

**NATIONAL ECONOMIC PLANNING, BALANCED GROWTH,  
AND FULL EMPLOYMENT**

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**HEARINGS**  
BEFORE THE  
**JOINT ECONOMIC COMMITTEE**  
**CONGRESS OF THE UNITED STATES**  
NINETY-FOURTH CONGRESS  
FIRST SESSION

—————  
JUNE 11 AND 12, 1975  
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# NATIONAL ECONOMIC PLANNING, BALANCED GROWTH, AND FULL EMPLOYMENT

WEDNESDAY, JUNE 11, 1975

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

The committee met, pursuant to notice, at 10:10 a.m., in room 2212, Rayburn House Office Building. Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Javits, and Taft; and Representatives Bolling, Reuss, Moorhead, Long, and Brown of Michigan.

Also present: Richard F. Kaufman, general counsel; Jerry J. Jasinowski, professional staff member; George D. Krumbhaar, Jr., minority counsel; and M. Catherine Miller, minority economist.

## OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. We will open our hearing this morning on the subject of balanced growth and economic planning. And I want to express our thanks to our witnesses for their cooperation.

This is the opening day of a hearing on a proposed piece of legislation which I believe should be of fundamental importance to the development and the growth of our economy. The question that faces the American economic community and the political society is whether or not we are going to at long last engage in some form of economic planning or not.

The introduction of the Balanced Growth and Economic Planning Act by Senator Javits and myself, and a number of others has already provoked a good deal of discussion, and this is exactly what we hoped would happen and knew would happen. And we believe it is all to the good. The more discussion, the more consideration, the more debate, the better as far as I am concerned.

I hope and I believe that as these hearings develop, and as the subject matter is ventilated and aired, and as our bill is modified or strengthened or developed that the American people will express their support for the idea of national economic planning. I believe they will once they understand what its objectives are.

The reason we must have economic, national economic planning, and this is very clear to me, but it may not be to all others, we need it because it is the one way that we will be able to improve, or should I put it that it is one of the ways that we will be able to improve the long-term performance of the American economy. And that to me is of vital importance.

Just on the way here this morning once again I am confronted with the specter of very high unemployment and an economy that many people say shows some signs of revitalization. It is to me of greatest concern that we talk of economic recovery at the same time that we are willing to accept such high rates of unemployment. I do not believe that this is acceptable, either politically or economically.

We ask ourselves this morning who can deny the unfortunate, and for some the miserable state of the economy today? Who can deny in the face of 9.2 percent unemployment that the Government and the private sector are really failing to carry out their responsibilities to the working families of our country? Who can deny the problems this economy has experienced over the past 6 years, the inflation, the lost jobs, the freezes, the controls, the recessions? I think that that statement alone indicates that we have not had a consistent policy. It has been an ad hoc, hit-and-miss arrangement designed to alleviate certain problems and certain pains only to bring on increased difficulties.

A number of economic forecasters are saying that the recession has bottomed out. And as I indicated earlier, there is some evidence for that. But there is also evidence that having hit the bottom, the economy is likely to stay on the bottom or close to it for some time. And I notice that the President himself yesterday indicated some degree of support for that statement, and many of the people that you are hearing from now are saying that while the economy may have hit the bottom in terms of its recession, that the climb back out will be a slow and difficult process.

Now, I recognize, and I am sure my colleagues do here, that planning is no panacea. There are no illusions that planning procedures will be a cure-all, that we will have a crystal ball to see clearly in the future. And I think we ought to make it clear that we are not even contemplating such a possibility. Planning is no end in itself.

However, it may help to make our Nation's economy perform better than it has been performing recently. Americans do want to control their own destiny to the maximum extent possible. We are not fatalists, and we are not comfortable leaving things to chance. It is sensible to try to look ahead, to try to coordinate our policies, taking into account available resources in order to improve the chances of accomplishing our goals and objectives.

I believe it is important that we stop for a moment to realize that we have not even come to an agreement upon our goals and our objectives, and surely we have not indicated any timeframe in which those goals and objectives are to be maximized or achieved. Nor have we as yet as a country, or a government, or as a society laid down any priorities. We are really almost like a wounded animal, just charging hither and yon, in pain and anguish, trying to find an escape from our present predicament.

I mentioned that we need to improve the chances of accomplishing our goals and our objectives once they can be agreed upon. Corporations do this, labor organizations try to do this, and yet Government does not seem to take the same approach.

My interest in this legislation is triggered in the large sense by the realization that the Federal Government, in cooperation with State and local governments, spends or invests or has outlays that run into

the sum of money of around \$500 billion, unplanned, uncharted, unorganized, just there. And how you can operate an economy without some sense of direction with governmental institutions, Federal, State, and local being tied into the development of the private economy is beyond me.

We are fortunate to have with us today spokesmen for both industry and labor, men that have given of their time and attention to some consideration of planning activities. We have Mr. Leonard Woodcock, president of the United Auto Workers; Mr. Leif H. Olsen, senior vice president and economist for the First National City Bank; and Mr. W. Howard Chase, consultant and former vice president of the American Can Co.

Gentlemen, we are very pleased to have you here this morning. You have taken time from your work to share your thoughts with us.

Mr. Woodcock, since you have taken such a primary interest in this type of legislation, we would ask you to proceed first with your statement, and then we will hear from Mr. Olsen and Mr. Chase. There may be members of the committee that would like to make a statement, and I believe that Senator Javits would like to say something.

#### OPENING STATEMENT OF SENATOR JAVITS

Senator JAVITS. Thank you. I shall be brief, Mr. Chairman.

I wish to express my appreciation to the witnesses, as did the Chair, and thank Congressman Brown of Michigan for letting me occupy this chair.

The important things I would like to have recorded before we start are: First, Senator Humphrey and I realized that this cosponsored legislation would be a highly controversial issue, and we invite debate. We are anxious to have it, and we are pleased that such distinguished personalities on the American economic scene opened these hearings and are willing to use curbstone language, to mix it up in order to get to some finite results, whatever that may be. And we have no pre-conceptions or believe in what we have done.

Second, I wish the witnesses would bear in mind that we are directing our attention very strongly to two ideas: One, that everybody plans except we, and that goes for the First National City Bank, the United Auto Workers and about every other responsible enterprise I know of, but when it gets to Government, everybody's hair stands on end, and we are going to become suddenly socialist planners dragooning everybody.

Third, and also extremely important, as I see it, is that we have got some very, very deep structural defects in our economy, and they are long range, they are not short range. They cannot be dealt with by the Budget Committee's decisions for 1 year.

For example, every recession since World War II has resulted in our coming out on a higher plateau of inflation. We have prosperity with absolutely unacceptable unemployment at one and the same time, and we are turning the corner in everything, say all of the economists, except unemployment, the most critical measure of success of an economy of all of them.

Now, the United States has produced unparalleled prosperity for 85 percent of the population, undreamed of in the world, and at the

same time has left 15 percent in a shower of despair. Now, that is a very deep structural inadequacy.

The next point is, we are completely structurally unprepared for the holdup in raw materials which can grind the American industrial machine to a halt and freeze us all to death, and that is a very long-range problem, and a very deep structural deficiency in this economy. We are caught absolutely flatfooted by the political decisions of the Arab States to use the oil weapon, and by the real probability that it will be duplicated in 100 instances just as critical as oil, and yet what do we do about it? We are spending months fussing and fuming over a bill on energy alone, because I think we are caught flatfooted and unprepared.

Now, finally, and I would like to make this very clear because I think it is critical, this bill which we have introduced is neither mandatory nor self-operative. There is not a line in it that makes anybody do anything except the Congress do a plan. Even the Congress can drag its feet and do nothing. But all we propose is a methodology by which a plan can be produced and be kept to date. And also, we are very careful in the text of the legislation to avoid anything which directly or indirectly enables it to operate by itself, in that way mandating its requirements. So, it is a blueprint and a structure in which everything we do today can fit, but at least we have a point of reference, we have a road map, and that is all this is.

I hope very much, Mr. Chairman, that the witnesses will approach it, and I am confident they will considering their nature, with the same meekness which characterizes our introducing the bill.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Thank you very much, Senator Javits.

You have a comment, Congressman Long?

Representative LONG. I will wait.

Chairman HUMPHREY. Congressman Moorhead?

Representative MOORHEAD. No; thank you.

Chairman HUMPHREY. Congressman Brown of Michigan?

Representative BROWN of Michigan. No.

Chairman HUMPHREY. We thank you, and we now await your testimony, Mr. Woodcock.

**STATEMENT OF LEONARD WOODCOCK, PRESIDENT, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)**

**COMPREHENSIVE LONG-RANGE OVERVIEW**

Mr. Woodcock. Thank you, Mr. Chairman and gentlemen. I am very happy to participate in this committee's consideration of proposals for national economic planning, because the lack of such planning is a fundamental shortcoming of our system. We do not have mechanisms adequate to deal with the interdependence and long leadtime that stem from developments such as instant communication, specialized production, and investment in complex technology. Individual elements of the economy utilize sophisticated forecasting in an attempt to meet their own needs. A number of States have efforts under way to

plan for their economic development. However, at the national level there is no provision for developing the comprehensive long-range overview required to establish goals and the policies to achieve them, nor is there the coordinated data gathering that must support such planning.

The prevalent attitude continues to reflect the assumption that millions of separate decisions made daily in all areas of the economy—including those made by the Federal Government itself—will, somehow, produce satisfactory results. But few Americans are satisfied with the outcome. We have high unemployment, rapid inflation, shortages of energy, transportation, housing, medical care, and other important requirements. In order to improve the situation, we need a procedure for effective national economic planning.

As you probably know, I have been associated with the Initiative Committee for National Economic Planning which produced a statement on this subject. That statement has received support from a significant number of notable people. I don't imply that they each agree with every detail of any specific proposal. Rather, they subscribe to the idea that national economic planning is needed, and urge the Congress to move forward in establishing a mechanism to achieve that.

The bill, S. 1795, which has been introduced by Senators Humphrey and Javits provides an excellent basis for congressional consideration. As the discussion of it progresses, there undoubtedly will be many suggestions for changes in specific provisions of the bill. I plan to review it further with my staff for such comments. At this time, however, it seems more appropriate to consider the general principles that must be basic to such legislation, rather than to get into any detailed aspects of the bill.

#### DEMOCRATIC NATIONAL PLANNING

The most basic concept is the importance of public input, discussion, and evaluation; in short, effective assurance that there will be democratic planning. National economic planning is not to be merely a technical analysis, conducted by experts, of alternative possible procedures. It requires the establishment of goals and priorities; these must reflect the desires of the American people. It will be necessary to make effective provision for widespread public consideration of any proposed plan, possibly of a number of alternative plans, in order to obtain the input which the Government will need to arrive at conclusions.

