with chemicals instead of a hoe; he buys gasoline and tractors instead of raising work-horses that burn hay and oats grown on the farm. The resulting increases in productivity (output per unit of farm-provided input) are, in part at least, only apparent and not real. The total labor and other non-farm resources that are used in modern agricultural production should be added to those contributed directly by the farmer and from the farm in order to arrive at a basis for accurate comparison with the productivity of the farms of a generation or two ago. The true net gains in productivity would then be perceived to be much lower than those commonly assumed.

Farm "production plant" scaled down

The real increases in *farm output* that have resulted from the combination of true gains in productivity and the addition of non-farm inputs has masked the contraction in the scale of the farm production plant that has occurred during the past half-century or so. American farms now require only about five million man-years of labor. This is less than half the labor force required only 20 years ago. And nearly 30 percent less cropland was being farmed in the 1970's than the peak some 40 years ago.

The process whereby the departed farmers and farm laborers, and the retired cropland too, have been withdrawn from employment in farming, is starkly and significantly different from the processes by which similar resources are withdrawn from employment in most industrial and commercial enterprises when and if they reduce their work force and production plant.

Lay-offs in industry characteristically are made on a seniority basis. The wage rates of workers who remain are maintained, and continue their general upward climb. Buildings and other industrial resources are shifted to other productive uses, or written-off against the firm's tax liabilities on its continued earnings.

But the farmer who quits does so because *returns to all farmers* are depressed to such a low level that he cannot survive, or prefers to turn to another job, often at the cost of sacrificing much of the income-earning value of his equity in his farm and his farming skills and experience. When farmland is withdrawn from active production, it likewise reflects the low returns being received on all farmland, which in the case of the particular land that is withdrawn are not sufficient to cover the direct costs of continuing to produce with it. Very little of the 80-million-acre decline in harvested cropland during the past 40 years has been shifted to higher income-earning uses.

Agricultural and industrial enterprise systems also have sharply differing requirements when it comes to reversing the process of contraction and, instead expanding overall productive capacity. Because it has been possible for 40 years to increase farm output by adding non-farm inputs and increasing labor and land productivity while reducing the farm labor force and cropland used, there has been almost no experience with trying to reexpand the farm labor force, or with bringing once-retired land back into production.

"They never go back . . . . ."

The industrial firm, when it needs to expand its work force, simply re-hires laid-off workers at their old (or routinely "escalated") wage rate. But when he left the farm, the farmer probably sacrificed his farming career, cut loose from his psychological and social moorings, and took up a new life in town. He cannot be "rehired" to return to the farm at the rate of pay he was getting when he quit, nor even the rate of return that would have sufficed to keep him on the farm when he did decide to go.

Nor can the "retired" cropland be brought back into production at levels of returns that are sufficient to induce existing farmers to continue cropping comparable land. For the farming "overhead"—the package of labor, machinery, livestock, management—that was once available to crop that land was probably dissolved in the process when the land was allowed to lapse into idleness.

What this means is that the reversal of the long-term process of absolute contraction of the farming plant will require levels of income expectations that are *substantially higher* than those that might suffice to induce existing farmers to continue to produce.

Farm programs needed

Furthermore, farm income expectations will need to be substantially *more secure* and *more stable* than those that existing farmers demand as a condition of staying on the farm. In brief, *substantially higher prices* than at present, coupled with *greater security and stability* of farm prices, will be needed in order to reverse the long-term contraction of agriculture by attracting new investment and new commitments of management and labor into farming in order to re-expand the agricultural plant.

Similar contraints will affect expansion of capital-intensive agricultural production capacity in other countries, particularly in South America, Australia, and Africa, where the main possibilities exist of bringing "new" farmland into production. And here these constraints are likely to be satisfied in a manner that will add another problem for American farmers and the American economy:

Investors in such new agricultural developments are likely to insist upon positive ties to a home market, as in Japan or Europe, which will provide price guarantees and an assured outlet. This means that American farmers will probably face increasingly strong competitors enjoying favored status in leading export markets. This makes effective political and economic support from their own government more than ever important to American farmers.

In order to provide an adaptive yet effective system for encouraging American agriculture to realize the fullest opportunities that might arise for serving the domestic and world markets and bolstering the American economy, we recommend the following coordinated and comprehensive farm price and supply stabilization program:

Plan for "parity and abundance"

1. Non-recourse commodity loans should be offered to farmers at 90% to 100% of parity, to establish the minimum floor under market prices. Stocks of commodities would accumulate in loan status to the extent that supplies were more than sufficient to satisfy the market demand at about the parity price. The producer could sell his commodity at any time during the marketing year by repaying the loan and paying the accumulated interest and storage charges.

2. Farmers should be eligible for price support loans on eligible commodities stored in any approved facility, whether on the farm, in the farmers' cooperative, or in other approved storage facilities.

3. Price support loans should be extended from year-to-year, at the option of the farmer. When a commodity loan is extended, the government should absorb the interest and storage cost for the prior year if the market price of the commodity has not reached 110% of parity.

4. When supplies in the market become short and the market price approaches 110% of parity, farmers would have an incentive to repay their loans and sell their stored commodities so as to avoid incurring the cost of continued storage. But it would not be necessary for the government to "call" loans. The farmer should be permitted to hold his commodity in extended loan status if he wishes to absorb the storage and interest costs himself after the price reaches 110% of parity.

5. Commodities owned by the government should not be offered for sale into commercial markets at prices below the higher of the current market price or 115% of parity. If it should be considered necessary in order to assure that ample supplies would move into the market when needed, the Secretary of Agriculture could be authorized to enter into option agreements to buy the commodity from the farmer at a price of 115% of parity during the term of an outstanding initial or extended non-recourse loan. This would provide some flexibility to the government in meeting urgent requirements under exceptional conditions. But it would keep government-owned stocks totally insulated from the market so long as prices are below 115% of parity.

6. Voluntary or mandatory programs to restrain production of major farm commodities should be put into effect at any time that the Secretary of Agriculture determines that carry-over stocks of the commodity are likely to rise above the desired "reserve" level. Price supports should be maintained at 90% to 100% of parity. The minimum reserve should be established by Congress. The Farmers Union recommends that reserves be established at about 50% of the annual requirements for domestic use and exports in the case of food grains, 25% in the case of feed grains, and 35% in the case of cotton.

7. A new import control plan should be established which would eliminate practically all imports of any farm commodity when prices in the U.S. are below parity. A variable rate of duty, equal to the amount by which world market selling prices fall below 115% of parity, should be applied to any farm commodities imported into the U.S.

8. International agreements should be negotiated with other producing and consuming countries to provide for international cooperation to stabilize prices and supplies of agricultural commodities, particularly grains, dairy products, cotton, and sugar, through one or more of the following provisions:

(a) minimum and maximum prices in world trade (the Farmers Union proposes a range of prices between 90% and 110% of parity);

(b) commitments to assure supplies to importing countries, and to assure access to markets for exporting countries;

(c) rules on the disposal or stockpiling of surplus domestic production;

(d) limitations or prohibitions on the use of export subsidies;

(e) cooperation among participating countries to manage the supplies put into the world market;

(f) consultations between governments on the effects of national price support programs on world trade;

(g) reserves of food and fiber, under the control of national governments but subject to international review, to assure importing countries of the reliability of exporting countries to meet their supply commitments, and to provide for national and international emergencies.

National "income equity" policy needed

Prices and wages which are established by *power pricing* action should be made subject to a national incomes policy. Farmers have long subscribed to the idea that their prices and incomes should be supported by governmental action with the goal of attaining "parity". It is neither necessary nor desirable to make the government the arbiter of all prices, wages, salaries, and other incomes. But neither is it tolerable to permit the private exercise of economic power to dictate to the public the terms that must be met for needed goods and services.

Direct price and wage controls are burdensome and, we believe, not generally necessary nor desirable. But profits have become exorbitant and prices have reached black market proportions in the case of some scarce and essential items like fertilizer, fuels, barbed wire, and the like, the production and marketing of which are highly concentrated and subject to monopolization. These prices should be *rolled back* to fair and reasonable levels, not merely "controlled" at their present extortionate levels. Strict regulation should be continued of prices of natural gas at the well-head.

Interest rates must be brought down immediately. High interest rates can do nothing beneficial to remedy the real economic problems that exist. We believe that the advocates of tight money and high interest rates in the present situation are, whether knowingly or not, serving to divert attention away from the true causes of high prices, and to head-off effective action to deal with them. The present tight money-high interest rates policy, combined with the "bust" in livestock and dairy prices resulting from mistakes in government farm policies, and the threat of a "bust" in grain prices next year, is placing the liquidity of country banks and Production Credit Associations in jeopardy. A financial collapse in the rural areas could knock out the props under our entire economy and plunge the nation into depression.

We favor the establishment of a national standard of returns on investment and management, and of wages and salaries, which can be supported as equitable and reasonable and in the public interest. This standard should serve as the basis for a system providing for full disclosure to the public of the incomes being received in the various sectors and industries of the economy, so as to permit the public to form sound judgments about price and wage actions.

We favor a policy of direct and positive intervention by the Government, in the most efficacious ways that can be found in each case, to correct exorbitant and unreasonable prices and charges for services. The establishment of "yardstick" competition from publicly-owned or cooperative enterprises should be considered in a number of industries, including petroleum and steel.

Structural reform of such enterprises as health care and medical services should be fostered with the objective of increasing efficiency and reducing costs as well as correcting unreasonable charges.

More economical transportation, both of freight and passengers, and other essential services which are now inadequate and inefficient, should be provided with governmental financial help and regulation.

Sweeping reform of the federal tax structure, with particular emphaisis upon improving the application of the "ability to pay" principle and the effective progressivity of personal income tax rates, should be the capstone of a national commitment to equitability and the public interest in allocating the burdens and benefits of our society.

A. ACTIONS IN THE PRIVATE SECTOR OF AGRICULTURE TO CONTROL INFLATION

Farmers are the most genuinely competitive producers in the economy; they pay the full economic penalty for their own waste or inefficiency. Food processing and marketing firms, in general, receive returns on investment and pay wage rates that are lower than the average in manufacturing industry. Yet there remains some scope for further gains in efficiency and reduction of costs through cooperative action by farmers, and by consumers. We favor the continual exploration by farmers and consumers of opportunities to reduce the cost of moving products from the farm to kitchen.

We believe the largest opportunity to reduce food costs to consumers lies in the rationalization of food merchandising practices for the goal of efficient provision of nutrition at least cost. Consumers pay $100 per bushel or more for wheat in the form of some highly-advertised, expensively-packaged, and grotesquely-fabricated breakfast foods, for example. Excessively-costly packaging for promotional rather than functional reasons adds cost to the consumer's grocer bill without commensurate nutritional value. We believe grocery manufacturers and retailers could score heavily with consumers by rejecting the infantilized appeals that are now so widespread in their merchandising, packaging, advertising, and promotional programs, and substituting a deliberate appeal to the rational interest of consumers in getting optimum nutrition at least cost.

5. POLICIES AND PRACTICES IN THE PRIVATE NON-FARM ECONOMIC SECTOR TO CONTROL INFLATION

We believe that the leaders of American society, at all levels from the communities to the White House, should join in an educational effort to secure understanding of the limits that exist upon the world's natural resources, the need to give thought to the requirements of future generations, and the moral imperative to practice conseravtion and unselfish restraint in our own care for and use of the finite resources of the earth during our time of stewardship.

Chairman HUMPHREY. Mr. Dechant, I appreciate your comments about the ever-normal granary and the food reserve plan.

Mr. Carpenter from the Midcontinent Farmers Association.

STATEMENT OF L. C. CARPENTER, VICE PRESIDENT, MIDCONTINENT FARMERS ASSOCIATION

Mr. CARPENTER. Thank you very much, Mr. Chairman.

On behalf of President Hinkel, he has asked me to express to you and the members of the Joint Economic Committee a sincere appreciation of he and our entire 150,000 members for bringing agriculture into this picture and making it a part of the Joint Economic Committee.

I know you have done this before, but we are delighted that you are doing it now, because we feel that hearings such as this would not be complete without discussing the relationship between agriculture and the economy. One out of every four jobs in the United States relates to agriculture. I will just brief this statement. I will pick out a few items that I think are of particular interest.

The effect of agriculture on the economy. In this context, two related questions must be asked. One, "What is the effect of agriculture on the economy?" and, two, "What is the effect of the economy on agriculture?"

For too long a time farmers have been asked to absorb much of the effects of inflation through a low cost-of-food policy. Now they are being encouraged to help stimulate the economy away from recession by producting at a maximum.

In support of this two-faced national policy farmers are asked to assume all of the risk for all of production. Yes, they are planting fence row to fence row. In fact, they have established a new record this year. In spite of their increased costs of production 80 percent of the increase in food costs this past year came after the food left the farms. Therefore, even in this inflationary period consumers pay less than 17 percent of their disposable income on food.

I am not going into the other areas as the gentleman just related that, but actually we are way ahead of our balance of payments purely due to agricultural exports. We were in the $22 billion range last year, so that certainly puts us up in good shape on that.

We are not as optimistic as the Secretary of Agriculture appears to be when he goes out to make his after-dinner speeches. We don't really believe that all of the economy has recovered, and that we have overcome all the stagnation that prevails. We do agree that farmers by assuming unwarranted risks in support of the national policy have done much to prevent the recession from becoming considerably worse. The effect of agriculture on the economy has been most positive.

Now, the effect of economy on agriculture. Quite frankly, Mr. Chairman, public concern for the economic plight of farmers is long overdue. Farmers can no longer afford to produce fence to fence as encouraged by the Secretary of agriculture in support of domestic and foreign policy. A misjudgment by the Secretary on world demand for U.S. farm products would result in bankruptcy for literally thousands of farmers. To be right honest, one more rain sometime in June this year in the Breadbasket of Russia, and our farmers would have really been in tremendous, deep trouble. Just remember that. Somebody else's misfortune turned out to be our good fortune.

There are three reasons why agriculture has not been more affected this past year and a half. One is because of adverse weather across the United States last year, followed by a drought in our Western Corn Belt, in Western Europe and in Russia this year; and the Russian grain sales and increased demand for food as a result of the food stamp program.

Now, we have mentioned that several times today, but this has been a real boon to farmers, the food stamp program. As a matter of fact, when we look at it right closely, this is the only thing that has been actually helping farmers during this year.

Chairman HUMPHREY. By the way, it hasn't hurt the retailers either. They like those old "greenbacks." They talk about folks on food stamps getting all that help. I want to tell you the cash registers in the supermarkets just digest those food stamps just like $10 bills. [Applause.]

Mr. CARPENTER. To continue, instead of benefiting fully from the relative high demand which has occurred for their products, farmers have lost ground financially. For example, prices received by farmers in the month ended September 15, 1975, were slightly below those of 18 months earlier, but the prices they paid for production expenses increased 17 percent during this same period.

Now, let's remember that figure because the other gentleman here quoted prices a few years back. That sounds great, but he didn't say anything about what the costs were compared to now, so we have this little problem. Now parity is 67 percent where 18 months ago it was 90 percent.

Well, I would like to mention just a little bit about the effects of economy on agriculture. We respond that inflation rather than recession has been the major culprit causing financial difficulty for the farmers.

Mr. Chairman, farmers have done their part to reduce the effects of both the recession and inflation for themselves and consumers. Now, it is essential that economic planning toward achieving full employment and price stability be undertaken.

In our opinion, the Humphrey-Javits Balanced Growth and Economic Planning Act would help to achieve these two goals. As the plan correctly indicates, no economic plan could be complete without the inclusion of agriculture. Certainly the Nation must formulate a farm and food policy which will lessen the cost-price squeeze brought on by inflation, and which will assure that farmers will not be struck down by recession.

I am going to skip a little bit here.

The U.S. farmers must not be expected to produce at a maximum with their economic well-being determined by the weather and a game of chance titled "Russian Grain Roulette." A farm policy designed to assure adequate food supplies and stable farm prices must go beyond the provisions of the Emergency Farm bill which the President vetoed last spring.

Number one, establish target prices at not less than 85 percent of parity and loan prices at not less than 75 percent of parity on wheat, corn, and other feed grains, cotton and soybeans.

Mr. Chairman, last spring when the emergency farm bill was being debated, the Secretary of Agriculture was opposed to increasing target and loan prices because he erroneously assumed they would result in higher food prices and that they would serve as incentives for farmers to overproduce.

Well, he has given up on that. As a matter of fact, he did increase dairy prices the other day to 80 percent, which should have gone to 85 percent.

Chairman HUMPHREY. Of course, the law required him to do that. He has just been violating the law for about 10 months.

Mr. CARPENTER. You are correct. We are hoping that he will go up to 85 percent, but you are probably going to have to pass a law to get that done.

Chairman HUMPHREY. More than that.

Mr. DECHANT. Ninety.

Mr. CARPENTER. The need to update crop bases on farm allotments which are not based on 1959–60 crop years to reflect present cropping patterns. Now, it doesn't make a whole lot of difference right now because the program doesn't amount to anything anyway.

Mr. Chairman and members of the committee, I hope we'll have a program that will make a difference. Let's make all planted acres eligible for disaster payments. You know that's a disaster within itself. If you overplant, every bit that you overplant is taken off of what you don't grow. When you wind up, you haven't anything. That is the way it has normally turned out.

Make beef eligible for purchase, for use in domestic food and Public Law 480 programs. The beef industry is in the doldrums right now and they may stay that way for a little while. That's one we can't let go down the drain. Hogs can come back in a matter of 18 months, but cattle, it's going to take 24, 36 months for them to be back in production.

Establish a national department of consumer commodity reserve to be built from farm commodities in excess supply. I'm sure, Mr. Chairman, you have heard that several times before.

I'm pleased to back Tony up, too. Permit free and unrestricted access to world markets for farm products without government interference, is heard all too frequently. We are seeing some of that happen now and need not happen. Should not happen. Farm prices are suffering seriously by it. I don't know whether you realize it or not, but just last week, Tony, within 1 week the price of hogs changed $10 per 100. Now, I remember, when I used to market hogs, when it changed a quarter I had them on the market, I cried all the way home. But now then they can change as much as $10 per hundredweight in 1 week. It did that just last week.

So, prices are certainly not stabilized. We need to establish a target price for feeder calves. Now, this is a little something new. But we have had lots of conversation over it. Applicable to calves weighing in at 460 to 600 pounds at point of first sale. Somebody has to do that. Frankly I don't know how. I don't know how you get the man on the moon either. If you can do that, we sure can do this one. This is so simple compared to that.

Farmers must have adequate income to remain in business. The above recommendations, if incorporated into legislation, will provide farmers the assurance they need and will provide an economic climate which will make it possible for them to continue farming.

Looking toward the next year we are not as optimistic, as I mentioned, as the USDA forecasters. However, farmers are coming back, Tony. We sold an unprecedented seed wheat this year. So they are going back into the wheat business. Big again this year, and we are planning big on it.

Hog and beef cattle producers are hesitant to expand operations despite some improvements in feeding margins. They are waiting until long-term feed livestock prices are clearer. In the meantime, they will probably continue to market their grain direct rather than through livestock.

Due to the fact that world grain stocks will be increased only slightly this year, exports should remain high in the coming year. But there's still the world economy and energy situation which will have a bearing on the food exports from this country.

Mr. Chairman, we are not optimistic about the future. There is simply too little planning with too much left to chance. Our dependence on the weather to reduce world food production and our reliance upon large food exports to countries struggling to pay for high priced oil imports makes the future for U.S. farmers appear less than bright. Thank you very much.

Chairman HUMPHREY. Mr. Carpenter, we thank you and we will, of course, include your prepared statement in the record.

[The prepared statement of Mr. Carpenter follows:]

PREPARED STATEMENT OF L. C. CARPENTER

Mr. Chairman and members of the committee, I am L. C. "Clell" Carpenter, Vice President of Midcontinent Farmers Association, headquartered in Columbia, Missouri. MFA is a farm organization representing over 150,000 farmers in the mid-central United States.

We appreciate this opportunity of participating in these hearings on how economic policy can be restructured to better achieve full employment and price stability. Such hearings could not be complete without discussing the relationship between agriculture and the economy. One out of every four jobs in the United States relates to agriculture. Furthermore, farmers spend more than $100 billion annually on production supplies and family living expense items.

Effect of agriculture on the economy

In this context, two related questions must be asked. One, "What is the effect of agriculture on the economy?" and two, "What is the effect of the economy on agriculture?"

For too long a time, farmers have been asked to absorb much of the effects of inflation through a low-cost-of-food policy. Now they are being encouraged to help stimulate the economy away from recession by producing at a maximum. In support of this two-faced national policy, farmers are asked to assume all of the risk for all-out production.

By planting fence row to fence row, farmers have done their part to provide an abundance of food at low prices for domestic use. They have established a new record of productivity—surpassing previous records established in 1971 and 1973. As a result of their efficiency, and in spite of their increased costs of production, 80% of the increase in food costs this past year came after the food left the farms. Therefore, even in this inflationary period, consumers pay less than 17% of their disposable income on food.

In addition, their massive crop production has permitted farm exports in the $22 billion range. These exports created a favorable balance of agricultural trade of over $12 billion this past year—offsetting the non-agricultural trade deficit of $10 billion. Farm trade, then, greatly strengthened the dollar in these times of quadrupled prices on imported oil.

Furthermore, farm exports have created 1.2 million full time jobs of which 500,000 are farm workers, 50,000 are food processors, 300,000 are in trade and transportation, 100,000 are in other manufacturing sectors, and 200,000 are in other services. This at a time when the recession has caused 9% of our work force to be unemployed.

Such a record compelled the Secretary of Agriculture to say: "When the credits are handed out for pulling our economy out of the doldrums this year, the American farmer will rightly be first in line." I am not as optimistic as the Secretary that the economy has overcome its stagnation. I do agree that farmers, by assuming unwarranted risk in support of national policy, have done much to prevent the recession from becoming considerably worse. The effect of agriculture on the economy has been most positive.

Effect of economy on agriculture

Let us turn now to the second question: "What is the effect of the economy on agriculture?" Quite frankly, Mr. Chairman, public concern for the economic plight of farmers is long overdue. Farmers can no longer afford to produce fence to fence as encouraged by the Secretary of Agriculture in support of domestic and foreign policy. A misjudgment by the Secretary on world demand for U.S. farm products would result in bankruptcy for literally thousands of farmers. One more rain at the right time last summer in Russia and our farmers would be in deep trouble.

A review of history reminds us that agriculture is not insulated from a sluggish economy. It is usually the first to suffer and the last to recover from a recession. This present period is a rare exception when the farm economy has been affected less by the recession than has the national economy as a whole.

Three reasons why agriculture has not been more affected this past year and a half is because of (1) adverse weather across the U.S. last year, followed by drought in our western corn belt, in Western Europe, and in Russia this year, (2) the Russian grain sales, and (3) increased demand for food as a result of the Food Stamp Program.

U.S. food consumption per capita will be lower this year than in any year since 1969. Had it not been for the Food Stamp Program making it possible for the millions of unemployed persons to have adequate diets, domestic demand would have been much lower. Shoring up domestic demand plus an increased foreign demand at a time of decreased production have strengthened crop prices some.

But the success of farmers in preventing the economic disasters normally associated with national recessions has been greatly eroded by the effects of inflation during this period of stagflation. Instead of benefiting fully from the relative high demand which has occurred for their products, farmers have lost ground financially. For example, prices received by farmers in the month ended September 15, 1975 were slightly below those of 18 months earlier. But the prices they paid for production expenses increased 17% during this same period. This has resulted in farmers receiving only 76% of parity in September as compared to 90% 18 months ago.

In answering the question: "What is the effect of the economy on agriculture?" we respond that inflation, rather than recession, has been the major culprit causing financial difficulty for farmers.

Planning mechanisms to assure adequate food supplies and stable prices

Mr. Chairman, farmers have done their part to reduce the effects of both the recession and inflation for themselves and consumers. Now it is essential that economic planning toward achieving full employment and price stability be undertaken. In our opinion, the Humphrey-Javits Balanced Growth and Economic Planning Act would help to achieve these two goals. As the plan correctly indicates, no economic plan could be complete without the inclusion of agriculture. Certainly, the nation must formulate a farm and food policy which will lessen the cost-price squeeze brought on by inflation, and which will assure that farmers will not be struck down by recession.

I hasten to point out that of the three factors which helped insulate the farm economy from recession, only the Food Stamp Program was planned. The two others—adverse weather and Russian grain purchases—were accidental. U.S. farmers must not be expected to produce at a maximum with their economic well-being determined by the weather and a game of chance titled "Russian Grain Roulette."

A farm policy designed to assure adequate food supplies and stable farm prices must go beyond the provisions of the Emergency Farm Bill which the President vetoed last spring.

As a minimum a new farm bill should include the following:

(1) Establish target prices at not less than 85% of parity and loan prices at not less than 75% of parity on wheat, corn and other feed grains, cotton, and soybeans.

Target prices have been mistakenly called incentive prices. They should be viewed for what they are in today's world economic and food situation—protection for farmers when they produce beyond domestic need in support of our national interest, and deterrents to production when supplies begin to exceed demand.

Mr. Chairman, last spring when the Emergency Farm Bill was being debated, the Secretary of Agriculture was opposed to increasing target and loan prices because he erroneously assumed they would result in higher food prices and that they would serve as incentives for farmers to overproduce. It is refreshing that he has shown at least some change in attitude. He recently increased milk price support levels up to 80% of parity "in order to give producers the assurance they need to stay in dairying and insure adequate supplies". I only hope he will now be willing to provide assurance to other segments of agriculture.

(2) Establish the national support price of milk at not less than 85% of parity, adjusted quarterly. The recent adjustment to 80% of parity made by USDA was insufficient. Furthermore, there is no assurance that the prices will be adjusted even at the 80% level in the future without congressional action.

(3) Update crop bases on farm allotments (which are based on 1959–60 crop years) to reflect present cropping patterns. One of the most desirable features of present farm legislation is that farmers are permitted considerable flexibility in substituting crops planted without jeopardizing their allotment base. This has resulted in farmers planting those crops best suited to their particular farms. Crop bases should now be changed to reflect these new planting patterns to assure maximum efficiency of each farm.

(4) Make all planted acres eligible for disaster payments. USDA has encouraged farmers to plant beyond their base acreage. But if their crops are destroyed by drought or flood, production from acreage in excess of the base is used by USDA to offset any loss incurred on base acreage.

(5) Make beef eligible for purchase for use in domestic food and P.L. 480 programs. This would help to reduce the oversupply of beef at a time when many persons have downgraded their diets due to unemployment and inflation.

(6) Establish a national farm and consumer commodity reserve to be built from farm commodities in excess supply. We support reserves at the following levels: wheat—600 million bushels; feed grains—40 million tons; cotton—5 million bales; and soybeans—150 million bushels. Approximately two-thirds of the stocks should remain on farms or in farmer-owned cooperative elevators. Stocks should be purchased only when prices have dropped to 85% of parity or below, and sold only when prices reach 115% of parity. We strongly oppose the Administration's plan of using supply levels rather than price as the triggering mechanism for releasing the stocks. If stock levels are used to trigger commodity sales at market prices, the Administration's prophecy of the reserves serving as a price depressant will become self-fulfilling.

(7) Permit free and unrestricted access to world markets for farm products without government interference as has occurred all too frequently. These restrictive actions have served to lower domestic farm prices.

(8) Extablish a target price for feeder calves applicable to calves weighing in the 450–600 pounds at the point of first sale. We must not permit cow-calf operators to reduce greatly their breeding stock. Hog producers have reduced their breeding stock to the point that production is now 20% below previous levels. They can reverse the production trends quicker than can cattle producers. We must provide assurance to cattle producers to the point that stocks will not be reduced to less than desirable levels.

Farmers must have adequate income to remain in business. The above recommendations, if incorporated into legislation, will provide farmers the assurance they need, and will provide an economic climate which will make it possible for them to continue farming.

Outlook

Looking toward next year, we are not as optimistic as USDA forecasters. We believe farmers are willing to produce fence row to fence row again if economic signals indicate such action. Wheat farmers served by MFA have already purchased large amounts of seed. Also, if climatic disasters do not occur as they have in recent years, our supply and demand picture could drastically change—causing great reductions in volume of sales and prices. The U.S. farmers would once again be the victims. And this could seriously jeopardize our food production and supply in the future.

Hog and beef producers have been hisitant to expand operations, despite some improvement in feeding margins. They are waiting until long-term feed-livestock prices are clearer. In the meantime, they will probably continue to market their grain direct rather than through livestock.

Due to the fact that world grain stocks will be increased only slightly this year, exports should remain high in the coming year. But there is still the world economy and energy situation which have a bearing on food exports from this country. The $25 billion loan program established for oil consuming countries permitted those countries to continue importing food. If this loan fund is a one-time shot in the arm, then a shortage of exchange will hit us eventually. If this happens, much of Western Europe and Japan would probably have to restrict their imports. Russia, and other oil sufficient countries, would be able to continue importing from us.