One of the mechanisms for achieving this democratic planning is the check and balance of the Executive and Congress. The executive branch would initiate consideration of each plan—they are to be revised biennially—and based on that the President would submit his recommendations to Congress. This activity of the executive branch should include procedures, including sufficient staff support, of course, for nongovernmental representatives of broad segments of the public to participate in the formulation of proposed plans; this would include the development of alternative plans when appropriate. The Congress would have independent arrangements to evaluate the proposals—both as to technical and public policy aspects—in order to formulate the national economic plan. Thereafter, the executive branch would be responsible to see that the activities of departments and agencies throughout the Federal Government are consistent with the plan. Simi-



larly other legislation enacted by Congress should be consistent with the overall framework established by the plan.

I urge you to keep in mind this concept of the plan as a framework, within which decisions about specific matters take their place. It would provide the overview—across the entire economy and ahead into time—that we now lack. Obviously the planning process must deal with specific time periods and aspects of the economy, and the plan must be expressed in those terms. Nevertheless, its primary importance is in revealing the interaction of these specifics. We cannot continue to deal with every issue independently, without regard to our total requirements for natural resources and other matters. Similarly, we cannot continue to deal with issues on a short-term basis; the present structure of Government decisionmaking is too heavily influenced by effects that occur within a year or so. The purpose of adopting a plan is to obtain the perspective that now is missing.

#### SPECIFIC TIME PLANNING

Obviously, the plan cannot solve all problems, nor will it fully anticipate all developments, even if it is revised biennially. There will continue to be need for more detailed action by Congress and the Executive on specific matters and for specific time periods. Many obvious illustrations come to mind:

#### THE BUDGET

The plan would not replace the annual budgeting process; instead it would provide a time perspective that now is only minimally available.

#### ENERGY

We must have an overall program to deal with this matter, it would cover many more details than is feasible to consider in a national economic plan; nevertheless, even an issue as broad as energy should be evaluated with respect to other national goals, such as full employment.

#### TRANSPORTATION

There is growing recognition that an overall transportation program is needed; a major portion of such a program would have to be coordinated with the energy program, but each has broader implications; neither one can be considered as a subsidiary of the other, nor can they be considered independently, they need to be considered as part of an overall national economic plan.

In this regard, I am aware that some questions have been raised about the relationship between the Humphrey-Javits bill for national planning and the proposed Equal Opportunity and Full Employment Act sponsored by Representative Hawkins and Senator Humphrey. In my view these are complementary pieces of legislation—even though various details would have to be reconciled—and I understand this to be the view which Senator Humphrey indicated last October when he stated that additional planning mechanisms might be needed to achieve the goal of full employment.<sup>1</sup>

<sup>1</sup>In testifying on the then pending Equal Opportunity and Full Employment Act of 1976.

The Humphrey-Javits bill deals with the entire issue of long-range national planning. The Hawkins-Humphrey bill makes it clear that the primary goal of any such national planning must be the achievement of full employment. That bill also provides some mechanisms; for example, the Employment Service and Job Corps provisions, to implement the full employment goal. Planning must ultimately be based on value judgments as to the priority of various goals: The combined effect of these two bills would make it clear that the provision of income security, through full employment, is the primary goal. Planning is needed to achieve full employment and other goals; equally important, goals which reflect human needs must be mandated if planning is to avoid potential abuses.

#### ECONOMIC DATA

A necessary requirement for effective planning is the availability of adequate data. Furthermore, data obtained from diverse sources must be compatible so that they can be consolidated. I have been told that there are over 50 Federal offices collecting economic data, in most instances insufficiently detailed, frequently obsolete, often contradictory and incompatible. No single office is responsible for setting appropriate standards and bringing these data together so that they can be used to pursue coherent national objectives. The national planning mechanism must have authority to deal with this issue. In this connection, it must be kept in mind that an important purpose of planning is to anticipate future developments. Such insights often result from putting together data that previously might have been considered unrelated. The present approach to Government data collection too often requires that the reason for obtaining the data—that is, the expected relationship—be specified in advance; it is the discovery of an unexpected relationship which is often the most important value of any data analysis. Thus, while the data collecting agency should make every effort to avoid unnecessary work by those who have to supply the data, it should have authority to obtain significant data even if the precise relevance of that data is unclear.

Data must be disseminated in useful form, as well as collected. I emphasized earlier the need for public participation in the discussion and evaluation of proposed plans. To achieve that, there must be adequate arrangements to provide needed data and analysis. Here again we must find the proper balance between the work involved and the need for public discussants to have information sufficient to make useful evaluations and suggestions.

#### COORDINATION OF PLANNING UNITS

Another important procedure in the achievement of democratic planning is the involvement of regional, State, and local planning units. Our Federal system recognizes the variations that exist across the Nation, and this must be reflected in the planning process. The national agency will have to obtain input from these other levels of government in formulating any proposed plan, and they must be used in the public evaluation, and ultimate implementation of any plan. In this regard, I am aware that a number of States have eco-

conomic planning mechanisms at various stages of development. While any such State mechanism must be adapted to special conditions in that State, it should also operate in a way which will produce data and analysis compatible with the national planning. Furthermore, such States now must make their own predictions as to the future national goals, policies, and activities. The adoption of a national plan would provide the States, and other planning units, with that information.

#### EFFECT ON PRIVATE SECTOR

Last, but not least, a few comments on the effect of national planning on activities of the private sector. The "knee-jerk" reaction to proposals for national planning is that our lives will be more controlled than now. That is certainly not the kind of planning which I have in mind. There is no desire to tell individuals where they are to live or work, nor what they are to purchase for consumption or investment. Similarly, it is not intended that specific goals would be set for business firms. Instead, the specification of national goals and policies would provide individuals and businesses with additional information on which to base their own decisions. Obviously, it would be foolish for someone to undertake an activity which will be likely to be unsuccessful because it conflicts with known national goals. Similarly, in extending credit, lenders are more likely to approve investments which are consistent with national goals and policies and hence less likely to go into default.

Furthermore, numerous government decisions are now made which affect each of us in many ways. These range from the current efforts to stimulate the overall economy to matters such as where a road or government building will be located. Developing a framework for these decisions will give greater assurance that they will assist in achieving our overall goals, instead of a single goal at the cost of other goals with equal—or perhaps higher—priority.

Many of those who oppose national economic planning would like us to ignore the effect now exerted—and not just by Government—over our actions and decisions. The 200 largest U.S. industrial corporations control two-thirds of the assets and employ 50 percent of the industrial work force. They now make decisions which affect all of us, but those decisions are based on the interests of those corporations rather than of the people. The issue is not whether we will be affected by the decisions of others; instead it is who will make those decisions and who will benefit from them. Democratic national planning for widespread benefit is preferable to our present system that produces unnecessary hardship and suffering.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Well I thank you very much, Mr. Woodecock, for your excellent statement. It was very helpful.

I think we will proceed with each of the witnesses making their statement. Mr. Olsen, you proceed now, and you will be followed by Mr. Chase.

**STATEMENT OF LEIF H. OLSEN, SENIOR VICE PRESIDENT AND ECONOMIST, FIRST NATIONAL CITY BANK, NEW YORK, N.Y.**

Mr. OLSEN. Thank you.

Chairman HUMPHREY. Might I interrupt, Mr. Olsen. I am correct that you are the vice president and chief economist for the First National City Bank?

Mr. OLSEN. Senior vice president and economist.

Chairman HUMPHREY. Senior vice president and economist, thank you very much.

Mr. OLSEN. Mr. Chairman, I wish to thank you and the committee for this opportunity to discuss with you the detailed direction of economic activity by the Federal Government, or what has come to be titled "economic planning." My appearance here is in particular response to your invitation to produce what you hope will be a vigorous national debate on economic planning.

I might ask your permission, Mr. Chairman, if I could enter into the record a copy of remarks by Mr. Walter B. Wriston, chairman of Citicorp, before the Society of American Business Writers here in Washington on May 5, 1975, under the title of "Blue Eagles and Déjà Vu."

Chairman HUMPHREY. Yes, indeed. We will include it in the hearing record at the conclusion of your oral testimony.

Mr. OLSEN. Very good. Thank you.

I take a dim view of further Government intervention into the private economy. And I am specifically opposed to the Balanced Growth and Economic Planning Act of 1975.

**ECONOMIC FREEDOM**

My opposition to the centralized economic planning proposed by this legislation is threefold.

First, centralized economic planning by Government would, by depriving people of their right to make free choices and decisions, decisively limit personal liberty.

Second, there is no evidence that supports the crucial assumption underlying central planning; namely, that the severe inflation followed by the deep recession from which we are suffering stems from the failure of the central Government to direct activities in the private economic sector.

Third, on the contrary, economic planning, similar to price-wage controls and other efforts to allocate economic resources, would provide an excuse for pursuing highly inflationary monetary and fiscal policies.

Let me elaborate on these three points.

One, threat to economic freedoms. The Balanced Growth and Economic Planning Act would establish an economic planning board with responsibility for "anticipating the Nation's economic needs, measuring available national economic resources, assuring an adequate

supply of industrial raw materials and energy, outlining economic goals, and in the light of long-range economic trends and opportunities, for developing a proposed balanced economic growth plan, and recommending policies to achieve the objectives of the plan.”<sup>1</sup>

So what we are talking about here is a comprehensive Government blueprint for the restructuring—I might add, the radical restructuring—of the private sector. And the act provides broad powers to achieve that goal.

The sponsors of the bill have assured us that the economic planning board would not have the power to tell anyone what to do, that powers would be those of persuasion, not direction. But government by persuasion and the line between persuasion and coercion is wafer thin—is not compatible with the maintenance of a free society. The establishment of committees on a regional and local basis, the creation of an Advisory Committee on Economic Planning composed of business, labor, and the public at large, coupled with proposals for widespread hearings on multiple levels, creates an environment that is completely hostile to the spirit of voluntarism that plays such an important role in our democratic society. Planning would introduce here those elements of persuasion and coercion that are so common in the highly centralized economics of Eastern Europe, the Soviet Union, and China. For example, Alexei Kosygin, Chairman of the Council of Ministers of the U.S.S.R., in his report to the 5-year plan in 1971 said—and I just enter this because of the flavor of the language—and I quote:

The Party's Central Committee criticized breaches of state discipline by some economic executives: Nonfulfillment of plans, of targets for cooperated deliveries, and a weakened sense of responsibility to the people. The Party requires that every administrator should have a high sense of duty to the people, [and] approach the fulfillment of economic tasks with state interests in view.

#### PRIVATE SECTOR GOALS

The Balanced Growth and Economic Planning Act itself and the factsheet that was distributed at the time of its introduction do not spell out how the private sector will be induced to perform in a way that would appear to be consistent with the economic plan. However, the Initiative Committee for National Economic Planning which provided expert counsel in the preparation of the act was somewhat more explicit in the statement that it distributed regarding national economic planning. In that statement the committee said:

It should be clear that the planning office would not set specific goals for General Motors, General Electric, General Foods, or any other individual firm. But it would indicate the number of cars, the number of generators and the quantity of frozen foods we are likely to require in, say, 5 years, and it would try to induce the relevant industries to act accordingly.