In summary, Mr. Chairman, we are not optimistic about the future. There is simply too little planning with too much left to chance. Our dependence upon the weather to reduce world food production, and our reliance upon large food exports to countries struggling to pay for high-priced oil imports make the future for U.S. farmers appear less than bright.

Chairman HUMPHREY. I want to make three observations about your statement, and yours, too, Mr. Dechant. No. 1, the importance of a national food policy, which we do not have. We live by guess and by God all the time. And by good luck and by bad luck. And I believe as you pointed out that had there been one more rain in the Soviet Union in June, the American farmer and wheat, corn, soybeans would be most likely in a disastrous position today.

Mr. CARPENTER. I'm not sure he's not going to be in trouble yet.

Chairman HUMPHREY. Not at all sure. But at least it would have been a foregone conclusion.

Second, I would hope that those who are here and interested in these hearings would take note of the fact that 80 percent of the increase in food cost this past year came after the food left the farms. And that is buttressed by something else that is even more specific. Prices received by farmers in the month ending September 15, 1975, were slightly below those of 18 months earlier. So that when the city consumer talks about farmers' prices causing these supermarket prices, I think it's time to take a look at what the facts really are.

Mr. CARPENTER. At the same time our costs were up 17 percent.

Chairman HUMPHREY. And your costs were up 17 percent in the same period over what they were 18 months earlier.

I read a statement that during the time when wheat—about a year ago September—wheat was $5.05 a bushel, $5 a bushel, wheat $4.50. About $4.50. Again depending on grade. So wheat is less today than it was a year ago. Wheat dropped in February of 1975 down to around $3.50, $3.75. From the period of $5 a bushel down to $3.75, the price of bread went up 9 percent.

Now, somehow and some way our farm friends have got to get this message across to the American consumer and public. Because it is my judgment after having studied the operations of marketing—and we have a special study in this committee on marketing practices—that when these price gyrations take place and prices get way up, that's the price that gets fixed into the cost that ultimately passes on to the housewife who goes into the supermarket. And the farmer gets caught in all the ups and downs, and there's no way that he is sufficiently fleet of foot to be able to take care of those fast gyrations. nor does he have the capital.

Many farmers do not have the capital to be able to play that kind, as you put it, of Russian roulette. Because it's even more than that. It's an incredible thing. I'm not going to—I have questioned you men so many times, I won't do it again. I can just say that we are proud to have you here.

Congressman Bolling.

Representative BOLLING. Mr. Chairman, I want to compliment you again for having agriculture in a prominent place in this matter. I have a special interest in both the witnesses today because I come from a district that doesn't have a single farm in it. But you can tell how agriculture in Missouri and Kansas and the surrounding area is doing by the retail sales in my department stores. And I'm so conscious of the importance of agriculture, the welfare of my own community in Kansas City that I vote, I guess, pretty much like the fellow from the farm area. So much so in fact, that I was honored this last year by the organization that Mr. Carpenter represents with an award which shook up a good many of newspapers in Missouri that this mere city Congressman would be recognized by a farm organization.

Chairman HUMPHREY. City boy makes good. That takes political courage.

Representative BOLLING. In any event, I think you did very well in having them here, and I'm delighted they are both here.

Chairman HUMPHREY. Senator Percy.

Senator PERCY. I'd like to ask each of you for a brief comment on the phenomenon of fertilizer. We had a fertilizer shortage of great dimension a year or so ago. We decontrolled fertilizer and more became available, but the price went up substantially.

As the price went up farmers seemed to use less fertilizer and yet crop yields were very high; 100 to 200 bushels of corn. Substantially ahead of before. Do you think that possibly farmers were finding they can get along with less fertilizer and that they perhaps were using too much just because it was cheap before?

Mr. CARPENTER. Senator, I'll take a stab at that. In the Midwest, as you know, last year and this rubbed over a little not this year before, the year before last in Illinois that we had a drought and failed to raise quite a bit of crops as we had hoped to. A lot of farmers decided they had fertilizer for 125 bushel of corn, but they only got 75 bushel out. So they had fertilizer left, so they didn't put in on the cornfield.

The other thing in the Midwest particularly that has reduced the usage is that it's very difficult to make fertilizing pastures pay out on $18 to $20 calves that you raised to sell as feeder calves. It just won't pay out, Tony. You can't make that come true.

Some farmers are pretty good businessmen. In fact, the ones that are not businessmen are not around there anymore. And they find out what they can pay for and what they can't, and that basically I will admit that we've got a few suppliers of fertilizers, and my company happens to be one that sells more fertilizer than anybody else in Missouri, and we have an excellent supply now. What will happen if natural gas is shut off, then that's something else. We can be short in less time than it takes to think about it.

Mr. DECHANT. I'd like to comment on his closing comments. I have been a strong and vocal opponent of deregulating the price of oil, and particularly natural gas. As he indicated, natural gas is the feedstock for nitrogen and all this does is drive up our costs some more. Farmers are tremendous users of fuel in this country. The largest single user of any segment of the economy. Every time we turn around our prices are moving up. And then we have embargos and boycotts which destroy the competition or the free enterprise that we were promised. So I have to put a plug in on this deregulation of prices that's going to move our costs up drastically.

Senator PERCY. On that particular point I'd like to ask you about this petition that we received. One point is roll back and freeze prices to the level of August 1, 1971. What if by Government law we froze the price of every agricultural crop and all prices of livestock and rolled them back by law to August 1, 1971?

What would happen to our supply? And then what would happen to prices?

Mr. DECHANT. Well, Senator, I think I would join the comments that you made when you answered the question before the last panel. See, one of the problems we have, Senator, is that the corn is now at about that figure you quoted. Under the present farm legislation I think it's just recently—will go up in 1976, but corn has been a $1.10 and that's where we'd be. $1.10 a bushel.

Senator PERCY. If you rolled prices back?

Mr. DECHANT. That would be impossible for the farm economy.

Senator PERCY. Would farmers plant?

Mr. DECHANT. Let me say this: Our dairy farmers are in trouble and as the chairman asked me to repeat, we are in trouble on the livestock front, on the dairy front, on the pork front, because farmers are going out of business. Because the prices they are receiving now, which are somewhat higher than the $1.10 and $1.25 are inadequate. They are inadequate now. In other words, except for corn, which is hovering around 100 percent of parity——

Senator PERCY. So you would agree then that the rollback of prices would be self-defeating, that it would really cut off supply and stop supply or seriously impair it? And it would really cause black market or simply nonavailability?

Mr. CARPENTER. You just won't have anything on the shelves in the meat market and dairy market, and in the grocery store.

Senator PERCY. You just won't have it?

Then could I ask this question: How is it you can apply the laws of supply and demand to the products you produce when you want to apply legislative prices to the price of products that you buy? In other words, what's good for the goose is not good for the gander?

What causes you to think that the oil fields of southern Illinois are going to produce and under law are going to produce if they've got rollback prices?

Let's assume they are rolled back to something less than their cost or where they can invest the money equitably and get a fair return.

Mr. DECHANT. In 1952 the American farmer was at 100 percent of parity when Charlie Randal was Secretary of Agriculture. In those closing days we were at 100 percent of parity. Then there was a period for 21 years where we were up and down, but never close to 100 percent of parity. The only time we arrived at it was when we had the large sale to Russia. Which stimulated consumption and we found ourselves with the only supply of grain in the world, and the Russians came and got it at bargain basement prices for us people down in Missouri and Kansas.

But, you see, agriculture has never really shared in this Nation's prosperity. We have been at the low end of the totem pole. That's why we are in trouble today on dairy, in trouble on hogs, we are short hogs. Prices changed $10 in a week. There aren't any hogs. That's a simple thing. There's not enough.

Senator PERCY. But Mr. Dechant, by testimony we have just heard a few minutes ago by Mr. Sandor who gave it and then had to leave, I speak as a farmer. We have three farms in Illinois. And I know it's very unpopular to ever say things are well on the farm. If you are standing there in a downpour it's dangerous to say you've got enough water because the farmer would say it could stop raining.

Mr. Sandor says wheat prices jumped from $1.30 to $5.50. Corn prices jumped, and in a year's period prices jumped to 400 percent. So that we've got quite an increase there, and I'm not saying that's too much, I'm saying we are getting now a fair return on investment. But you know, it's about the same as the energy crisis.

Mr. DECHANT. But, Senator, at a dollar and a quarter farmers were bankrupt. I testified that we have lost millions of farms. In a 20-year period we took 20 million people off the farms and out of the rural communities because you have chronic low income. So when Mr. Sandor talks about 3, 4 years ago, I agree with Mr. Carpenter, that he's talking about a world where the farmer had little or no stake in anything. And he's just now beginning to move up to where he should be in terms of balance with the rest of the economy, but not yet there.

Senator PERCY. My time is up and I'd just like to say first I deeply appreciate your testimony.

Second, you represent a very large number of farmers. But in Illinois, the Illinois Agricultural Association, the Farm Bureau is the dominant organization, of course. And I'm delighted that they are moving toward a freer market philosophy and they have been for some time. I tend to think we really have to do that. I admire your comments on freeing up and getting rid of export controls. That's free market.

But I'm really very concerned about putting in and keeping tied to parity prices and so-called target prices. I hope we wean ourselves away from reliance on bureaucrats down in Washington telling us how much to plant and grow. Let the decision be made by the farmer, and with that my time is up.

Mr. DECHANT. May I have one more comment. Well, Senator, when farmers finally get to the position where they are making some profit, you know over an extended period of time, then we are willing——

Senator PERCY. They are there now, aren't they? Some? On the whole?

Mr. DECHANT. No, no. Not on the whole. National—are at what price?

Mr. CARPENTER. It depends on what item you are looking at. Cotton as of now, the preloan price is 34 cents. The parity price is 79 cents. So cotton farmers sure aren't doing very good. And corn, if you had a target price of $1.38 and the parity price is $3.10——

Chairman HUMPHREY. Might I just interrupt to say for our television and radio audience who are not familiar with these terms, parity simply is a finite word that explains the price that a farmer pays for what he buys as compared to the price that a farmer gets for what he sells. The problem with the farmer is he's always going to the market every morning and saying, "What will you give me?" He never knows. But the industrialists, the U.S. Steel Co., a big steel company—and I don't say this to be in any way critical of them—they announce what the price is, and if you want to buy an automobile, they've got a list price on it. They don't come along in the morning and say, "What will you give me?"

You go out and buy a gallon of gasoline, and they've got a sign up there that says 55.9, which is really a way of saying 56 cents a gallon. You wouldn't get very much gasoline if you said, "What would you take for gas this morning?" So I think people have got to understand this economics, and the point Mr. Sandor was making. He took the high points. Now, what are soybeans selling for now?

Mr. CARPENTER. Soybeans, as of September 15, 1975, were selling at $5.32, but that is $4.50 now.

Chairman HUMPHREY. $4.50 now, and $10 at the time they had the shortage all over the world of protein, and at the time that they proved the Peruvian catch was going; we didn't have the anchovies and our vegetable protein and animal protein. You take the high figures.

I remember when you could buy a bushel of wheat for 22 cents, and they used to say that corn was 9 cents a bushel on the cob and 10 cents off the cob. You know, you can take these farm prices and play with them all over the place. I think the important thing on agricultural prices basically is what is the net return to the millions of farm producers, and the millions of farm producers are at the mercy of the market. When Chrysler Motors wants to reduce the price of their car they tell you it will be a rebate. They keep the list up there and tell you it will be a rebate.

Now, the farmer doesn't come around and say, "I will tell you what I will do. The price of soybeans is $12 a bushel, but, buddy, I will give you a rebate of $2." He can't do that because he doesn't even control his market.

Congressman Long has to get in on this. He is an old farm boy from down in Louisiana.

Representative LONG. Yes, I am. Frankly, I a n one of those trying to leave the farm. I own an interest in a small farm. I have been trying to sell it.

Mr. CARPENTER. So have I.

Representative LONG. It is very difficult, particularly in our part of the country, because we have had so much rain, but I think the fragile nature of this whole economic problem, and particularly its relationship to agriculture, and the interrelationship of all of these complex problems, and the complexity of them is fairly well shown by the fact of what you said, Mr. Carpenter, that had they in the breadbasket of Central Russia had a major rain at a timely time, that it would have had so much effect upon the world economic situation, and particularly that that exists in the United States.

The number of things it would have affected, it would have affected the balance of payments problems something horrendously, which would have in turn affected the value of the American dollar, which has been making strides abroad, and brought it probably back down again.

It would have bankrupted innumerable farmers, because of the program being followed by the Ford administration, by Secretary Butz and advocated by them, and in turn had a very, very serious long-range effect on agricultural prices in the United States and followed the trend out, and many more of them would have had to leave the farm than have been leaving over the past years.

Then it would have, of course, as a result of all of this, in my opinion, considerably worsened the economic recession in which we find ourselves, but it would have cut down the amounts of money that were available to be spent and the consumer demand.

I think, as I say, I just think it is exemplified, the fragile nature of the problem, the interrelationship of one to the other, and not only in the United States, but for that matter worldwide now. You just cannot segregate any particular aspect of the problem one from the other.

Mr. CARPENTER. We are walking on eggshells when we are planting fence ro r to fence row. If we get a good crop and the rest of the world gets a good crop we are going to have a problem.

Chairman HUMPHREY. Unless you have a reserve system.

Mr. CARPENTER. Or some kind of a loan system.

Representative LONG. As you said, some type of a loan system, and I think the conservative approach, they look at this as a conservative-liberal; I think the distinctions are no longer applicable, a conservative-liberal sort of argument, as to whether or not you have a loan type of a program, and it seems to me the conservative thing to do is from the standpoint of looking at it from starving people, looking at it from being sure that we have a continuing source of supply, protecting our source of supply, and looking more than just at this year, that the thing to do is to have it created so that if we have a problem at all, we had it in overproduction and to continue those people in business rather than run the risk of losing so many of our suppliers. Now, I just never could understand this.

Mr. CARPENTER. That is the reason we say it is the time to plan now for you folks, make an economic study, to be planning some of these things.

Representative LONG. Do you think planning has the same connotation as it used to have?

Mr. CARPENTER. No.

Representative LONG. It used to be that when you talked about long-range planning people would say you were a communist. Do you think it has the same connotation now?

Mr. CARPENTER. No.

Representative LONG. People have come to realize the necessity of people like Mr. Percy with his corporate background. I have had a corporate background of some degree, an investment banker, and to some degree in the financial law business, and if I went to see a potential investor, a person to whom I was going to recommend to people that they invest their money, and they did as sorry a long-range planning as we do with respect to what they are going to do, I wouldn't even get out and look at their balance sheet; I would be walking out the door and say, "I am not going to recommend to any people I represent they invest in you." It just doesn't make any good sense. That again seems to me to be the conservative approach when you get into these terms of using liberal and conservative.