But just as in the days of the NRA—the National Recovery Administration—with its “Blue Eagle” in the early 1930's, I find it hard to

<sup>1</sup> Furthermore, section 208 of the act states: “The Plan shall—

“(1) establish economic objectives for a period to be determined by the Board, paying particular attention to the attainment of the goals of full employment, price stability, balanced economic growth, an equitable distribution of income, the efficient utilization of both private and public resources, balanced regional and urban development, stable international relations, and meeting essential national needs in transportation, energy, agriculture, raw materials, housing, education, public services, and research and development • • •”

believe that if large segments of American industry are unwilling to behave in a manner which would be consistent with the wishes of the economic planning board that means would not be found to persuade recalcitrant industries to comply. Again, the Initiative Committee for National Economic Planning in its statement said:

To reach democratically chosen objectives, it influences those decisions with a consistent set of economic techniques. The means of influencing those decisions are already familiar to us. Some, such as tax incentives and disincentives, and traditional monetary and fiscal policies, influence individual actions indirectly. Others, such as selective credit controls, guidance of basic capital flows, limits to the use of air, water and land, and mandatory resource allocation, affect individual actions directly.

I submit, Mr. Chairman, that unless the economic plan is largely ignored as the so-called indicative plans are in France, ways and means will be found to compel or coerce individuals, business enterprises and entire industries to comply with the wishes of the economic planning board.

My second point is that the absence of centralized Government planning is not the cause of our present economic distress.

#### GOVERNMENT INTERVENTION

It appears to me that proponents of detailed government planning of the private sector are seizing on the economic distress of the country as an excuse to revive an already tried and discredited idea that has little relevance to current economic problems. Economic instability also creates a political environment in which proposals for new regulations and radical structural changes thrive. And the underlying assumption never changes. It is that, if only those measures had been implemented at some earlier date, our current economic problems would have been averted. But there is little or no evidence to support that contention with regard to economic planning.

Mr. Chairman, I will not go into a detailed analysis of the elements that produced economic conditions in 1974 and 1975 but I would like to enter into the record a copy of the speech I delivered before the 26th Annual Virginia Conference on World Trade on October 10, 1974, which does provide somewhat greater detail.

Chairman HUMPHREY. It will be printed in the hearing record at the conclusion of your oral testimony.

Mr. OLSEN. Thank you, Mr. Chairman.

I would like to add here, however, that the introduction of price-wage controls in August 1971, which were also offered to the country as a panacea for our inflation problems, contributed significantly to the bottlenecks and shortages we experienced in 1973 and 1974. I might add here that it was forecast at the time that if controls were introduced, that such bottlenecks were likely to occur.

In an analysis undertaken by the economics department at First National City Bank we observed that price-wage controls did not interfere seriously with the timing of new capital investments in the basic materials industries, but they interfered substantially with the ability of those industries to allocate available resources effectively through the price mechanism. Those industries were caught in the summer of 1971 with prices at relatively low cyclical levels. Unlike those of finished goods industries, prices of basic materials are actually

reduced during recessions, and this was the case in the recession of 1969-70. In 1972 and 1973, the sales of these industries ran at two to seven times the annual average increases over the preceding 16 years and, as they approached full utilization of their capacity, they were forced more and more to place customers on a quota basis.

In addition, at the same time we applied price-wage controls in 1971, the devaluation of the dollar effectively reduced the prices of U.S. goods and services—particularly many basic materials prices—to a level at or below world prices, thus attracting a strong demand from overseas.

So it was not the absence of detailed government planning of the private sector that produced these chaotic conditions in the basic materials area, but it was instead Government intervention, specifically the imposition of price-wage controls and earlier on misguided efforts to maintain rigidly fixed exchange rates for the dollar. There were those who warned that price-wage controls would have these effects. There were those who urged that price-wage controls be terminated promptly and early in 1972. To characterize the events of the past 2 years as the product of chance and the lack of coordinated planning is to ignore these basic facts, as well as a tested body of economic theory.

I find it particularly distressing, and my fears about the possibility of preserving our freedoms grow stronger, when economic difficulties that were directly caused by the fumbling hand of Government elicit demands for still more Government intervention. It is as if an effort were made to save a drowning man by forcing more water down his throat.

#### MONETARY AND FISCAL POLICY

In 1968 we heard it said that monetary policy could not alone slow inflation. So the 10-percent income tax surcharge was imposed. But that was a mistake. Monetary policy had to do the job in the final analysis. In fact, it was so effective that the income surcharge soon had to be repealed and the suspended investment tax credit reinstated. Once again, in 1971, we were told that monetary policy was obsolete and no longer effective in combating inflation. And so price-wage controls were imposed with disastrous effects for the U.S. economy in 1973 and 1974. Now again we find monetary and fiscal policy discredited to make room for detailed Government planning of the private sector. Inflation and recession are substantially monetary phenomena and the responsibility of Government. These economic cycles do not emanate from capricious decisions in the private sector of the economy which needs therefore to be analyzed, controlled and shorn of its freedoms.

But the lags in the conduct of monetary and fiscal policy are constantly underestimated in this impatient world. The fact is that, unlike instant coffee, there is no such animal as an instant monetary effect. It takes time—not as long as vintage wine—but time nonetheless. And that is why we had last September's spectacle of a "summit" meeting to combat inflation at a time when it was obvious to many analysts that we were already plunged into the deepest of the post war recessions.

Now my third point. Economic planning will subordinate and multiply monetary and fiscal policies. Paragraph three in section 208 of the act states the plan shall:

(3) recommend legislative and administrative actions necessary or desirable to achieve the objectives of the Plan, including recommendations with respect to money supply growth, the federal budget, credit needs, interest rates, taxes and subsidies, antitrust and merger policy, changes in industrial structure and regulation, international trade, and other policies and programs of economic significance.

#### INFLATION

Mr. Chairman, the link between money supply and changes in nominal national income has clearly been established by an abundance of historical evidence that stretches over centuries. Just for illustration, let me state that an increase of 8 percent in the narrowly defined money stock—that is, currency in circulation plus privately owned checking account balances—to which we would add 2 percent for secular velocity of money would generate a 10-percent growth in the demand for goods and services or nominal gross national product. That is over time. And if the potential for real GNP growth is 4 percent; that is, increases in capacity and labor force, the resulting rate of inflation would be 6 percent over time.

But suppose that in order to achieve a full employment goal by, say, the end of 1976, the planning board decrees that money supply grows at 15 percent, and to avoid another recession it must hold or accelerate money growth. The rate of inflation would then gradually accelerate to 11 percent—back to the double-digit environment that we have found to be intolerable. So what we have here is a conflict between price stability and full employment. It is a problem of reconciling the irreconcilable.

#### INTEREST RATES

Another dilemma. How will we come to grips with the problems of interest rate levels and monetary policy? Interest rates decline only for a short while after the adoption of more expansionary monetary policy and then they begin to rise. And pursuing an even more expansionary monetary policy in order to check the rise of interest rates will not work. This has been demonstrated again and again. In fact, it is like trying to smother a fire with gasoline. The faster the money stock grows, the faster inflation rises and the higher the interest rates.

Mr. Chairman, far from fearing that a lack of central planning will lead to trouble, I believe that greater intervention by the Federal Government in the private sector causes shortages, bottlenecks and other disruptions, rather than preventing them. We have few shortages today because the price mechanism is now permitted to both encourage more production and clear markets through timely price changes. Now, of course, we are experiencing insufficient demand because by necessity monetary policy was forced to hold the rate of money growth below the rate of inflation to avoid validating double-digit price increases.

In my opinion, we made a positive step this year in obtaining from the monetary authorities a better insight into the targets for monetary growth. We should move further along this road to improve public comprehension with regard to the linkage between monetary policy and income growth. Had businessmen, for example, understood last year that monetary policy would not validate their inventory decisions, we might well have had a cooling off of inflation earlier and with less economic difficulties. In short, we can do much to improve the execution



and the public understanding of our traditional monetary and fiscal policies. We can also move along a program of eliminating those Government measures that interfere with the productivity and efficiency of the private sector. Such proposals as those made last year by Hendrick S. Houthakker, former member of the Council of Economic Advisers, as a means of fighting inflation are just as timely today.

#### ECONOMIC DISORDER

We are now at a crucial juncture in the economic history of our country. Having worked hard to reduce inflation, we must exercise patience and wisdom in the conduct of monetary and fiscal policies to avoid another painful round of inflation followed by more recession and worse unemployment. As with the summit meetings last year, where we heard proposals for additional economic restraints at a time when the economy was well advanced into recession, we must guard against policy proposals emanating from impatience with the pace of economic recovery—policies that would propel us into more economic disorder. Among such proposals is the current one which would send us off on a new adventure in economic planning. We should bear in mind that those areas of the economy which have been subjected to the most intensive Government planning, regulation, and supervision—such as transportation, housing, and most recently our public utilities—have also been the scene of chaos and/or bankruptcy.

Some of our most perverse economic policy strategies have been candy coated for public consumption. They come in such packages as price-wage controls where labor, consumers, and business all lose out; or as interest rate ceilings that force savers to subsidize borrowers during inflation; or as the minimum wage, which prices jobs out of the market and prevents the young and the unskilled from exercising the fundamental freedom of negotiating for a job on their own terms; or as restraint on utility rates that will ultimately deprive consumers of adequate power; or as environmental measures which hide staggering costs which consumers must pay though they rarely know what they are buying. Economic planning is one of these. Cloaked with the word "democratic" and promising a world of perfect economic order, how can anyone find serious fault? But planning threatens a loss of personal freedoms and the hidden costs of potentially severe disruptions to the economy. When the private sector suffers another economic nervous breakdown, this time from Government planning, what new kind of economic straitjackets will Government fashion for labor, business, and consumers?

Thank you, Mr. Chairman.

Chairman HUMPHREY. Thank you very much, Mr. Olsen. I would say that you have fulfilled the requirements of being provocative.

Mr. OLSEN. I endeavored to do that, Mr. Chairman.

Chairman HUMPHREY. And I want to thank you for warming my blood. It is a cool morning. It is going to be a great day.

[The remarks by Walter B. Wriston of May 5, 1975, and a speech by Mr. Olsen of October 10, 1974, referred to for the hearing record in Mr. Olsen's oral statement follow:]

## BLUE EAGLES AND DÉJÀ VU

(Remarks by Walter B. Wriston, Chairman, Citicorp, Before the Society of American Business Writers, Washington, D.C., May 5, 1975)

As we approach the bicentennial of our republic, it is useful to remember that our founding fathers faced hard times—much harder than those which are with us today. They, too, had to make some tough choices. Thomas Jefferson expressed the problem in a nutshell: "We are not to expect to be translated from despotism to liberty in a featherbed."

The great principles of our government laid down by our founding fathers embody a vast distrust of centralized governmental power, and an unswerving dedication to the proposition that government rests on the consent of the governed. No sector of our society has been more vigilant than the press in keeping that proposition always before us. Nevertheless, whenever we create the conditions which cause our system to appear to falter, whether through inflation or corruption, people who would destroy our liberty press forward with plans the founders rejected—old plans dressed in a new vocabulary. A good man years ago, John Randolph foresaw the danger and put it this way: "The people of this country, if ever they lose their liberties, will do it by sacrificing some great principle of government to temporary passion."

Today, passions abound in the land; as the heat rises our memory of fundamentals seems to fade. We forget that the traditional optimism of the American people is an absolute essential to a democracy. We hear a rising chorus of attack upon the unique American economic system, though it has produced both the highest standard of living and the largest measure of personal liberty in the history of mankind.

People who should know better begin to waffle about human freedom and in the moment of passion that John Randolph feared even suggest that some form of dictatorship may not be so bad after all. In the 1930s Senator Reed from Pennsylvania voiced it bluntly: "If this country ever needed a Mussolini, it needs one now." The admiration in the United States for the way Mussolini made the trains run on time was widespread. *The New York Times* in May of 1933 reported that the atmosphere in Washington was "strangely reminiscent of Rome in the first weeks after the march of the Blackshirts, of Moscow at the beginning of the Five-Year Plan . . . The new capital . . . presupposes just such a highly centralized, all inclusive government as is now in the making." In the 1930s it began to look more and more as if we would sacrifice some great principle and lose our liberty.

The resident philosopher in Washington in those days was Rexford Guy Tugwell. Like his current counterparts, Tugwell expressed contempt for the consumer's ability to choose, and wanted large state-controlled corporations along fascist lines. It was all very simple and logical. He put it this way: "When industry is government and government is industry, the dual conflict deepest in our modern institutions will be abated." This old idea has now been revived with a new name: We now call them "benchmark" corporations. By 1984, George Orwell tells us the concept will be set to music in a telescreen jingle that goes: "Under the spreading chestnut tree, I sold you and you sold me. . . ."

The first major step that this nation took toward merging government and industry, and toward the total abandonment of the free market system, was the enactment of the legislation that created the National Recovery Administration. The NRA with its famous Blue Eagle symbol soon began grinding out hundreds of "codes" repealing economic freedom and arbitrarily fixing wages, prices and hours.

In the temporary passion of that moment, many businessmen welcomed the idea of controls and were openly pleased with the idea of an escape from competition. "Codes" in the 1930s were the equivalent of the current euphemism "guidelines." These "codes" ultimately affected some 22 million workers. Like all schemes which require people to behave in a way they would not act of their own free will, force eventually has to be used against the populace. Since the NRA codes required citizens to make decisions which were contrary to their own economic interests, penalties for noncompliance had to be severe. Tailors were arrested, indicted, convicted and sentenced because their prices for pressing a pair of pants were a nickel below the relevant NRA code. Farmers were fined for planting

wheat that they themselves ate on their own farms. Barbers who charged less than the code rate for a shave and a haircut were subject to fines of up to \$500. Even the village handyman was prosecuted, since he did not fit in under the multiple wage-and-hour scale set up by the codes.

The complexity of the codes soon antagonized labor as well as management. The average factory worker who had been earning \$25 a week was cut back to \$18.60 under NRA codes. As a result, strikes became a way of life and auto workers, frustrated by red tape, began calling the NRA the National Run Around. When the textile code authority cut production in the mills in 1934, another great strike began in the South. Before the strike ended, the National Guard had been called out in seven states and scores of textile workers were killed and wounded. A few months later, NRA Administrator General Hughie Johnson resigned under a storm of criticism—or, as he phrased it himself, “a hail of dead cats.”

As was the case with the rights of minorities in the 1950s and 60s, or with Watergate in the 70s, a few had the courage to challenge the power of the state. A fairly small company, The Schechter Poultry Company, refused to observe NRA standards of “fitness” governing the slaughtering of chickens. When the case reached the Supreme Court, the NRA was unanimously declared unconstitutional. The Court wrote: “Such a delegation of powers is unknown to our law and it is utterly inconsistent with the constitutional prerogatives and duties of Congress.” After the decision was read, Justice Brandeis told one of FDR’s legal aides: “I want you to go back and tell the President that we’re not going to let the government centralize everything.” That was a call to return to fundamental American principles.

That time around we were rescued from the temporary passion of the moment by the Supreme Court. For such actions, the justices were reviled as the Nine Old Men. Fortunately, they were old enough to remember the tyrannies of the past, and struck down the attack on individual freedom even though it was wrapped in a package labeled “progress.” As if in direct reference to John Randolph, the Court said: “Extraordinary conditions do not create or enlarge constitutional power.”

Today, just as we are beginning to win the battle against inflation and recession, the classic attacks on individual freedom are being launched with new vigor. In place of the NRA and Mussolini’s Blackshirts of another era, we have new groups with new names spelling the same worn-out concept of government planning as “progress.”

The current effort to peddle the theories of Tugwell is being quarterbacked by an organization called the Initiative Committee for National Economic Planning. Its members, businessmen, academicians and labor leaders are all well-intentioned people who should know better. Their program, if adopted, could bring about the step-by-step destruction of the free market system, and, as a consequence, all personal liberty. The opening statement of the Initiative Committee expresses the usual doubt about whether our tried and tested system provides “the best hope for combining economic well-being and personal liberty.”

Like central planners in the past, the new breed speaks euphemistically of “plenary power” and obtaining a “mandate.” They suggest that a “five-year plan” would be “voluntary” but add that it might require a “legislative spur.” They imply that they would not set specific goals for General Motors, General Electric, General Foods, or any other individual firm but would “try to induce” the relevant industries to do their bidding. *The New York Times*, an ardent advocate of central planning in 1975 as in 1933 (except of course for the media) has fully endorsed the idea of government planning as “a means to help private industry to make its own planning decisions . . . without government coercion.” There is no case of government planning not implemented in the end by coercion.

If the proponents of central planning came right out and said they wanted to create an economic police state, their cause would never get off the ground. So, they resort to “doublespeak,” as Mario Pei so aptly called it, the usual camouflage for the ultimate use of force against the individual. Ludwig von Mises summed it up when he wrote: “All this talk: the state should do this or that ultimately means: the police should force consumers to behave otherwise than they would behave spontaneously. In such proposals as: let us raise farm prices, let us raise wage rates, let us lower profits . . . the *us* ultimately refers to the police. Yet, the authors of these projects protest that they are planning for freedom and industrial democracy.”

Perhaps the oldest lesson of history is that an assault on one aspect of freedom is an attack on this whole, as the framers of the Constitution were well aware.

To think that the bell that tolls for economic freedom, does not toll for academic freedom or for freedom of the press is a delusion, and a dangerous one. The vigilance which helped smoke out some of the misdeeds of Watergate should be equally focused on the economic *non sequiturs* coming from some of Washington's prominent citizens.

Attacks on the system that has produced our relative affluence as well as our freedom come in part from people seeking power, and in part from a failure to understand the American experience. Pulitzer Prize historian Daniel J. Boorstin put it this way: "There is an increasing tendency . . . to blame the United States for lacking many of the ills which have characterized European history. Our lack of poverty is called materialism, our lack for political dogma is called aimlessness and confusion."

All current proposals for a managed economy rest on an underestimation of the intelligence of the American people. They assume that you and I are not smart enough to decide how to spend the money we earn. The decision must be made for us by a wise government. Those wonderful people who brought us wage and price controls, which so severely disrupted our economy, now wish to extend the chaos on a permanent basis. The intellectual arrogance of those who would substitute their judgment for that of the American people is amazing.

As the incredible complexity of American life begins to dawn on the would-be government managers, as it did in fact ultimately dawn on the Administrator of the NRA, ever increasing pressure has to be applied to make a reluctant citizenry conform. The clash between governmental economic planning and personal liberty is inevitable because, in the end, governmental allocation of economic and intellectual resources requires—ultimately—the use of force. No agency, for example, could have regulated our railroads into bankruptcy as did the I.C.C. without such power. This power must be continuously increased to block opposition, to generate public acceptance and suppress doubts about the competence of the planner.

Last year's Economic Summit should have made it obvious to all the world that experts do not agree. No plan which covers a continent with the infinite variety of America and contains thousands of parts, can possibly be agreed upon by experts and certainly not by a majority of the people. Even if by some miracle we could get all the fiscalists and monetarists to concur, the ultimate decisions would be political much more than economic. It would be impossible to get a majority vote in the Congress on every item in the economy which would have to be allocated, priced and assigned priority. Since both political and economic agreement is a virtual impossibility, these decisions have to be delegated to the planner and thus can never represent the will of the majority. Such action by definition destroys the premise on which American democracy rests.

The First Amendment is one of the most sweeping definitions of freedom of the citizen against his government ever enacted anywhere in the world. As in the past, it must now be guarded jealously by all sectors of our society. What I am suggesting to you today is that you must examine with great care and skepticism the proposition that government regulation of goods and services is a legitimate function of government. It is predicated upon the dogma that consumers lack the intelligence to make choices, but that they are capable of sorting out a good idea from a bad one without government help. You should question the logic which leads some people to conclude that a so-called truth-in-advertising law is good, but a truth-in-media law is bad. On a purely logical basis it is hard to sustain the argument that the public is unable intelligently to choose among competing dog foods without government help, but is competent to sort out the true meaning of a senator's speech.

The press, along with the rest of this country, generally has come to the conclusion that the performance of government at all levels leaves a great deal to be desired. Bureaucracy has never been synonymous with efficiency. There is a growing perception across the country that government regulation of goods and services has often tended to promote monopoly, raise the price levels and smother innovation. Professor Houthakker of Harvard made this point dramatically at the Economic Summit by listing 43 areas he thinks the government should deregulate.

Test you think that you are exempt, more and more educators are beginning to perceive the hand of government within their own campuses, despite the long tradition of academic freedom. Academicians are learning the old lesson that if you take the king's shilling, you will do the king's bidding. We already have government very much in the broadcast field, although some people feel this

has not been objected to as strongly by the print media as one might have hoped or wished. If you accept the proposition that government intervention in the dissemination of ideas is bad, which is one I strongly hold, you must then review in your own mind whether it makes any sense to argue for governmental intervention in the individual's choices among goods and services. Whatever conclusion you come to on this proposition, you should not fool yourself that economics and politics live on separate islands; in the end our freedom is indivisible.

One of our least admired presidents was characterized as one who approached power with "muffled oars." Those of you who depend for your existence on the First Amendment should sensitize your ears to pick up the sound of "muffled oars" seeking to approach power through a planned economy. This suggestion is in accordance with sound liberal doctrine as expressed by Woodrow Wilson: "The history of liberty is a history of limitations of governmental power, not the increase of it."

#### INFLATION : A PROBLEM THAT'S KILLING ITSELF

(Text of a speech by Leif H. Olsen, senior vice president and economist, First National City Bank, New York, N.Y., before the 26th Annual Virginia Conference on World Trade, Thursday, October 10, 1974, Reston, Va.)

History tells us that, on many occasions in the past, the greatest collective efforts to deal with this or that monumental problem were launched precisely at the moment when the problem was over. And in all probability, the summit meetings of last month will serve in history books as a classic illustration of a major collective effort—to treat the right problem at the wrong time.

Nevertheless, I believe the President's program deserves strong support—except for the tax increase, which is ill-timed. There is no excess consumer demand. Increases in food production, greater action to develop indigenous fuel sources, elimination of long-standing federal and state restrictions which reduce efficiency and productivity in the private sector are all essential programs. And we especially need to provide for direct assistance to those who are becoming unemployed as a result of the fight against inflation.