Mr. CARPENTER. Congressman, we have a 5-year plan, and I think it is a good plan. I think it is a good thing to do.

Representative LONG. Thank you very much.

Chairman HUMPHREY. Thank you, gentlemen. We greatly appreciate your testimony.

We now have a new group of witnesses on job creation in the Midwest. Alan Boyd, president of the Illinois Central Gulf Railroad; Leon Finney, president of the Woodlawn Organization; Dan Hamermesh, professor of economics, Michigan State; and Charles McKenzie, director of human resources of the city of Minneapolis. And I'm also going to ask Mr. Ira Latimer, executive vice president of the American Federation of Small Business, to join us here.

I want him to come up here. Mr. Latimer, is he here now?

[No response.]

Mr. MacGregor, will you come up here? If Mr. Latimer comes in we will bring him in because you are all working on the same subject matter.

All right, Mr. Body, I know that you have been patient and you have some time constraints. We are going to put you on right now, and go down the list according to the way I announced them.

Mr. Boyd, Mr. Finney, Mr. Hamermesh, Mr. McKenzie, Mr. Latimer, and Mr. MacGregor.

Please proceed.

STATEMENT OF ALAN S. BOYD, PRESIDENT, ILLINOIS CENTRAL GULF RAILROAD

Mr. BOYD. Thank you, Mr. Chairman, and members of the committee. You have an agenda here which could carry us well into the night.

Chairman HUMPHREY. We have a very effective staff. They all lost their watches, and they even ran short of a calendar.

Mr. BOYD. Thank you for giving me the opportunity to testify. It seems to me that one of the greatest services your committee is performing is to humanize the term "full employment policy," by talking not so much about what an acceptable employment level is, but by establishing unemployment as a problem that impacts on individuals who have the right to expect that if they are able and willing to work, the officials elected will do everything possible to provide them with employment.

I am not an expert on the many alternatives, suggestions that have been made to accomplish this objective.

I know there are many types of different mechanisms to use what I understand is current jargon, that has been developed, relying on varying combinations of public works, public employment and the stimulation of private employment. I would like to focus on two particular aspects of a full employment policy. One is short-run employment or creation as a counter cyclical device. The other is the longer run implications of a general government commitment to full employment.

In short run, public service employment appears to be of beneficial strategy, particularly when inflationary constraints exist that inhibit expansionary monetary or fiscal policies. There are many private and public services curtailed by the impact of recession that could be usefully provided by federally funded public employment programs. In my own area in our rail systems and expanding mass transit, it would both provide employment and socially useful output. Extensive programs would, however, raise questions of the availability of the attendant capital requirements, which would have to be addressed.

Long term, there are even more solutions offered for meaningful employment in social welfare plights and all of their pros and cons. I have been impressed, however, with the proposal by Arnold Packer of the Committee on Economic Development that categorical job guarantees be developed, tied to family units and income requirements with attendant reductions in the public cost of other support programs, such as minimum wages and food stamps and public housing.

My primary concern over the long run, however, is the intelligent planning of government involvement as a supplement to a private marketplace. We really have two objectives to provide for full employment, and to do so as efficiently as possible. To do so as efficiently as possible government planning has been advocated, a word which strikes fear in the hearts of most businessmen. I share the fear but do not as a result reach the conclusion that the Government should limit its activities strictly to priming the private market system through fiscal policy approaches, such as tax incentives and employment subsidies.

As a businessman, my fear is that should we not stress the need for government planning, the ability of the private economy to grow and to provide maximum quantity and quality of jobs will diminish. To me, the most convincing argument in favor of the private enterprise system is that it results in the most economically efficient allocation of resources of any system yet developed. While we cannot rest our social policies strictly on efficiency grounds, we also know that we can not do everything we want to do, and that economic efficiency is a requirement for maximum utilization.

For instance, the unplanned development of transportation policies and programs has contributed, in my opinion, to the transportation crisis facing much of our system.

Our experience in transportation indicates that government planning need not necessarily represent increased government involvement. It ought to represent a process by which the government can actually understand the consequences of its actions on the future course of the economy. One result of such a planning processs could be altering spending priorities and eliminating government regulatory programs that may be unnecessarily costly to the economy and to the society.

Ideally we must supplement employment levels to achieve full employment. We would do so in rank order of the value to society of the products produced. Our economy and our political system ought to provide the signal for such priorities. If transportation is any indication, these signals are currently less than socially optimal. Since the government influence on the signals is undeniable, and since planning would necessarily focus on social costs and benefits, planning properly undertaken would improve the process, but Congress must be eternally vigilant that planning is undertaken to rationalize necessary government involvement that is to focus on overall consequences, not simply to expand the government's role.

One thing that causes me such concern is that we achieve a full employment objective. I support government acceptance of the task, but our expanding needs, public and private, raise the real spector of potential inadeouate capital in the future.

Recent studies indicate that sufficient capital can be generated to meet future employment requirements if the government at all levels achieves a budgetary surplus when full employment is reached. That, as we all know, is not a foregone conclusion.

My view is that we must accept the challenge of guaranteeing full employment in some fashion, and that the responsibility for correct and cyclical balances properly rest with the Federal Government. To do this requires careful planning. There are opportunities for socially useful public and private employment to meet full employment targets. But planning must focus not only on determining priorities among these alternatives, but on fully understanding the impact of the Government's role, and insuring that the long-run consequences are fully understood.

We are not after more Government involvement. In many areas, we should have less. We should investigate the development of planned Government action in priority areas, and the maintenance of full employment should receive governmental priority. Thank you very much.

Representative BOLLING. Thank you, Mr. Boyd, for a very stimulating statement.

Mr. Finney.

STATEMENT OF LEON D. FINNEY, JR., EXECUTIVE DIRECTOR, THE WOODLAWN ORGANIZATION

Mr. FINNEY. Senator Percy, Senator Humphrey, Representative Bolling, Representative Long.

Gentlemen, not only do I consider it a privilege to be able to participate in these vital hearings today, but I also feel it to be an absolute necessity; because if there is one subject on which any representative of our organization can be called an authority, it has to be employment.

Unemployment was a problem in the Woodlawn community during the periods when the United States was said to be enjoying an economic boom. Historically, we have had people who have had to depend upon some form of public assistance in numbers that have far surpassed the national average, because a sizable portion of Woodlawn's residents have been denied both the opportunities to acquire the skills as needed for adequate employment as well as job opportunities.

The tragedy of today, gentlemen, is that we have added to the assistance roles individuals who have until recently been able to support themselves and their families as full-time wage earners, but now find themselves laid off and collecting unemployment compensation. These are proud people who resent being on the dole even more than those who have never had a chance to work. These are people who are suffering all the psychological ramifications that come with the sudden inability to provide for themselves the necessities of life. And what is happening is that unemployment at a rate that approaches 50 percent is playing havoc with community morale.

As a community organization, TWO has sought constantly to alleviate the unemployment problem. We have conducted formal training programs since as far back as 1964, when the first Manpower Development Training Act was passed. Since then we have followed manpower from the Department of Labor through the Office of Economic Opportunity and to the State Department of Vocational Education and now to city hall through revenue sharing. In 11 years we have spent over $5.5 million of government money in training programs, with over 6,000 people benefiting from the instruction and job placement. Last year, contracts totaling approximately $230,000, we were able to provide training in one of six offered skill areas to 215 unemployed or underemployed people. Of that number, 82 trainees were placed in jobs with total gross annual salaries of $500,600.

Put in another way, that means that those 82 people were changed in 1 year from tax consumers to tax generators. Those 82 people contributed $16,420 to the unemployment compensation fund; $29,285 to social security; $12,331 in State taxes and $40,939 in Federal taxes, bringing a total gross tax payment for just 82 people of $98,997.

Now, we spent $230,000 to generate $98,997, almost $100,000, well, in 2 years we would have recaptured our investment in human beings in that instance.

This year our training programs were funded under the Comprehensive Employment Training Act through Chicago's mayor's office of manpower. Another 215 people received training through our career vocational institute and job placements have been higher for 1975, producing a tax impact even more impressive than for 1974, producing a greater tax impact, even more impressive than in 1974.

We are currently in the process of requesting $850,000 CETA funds to train 500 unskilled residents. This past year, we have also been able to put some 76 people to work in our organization through CETA work experience funds. Last summer 150 young people worked on TWO/WCDC sites as participants in the Neighborhood Youth Corps.

All of these measures—the Manpower Development Training Act, the Comprehensive Employment Training Act, the Neighborhood Youth Corps—have been extremely helpful in our efforts to combat unemployment in our community. But today, these measures are not enough.

Because of the incredibly sad state of the economy, we are going out of the world backwards. These training programs cannot help people who already have skills, and have been laid off from good jobs. They don't need training, they need JOBS—right now.

That is a reality that makes it essential for us at TWO to wholeheartedly support the emergency jobs program that Senator Humphrey's Joint Economic Committee recommended in its recent report to Congress.

As I understand it, this program would allow local organizations to identify projects that would contribute to the general welfare of the community and would also put from 10 to 100 people to work on each project. These would be people who possess the necessary skills to get the job done, but who have been out of work for more than 3 months.

This plan, which suggests that local community organizations and institutions identify the needed projects, will serve two important purposes.

The first, of course, is that it will create jobs, immediately reducing the rate of unemployment.

Second, it will allow us on the local level to engage in rebuilding our once-great cities. There is enough urban blight and deterioration in our communities across the Nation to create reconstruction projects that would put virtually every able-bodied man and woman to work at a decent job. We could use our dormant manpower to rebuild those cities that were once the backbone of the American economy.

You know, there is a certain measure of irony in our current economic crisis. Here we are just entering our bicentennial year, celebrating 200 years of prosperity, progress and preeminence. We have had abundant resources with which to create the richest and most powerful nation in the world. Yet, we still haven't learned enough through the years to prevent the economic calamities; we still haven't established a mechanism through which all Americans can benefit from the national prosperity. We haven't even figured out a way to make sure all able-bodied and willing Americans have a job and the dignity a job brings.

It is high time that this country begin to do the kind of economic planning that will prevent a recurrence of recession and depression. Even more important, we must begin now to combat what I perceive to be an even greater problem which has yet to have its full effect on our economic condition.

I refer to the energy crunch. In its zeal for rapid growth, large profits and fancy gadgets which appeal to human sloth, the American industrial society has virtually used up its energy resources. Unless we immediately launch some first-class planning efforts at the Federal level, we will experience an unemployment rate that will make the current one seem absurdly low. It is for these reasons that I'm inclined to endorse the Humphrey-Javits Balanced Growth Economic Planning Act, a bill which, if passed into law, will establish procedures within the executive branch for the drafting, consideration, and adoption of a long-term economic plan. Since such a plan would have to be submitted every 2 years both to Congress and to the Governor of each State, the plan provides for accountability on the President's part, and also allows for input from the State level.

We must begin, it seems to me, to turn away from labor-saving devices in production and turn, instead, back to labor-intensive methods. As the energy crunch heightens over the ensuing years, making full employment an even more remote concept than it is today, we must turn to our most precious and constant source of power; not oil, not gas, not coal, not solar energy, and not electricity—but manpower.

In 1946, Congress enacted the Employment Act which declared as Federal policy the use of all practical means "* * * to coordinate and utilize all its plans, functions, and resources for the purpose of creating * * * conditions under which there will be afforded useful employment opportunities * * * for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

Senator Humphrey has recently sought to give the Federal Government even greater responsibility in this regard with the introduction of a bill for an Equal Opportunity and Full Employment Act of 1975.

I see this as an extremely important piece of legislation, for it would virtually guarantee each and every adult American citizen the availability of equal opportunties for useful and rewarding employment. That guarantee is of particular importance in a community such as Woodlawn where the last-hired, first-fired syndrome always creates unemployment rates higher than the national average.

There are several aspects of this bill which appeal to me.

First: The local planning councils, which were established under the Comprehensive Employment Act of 1973, would be required to identify local needs for additional employment opportunities, and to select and plan projects to provide a reservoir of public service and private employment projects to supplement available employment.

Second: The bill is sensitive to the needs of communities such as ours where training is needed and where assistance with problems such as transportation to and from jobs is needed.

Finally: The standing Job Corps concept introduced in the bill guarantees a fixed, livable income to those unable to get full-time work, but requires that they be available for work on projects and activities that are part of community public work reservoirs. Such a program would tend to give dignity to the aid recipient and at the same time encourage him to seek permanent full-time work.

Gentlemen, these types of legislation which will result in the creation of jobs for everyone who is able and willing to work are an absolute must. Organizations such as ours must continue to take the initiative in the attempt to train the unskilled. But if there are no jobs waiting once we've trained them, then it's all to no avail.

We must fight unemployment tooth and nail, even if it means calling off the fight against inflation for a while. After all, for a person with no income, it really doesn't matter if the cost of a Cadillac is $700 $7,000 or $70,000—he can't pay any of it. Thank you.

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

Mr. Hamermesh.

STATEMENT OF DANIEL S. HAMERMESH, DEPARTMENT OF ECONOMICS, MICHIGAN STATE UNIVERSITY

Mr. HAMERMESH. Thank you, Mr. Chairman.

I would guess that unemployment rate today is roughly 8 percent. and I would doubt that we'll see it below 6.5 percent before January 1977, and that's a very optimistic view.

Chairman HUMPHREY. I would think so.

Mr. HAMERMESH. Because of the lags involved, there is little we can do to improve the situation over the next year. There are, though, several approaches that might be effective in getting us back below 5 percent unemployment before 1979. There are also some alleged solutions that would be both expensive and relatively ineffective.

This second group—those labor market policies that we should avoid—includes many suggestions that have received attention in previous testimony before various congressional committees. Among these are:

One: Increased State and local public service employment funded by the Federal Government. In the past year over 300,000 such job slots have been funded. The best evidence suggests that the actual number of jobs created is less than half that. States and localities use most of shared revenue to avoid raising taxes that would otherwise have been necessary.

Two: Subsidies that produce large windfalls to private firms. These include proposed reductions in payroll taxes for OASDHI (social security); while these would stimulate employment somewhat, most of the revenue loss would be on currently employed workers and would initially be a windfall to employers.