The President's program has been called "limited," "bland," "nibbling the bullet." But that is exactly the kind of program we should have at this time. What critics fail to recognize is that we have already had the bold, harsh treatment of inflation they feel should have been in the President's program.

The fight against inflation in the United States is now far advanced—so far, in fact, that before next summer arrives, the main economic-policy questions and the main political issues will center around proposals for stimulating economic growth—in contrast to the current search for cures for domestic inflation. At present, in the U.S. economy, a rapid shift is under way from scarcity to surplus—so that the nation now confronts a decidedly new situation with new and different complications.

The situation may be summed up briefly as follows: Monetary policies designed to ease the economy into a gradual slowdown have been all too successful. The slowdown has certainly occurred—but it is no longer gradual. Due to the steepness of inflation, the economy—which has been in a cyclical decline since the start of the year—has been sliding rapidly into a deeper and more pervasive recession in the past six to eight weeks. Up to now, the 1957-58 recession had been the deepest since World War II. The present recession is likely to be as severe—possibly more severe. And quite probably it will touch off demands for stimulus that could jeopardize the longer-run struggle for price stability.

Monetary policy has limited the growth of money and income well below the rates at which the dollar prices of raw materials and finished goods have risen. But this fact was ignored by many producers, who built up their inventories to unusually high levels even as the country's purchasing power shrank.

As a result, the economic basis for double-digit inflation has been completely eroded. And as a substantial inventory shakeout takes place—possibly even outright economy-wide inventory liquidation—inflation could well abate rapidly in the next six to nine months to a rate of 6% or lower. The timing is difficult to forecast. But it seems to me that by the end of next year, inflation is almost sure to be under 5%. Such a purging of inflation, while painful for employment and profits, could improve the real purchasing power of income. And this, together with a return to moderate monetary expansion, which would be more expansive

than that which we have had since early summer, would initiate an economic recovery in next year's second quarter.

Such changes in the U.S. domestic front are likely to interlock in a variety of ways with world trade developments :

1. The present U.S. recession is the first since the dollar's exchange rate was unpegged; and at the very least, this means that U.S. exporters will be more formidable competitors than before in world markets.

2. The U.S. economy will not provide a hospitable climate for imports from other industrial countries.

3. Demand for imports has tapered off in other leading nations and will not revive quickly—because high oil prices and restrictive monetary policies have triggered slowdowns in these countries as in the United States.

4. Payments for imported oil will continue taking enormous bites out of most countries' trade accounts. To slow the buildup in the volume of foreign borrowing needed to finance their oil deficits, many nations are likely to try to boost their export earnings one way or another, despite their protestations to the contrary. Thus, for this reason, as well as the general slowdown in world trade, international competition in world markets will intensify in 1975. As these become buyer's markets, world inflation will recede from the high watermarks of this year. But in all countries, the tide of protectionist sentiment is likely to rise.

Since recent economic trends in the United States bear some resemblance to those in other leading nations—and since U.S. developments may now have greater impact on world trade than before—I would like to describe how we entered the current recession.

In the summer of 1971, we in this country adopted a series of economic-strategy decisions that could not have been more inflationary had they been designed deliberately and skillfully for this perverse purpose. The imposition of price-wage controls on an essentially peacetime economy was a wholly new and painful experience for our country. These controls caught some of our basic-materials industries with their prices at cyclically low levels, since they had not fully recovered from the 1969-70 recession. Normal increases in capital investment were discouraged; the production of many goods was halted because consumers were forbidden to pay prices high enough to encourage their output; and domestic controls showed some goods out into the higher-priced export markets.

At the same time, a devaluation of the dollar raised the dollar prices of goods imported into the United States while cutting the foreign prices of U.S. exports. The devaluation was unavoidable. But coupling it with price-wage controls was a serious mistake.

In 1972, U.S. monetary policy—apparently responding to public and political clamor for a speedup in economic growth from the sluggish recovery of 1971—embarked on a rather extraordinarily expansive course. After growing by 6.5% in 1971, the nation's money stock suddenly expanded by 7.8% in 1972 over 1971. But we kept the lid on prices while accelerating monetary growth—which is a bit like tying down the safety valve on a steam boiler while pouring coal onto the fire.

The results are only too well known: The buying power of higher income was leveraged by artificially low prices, and consumers tired to reduce their growing cash holdings by spending heavily on goods and services or for financial assets.

The climax came in fourth-quarter 1972 and first-quarter 1973. Consumer spending surged mightily. The Dow Jones soared nearly to 1,100. And while Phase III controls were applied, inflation roared ahead.

At this stage, inflation—like a rising tax—was cutting more and more deeply into the purchasing power of money. Monetary policy did not become overly restrictive; in fact, the growth rate of the U.S. money supply did not slow down significantly in the first half of 1973. But the monetary authorities wisely elected not to accelerate the money stock's growth to compensate for the accelerating climb of prices. And as inflation worsened, the real money stock—which represents the purchasing power of currency and checkbook money—began to decline. A decline in the real money stock, leading to a slower growth of real personal income, has preceded every recession in the United States since World War II.

After growing by 3.9% in 1972, real money balances rose at an annual rate of only 1% in the first-half 1973 and then declined in the second half of that year. This was an abrupt change.

Real expenditures for personal consumption rose 8.5% on an annual rate basis in fourth-quarter 1972 and 8.1% in first-quarter 1973. But since then, their growth has slowed dramatically. In the quarter ending June of this year, real

consumption spending was 2% below the level in the first quarter of 1973. And today, real retail sales are down 5.4% from March 1973.

Until almost the end of last year, the developing slowdown followed a fairly familiar pattern. In fact, there is ample evidence to suggest that a mild, normal cyclical recession began in November 1973 in response to the decline in real money balances and in the growth rate of real personal income. But at that point, last winter's oil embargo enters the picture, setting off a series of economic signals that were misread both by policy makers and business managers.

As a result of the embargo, sales of automobiles, of gasoline and sales in energy-related industries fell sharply, absorbing a disproportionate share of the incipient slowdown, which otherwise would have been diffused more evenly through the economy. If the downturn had been more widespread and pervasive, it might well have reduced businessmen's inflationary expectations, leading them to adopt a more cautious line in building up their inventories. But instead, the rates of inflation and of inventory inflation continued high, and this forced the monetary authorities to cling to a policy of real restraint.

Then came an unfortunate side effect of the embargo—the sudden, tremendous increase in the price of oil. This increase filtered through as a price rise on everything from gasoline to synthetic textiles. Because it boosted our price indexes, it was seen as inflationary. But its impact was also deflationary because it was, in effect, a tax imposed by the oil-exporting countries on consumers. Every gas pump in the United States became a tax collector for the oil exporters. And the tax took another big slice out of consumer purchasing power.

However, the entire episode of the embargo and the oil-price rise inflamed the already intense fears of shortages and spurred even greater efforts to build inventories. Even during the uncertain period of the embargo, basic materials industries were flooded with orders. At the retailing level, department-store buyers expected they might find their orders delayed or prices raised in the spring or summer. So they bunched up their buying and placed multiple orders with suppliers of goods.

A huge influx of orders for materials, semi-processed goods and components produced bottlenecks, lengthened delivery schedules, forced quotas on orders, and it accelerated the rise in commodity prices. As these difficulties spread, they seemed to confirm manufacturing managers in their belief that their earlier decisions were correct and heightened their desire for even larger inventories. With shortages proliferating, with prices rising and price controls terminating, there seemed to be little risk in piling inventories higher.

When the oil embargo ended, divisional heads of many of the nation's corporations were persuaded that the embargo slowdown was behind us, that the economy would snap back quickly and that, when it did, shortages would be even worse. So in March, April and May, they stepped up their orders. Demand for commercial bank credit climbed as never before. And of course, short-term interest rates rose to historic highs.

But the economy never snapped back as vigorously as it had after most other industrial disruptions. By early July, in thousands of corporations throughout the United States, finance committees sat down with management to determine how far their external financing had been stretched beyond the limits set in budgets at the start of the year. Heavy indebtedness, contracted at high interest rates to finance extraordinary increases in inventories, persuaded many to restructure their priorities. Financial assets were suddenly more important than goods in the warehouse. At that point, short-term interest rates stopped rising and the long process of improving corporate liquidity began to get under way.

During this hectic period, the pricing policies of American industry had departed from established theory. The Cost of Living Council permitted a pass-through of costs to lift prices—a policy which ignored the effect on sales of excessive price increases. With petroleum prices setting the pace and petrochemical feedstocks following, the price-increase syndrome hoisted the inflation rate far above the date of increase in income. It was only a matter of time before inventories of final goods would begin piling up on the shelves of U.S. retail stores.

This end result reveals how seriously business managers were misled by the word "shortage," which cropped up so frequently in economic dialogues over the past 18 months. For there is no shortage so severe that it cannot be corrected by a high enough price. During 1973 and throughout last winter when many managers complained of shortages, the term conjured up visions of a warehouse whose floors were sparsely covered by small piles of goods scattered

here and there. However, a trip to the warehouse was likely to find it stacked to the rafters, while the manufacturer looked around for another warehouse to fill. In such cases, complaints of a shortage reflected the fact that actual inventories were not low but they were still well below the level desired by the manufacturer. He wanted to build his inventories higher to match his vision of the world. In this view, at a time when shortages threatened and, in fact, existed in many lines of goods, at a time when prices were rising and controls were being removed, he saw no near-term risk in an aggressive inventory policy.

Even through the first half of 1974, the makers of U.S. monetary policy perceived that strong inflationary expectations were still prevailing. So they continued their efforts to hold the monetary growth rate somewhere in the neighborhood of 6%—far short of the inflation rate of 11-12%. And early last summer, just as the Federal Reserve tightened up further on the growth of monetary aggregates, more corporate managers began deciding it was time to start cooling off their policies of inventory accumulation.

Up to then, they had overlooked the Federal Reserve's persistent refusal to validate a double-digit inflation rate. And they ignored the fact that the first-quarter slowdown had been due to something more than the oil embargo.

But now, as the winter of 1974-75 approaches, the economic climate is changing rapidly. A general reduction in orders is moving backward through the nation's production pipelines. This has abruptly pulled down the desired levels of inventories—far below the levels of those actually on hand. As a result, price softness is setting in where only a few months ago there were shortages.

Right through August, the momentum of price inflation—uplifted by the oil-price increase and by an almost-frenzied demand for inventories—carried through to finished goods, despite the decline in real income, despite the decline in real retail sales, despite the decline in automobile sales, despite two quarters of decline in real GNP, despite all the signals that inflation-based decisions were wrong. And so it is perhaps understandable if the monetary authorities have conducted policy in recent months as though they were presiding over the assassination of Rasputin.

But nothing lasts forever. The dose of monetary restraint, the sharp decline in equity prices and the attendant decline in the value of household wealth do not auger well for strong spending on personal consumption in the months ahead. One way or another, consumers are exhausted from running a race with surging inflation.

Consequently, it could be said that, while the President's program is termed insufficient and limited, it is appropriate, except for the income tax surcharge. The tax is ill-timed politically—as he himself acknowledged—and it is far worse timed economically. As of now, there is no excess consumer demand. That ended a long time ago. There has been excessive inventory demand—and it has finally been recognized by corporate managements.

The inflationary surge that swept through the economy due to misread economic signals last winter and last spring has been dealt a double blow: one from prolonged, but necessary monetary restraint—and one from prolonged and excessive inventory accumulation.

Meanwhile, the outlook for world trade is somewhat less clear. In every industrial country, declines have occurred in the real purchasing power of money, in the growth of real personal incomes, and in real retail sales—as a result of high oil prices and anti-inflationary monetary policies. And in many countries, excessive inventory accumulation is now troubling industry and pulling down growth rates.

While some countries have made some moves toward more expansive monetary policies, these are not likely to produce a sudden surge of robust economic growth in 1975. But U.S. exporters may face problems, too. Eventually, they may lose some of their competitive edge since, quite probably, the dollar will appreciate against other major currencies—in part because the oil-exporting states tend to hold the main part of their growing surplus funds in dollars.

But as governments jockey for position in the world arena, they will be well advised to guard against the rise of protectionist sentiment—and particularly against the temptations of trade restrictions and competitive deflation.

On this subject, Per Jacobsen—in a lecture delivered in 1963—issued a warning which may be more timely now than it was then. "The years since the Second World War have been ones of freer trade," he said. "But now perhaps we are coming into a period of fiercer competition when requests for more protection



will be put forward with greater insistence. If no steps are taken to withstand deflationary tendencies in the present period and a general deflationary trend should set in, these voices would become even stronger and there would be the distinct risk of losing the benefits of progress achieved over recent years in expanding world trade."

Jacobsen's warning may echo discordantly in our ears today as we listen to the alarming song of hyperinflation. But sound economic advice, when properly timed, will always be in discord with fashionable trends in public and political thinking. For instance, two years ago—when most people believed that the U.S. economy needed a strong stimulus—would have been the proper time to begin the effective fight against today's inflation.

Now, this inflation is abating. In the next six months it probably will slow down more rapidly than is generally foreseen—and even more rapidly than the rate at which it accelerated, which was also unexpected. But the main risk, at present, is that we may go too far in our anti-inflationary monetary policies. For excessive restraint now will only lead to demands, in a later period, for overly expansive policies to "rescue" the economy. And such demands, in turn, would jeopardize an orderly stabilization of prices over the longer run.

Chairman HUMPHREY. We have as our third witness Mr. Chase, and we welcome you very much here to our committee. Mr. Chase, W. Howard Chase, is consultant and former vice president of the American Can Co. Am I correct?

Mr. CHASE. That is right, sir.

Chairman HUMPHREY. And we surely appreciate your presence. Proceed, sir.

#### STATEMENT OF W. HOWARD CHASE, CONSULTANT AND FORMER VICE PRESIDENT, AMERICAN CAN CO.

Mr. CHASE. Thank you.

Mr. Chairman and distinguished members of the panel, I hope that what I have to say will not make the distinguished chairman's blood more tepid than it is at the moment.

My name, as has been indicated, is W. Howard Chase, and I do serve as a consultant to William F. May, who is chairman of the American Can Co., having served until early this year as corporate vice president and assistant to the chairman.

I serve as assistant to the president of New York Polytechnic Institute, where I am also guest professor in the Graduate School of Management Sciences in the areas of business and its societal relationships. Finally, I edit and publish the Innovation and Management of Change Letter with distribution in this country and abroad.

I would like to say to the members of the panel that only the most compelling personal reasons prevent Mr. May's presence here today. I ask the indulgence and understanding of this distinguished committee in presenting our mutual point of view on the bill which would establish a balanced economic growth plan.

Mr. Woodcock will remember that shortly after he and Professor Leontief publicly advocated such a bill, he received from Mr. May a letter of appreciation for his insights into the social, economic, and political urgencies that demand the most concentrated attention from all of us.

Over the past 2 years, Mr. May has proposed a National Social Policy Act which demands maximum planning and decision functions in critical areas. This proposal has just been published in his study entitled, "Man, Environment, and the Planning Society," widely distributed by the Presidents Association of the American Management Associations.

Chairman HUMPHREY. Have we acquired a copy of that study?

Mr. CHASE. I shall be happy to enter it into the record with your permission.

Chairman HUMPHREY. If there be no objection, it will be printed in the record at the conclusion of your oral testimony.

Would you be kind enough to see that members of the committee that would like a copy could receive one? I do not know if that violates any laws around here or not, but we will seek special dispensation.

Mr. CHASE. The American Management Associations will charge me \$2.50 a copy, but I will be glad to absorb that.

Chairman HUMPHREY. Oh, they will? I will be glad to buy one.

Mr. CHASE. Mr. May's language is not unlike the content of the bill under discussion. I quote: "The National Social Policy Act would create a permanent national planning structure, publicly financed and expertly staffed. Its function would be to coordinate and develop the goals of a planning society."

Such a procedure, he writes in this little book, is an extension of common practice to total social goals. Modern complex industry virtually lives or dies by effective planning. Modern labor organizations have research and analysis departments that rival those of universities, which are themselves socio-economic-technical research and planning centers.

Merely to demonstrate application of the national planning function to the real world, Mr. May used six critical areas of modern life as examples. I submit and quote them to this distinguished body:

#### INCOME FLOOR

1. It is time for the leadership of business to join with humanitarians in advocating and obtaining an income floor below which no member of our society is allowed to fall. The trade-off? The elimination of most current bureaucratic, inequitable welfare plans and no income ceiling for those whose talent or productivity can enrich us all.

#### HEALTH SERVICES

2. The fear of devastating effects of medical disaster haunts America. It is time for business, labor, government, and medical leadership to become positive advocates of a modern, efficient system of delivery of comprehensive health services that combine the best that public and private sectors can provide. We don't have it now.

#### INCENTIVE SYSTEM

3. It is time for business and union leadership to devise incentive systems—not expiencies—by which labor at all levels shares the rewards when the system produces satisfaction and the penalties when it doesn't. Obviously, this involves full labor participation in the planning function.

#### EDUCATION

4. It is time for all leadership to sponsor, with their minds, hearts, and purses, a total renovation of our bedraggled and ineffective educational system.

#### INVESTMENT CAPITAL

5. No country should apologize for generation of capital and for rewards for successful use of capital. Until recently our own record in this has been superb. Let us unite in recognizing once again the importance of the generation of capital and rewards in this country. We should revive public acceptance, and admiration, for a return on investment adequate to generate the new capital required for domestic stability and international leadership.

## TECHNOLOGY

Mr. May's final point :

6. The scientific resources of industry, of universities, and of government can work together on an incentive basis, to accelerate the development of technology for pressing social ends. Such collaboration between public and private sectors is customary for urgent national defense goals. It is inconceivable that we do not direct our combined genius toward technologies for energy, for environmental protection, and for medicine."

Those quotes are merely examples of what I hope you will agree demonstrate a need for a certain kind of national planning.

It should be clear that Mr. May and I, as one of his associates, are not prepared to turn a deaf ear to the objectives of the bill under discussion. We agree thoroughly with the Reverend Theodore M. Hesburgh, president of Notre Dame University that "one of the greatest intellectual and moral needs of mankind is to find a workable rationale for continuity in times of change."

Having stated this theoretical position which is hospitable to the planning idea, I draw to a close with a word of caution, and a specific suggestion.

## PLANNING AND FREEDOM

The caution—I think Mr. Olsen will concur in this: John D. Rockefeller III, in his thoughtful book entitled "The Second American Revolution," called for a most careful distinction between a planning society and a planned society. I share his concern. The planned societies have tended to be the dictatorships of the extreme left or right—the total statist societies in which the individual loses both dignity and importance. With our legacy of the free man, we have fought wars to prevent the planned societies from dominating the world.

There is broad suspicion, and you have evidence of it here this morning, that national planning, once established as an arm of government, can lead to arbitrary decisionmaking based more on political beliefs, preferences, or ideologies than on Father Hesburgh's argument for a "workable rationale."

Mr. May also observes that a planning society demands a citizenry with a strong sense of inner self-discipline and responsibility. Government by pressure groups is the route to a planned—not a planning—society. What both de Toqueville and the late Walter Lippmann called "the tyranny of a temporary majority" affords no highway to a planning society.

On the other hand, responsible planning and national goal setting in itself can be a training ground for citizen maturity and a remedy for self-centered materialism and avarice that all too frequently mar a society with no sense of national mission.

In these contexts Mr. May as asked me to extend his support, in principle, for the spirit of the bill under discussion, with the caveats just listed, and with two specific suggestions.

## FOOD AND ENERGY AREAS

There are two areas of enormous economic, social and political concern that affect the general welfare of every citizen, both in this country and abroad. They are food and energy.

The problems represented by these two vital areas are broad enough to challenge all the planning talents envisioned by the bill in its proposed Economic Planning Board in the Executive Office of the President and by the Council on Economic Planning which would draw broadly on the Cabinet and major administrative agencies. I think it is fair to say that we have no true national policy in the areas of either food or energy, despite the enormous ferment and public debate they continue to engender.

#### PILOT PROGRAM

Our suggestion is, therefore, that the concept of balanced growth and economic planning be confined for a pilot-plant period of 2 years to the generation of national goals in these two areas: food and energy. The Economic Planning Board and the Council on Economic Planning should have congressionally imposed terminal dates and the entire concept of a balanced economic growth plan be evaluated by its contribution to generally accepted national goals for both food and energy.

Neither Mr. May nor I have critical suggestions to make about the Government apparatus required to do the job. Speaking now for myself, as a citizen, who believes in the rule of reason above political passion, I join the rest of the population in having much at stake.

Thank you.

Chairman HUMPHREY. Well, we are very grateful to you, Mr. Chase, for your splendid statement. The study you submitted for the record will be placed in the record at this point.

[The study follows:]

# **Man, the Environment, and the Planning Society**

**William F. May**

**THE PRESIDENTS ASSOCIATION  
OF THE AMERICAN MANAGEMENT ASSOCIATIONS  
135 WEST 50TH STREET, NEW YORK, N.Y. 10020**



**WILLIAM F. MAY** was elected chairman and chief executive officer of American Can Company in September 1965. He held the additional position of president from April 30, 1968, to August, 1972. He assumed the responsibilities of vice chairman in April, 1965, and of executive vice president of corporate administration in December 1963.

Mr. May graduated from the University of Rochester (N.Y.) in 1937, as a chemical engineer and a member of Phi Beta Kappa and the Vectorian Engineering Society. He attended the advanced management program at Harvard in 1949. Mr.

May holds honorary degrees of doctor of engineering from Clarkson College of Technology, doctor of laws from Oklahoma Christian College, and doctor of humane letters from Livingston University, Livingston, Alabama.

His first position with American Can, in 1938, was as a laboratory technician in Maywood, Ill. He held managerial posts in research, manufacturing, industrial relations, marketing, sales, and administration. In 1958, he became assistant to the vice president of sales and was subsequently elected a vice president of the executive department in February 1959. Two months later he became vice president and general manager of American's former Canco Division.