There are a number of ideas—some novel, some just extensions and improvements of current programs—that could be both cost effective and would lower unemployment with no significant increase in the rate of price inflation. These policies include:

One: A temporary marginal employment tax credit. This would reduce corporate taxes by 10 percent of wages on all employment in a firm beyond employment in a base period. The year 1975 would be a good base period for such a credit applied to 1976 taxes. This credit encourages firms to employ more labor, yet it avoids windfalls on labor already employed. The best estimate is that this credit would create over 300,000 jobs at a budget cost of around $1 billion.

Two: Changes in the unemployment insurance system to induce employers and workers to act so as to lower unemployment while maintaining the income of those who do become unemployed. Federal standards requiring more perfect experience rating of employer taxes should be enacted. A conversion of half the worker's insurance entitlement from a weekly benefit into a redundancy payment when he is laid off would also help.

Three: Federal job creation in socially useful activities, analogous to the unfairly maligned WPA of the 1930's. If this program were enacted, it would require raising Federal taxes, or at least not lowering them, if price inflation is to be avoided. It is similar in nature to that in the Humphrey-Hawkins bill.

Four: A manpower training program in the private sector. Today CETA has become to a very large extent a local public service employment program.

As a result, we essentially have no Federal training policy. In order to insure that we invest in the skills of young and displaced workers, CETA should be rewritten to prevent localities from using most shared revenue in the public sector. The United States has yet to try a Federal training program on a scale large enough to produce noticeable effects on the labor market.

Five: Recognition that the employment service is the best hope for increasing the efficiency of the labor market. This view implies the need to stop burdening it with legislative requirements that it enforce work tests for income maintenance programs; it suggests we free up its resources to allow it to do what it can do best—find jobs for the unemployed.

There is no easy way to return to full employment without unacceptable inflation. However, taking these actions would get us closer to that goal than would any other set of proposals, and would do so without building further inflationary biases into the labor market. Thank you.

Representative BOLLING. Thank you very much, Mr. Hamermesh.

Mr. McKenzie.

STATEMENT OF CHARLES McKENZIE, DIRECTOR OF HUMAN RESOURCES, CITY OF MINNEAPOLIS

Mr. McKENZIE. Mr. Chairman and members of the committee, I will limit my brief prepared remarks in support of an overmaligned Federal program. That is CETA and the public service employment program.

In Minneapolis, CETA and public employment have been an unqualified success. Our city has provided meaningful productive employment which has benefited the participants and the community as a whole. We have avoided make-work projects and have allowed for career ladders under a merit system and have paid prevailing wages to the participants. The city of Minneapolis has emphasized employment in which the participants can take pride and gain experience from. The work done by these public employment workers will prove to be of ongoing utility to Minneapolis.

There are problems with public employment, but when the whole story is told, it is one of men and women working who otherwise would be unemployed.

In the past 2 years, the city of Minneapolis has received in excess of $8.5 million in public service employment funds. These funds have enabled the city to hire 1,377 unemployed or underemployed residents to accomplish work and projects which otherwise we would not have been able to accomplish. Recognizing that all public works projects financially consist of labor, materials and administration the city of Minneapolis reasoned that bond money could be used to pay for materials and administration and the public employment program could be used for labor. With this thought in mind, the city increased its bond program and added to it project schedule to increase public works and employ persons in the construction trades.

Examples include:

1. Residential paving in South Minneapolis of 4.9 miles (plus 9.1 miles of curb and gutter). CETA participants performed most of the labor in this project.

2. Construction of two municipal parking ramps, which contribute to the solution of the EPA ordered pollution reduction program in the Minneapolis central business district. These ramps were built on the periphery of downtown adjacent to Orchestra Hall and the city auditorium. Again, without the $900,000 of CETA funding these ramps would not have been built. The immediate construction of these ramps provided jobs for the unemployed and underemployed in the severely depressed building trades and construction areas. The city is fortunate to have a day labor system and consequently the expertise to engage in such construction projects. The city currently does about 50 percent of its own construction work.

3. The city utilized CETA funds to hire 25 building aides to provide protection for senior citizens in high rise buildings located in high crime areas. This program has been very successful and has provided a very needed service for our senior citizens.

4. The city utilized CETA funds for an internship program for qualified college students. This program provided needy college students (primarily young Vietnam veterans) with part-time jobs to enable them to stay in school. These students provided a talented resource to various city departments.

5. The city added 26 firefighters and 31 patrolmen to the city forces to provide greater protection for its citizens. In addition, employees were added in virtually every existing city department to increase services to the public.

6. Large numbers of additional blue collar employees were added to speed up existing paving and storm drain projects such as the Phillips South, South Hiawatha, Marshall, South Hay, Wes Powderhorn and Northeast Riversedge projects.

7. Additional public works employees were added to increase snow and ice removal as well as to initiate a project for the removal of large trash items.

The use of CETA funds for these projects has opened the doors of employment for individuals who prior to the program had had trouble gaining access to city jobs. For example, the CETA program, with its nearly 1,400 hires has a 13 percent minority representation. We feel this is an outstanding accomplishment since minorities constitute 5.9 percent of the Minneapolis work force. A summary of employees hired under CETA shows:

	Percent
Minority	13
Disadvantaged	17
Veterans	38
Total hires	1, 377

Thank you for the opportunity to testify here today. I will provide the committee with a more detailed summary[1] of how CETA and public service employment has been utilized in Minneapolis if you so desire.

Representative BOLLING. We'd like to have that.

Mr. MCKENZIE. And I also have a number of pictures[1] which show some of the work that CETA employees have done over the past several months in the city.

Representative BOLLING. We'll be glad to accept those. Thank you, Mr. McKenzie.

Mr. MacGregor.

STATEMENT OF ROBERT MacGREGOR, PRESIDENT, CHICAGO UNITED

Mr. MACGREGOR. Thank you Congressman Bolling and Congressman Long and Senator Percy and Senator Humphrey. I didn't know I was going to be sitting here today next to Chuck McKenzie, because I helped hire him in Minneapolis at one time, and now I'm here in Chicago.

[1] The information referred to may be found in the files of the committee.

Let me begin by making a few comments about what business is doing about unemployment here in Chicago. Major companies represented in Chicago United have established an organization called the Chicago Alliance of Business Manpower Services which works with public and private manpower employment organizations. The primary purpose of CABMS is to develop jobs among major private employers. These jobs are primarily at entry level but there are some at every level with special emphasis on minorities.

CABMS' staff is currently providing staff support for the local National Alliance of Businessmen. Even during this slack economy NAB is optimistic that their project will meet last year's total of 38,000 jobs.

A new program for the business community this year will be the marketing of the $4.2 million on the job program for the Chicago area, formerly operated by the city of Chicago. As good as these programs are, they cannot counter unemployment by themselves.

The unemployment in our cities is depressing to us all. Yet (and I speak here as a private citizen), this is a time of opportunity. We can put these people to work rebuilding our cities if we have sufficient leadership and creativity. There is already public service money in the cities. But how is it being spent? Too often the money is used for "make-work" projects. We put an extra janitor in a nonprofit agency, or an extra messenger in another agency. Too often, the NYC funds are used for projects which are useful but not significant. I call them "gum wrapper" projects, in which we send youth through communities which are falling apart at the seams and ask them to pick up the gum wrappers and tin cans. This may be an exaggeration, but I think you will understand my point.

In most of these same neighborhoods we can see thousands of dilapidated and abandoned buildings. Many beautiful stone and brick buildings are torn down because the cost of rehabilitation is too high. Recently a housing judge told me that he really weeps when he orders some of the buildings torn down because he knows they are structurally sound, but he has no other alternative. Neighborhood curbs and gutters also need replacing. We need trees and new sidewalks.

I ride to work from my Chicago home on a train, and in some cases the track is so poor it's difficult to hold a newspaper. I pass through communities where perhaps there is 30 to 40 percent unemployment, yet we tell those unemployed that they can't do this kind of work straightening out the rails, or help rebuild their communities. Yet, we come up with those "gum wrapper" projects. Why?

Some might say that it is because the urban poor can't be trained to rebuild our inner cities. But they can. We have many examples where with limited training and some guidance unskilled people can do significant rebuilding. We have a tiny project, in which we are rebuilding some homes with dropout youth. Through training, patience, and and guidance, their work after inspection has been as good or better than conventional work. It does take longer.

Some say rehabilitation is too expensive. There is not enough money in the United States to pay union scale for the kind of rebuilding projects we are talking about. There are thousands and thousands of people in our cities that will gladly go to work to help rebuild for the minimum wage if given a chance. I am reminded of the old CCC program where urban youth helped rebuild rural America. As a young man, I served as a counselor in beautiful camps built by the CCC's. I also remember the WPA. Some of us poked fun at it, and yet today, many of us continue to see and enjoy using public facilities under the auspices of WPA.

Some might ask how we can put people to work rebuilding the city when over 20 percent of the building tradesmen are out of work. The program I'm suggesting is a full-employment program for the building trades. Put this 20 percent to work as supervisors, teachers, counselors, advisers, and we still won't have enough supervisory talent to operate this program.

Some are concerned that we will develop an excess of trained workers for the building trades and other crafts. Well, a program like this should only be utilized in impacted areas where unemployment reaches a certain percentage. These people don't have to get into an apprentice program and then accept it by the union. This is a program to tide them over. We are not suggesting taking jobs away from anyone. It provides work experience. It helps build pride in the community. It contributes to lasting improvement. Many of these people, when the economy improves, will get jobs in the private sector.

What I am asking for is a massive program to let the urban poor help rebuild our deteriorating cities. The evidence is all around us. We should view this as an opportunity, and I would hope that any legislation would also include incentives to encourage the participation of business in programs to rebuild our cities.

The tasks are so mammoth that it will take a concerted effort, a teamwork approach. We need to tap Government, business, labor, and our educational institutions, and I am confident that this can be done. Gentlemen, thank you.

Representative BOLLING. Thank you, Mr. MacGregor.

Mr. Latimer.

STATEMENT OF IRA LATIMER, EXECUTIVE VICE PRESIDENT, AMERICAN FEDERATION OF SMALL BUSINESS

Mr. LATIMER. Mr. Chairman and gentlemen, the JEC and Congress have failed to abide by the Employment Act of 1946, section 2, "Declaration of Policy," that the Federal Government "utilize all its plans * * * for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare,* * *, including self-employment, for those able, willing and seeking to work, and to promote maximum employment, production, and purchasing power."

Instead of these free enterprise policies, the JEC and Congress have made the empty slogans "full employment" and "government the employer of last resort" their policies.

Our first recommendation is that the JEC and Congress cooperate with President Ford in a study of the impact of Federal regulations on a free economy and on the individual citizen.

The Declaration of Independence states one grievance was: "He (King George) has erected a multitude of new offices, and sent hither swarms of officers to harass our people, and eat out our substance." It now costs free competitive enterprise 13 million man-hours a year to fill out the 5,146 different required Government forms. There are 63,000 Federal investigators in 43 agencies at a cost of $2 billion a year who harass free competitive enterprise.

Since the Employment Act of 1946 seeks to promote "conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work, we join President Ford's opposition to paying New York's debts.

NYC unions have long used the paralysis of a strike by public employees to blackmail ever higher union wages, union pension, and union welfare. They even have the gall to say, "Either send us Federal money or Federal troops." Now the NYC budget is $12 billion while NYC revenues are only $10 billion. Already the Federal taxpayers contribute one-third of NYC revenues. Federal deficit spending is the primary cause of our inflation.

Out of New York's 7 million population 1 million are on welfare and 1 million are on city payrolls. NYC hospitals are free, NYC colleges are free, and housing is free. The JEC should study the entire welfare system and those able, willing, and seeking to work. "Why work if you can get more on welfare," is a good place to begin.

We recommend third, that the JEC and Congress replace 5 million illegal aliens jobholders with 5 million unemployed—including NYC—legal aliens, naturalized citizens and native born. This will wipe out temporary inflation-caused unemployment, cut welfare rolls and dry up illegal immigration. Congress can put drastic penalties on employers who hire or retain illegals.

We recommend that the JEC seek biblical guidance in economic analysis. On July 20, 1969, our man on the Moon read: "In the beginning God created the heaven and the Earth." Then God created man and woman—the first family. But Eve and Adam disobeyed God's commandment and were penalized with God saying: "In the sweat of thy face shalt thou eat bread, till thou return unto the ground; for out of it wast thou taken: for dust thou art, and unto dust shalt thou return * * *" Therefore the Lord God sent him forth from the Garden of Eden to till the ground from whence he was taken.

The Lord our God gave Moses, the leader of the Israelites, the Ten Commandments: The 10th should be read to union leaders and welfare recipients—"Neither shalt thou covet thy neighbor's house, his field or his manservant, or his maidservant, his ox or his ass, or anything that is thy neighbor's."

St. Paul wrote from Athens in II Thess. 3:8–10. "Neither did we eat any man's bread for naught; but wrought with labour and travail night and day, that we might not be chargeable to any of you. Not because we have not power—" Oh, Congress has the power. If a majority votes in socialism, we will have socialism. "—but to make ourselves an example unto you to follow us. For even when we were with you, this we commanded you "that if any would not work, neither should he eat." I think I have used all of my time. Thank you.

Chairman HUMPHREY. I believe we still have to hear from Bob MacGregor.

Senator PERCY. No, he has already spoken.

Chairman HUMPHREY. I'm sorry. Who is left? No one is left.

I am sorry that I had to be away here just a few moments, which proves it does improve efficiency of the organization when I am away.

Mr. MacGregor is a former Minnesotan, and I might have expected some of those biblical quotes from you, Bob.

Mr. McKenzie, I want to say I am very proud of you in your work in Minneapolis.

I had a chance to look over your testimony very quickly, and I believe at one time or another, either you or one of your associates shared with me some of the photographs that you have here on the construction work which is being accomplished.

Your feeling is, according to your testimony, that a great deal of good has come from the variety of programs of CETA, the manpower training programs, and the public service programs.

Mr. McKENZIE. Yes, we feel that is true. We feel that without those programs we could not have accomplished at this time some of those projects which we have.

We did accelerate the state of those programs, increase our bond funds.

Chairman HUMPHREY. I think that is the important point. You did increase the city funding.

Mr. McKENZIE. Yes.

Chairman HUMPHREY. One of the weaknesses of public service employment has been that it did not provide funds for materials and tools and administration, and when the municipality or the local unit or the State provides that extra, you get a much richer dividend.

Mr. McKENZIE. Very definitely.

Chairman HUMPHREY. Mr. Finney, I head your testimony before I was called from the room.

Mr. FINNEY. Yes.

Chairman HUMPHREY. I again want to commend you on the work that you have done in the Woodlawn organization and the statistical evidence which you have given. I have taken the liberty of marking this out, because I want to bring this to the attention of some "doubting Thomases," since we have been Biblical here, about what the programs produce.