Mr. May is a member of the board of directors of the Bankers Trust Company, the Johns-Manville Corporation, the National Association of Manufacturers, and The New York Times.

He is a member of the Business Advisory Council of Religion in American Life, general chairman for the Association for Help of Retarded Children, co-chairman of the National Council of Christians and Jews, a trustee of the University of Rochester and of the Polytechnic Institute of New York, chairman of the board of overseers of the Thayer School of Dartmouth, and a director of Lincoln Center for the Performing Arts. He is a member of the board of directors of the National Council on Crime and Delinquency, the American Paper Institute, and the Stamford Area Commerce and Industry Association.

In addition, Mr. May is chairman of the executive committee of Keep America Beautiful; a member of the Committee on Industry, Technology, and Society of the American Association for the Advancement of Science; a member of the National Advisory Council of the Peace Corps; a member of the Advisory Council of the Center for Civil Rights, University of Notre Dame; a senior member of The Conference Board; and a member of the Evaluation Panel for the Institute of Computer Sciences and Technology of the National Bureau of Standards. Also, he is a director of the National Center for Resource Recovery, Inc. and chairman of the Center's finance committee.

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## INTRODUCTION

From the dimmest reaches of prehistory, through thousands of life spans, human survival has been a chancy and harrowing struggle. Individuals, families, tribes, and even regional populations have won or lost the fight against cataclysm, holocaust, drought, flood, and pestilence. Ancient religions concentrated as much on propitiation of angry gods, whose wrath was expressed in devastation, as on humble gratitude for nature's apparently inexhaustible bounty.

It has been left to our generation—ours out of thousands—to comprehend two awesome realities. First, nature's bounty is not inexhaustible. And second, the survival of all mankind, not just individuals or tribes or regional populations, may be in jeopardy. The evidence is still so recent, yet so portentous, that we are stunned by it. We are uneasy and uncertain as to what we should do. We have no consensus as to how or where to start. We disagree on the magnitude of the challenge. A sizable, or at least a disproportionately persuasive, number of observers of the human scene declare that it is already too late to save ourselves and that we can write *finis* to mankind.

In any event, we must deal with the fact, now so dramatically recognized, that our natural environment is truly one world. There is an arbitrary geographic distribution of wealth and resources between "haves" and "have-nots." But survival as a species yields to no such distinctions.

In the face of so critical a subject, I shall start with small relevancies. One of these is that I am invited to offer my thoughts and observations because I am a businessman—a manager of resources in organized ways. Like most of my readers, I have already been obliged in behalf of the public, employees, stockholders, and customers to contend in practical contexts with the challenge. The management function demands disciplined patterns of thought. Accord-



ingly, I have sought first to arrive at some perspective on our looming environmental resource challenge. Without such a perspective, we risk scattering our energies and working at cross-purposes.

We live in an age of adversary challenge and pressure. Groups and individuals within our global village hurl accusations like thunderbolts at each other. My thesis, in a world of discord, is simple but awesome, at least to me: the race has within its power the ability to cooperate, the ability to reach a goal far superior to basic survival. In this case, the process is itself part of the goal—that is, the process of using fully, against all challenges, our most valuable resource: ourselves.

### AN ESSENTIAL PERSPECTIVE

We are in error when we speak of the suddenness of the arrival of environmental crisis. Our recognition of it may have arrived like one of those intellectual shocks that have excited or terrified man through the centuries. But what we are aware of now is simply the culmination of years of development of our species.

Primitive man was the toy of nature, a pawn. It was only after he began to protect himself from natural forces and to use natural resources—to capture fire to warm himself, to use sticks to extend his reach, to fashion crude but more durable tools from metal, to build shelters when no natural ones were at hand, to plant instead of simply to gather, to domesticate animals instead of relying on hunting wild game for his survival—that he issued his first challenge to nature. As man struggled to manage his environment—at first, perhaps for his own survival, but gradually for his comfort, convenience, mobility, and delight—ancient relationships shifted. He renounced long ago, to his con-

siderable credit, the fatalism that would have restricted him. The renunciation has had its costs.

*Man, the Manager of His Environment*

Today man exists in such numbers, has so many tools and processes, and has harnessed so much of nature's power that he can, collectively, change the relationship between man and nature. What we term our crisis is the fact that we have achieved the power to deplete and even to exhaust nature's bounty and to destroy our environment—*globally*. This is the crux of the matter. It is a crisis or a challenge, a fearful fate or a hopeful beginning—depending on the perspective we bring to it.

It is a commentary on our society's planlessness that awareness of approaching crisis arrived only after the adverse side effects of our technological ingenuity began to plague us. Atom bombs and energy from atoms scare us. Polluted air chokes us. Instant world communication robs us of time to ponder—and brings to uneasy consciousness distant famines and unrest. Scarcity-induced inflation shows up on *our* dinner tables. New forces threaten to overwhelm us.

Yet, viewed in perspective, man's tortuous path toward what we call progress has always been accompanied by the invention of more and better tools and techniques to harness potentially dangerous forces. The point is not that we suddenly have more new and powerful forces at our disposal, but rather that we have not yet devised adequate new harness to control them.

Awesome though the realization is that man can now overturn nature's management of the environment, the truly stunning consequence is that man must now accept the responsibility of managing the environment himself. When we can face up to this critical new consequence of our

progress, we will have taken a first, essential giant step. We will then stop quaking at the new forces and their potentials for bad long enough to start developing some urgently needed new harness in order to put them to good.

Those of us who count ourselves among the harness makers can derive reassurance from evidence that we are beginning to face up to the new responsibilities that come with our arrogation of some of nature's formerly exclusive roles. There is reason to hope that as we turn from exploitation of, to cooperation with, nature she will make a better joint partner than she was a sole patron.

Certainly, in the face of challenges that threaten to overwhelm us, a sense of individual helplessness is an impediment. In the complex, specialized, and institutionalized milieu of our lives, we feel a shrinking sense of captaincy in terms of "What can *I* do about problems that confront all of humanity?" However, man has risen above animality by becoming an improving resource unto himself. Recognition of the enormous growth of our own human resourcefulness will help us to accept, if humbly, some of these new environment-managing responsibilities. And since cooperating people are synergistic, we are collectively not so helpless in the face of our sobering new responsibilities as the no-growth defeatists have charged. Furthermore, those same developing organizational arrangements—the social, cultural, political, and economic tools that we have developed to serve our expanding human needs—must be working rather well, on balance. Otherwise, how could we have achieved so many historical breakthroughs that we now face a collective crisis of adaptation?

### *The Need for New Assumptions*

If we are going to keep our collective cool while trying to achieve the most profound reorientation of man's relation

to his environment in all of history, we should be aware that historical assumptions themselves, which served prior generations as a kind of chart, have become a most unreliable frame of reference for many kinds of conclusions, decisions, and procedures required to build for tomorrow.

“A lot of the trouble in the world,” someone has said, “is caused by the things that folks know that ain’t so.”

By invalidating some of the old premises of history and establishing some new premises by our breakthroughs, we have suddenly rearranged a lot of lists of things that are “so” and that “ain’t so.” For a classical illustration of such watersheds, as between new truth and old fiction, one thinks of the discovery that the flat world is actually round. The correction made a lot of difference.

If we can just stop shivering in the chill winds off new escarpments of challenge, we will find other new premises far superior to shattered old ones and much more useful to our purposes. They too can make a lot of difference.

We have done some literal as well as psychological shivering of late because of the premise (old) that we are running out of oil and other traditional sources of energy. Yet we have more than the glimmer of a premise (new) that the hydrogen atom, of which there are two in every molecule of the rather abundant substance called water, is an inexhaustible source of energy.

The point does not need laboring beyond noting that many of the dilemmas that worry us, as we sit calculating prospective human numbers and needs against assumed limits of resources, are based on yesterday-oriented assumptions. And so are many of our future-oriented fears.

### SOME WORKING PREMISES

It is always more tempting—and easier—to consider the philosophical implications of man’s blunders and dilemmas

than it is to address the practical approaches that will preserve him, once again, in his hairbreadth struggle. If the doomsayers are correct, and man is doomed, there would be little for us to do except to regard ourselves as the end product of an extraordinary evolutionary failure, and wind up our affairs as tidily—or as hedonistically—as our natures direct.

If, on the other hand, we reject the doomsayers, we accept the obligation to put our best talents to work without delay toward solutions. For this course, we need a few premises, or at least working hypotheses.

1. Man has made it thus far in the face of tremendous challenge to his capabilities, and is presumably no less competent in this generation than in preceding centuries. His track record is impressive, and in the present crisis he has, perhaps for the first time, a broad awareness of the problems he faces.

2. Although the challenges may appear to be overwhelming when seen against historical premises and inherited assumptions, they have yet to be tested against the best of today's capabilities and tomorrow's potential solutions.

3. The tools already at hand are underestimated and underused. The "state of the art" is already far advanced, and it is capable of being further developed.

4. If properly managed, natural resources both unused and used, while finite, are adequate for man's needs. Present accessibility of resources is not necessarily the measure of their ultimate availability.

5. Planning, a social tool that can be used to coordinate man's technological endeavors and his human aspirations for the enhancement of both, can provide needed direction and help capitalize on the capabilities of diverse segments of society.

6. The hope not of mere survival but of a better life lies in the results of men working together with technology.

Here I offer a note of caution. Working premises, while useful, are not predictions of certain success. If valid, they can serve as preliminary justification for the sort of global feasibility study we must make if we are to grasp the dimensions of the problem. At the same time, they can suggest areas where our current efforts can be made more effective. And, perhaps most important, they can bolster our battered confidence by reassuring us that man is indeed capable of managing his resources for the general good.

### SOME MARVELOUS TOOLS

Man's use of tools—of hand and mind—critically distinguishes him from all other creatures. Without tools, man's history would be nominal and unrecorded.

Why, then, do we sell our miraculous tool progress so short in these times? And why, when we face such enormous challenges, don't we derive more confidence from the miracles of our own sociotechnological resourcefulness?

Surely the most dramatic use of tools in our lives—or in history—was the sending of men to the moon and bringing them back. Indeed, with the world watching and listening to the participants in the miracle, it was the quintessence of applied technology. It happens also to have been the greatest example of organizational cooperation in history. Literally thousands of organizations and hundreds of thousands of people, with complementary skills and resources, helped to achieve the miracle. And every one of these cooperative organizational and human entities increased society's capacity to explore new frontiers in the

process. This jump forward in man-tool resourcefulness is equivalent to the net gains in all prior history in terms of the potential usefulness and application of man's knowledge.

Unfortunately for our sense of collective reassurance in view of the challenges we face, much of our contemporary progress—incredible though it is in terms of historical premises—is so little understood as to not even become news in our dynamic times.

Keeping up with the state of the art is difficult, even for the professional engineers and other technologists in a given field. And the wonders of the computer age are difficult to translate into terms that most people can comprehend. Yet, we *are* living with the atom. We *are* learning to harness it peacefully and usefully. It is one of our best hopes for overcoming another challenge—that of dwindling fossil fuel. Similarly, we have put some manageable harness on the rocket, which first scared us in bomb form. Harnessed rocket power enabled us to take combinations of our newest tools into outer space.