In your statement, you said, contracts totaling approximately $230,000 were able to provide training in one of six offered skill areas to 215 unemployed or underemployed people, and of that number 82 trainees were placed in jobs with total gross annual salaries of $500,600.

Mr. FINNEY. That's right.

Chairman HUMPHREY. Not a bad investment, and plus that, the $16,000 to the Unemployment compensation fund, paid by those workers, and this gives me an opportunity to point out that unemployment compensation is a fund that has been established by the worker and the employer. It is not a dole, and I think we ought to understand that. It is not welfare. It is a part of a social insurance system, just exactly as social security is; and then $29,285 paid to social security, $12,331 in State taxes, $40,939 in Federal taxes, and not one penny of that could have been paid if people had been left poverty stricken, no jobs, on the dole, without help.

Mr. FINNEY. That's right.

Chairman HUMPHREY. So the point that you graphically make is that by wise use of programs and funding under CETA, and the manpower development programs, and training programs for skills that are needed, you do get an actual positive result in terms not only of percentage income, but of revenues, of social insurance, of State taxes and Federal taxes, and all that comes about. And this is one of the most difficult areas of your city, is it not?

Mr. FINNEY. That's right.

Chairman HUMPHREY. I have been in that area.

Mr. FINNEY. Yes, you have.

Chairman HUMPHREY. I remember coming there in 1966–67——

Mr. FINNEY. That's right.

Chairman HUMPHREY [continuing]. And seeing your job centers that you have there.

I want to express my thanks to you.

Mr. FINNEY. My point is, Senator, for a limited amount of money you can invest in human life and develop skills with and for people, and there is a return on the investment because after the second year, you recapture the entire investment. They have become a permanent taxpayer, a person who is permanently able to take care of himself, as well as his family. It is very important especially as we try to break the cycle of poverty, which is a very difficult cycle to break.

Chairman HUMPHREY. Mr. McKenzie, did you find the same results in Minneapolis in terms of people continuing in employment?

Mr. MCKENZIE. Yes, we do have statistics on our city programs. We have job training programs, and we have found that that has been a very successful program too.

We have in the city of Minneapolis about 60 percent employment rate under CETA, and about a 75 percent retention rate, about 75 percent of the persons move from subsidized employment or subsidized living, into permanent jobs, and it does help a lot.

Chairman HUMPHREY. That is a good program. I know of the results. The Mayor has told me of it.

Mr. MacGregor, you are an old friend, and I'm very pleased to see you here today.

I am sorry that I didn't get a chance to hear your testimony, but I know that Senator Percy and others will be asking you about it.

Congressman Long, do you have any questions?

Representative LONG. Mr. Latimer's quoting from the Bible was interesting to me. It lead me to remember that portion of the Bible with respect to the masses that were hungry. Then when he took the seven loaves of bread and the two fishes, that they could have had a fish and chip stand and charged them all for it.

I don't have any questions.

Chairman HUMPHREY. Congressman Bolling.

Representative BOLLING. Mr. Latimer, you said here that the JEC extended its welfare system and included those who were able, willing, and seeking to work.

My predecessor, the chairman of the Subcommittee on Fiscal Policy in the last Congress, conducted a very, very extensive study of income. I forgot how many volumes, but it is well over a dozen, and it had some very interesting results.

It was done to a large degree by the JEC on a factual basis. It wasn't theoretical.

If you would be interested, I would be glad to send it to you because it demonstrates that there is some truth on all sides of the argument, that there are people who are very skillful in getting income maintenance but there are an awful lot of people who don't get any, so the welfare picture is a very, very mixed one.

I would be delighted to send you the volumes if you would like it.

Mr. LATIMER. Thank you. I will be sending you information as we get it.

Representative BOLLING. I think you already do.

Chairman HUMPHREY. Senator Percy.

Senator PERCY. Yes, I would like to comment, Mr. Chairman, that I think that when we start with the misery index at the beginning of the day, and we end up with this hopeful sign, as Mr. MacGregor and Mr. McKenzie have given us, that you can do something.

When I look at the figures of the National Alliance of Businessmen, with which Bob is affiliated in Chicago, they are going to provide 38,000 jobs to the private sector with the cooperation and help from the Federal Government.

Mr. McKenzie has given us the specifics of what he has accomplished with pictures, and pictures, in my judgment, are better than a thousand words. I have spent most of my life in pictures. I would say that this is a fine note on which to end.

Mr. Hamermesh, I would like to ask you about your first point of temporary marginal employment tax credit.

I have sponsored legislation for a human investment credit. That is investing in people instead of money, and you get a tax credit for it.

You put it on a plus above a base period, but I want to know how we do not have a windfall gain to industries that don't add people by reaching out to train them, and putting them to work, but oil and gas companies and so forth, let's say drug companies, under increasing medicare and so forth, that would have a normal increase, how do we avoid paying them a subsidy for hiring people they are going to hire anyway because they are booming. Because we don't want to just benefit those that are booming but those that are reaching out and training and hiring people to get them to work.

Mr. HAMERMESH. I think we can't avoid a windfall subsidy program. There is no way to do that; however, this marginal tax credit and the plus avoids most of the windfall that the other subsidy programs would induce.

You are never going to avoid a windfall.

Senator PERCY. I would just like to say having worked many years with your fine organization, Reverend Brazier, and others, that even though you point to a gloomy picture, what would it be like without two; what would it be like? I can't imagine.

I would like to specifically ask, is the myth that people would rather be on welfare than have a job—does it have any resemblance to reality, taking into account the people that you live with and work with and work on?

Mr. FINNEY. Certainly it doesn't, Senator, and that is at least a very positive economic impact.

My concern is that if we have got a good plan, and I don't think that you can plan unless you have a clear idea of what the problem is, and certainly my remarks have been designed to help paint the problem as it really is, but our people are very much concerned about going to work.

We have had over the years, as you know very well, a number of manpower training programs, and people have said that people didn't want to work.

We proved in 1964 they not only wanted to work, but go in training programs, and there was no stipend in those days. The training was at their own expense, and they got on to jobs and became gainfully employed.

My feeling is if we open up the job market and opportunities for jobs and make sure that our people have skills, they will go to work, just as well as anybody else.

The myth is absolutely, absolutely and positively untrue. Now, there may be a very small percentage of people who don't want to go to work, but that is not necessarily characteristic of the minority groups. That may be in the majority community as well.

Senator PERCY. Would you agree that you not only have people going to work, but would have to get them to work?

Woodlawn, as I know, having lived in the community so many years, and the University of Chicago, that area, there is no industry there. People are there, but the jobs aren't there, so you have to get them out to the jobs and transportation is bad.

Would you favor abolishing the highway trust fund and feeding money in—it doesn't cost us any more, instead of paving over the cities in America, we just put it in mass transit to subsidize operating expenses to get people out to areas where there are jobs at less expense and more convenience, and so forth?

Mr. FINNEY. Well, Senator, that is important, but let me answer it this way. I would hesitate to say I would abolish the highway fund all together. I would like to think about that for a second.

Senator PERCY. Transfer to a transportation trust fund.

Mr. FINNEY. I think a transportation trust fund makes a lot of sense. I am not certain that the highway fund does anything other than continue to eat up our limited sources of energy, which I am very much concerned about, as you know, but one thing is for sure, the Woodlawns of this country that are "bedroom" communities, where there is no industry, they must have the capability to get from home to work on a regular and timely basis, so they are not penalized for being late or because they can't get to work on time.

Our people want to work, but there is no transportation once you get out of the corporate areas of Chicago, as you know. Much industry is located outside of the corporate area.

Senator PERCY. Carry on your noble work.

Mr. Latimer, I have no questions for you. Just a comment, that I think you have answered the question of what to do about New York.

Mayor Daley in a sense said it, and you gave the figures, match your income with your expense, and you have to do that over a period of time and we have got to find a way to bring that budget down to its income, and if we can do that, then I think there is hope for New York and hope for the city, and the combination of increasing revenues and cutting expenses is possible, but the philosophy, I think, is right on that point.

Also, I think you will agree we ought to exempt, as we have been, small businesses from a lot of these regulatory agencies, except for safety. You can't do it there.

But they are not competent and not equipped to handle much of the paperwork, and we are trying to exempt small business as much as we can. Thank you.

Chairman HUMPHREY. Mr. MacGregor, I want to thank you very much for the statement—I have just had a chance to review it—of putting our people to work in the rebuilding of these cities. We have talked about this ling enough. Every year cities, except for the downtown loop areas, deteriorate and new neighborhoods are built up outside the cities. And the American people ought to have enough sense to know how to rehabilitate and renovate and rejuvenate that which is there. We don't need to be in a demolition crew all the time just tearing things down. There is a chance to rebuild, and I was speaking to Congressman Bolling here. Both he and I are working on a program that relates primarily to an expanded youth employment program going far beyond anything that we talked about thus far, that will give young men and young women above all a chance to get the therapy of work, on one hand, and the responsibility and the habits of work, plus the constructive good that comes from it.

And I think we can do a great deal with it. We have very serious problems, as you know, with convincing some groups that is the right way to approach the problem. But I think we've got to have a good deal of courage to do it. We want to thank all of you.

Mr. Hamermesh, I want you to know I have read your comments and I saw the difference between what you consider to be the more effective nature and the less effective, and we are not far off target. We thank you very much.

Now we have a few more witnesses. You are all excused. Thank you very much.

Mr. McKenzie, do you want these photographs back? May we have them for our records? Fine. We are going to make a good record of each of these hearings.

We have some individual witnesses, but we also have Mr. Ted Pearson. Mr. Pearson is here representing the Communist Party of Illinois and Iowa. Please have a chair.

These hearings are open to people of all persuasions. We are an open society. We look forward to hearing your testimony.

STATEMENT OF TED PEARSON, LEGISLATIVE SECRETARY, COMMUNIST PARTY OF ILLINOIS AND IOWA

Mr. PEARSON. Thank you. I'd like to greet you here and welcome this kind of hearing just because it gives people, all people, an opportunity to come forward and express their ideas and project solutions and talk about problems.

You have, I think, a copy of my statement, and rather than read it I would rather go over just briefly some of the points in it. Many of them have already been made by others and I don't think it's necessary to elaborate a great deal on them except that you may notice that many of the points that we make go beyond the points that other people have made in similar directions.

First of all, let me say that I think any logical person would have to agree if we are serious about full employment we have to begin by stopping the laying off and the freezing of hiring at the municipal and State and county levels in our country. And if it means that the Federal Government has to come in and support local government social services, then that has to be done. It's certainly ridiculous to talk about full employment while firing thousands of city workers in the city of New York or even entertaining that idea.

Second, it has already been pointed out that to shorten the workweek with no reduction of pay would overnight really transform what is now appearing to be a labor surplus into a labor shortage.

Third, a point which has been made, but I think needs emphasis, much greater emphasis, is the fact that if we are to eliminate racism in our society it means that special steps must be taken to guarantee that the effects of the economic crisis are removed from the backs of black and Chicano, Puerto Ricans and other minority peoples in our country who presently suffer the greatest from the economic crisis. And in particular a program of affirmative action with teeth in it must be implemented as part of a full employment program in order to forever eliminate the pattern of last-hired first-fired against people of color and other national minorities in our country.

Now, there has been some discussion here about the question of a price rollback. I would like to say that with all due respect to Senator Percy I wish he would have remained——

Chairman HUMPHREY. The only reason he left is he did have to catch a plane because he had an appointment. I just wanted you to know.

Mr. PEARSON. I think he was particularly concerned with this question. What we are talking about is a price rollback of basic necessities that are monopolized in our country, not a price rollback at the level of the farm. I think one of the gentlemen here from the Farmers Union pointed out that the farm prices are already at a level of years ago. But food prices are skyrocketing and it's the little agri business and food processing that monopolize, that are ripping off both the farmer and the consumer in this country.

So we are talking about a rollback of monopolized prices, and I submit to you that the profit pictures of the monopoly substantiate the fact that there is plenty of money in those profits to account for such a price rollback. This would stimulate the economy and put millions of people back to work. And we would suggest that if the monopolies refuse to go along with this kind of policy, that they be taken over by the Government and run in the interest of the people, which probably ought to be done anyway.

The last point is that the military budget must be slashed, and we are not talking about the kind of important but still relatively insignificant cuts that have been made in the military budget. In spite of the struggles in Congress to reduce the military budget, the fact is that the military budget is higher than ever. We are talking about entering into a serious and rapid program of negotiations with the Soviet Union and other countries in the world for a 50 percent slash in military expenditures in our country which many studies have shown would, if that money were used in public service and public works, employment, greatly increase employment in our country.

Now, there are two questions which are not included in my statement which I think I would just like to mention. One of them has been mentioned by others, and that's the need for fundamental tax reform, income redistribution in our country. As you probably know the situation today in our country is that the corporations pay only 25 percent of the Federal income tax, unlike a situation 40 years ago when in fact it was the people that paid only 25 percent. We must reverse the trend of taxation of the people and letting the monopolies off the hook and go back to the original purpose of the income tax in our country which was to tax wealth for the purpose of serving the people.

Second, on the question of trade which has been discussed, and I think you gentlemen have made a contribution in elucidating the fact on the farm question that trade with the Soviet Union and socialist countries would greatly enhance the economic picture in our country. It seems to me to be the height of idiocy to take a position when we have an economic recession, we have goods to sell and nobody to buy them. We draw a line and say that one-third of the world will not be able to buy our goods. It doesn't make any sense. It certainly is not good business sense and it's not good sense for the people of our country.

Chairman HUMPHREY. By the way, you'd be interested to know that today the Government of the United States has just announced that there has been a 6-year agreement—unless it happens you announced it before—it's a 5-year agreement with the Soviet Union.

The White House announced today the United States has agreed to sell the Soviet Union at least 30 million metric tons of wheat and corn over 5 years. At the same time the Soviet Union promised to offer this country 200,000 barrels of oil a day, which is but a fraction of U.S. imports. Terms to be negotiated later. The President called this action a positive step in relations with Moscow as well as benefits to the American farmers, workers, and consumers.

I would say the 6 million tons per year is not a large amount. But it is a stablizing factor in our export business.

One of the problems we have had with the Soviet purchases up to now is they came in intermittently, with huge purchases all at once. This way it levels it out and this gives a basic minimum of purchases for a period of 5 years. Even if the Soviet Union has good crops in those 5 years, they will still purchase a minimum of 6 million tons, which I think is a reassurance to a trade pattern.

I'm sure that farmers will be appreciative of that, and by the way, lest anybody think that will have any serious impact upon our avail-available supply, we could readily export 40 million tons of grain without too much difficulty.

Mr. PEARSON. I would agree. This is one thing where I think I'd have to agree with President Ford even, that this is a step in the right direction. Although obviously there's much more business we could be doing, and it goes beyond just agricultural products. Machinery, farm equipment, all kinds of things we could be selling, and these are countries, of course, which have stable economies, which have stable boom economies, if you will, and could provide a constant market for goods from the United States.

Now, the last point I would just like to make is I think while there have been very good proposals and ideas that have been thrown into the hopper here, although there have been some pretty bad ones frankly in my opinion, I don't want to go over what they have all been. I think it's necessary for Congress to come to grips with what the root cause of the problem in our country is if we are to really deal with solving the problem of unemployment and inflation.

Some of you I know have visited Socialist countries and know for yourselves that in those countries unemployment is just unknown and inflation is certainly unknown. It proves that it can be done. It proves first of all that Socialist public ownership of the means of production by the people can solve the problem, and I think this points the direction for us that we have to go. We have to be ready to step on the toes of the super rich who monopolize in our country if we are going to make any progress, and as long as we look for solutions that tiptoe around the problem, that hold the profits of monopolies sacred, we are never going to do any more than just stay on a constant treadmill in this kind of situation.

So that I would urge you to consider the kinds of radical anti-monopoly proposals that must be taken in our country if we are going to really get out of the crisis we are in.

[The prepared statement of Mr. Pearson follows:]

Prepared Statement of Ted Pearson

Mr. Chairman, members, and staff of the committee, on behalf of the Communist Party of Illinois and Iowa I welcome you to our area. Hearings like this are important for the poeple to let elected officials know about the deprivation and hardship suffered as a result of the current depression. You should know that at U.S. Steel's South Works in Chicago half of the work force is on lay off. Officials of the Illinois State Employment Service report that in the Black community in Chicago unemployment is 55 per cent. These statistics translate into extreme hardship and deprivation among the people, condemning hundreds of thousands to poverty and increasing the tragedy of drugs and crime. Hardest hit are our youth, the future of our country.

It has been shown that every dollar spent to give people socially useful work generates more than a dollar in local, state and federal revenues. First there are taxes on wages. Then there are taxes on the goods and services needed by the workers employed, and on the wages and profits of those who produce them. Then there are the taxes on the goods and services needed to utilize public works and social services—books for schools, beds and equipment for hospitals, furnishings for public housing, cars and trucks and fuel for highways—and the taxes on the wages and profits of those who produce them.

There are a few basic things that must be done to put the nation completely back to work. A thoroughly honest approach must include these things, in our opinion.

1. Full employment legislation must include adequate appropriation of funds for needed public works and social services, including help to end the crisis in the cities and states in welfare, education and health care.
2. The Fair Labor Standards Act must be amended to shorten the work week to 30 hours with no reduction in pay, which would transform the present "labor surplus" into a labor shortage.
3. An aggressive affirmative action campaign must be launched that will forever eliminate the racist pattern of "last hired—first fired" practiced against Black, Latino, Native American Indian and Asian American people, and women.
4. A roll-back of prices on necessities must be enacted and enforced, including food, fuel, medicines, clothing and transportation. This would put goods and services back in the reach of working people and would stimulate a boom economy. The total picture of growth of big business profits in these monopolized sectors, including interest, executive salaries, expense accounts and bonuses, phoney paper "losses" due to accelerated depreciation, oil depletion and other tax cheating gimmicks, and gross profits, reveals there is more than enough to afford such a roll-back. Monopolized industries that fail to comply with the law within 30 days should be nationalized and placed under democratic government ownership and control.
5. The military budget must be immediately slashed by 50 per cent, based on accelerated mutual arms reduction negotiations with the Soviet Union and other nations. The Public Interest Research Group in (Lansing) Michigan has shown that over 10,000 jobs are lost every year for every billion wasted on the military, 174,000 jobs in Illinois alone through last year. Unlike public works and social services, guns and missiles create no demand for anything, and the costs in human terms of the deprivations inflicted by consuming so much for the military are impossible to calculate, except we know they include disease, ignorance and premature death for tens of thousands, hitting hardest those confined to ghettos by racist discrimination.

These are the building blocks of a serious program for a full employment economy. We welcome the efforts of some Congressmen and women to enact the "Equal Opportunity and Full Employment Act." But we urge that these measures be included as amendments if the Act is to fulfill its promise and be more than Congressional rhetoric.

In closing I would add only this thought: workers and farmers in the Soviet Union and other socialist countries have eliminated unemployment, racism and deprivation. They have established forms of popular democracy that involve millions in government. I have personally seen this with my own eyes. Our people in the United States can only benefit from closer contacts with the peoples of these countries.

Our country has reached the point where long term, radical changes are necessary. The power of a few monopolists and bankers to strangle our economy must be broken fundamentally. The Communist Party is working to build forms of popular political democracy that can curb and end the reign of the militarists and the monopolists, and can open the path of struggle for socialism and an end to war, racism and exploitation. Socialism can solve the problem.

Chairman HUMPHREY. Mr. Pearson, we welcome your testimony. I have always believed that these hearings should be open to people who have something to say. We find ourselves in disagreement on matters of basic importance with a number of our witnesses. That's not the important thing. The important thing is that people express themselves, and you've done it in a responsible manner, contrary to some who feel that there's another way of doing it. Thank you.

Now, we have some private witnesses that wanted to be heard here. Where is that list I had here? My friend out here has been waiting all day. I'll tell you what we're going to do. We have Mr. John C. Fitzsimmons, Ruth Schaffner, would you come on up here. Mr. Davidson. Is there a Mr. Davidson here? He may have left. Mr. Jacob Szapiro, and this gentleman is Mr. Austin, And we have Mr. Thomeas Brophy, who is an economist. Mr. Brophy, we have your statement and I'm going to ask, Mr. Brophy, that we put your entire statement in the record. It's a prepared statement, and anybody else who has a prepared statement, we'll make it all available for the record.

And there's a Mr. Jameson. Is this Mr. Jameson?

Mr. Brophy, we'll place this in the record for you and I'll come back to you if you don't mind.

Mr. Jameson, what have you got to tell us? Let's just get right on target and let's hear from you.

STATEMENT OF DAVID JAMESON, PRIVATE CITIZEN

Mr. JAMESON. Two things, First I have been unemployed since January 10. I have received two checks. One in March and one in June. And due to an accident I was not able to work during 3 months. I was in the hospital. So in other words, there should be someone that's able to straighten out the problem.

I have gone to the office a dozen times and every 2 weeks along with that form I sent in I write them a little note reminding them that I'm still not receiving checks.

Chairman HUMPHREY. Are your receiving a check now?

Mr. JAMESON. No.

Chairman HUMPHREY. Who's your Congressman? Do you Know?

Mr. JAMESON. No.

Chairman HUMPHREY. Where do you live in Chicago?

Mr. JAMESON. Near the western——

Chairman HUMPHREY. I'll get you some results. One of you go down there from the staff and get the man's name and address and his problem. We are not going to tolerate this kind of inefficiency. We'll get something done for you.

Mr. JAMESON. And second, I have a proposal to make. It's sort of like a seed you might say that can be discussed in the future and might resolve many of these problems.

Now, there are facts that can be substantiated. Such as I just got involved in transcendental meditation, and if 1 percent of the people in a city meditate, the crime rate goes down about 10 percent. This has been verified in about 500 different cities.

Also, these transcendental meditation people offer a program to industry such that if the executives, a certain percentage of the executives go in their program, after 1 month if there's not a substantial increase in profits and production and such, they refund the whole amount of money. So, therefore, I'm suggesting that we get some kind of an agreement between the unemployment people and the transcendental people. Maybe we can make some progress.

In other words, we can put it on the line that if during a certain month that the Government will pay half of their training fee, which would be $62 for an individual or $100 for a family, and that preson who takes the program pays the other half, then after, say, a 3-month period, in other words, this is incorporated during 1 month, but then 3 months later, a separate study is made between those people that participated in the program and a corresponding group that did not participate in the program, then I believe that if there was a substantial-like increase in those people that were gainfully employed and things, then the Government would pay their half of the money.

And possibly if it didn't work out, then the Government wouldn't owe anything.

Chairman HUMPHREY. Let me say I will tell you that with the condition we are in, we are prepared to look at any alternative. And I say this most respectfully. I know you are a very sincere man.

Mr. JAMESON. And the employment gets better, and if it doesn't it doesn't——

Chairman HUMPHREY. You speak to Jasinowski, who is with you. If you will give him your name and address, because I want to follow up on your problem of not getting your checks that you are supposed to be getting.

The next lady is Ruth Schaffner.

Mrs. SCHAFFNER. My name is Mrs. Schaffner.

Chairman HUMPHREY. I'm sorry, S-c-h-a-f-f-n-e-r.

STATEMENT OF RUTH SCHAFFNER, PRIVATE CITIZEN

Mrs. SCHAFFNER. Senator Humphrey, this is the first time that I have had an opportunity to be within hearing distance of leaders of our country, and I really appreciate it as well as I appreciate your coming to this city. We welcome you and we'll remember it from this time on.

I would like to tell you that I have heard people of various descriptions speak here. I have not heard people speak as voters of the great United States. I have not heard people refer to this glorious motto, E Pluribus Unum. I have not heard people ever being new people in the great army of unemployed.

I have been unemployed 1,240 hours. I have been the recipient on only one unemployment compensation check. That came after waiting 13½ weeks, if you please.

I have not heard people here speak of various bills before Congress. I know you, Senator Humphrey, have very ably, and I laud you for it, spoken of S. 50 and S. 1795, and I was much chagrined at the earlier hours of this conference to have someone disrupt this worthy conference and that he had to be led out by two doormen or guards or whoever it was.

Yet, I have heard no one speak of the unconditional amnesty for our very worthy and honorable veterans. I have not heard anybody speak about the bill S. 1, that was introduced by Hruska of Nebraska and our Attorney General Mitchell.

I am referring to the bill S. 1, because if bill S. 1 which is now before the Judiciary Committee were to be present now, we could not be here talking to you or you listening to us. And I'm very serious about all this.

Chairman HUMPHREY. That's why it hasn't been acted upon.

Mrs. SCHAFFNER. I want a job, I need a job. I can produce. I'm skilled.

And again I thank you and I'm glorious at being a voter of the great United States.

Chairman HUMPHREY. We thank you very, very much.

And the next gentleman is Mr. Fitzsimmons.

STATEMENT OF JOHN C. FITZSIMMONS, PRIVATE CITIZEN

Mr. FITZSIMMONS. My question is to Congressmen Bolling and Long. What has been done on the bill against illegal aliens? Right now in Chicago we've got 50,000 illegal aliens working and people unemployed. Immigration has only 65 agents here from Chicago to pick up these people working illegally here.

Representative BOLLING. I think it's been reported by the committee, but it hasn't finally been acted on.

Mr. FITZSIMMONS. It's been 7 months. When will it get acted on?

Representative BOLLING. That is very hard to say. It takes action by both the House and Senate.

Chairman HUMPHREY. People are very upset with Congress and legislative bodies, and do you want to know the reason we don't act quickly enough? So many people want to be heard, and I believe in the right of people to be heard, but just about the time we get ready to act on a bill somebody says, "You didn't hear me." These bills are very complicated. I know the matters you are concerned about, and it is a very, very serious matter of illegal aliens taking jobs, holding jobs that really should be made available to American citizens.

Mr. FITZSIMMONS. That's right.

Chairman HUMPHREY. You can rest assured you are going to have our cooperation on this matter. This is no pious promise.

Mr. FITZSIMMONS. It is unfair.

Chairman HUMPHREY. Of course, it is. Indeed you are right. We have been quoting things, so may I say "Charity begins at home," but I think commonsense begins there too.

Mr. Austin.

STATEMENT OF ABE AUSTIN, PRIVATE CITIZEN

Mr. AUSTIN. Senator Humphrey, and members of the committee. I am Abe Austin from Oak Park, Ill. I originally came from Minnesota, but I came here in 1923, and I have been in business in Oak Park for over 50 years.

I hear a lot about inflation from economists, and so on and so forth, and I would like to say just a little about some of the things that the economists talk about.

You know, it has been aptly said if you lay them in a line, straight in a line, they will all be pointing in a different direction, and you can be sure that they will never point in the direction from which our trouble stems.

Of course, it is our monetary policy, and we want full employment, but our Federal Government can't employ everybody. That is why we have a flaw in our money policy, our money system, and I would would like to just mention a few of these things I have written down here.

I imagine you gentlemen all know that our Federal debt is about a half a trillion dollars, and that is only one-sixth of our total debt. The other debt is the private debt, which is $2½ trillion. For the present total debt, public and private is about $3 trillion, and the total money supply about $300 billion. The total debt is now 10 times the money supply.

How has the debt come to such overwhelming exceedents of all the money in circulation? The reason is simple. The only way to settle the aggregate interest obligation on money that is loaned into circulation is to expand the debt progressively by the interest amount. This process of expanding debt only to cover interest is not lending money because it puts no money into circulation.

What it does is to expand the interest cost geometrically and expands the required amount of real wealth collateral to cover expanded debt. This moneyless debt or unmonetized debt, if you will, and the process by which it is generated and expanded, constitute the true definition of the ancient practice of usury, a word that has escaped sufficient wide understanding to save mankind from its ravishing effects throughout recorded history.

Usury, gentlemen, is the alltime real root cause of inflation. There may be isolated examples of inflation that support the classic teachings that it is caused by too much money in circulation. I can assure you that no one is suffering today from too much money in circulation.

I have a graph here and a little brochure we have put together. This has been done by four scientists in this country. It shows the incline of the debt, and the money supply. In 1974, the debt—the money supply was $300 million. Our projection in 1984 is based on the assumption of a model money growth of $5 billion per year, approximately the average growth of the past 60 years.

To support this flat money growth the total debt must be driven up to $5.6 trillion by the governing mathematical law which is an exponential function, so by 1984 after 10 more years of business as usual, the total debt will have become 16 times the money supply of only $350 billion.

Now, even if we should freeze the money supply from now until 1984, holding it at $300 billion, the debt would still have to rise to $5.4 trillion just to keep that $300 billion in circulation. In either case, the 1984 interest expanse would necessarily exceed the entire money supply.

The fact that 90 percent of our total present debt is unmonetized, reveals the fundamental error that our system functions on the practice of usury which is the inevitable result of failure to put sufficient debt-free credit into circulation. Now, I haven't mentioned debt-free credit up to this point, so I must dwell a little on this rather shocking concept. Within our system we have two forms of debt-free money in circulation.

Chairman HUMPHREY. I don't want to be impolite—but I simply have to ask you to finish as quickly as possible. The reason is we have got to very shortly leave this building; second, we have simply got to catch an airplane.

Mr. AUSTIN. Could I just finish this?

Chairman HUMPHREY. I am a soft-hearted man.

Mr. AUSTIN. The only legitimate source of debt-free credit is our Federal Government. The Federal Reserve receives full value when it purchases a government bond with freely created credit. This ridiculous practice is neither legal nor illegal under the present law.

It should be illegal, but no one has until recently defined what the right practice should be. That right practice must be more than defined. It must be universally understood, recognized, adopted, instituted, established, incorporated into the law of the land, and the hearts and minds of its citizens. Monetary policy must be superceded by monetary principles.

Chairman HUMPHREY. Thank you very much.

Mr. AUSTIN. Let's take step No. 1 and try to free mankind from this ravaging of debt.

Chairman HUMPHREY. Thank you very much.

Mr. Szapiro is next. We will go to Mr. Szapiro, if you don't mind.

STATEMENT OF JACOB SZAPIRO, PRIVATE CITIZEN

Mr. SZAPIRO. Senator Humphrey, thank you very much for letting us express a small man's viewpoint. I did not come prepared with a written statement. I did not know we would have a chance to be able to give some kind of a presentation to the committee.

I am an economist. I am finishing my degree at the Northwestern University. I am also a small businessman and there are some items of the economy which I am very troubled about. Congress has not addressed these yet. They talk about the cost of energy, and these are the points.

No. 1: The tax profits of the big oil corporations for the end of the 1973 fiscal year, I mean, the tax year for the companies, should have an increase of anywhere from 120 to 160 percent of profit over the previous year, yet the following year after that we saw that the companies started crying that they only had 30 percent of the profit of the previous year.

What they don't tell the public and I don't see the Senate or the House doing anything about, is that 30 percent of the previous year really means that they were making 60 percent and 70 percent more profit than in 1972. Nobody talks about that, yet they are crying their profits are down. Down from what? From the 120 percent above what they made in 1972.

It is impossible, Senator, that somebody doesn't take these companies into account, yet these are the same companies that in 1973, when the Arab boycott was established, refused to give the United States oil, going against the security of this country when the country was in a state of national alert against the Soviet Union.

These same companies that are refusing to give for national security the oil needed for the U.S. Navy are the same companies that are allowed to reap this huge profit at the expense of us, the taxpayers, and the people living in the United States.

This is something which the Congress has not addressed itself to, and has permitted in the interest of the Arabs and foreign countries, but not in the interest of the American people or the national security interest of the United States. What is Congress doing about it?

Chairman HUMPHREY. Might I say that this is not something that the Congress has not looked into. As a matter of fact, we have passed laws, and we have laws vetoed. We have had bitter debates in the Congress of the United States over all oil company profits.

This committee is looking in depth, way into this whole problem, because there are some of us here—not all of us; we disagree among ourselves—feel that there is a tremendous amount of profiteering going on.

Mr. SZAPIRO. It isn't only the profiteering that troubles me. It is the fact that the companies are allowed to go against the national security of its own government in benefit of foreign interests.

This, Senator, is what troubles me and should be troubling the people of this country. Very soon the national security interest will be in the hands of foreign interests, and not in the hands of its own people. What happens tomorrow if there is a war? Will these companies again enforce the Arab boycott and again refuse to supply the Navy with its needed oil to move in case there is some kind of confrontation with the Soviet Navy? Will Congress permit this to continue?

This is the question, Senator, which I haven't seen Congress address itself to. They have allowed the companies to go on, and another interesting aspect is this, Senator, that although in 1972, only 5 percent of the oil in the United States was imported oil, it came mostly from Latin America. Yet because Latin American has proceeded to nationalize the oil industry with, I might add, full compensation to the American companies and this should be in the record—full compensation—yet the American companies because of their own interests have supplanted the importation of South American oil coming from the Middle East at a higher cost of transport, and subsequently a higher cost to the American consumer.

Now, this is something that should also be looked into. Why the supplantation of the quota and the larger amount of the oil from the Middle East, and a lower amount of importation of oil from Latin America, No. 1, causing concern to the Latin American people, which should be the first people that this country should look at.

After all, Latin America has been an ally of the United States while in the Middle East we have found many a country that when its interest has differed has alligned itself against the United States. Yet again, the companies have proceeded in this fashion. Thank you.

Chairman HUMPHREY. Thank you very much.

I would like to engage you in conversation because you have much to say, and I want to compliment you on your statement. I hope you will send us more. Tell us what you have to say as a student of this problem.

Mr. Brophy.

STATEMENT OF THOMAS C. BROPHY, CONSULTANT, NATHAN, BARNES & ASSOCIATES

Mr. BROPHY. In the interest of time, Senator, you have my statement.

Chairman HUMPHREY. Yes, we will place that in the record. I believe I asked the staff to do that. You represent whom, please?

Mr. BROPHY. Nathan, Barnes, and Associates. We are in economic development, and we represent cities across the United States.

We represent at this moment Kansas City, Mo.; Louisville, Ky.; a small contract in Pittsburgh, and in Philadelphia; a small contract in Cleveland, and a few other places.

I would really like to say that inasmuch you have the problem that has gotten out of hand of a combination of oil, money, and food, that we must reverse ourselves to the control of the Federal Reserve Board to regain the control over the cost of money. We must reinstitute the policy of parity. We have to regain control over the cost of food, and over the cost of oil. We must once again reassert the United States third partner in any dealings with any oil-producing countries. I think it is a shame that we allo these things to happen.

In conclusion, basically I feel we must lower the interest rates, we must stop the flight of money overseas. We must remove domestic food from the international market. We must concentrate on building our market overseas with our finished domestic products, particularly in the area of food. We should be sending overseas canned foods, and things that are of a production facility here in the United States, rather than sending the raw food, which sometimes rots on the docks. We must develop our own independent sort of energy; and we must rethink the consequences of zero population growth which has alarming consequences; in the need for housing in the suburbs; the need for additional transportation networks, and also the various ways in which we are just leading our lives.

Finally, in concluding, I would like to say we must recognize that our first duty is to ourselves, and that only if our economy is managed with our confidence, our energy and skill and our resources, will we have the strength and the will to lead the world for our own joint development.

I thank you all very much. I recognize the time. God love you all. Thank you. [Applause.]

[The prepared statement of Mr. Brophy follows:]

Prepared Statement of Thomas C. Brophy

The Economy—A Lot About How We Got Where We Are and a Little About Where We Go From Here

In order to understand what might be the best thing for the economy I believe it is necessary to review what was the situation before our present problems seemed to become acute and what decisions if any where made which may have placed us in the situation we now find ourselves. It is hoped that by such a review of what the situation was, what decisions were made and therefore by extension what decisions are now possible that we might be able to get a handle on what would now be the best for our economy.

Coming off World War II our industry had to switch their production from war to peace which didn't place as much strain as was thought on our economy. We were lucky—our cities had not been bombed, our manufacturing capacity had been greatly increased; peacetime uses for this expanded capacity amounted to rather simple changeovers and because of the deprivations of war the populace had great amounts of postponed demand waiting to be satisfied. War profits had been high, many plants had been built at government expense, the workers' wages were beginning to climb, veterans were getting pensions, social security was in force, other pensions were being started and we were the only country in the world with a manufacturing capacity capable of repairing the ravages of war. Domestically there were plenty of things to be done and our population was in a mood for indulging themselves. To satisfy the folks at home we went on a housing binge, a building binge, a highway binge and of course we used the automobile to tie it all together.

To keep everything intact we kept the government's hand in three areas of the economy: the cost of money; the price of food; and the cost of oil. To redistribute in what was thought to be a desirable way this huge prosperity we took the lid off the prices for everything else. Overseas we poured our surplus into the Marshall Plan to aid other countries getting back on their feet and we encouraged our major industries to get involved in helping with money and technology to take major positions in the rebuilt industries overseas. Very quickly we discovered that a peacetime economy just could not consume the amounts of material that a war economy could. We also discovered that by there building of overseas industry we were beginning to create our own competitors. So it became time for thoughful examination, for turning inward and for our children to get the education that would allow them to better participate. Colleges boomed, we became suspicous of everything foreign, unions became stronger and we continued to build houses, highways and cars. The flow of money outside the U.S. slowed to a trickle with some notable exceptions such as the search for oil and other basic minerals. Through all this the government kept the lid on the cost of money, the price of food and the supply of oil. As we came into the sixties the economy was showing some alarming sluggish signs, our manufacturing capabilities were becoming worn and obsolete, there was not the interest in domestic investment because of the lack of return and attention turned to looking for more profitable ventures overseas and to possible new markets such as in China or Russia. To aid the flagging domestic economy we inaugurated the 7 percent investment credit, directed governmental assistance to rural areas, lowered the income tax, increased social security, strengthened union activities and authorized wage increases for the working man; and we continued to build houses, highways and cars. Through it all we kept strict control over the cost of money, the cost of food and the cost of oil.

The war that wasn't a war but cost the same the same as a war began running its course in Viet Nam. As the government never admitted that we were at war or that the war would continue there was not the assurance that the demand would continue and so additional plant capacity was not built. We maintained the guns and butter approach, insisted that there were no domestic shortages, and that there was no pent up demand. We did not postpone any domestic desire even though a large portion of our economy was being used to satisfy the increasingly hungry demands of Viet Nam. As there was no assurance of continued demand profits from operating at full capacity were placed overseas where it was thought the return would be bettern and even though the government began to crack down on this money drain substantial amounts escaped.

Throughout this period because of the maintenance of cheap money every businessman found that it was good business to operate everything on borrowed capital. His equity money was for investments other than the prosaic one of running his own business. To all this was added in the mid-sixties a zero population growth reality that somehow snuck up on us and would eventually have the result of reducing the demand for housing, for automobiles and even for highways. To serve the large numbers of increasingly better paid workers and to take up the slack that was caused by automation the hugh service industries were born and the nation went on a recreation binge. Second homes, campers, parks, resorts, travel to Europe, chasing the sun in Florida, California and Arizona, and slowly ever so slowly a move back to the city from the suburbs to get away from the long trip to and from work kept the economy rolling along with the war in Viet Nam adding its own particular fuel to eat up any surplus that might have occurred. Throughout this period we maintained the low cost of money, the low cost of food and the availability of cheap fuel.

In 1969 the nation decided to march to a different drummer and one of the immediate consequences was the decision that money should no longer be cheap. It was thought that if the price of money became more expensive that businesses would stop borrowing, would stop expanding and would devote more of their profits to repairing and updating their plants. However the cycle had gone too far for most businesses were in the reality of a very high rate of undercapitalization and were already using borrowed money to operate on a day to day basis. The rise in the interest rates merely meant that businesses would have to pay more or go out of business. This increased cost was of course passed on whenever possible. The higher interest rates did have the effect of curtailing existing operations and that of course produced a recession. It is interesting to note that this was the first recession in our history that was able to combine lessening of production, higher unemployment and inflation all at the same time.

In 1971 with unemployment and inflation rising, industry acting sluggish, the housing market in shambles and the price of food, because of the gradual elimination of surplus which had kept the food market depressed, inching up the new managers reversed themselves at least to the extent of reducing the cost of money. An immediate boom in time for the elections of 1972 developed. The people spoke and the election was a landslide—an apparent mandate for the new managers. To control the inflation caused by the sudden availability of too much money they slapped controls on most manufactured products and removed controls from food and raw materials, the cost of money and of course profits. They removed the restrictions on profits being sent overseas. Domestically to those favored they removed other areas from price control and businesses went on a borrowing rollercoaster to corner the market on increasingly more expensive raw materials, to meet payroll, to pay bills and to buy increasingly more expensive inventory—all with increasingly more expensive money. To aid the farmers they sold our remaining crop surplus and a good percentage of the current year crop to Russia and China and for the first time the American housewife had to compete with the hungry of the world for a loaf of bread. To all this was added the results of the Arab-Israel conflict which boosted the price of oil 300 percent.

All these things together crippled our domestic economy. The result was a falling stock market, double digit interest and inflation rates, rising prices in raw materials, rising unemployment, shortages in vital materials, and a scared country. So where are we now. We have very high interest rates, our food supply is subject to the infinite needs of the world, we have reached zero population growth, the war in Viet Nam is over and with it the resultant demand, the housing industry is in a depression and we are being racked with the highest rate of inflation that we have ever suffered. In most of the developed world our own investments have now produced foreign manufacturing capability equal to satisfying not only their own needs but are sufficiently developed to compete in our home markets.

That in brief is where we now stand. Certain things seem evident at least for our domestic economy: We must lower the interest rates; we must stop the flight of money overseas; we must remove domestic needs of food from the international market; we must concentrate on building markets overseas with finished domestic production; we must develop our own independent source of energy; we must rethink the consequences of zero population growth; and we must recognize that our first duty is to ourselves and that only if our economy is managed so that our populace are the major beneficiaries of our energy, our skill, and our resources will we have the strength and the will to aid the world for our joint development.

Chairman HUMPHREY. I want to thank you.

I realize we have overextended the time here and for those who are representing WTTW, channel 11. Even though I am afraid that I am not getting my message out to the many subscribers, those who are the supporters of this fine public television facility, I want to thank them.

I want it in the record, our personal thanks. This has been a tremendous contribution to the community, at no cost to this committee, and we are very grateful. Much hard work has gone into it on the part of the professional staff of WTTW, channel 11, as has much hard work gone into it by the staff of the Joint Economic Committee and others who have associated with us and assisted us. We want to thank those who have been here today to help us with other matters relating to the hearing.

We have, I believe 122,000 members of WTTW, whose contributions help make this telecast and program possible today. Also I hope that some of you have found that it was of some interest to you to see how a committee of the Congress works. We do work, we do look hard, and we do try to find out what's going on.

I want you to know that if you have problems, as some of you have mentioned here, you do all have a Congressman in your districts. I can assure you that the majority, the overwhelming majority of Congressmen work hard to try to answer your communications and to get you results, and if you do not get results when you go to a Federal agency, the thing you should do is write to your Congressman or your Senator and ask for them to give you a helping hand. I'm confident that you will receive it because I don't know of a single Member of Congress who doesn't want to try to do that.

We thank you for the quality of your testimony, and I think this is one of the few times that people have been just permitted to come to the microphone in a hearing, even though you weren't scheduled witnesses as such, because I want to hear what you have to say, and I have heard a great deal here. We haven't always agreed, but I think it's been interesting.

Good night. Thank you.

[Whereupon, at 6:25 p.m., the committee adjourned, subject to the call of the Chair.]

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