Besides the resulting proliferation of knowledge in methodologies, design, material usage, medicine, life support, and many other areas, we can now literally see the whole world better from outer space. And we can detect climatic change and map world resources we didn't know existed before.

By using innovative approaches comparable to those used in space, we are only beginning to explore the depths of the seas. We have much to learn, but we are taking some essential first steps in farming and mining the oceans without polluting them.

In the past two decades we have learned more about our physical world environment (a first essential toward managing it) than man learned in two prior centuries. And, for that matter, we have already done more to clean up our environment than did any prior generation. For one thing,

we have started. For another, we have recognized that we can never stop.

The task before us is to discover, adapt, change, supplement, and otherwise manage the supply and use of essential natural resources faster than rising demand will shrink or erode them. To do so without destruction of the environment or of human values will test man's abilities most harshly. But he is a master toolmaker and his incentives have never been greater. Some of his tools are still underused, and others of great promise are just now being devised. It is fortunate that our greatest natural resource, man's ingenuity, is one that is not in short supply. It is ever renewable, and each generation can build on the advances of the last. As yet, the limits are not even in sight—and therein lies our best hope.

## A CASE HISTORY

The American Can Company makes many kinds of containers for all manner of products, in numbers running into the billions. Obviously great quantities of many kinds of materials are used, and almost every one of them is a material the seeming limits of which are a matter of national or world concern. They include steel, aluminum, tin, paper, the petroleum-derived plastics, and energy.

Of at least equal relevance is the fact that American Can is a large company in whose functions some 50,000 people have a participative stake. It is thus a sociotechnical unit of people working with tools and facilities and organizational techniques in order to convert raw materials into products and services to meet human needs. At that level it is doing what nations do, and what mankind is doing, to cope with life and advance human destinies within a shared world environment.



Long ago it became evident to me that not everybody is as interested in cans as I am. I have reluctantly concluded, in fact, that people are simply not interested in cans as such . . . period. Cans, virtually all containers, are means toward ends.

*“Ban the Can”*

Human interest centers, naturally enough, not on the package, but on what is in it. However, there is a growing follow-up interest in packaging that is pertinent to environmental management; namely, what to do with the package after it has delivered its contents. No reader needs to be reminded that there is an anti-litter hullabaloo in the land, epitomized by the rhythmic slogan, “Ban the can.”

This idea is very appealing. If we instantly eliminated the can (and bottles and cartons), thoughtless people would have no such objects to throw along the roads, in parks, and elsewhere to litter up the landscape. One could further conclude that banning containers would also bring about a great reduction in garbage.

As a matter of fact, if we did ban cans and other containers for a month, we would eliminate once and for all the worst public relations problem of the container industry. There would be an immediate and urgent cry to produce these useful, essential, though uninteresting, conveniences all over again. Environmentally, we would—by suspending container use for a month—create the most monumental mess in history—from the point of view of both esthetics and sanitation. We would also bring the functioning of our complex economy and the society it supports to a virtual halt. For if packages were to vanish, with them would go generations of progress in food sanitation, preservation, storage, convenience, seasonality, choice, economy, and a vast amount of work-saving.

This *reductio ad absurdum* is offered not merely to air an irritation that besets an entire industry, but rather to make a point that is so fundamental to the challenge of environmental management that we can never succeed if we ignore it. We won't even be able to make an effective start.

The point is that our environment is not a collection of unrelated pieces. It is a continuum. Where man has now begun to disrupt its integrated relationships, he cannot merely patch what he has damaged. In broader terms, if we are to assume responsibility for managing the environment, we must be concerned with *all* of it.

If we kill off all the birds, the bugs will get us. It would be almost as absurd to ban the can, which, quite apart from its tested usefulness in advanced countries such as ours, offers to the emerging nations considerable assistance toward solving the nutritional needs of their growing populations.

### *Bottle Bills*

The true target of research should be, and is, the development of new techniques for salvaging and recycling the materials used to make cans and thousands of other useful articles.

The American Can Company, like many others, is on target in its research and development of new recycling techniques. Yet, while engaged in such technological progress toward desirable social and economic ends, thousands of corporate man-hours and much of the company's best managerial skills have had to be directed toward surmounting a set of socially, economically, and technologically illogical impediments to recycling progress.

We have been fending off what are called "bottle bills" in state legislatures. These are pieces of legislation banning

the use of "throwaway" or "one-way" bottles, in favor of only returnable or reusable containers. The underlying theory is that consumers will return the bottle for reuse in order to get back a deposit of from two to five cents. This theory was even extended to cans in some bills, even though cans cannot be reused until they have been completely remanufactured.

The fact—that might have been expected, but that has been confirmed by research—is that people who litter the landscape are not deterred from this practice in any significant degree by the loss of a nominal deposit on their missiles.

When Oregon, the bellwether state, passed its now famous bottle bill in 1971, several things began to happen—and not to happen. Notably, discarded containers did not vanish from Oregon's roadsides. But a costly contest of surveys developed between the opponents and the supporters of the legislation as to what significant difference there was in "before" and "after" roadside litter. This question goes unresolved.

There were also some economically tangible and humanly painful consequences of the bottle bill. The market volume of soft drinks and beer went down, some private label brands by as much as 40 percent. Five industries—soft drink producers, brewers, beer wholesalers and distributors, canners, and glass bottle manufacturers—experienced increased costs and declining profits. Beverage can sales dropped 83 percent. Two canners closed plants serving the area. Several hundred jobs disappeared. The ramifications of this bill have been complex and unfortunate.

Beer and soft drinks may not be essentials of life, but in a can- or bottle-producing plant these containers balance out and help reduce the cost of other containers, such as those for vegetables and meat. Similarly, the disruption of the distribution system for beverages has brought new costs, such as those for warehousing and truck fleets to handle

returnable containers. Local retailers, especially smaller ones, have borne a heavy burden in the cost and inconvenience of handling bottle returns. And sanitation problems have been compounded.

### *Resource Recovery*

If there have been any winners in this contest of cross-purposes, their fame is seen largely in the form of recycled and recirculated press releases. Yet the political issue of "anti-litter" has become so *pro bono publico* that bottle bills have been introduced in 39 states and in many municipalities. The end is not yet in sight for this detour to real progress in the recycling of containers that become solid waste.

This is not, however, to denigrate the impressive efforts of thousands of consumers who participate in local waste drives to salvage glass, paper, and metals until such time as their communities have modern facilities for recycling these materials from bulk refuse and garbage.

In point of fact, we don't want use of the can banned and we don't want the can abandoned after use. We would like to have it back to make another can or some other useful product from it. We have been on this resource recovery path for more than half a century—through a subsidiary, M & T Chemicals, Inc. By means of a new division called Americology, we are looking as far as we can into the future of resource recovery and waste management, in order to design tools and techniques that will help reach the maximum potentials in recycled resource use and accompanying environmental protection.

We should note here the public expectation of instant technological solutions whenever a new social problem looms. It so happens that, almost simultaneous with the intensifying public concern over too much garbage and not

enough energy, we have perfected some massive and versatile machinery to convert the unwanted waste into the needed energy and to reclaim a lot of reusable resources in the process. However, this miracle of technology evolved through 60 years of patient research and application of all kinds of scrap recovery and other salvage techniques. We were on the way to the fire long before the alarms began to be turned in.

The public's confidence in American industry's ability to meet new environmental challenges notwithstanding, the petroleum, utilities, mining, and other heavy industries would no doubt share the hope that people might occasionally give it time to do more than "add water and shake." Technology has become the victim of science and industry's own reputation for success.

Again close to corporate home, people are still throwing cans on the highways. But we are experimenting with ingenious vehicles to gather them up. This effort is minor, however, compared to a success that we report with some pride. The Americology Division can now build and deliver, on a turnkey basis to any city, a versatile facility that will accept solid garbage and waste as collected; sort out all metals, paper, and plastic; make them available for reuse (with guaranteed markets); convert the combustible balance of the solid waste into fuel suitable for producing electrical energy; and collect the minimal inert residue as safe and sanitary landfill materials, using 80 percent less space than now required.<sup>1</sup>

Other companies are making comparable progress in perfecting new technologies and tools for waste treatment and resource recovery and recycling. St. Louis is the first

<sup>1</sup> In January 1975 negotiations were concluded by which the city of Milwaukee contracted with American Can Company for the design, construction, and operation of the first full-resource recycling system capable of processing 100 percent of a major city's solid waste.

American metropolis with an installed and operating solid-waste recovery and reuse program generating electric power. The list of cities following St. Louis is growing rapidly.

Connecticut is making an all-out effort to tackle this challenge. The state's new Resources Recovery Authority is backed by an approved quarter billion dollar bond issue to help its cities buy and install the versatile hardware for resource recovery and energy production from municipal waste. The first installation will soon be under way in Bridgeport, Connecticut.

### *A New Way of Life*

Only recently we had mere ripples, but now we have a swelling tide of evidence, first, that we are beyond mere awareness that nature's supply of materials for man's use is exhaustible; second, that we are doing a lot about it; and, third, that we are planning to do a very great deal more about it. Emergency planning for materials recycling is becoming way-of-life planning. It is of more than statistical interest that while 185 million aluminum cans were recycled in 1970, only three years later, one billion six hundred million such cans were recycled.

Thus in one industry alone we are now in transition between two historical relationships between man and his natural resources. The different eras already have significant names—the "extractive" versus the "conservational." We are changing from exploiting nature to cooperating with her. There is ample evidence that we are abandoning for good the wasteful straight-line consumption path of raw material, to single use, to waste. We are now well into the circle path, or cycle, of raw material, to use, to salvage, to *reuse*. And, most fortunately, this cycle can be made *revolving*. The material reuse doesn't have to stop just once around.

There is nothing second class about most recycled materials. They are even premium in many respects and have distinct advantages. Also, it is a welcome series of facts, in view of the need to save both energy and resources, that recycled steel requires 75 percent less energy than steel made from iron ore; recycled paper requires 70 percent less energy than paper made from virgin pulp; and aluminum recovered from scrap consumes only one-twelfth as much energy as does the production of primary aluminum. Recycling tends to reward its own virtue.

### THE RECYCLE SOCIETY

It is always easy to pick and choose evidence to shore up preconceived optimism. But it is reassuring to any optimist to find himself in realistic company.

It is, therefore, of interest when an authority on resources and energy such as Professor Glenn T. Seaborg, Nobel Prize chemist and former chairman of the Atomic Energy Commission, writes of our chances for closing the resource loop. Positioning his expectations 20 years ahead, he forecasts that by 1995:

We will be creating a "recycle" society, . . . one in which virtually all materials used are reused indefinitely and virgin resources become primarily the "make up" materials to account for the amounts lost in use and production and . . . to supplement new production to take care of any new growth that would improve the quality of life.

In such a society, the present materials situation is literally reversed; all waste and scrap—what are now called "secondary materials"—become our major resources, and our natural untapped resources become our back-up supplies. This must eventually become the industrial phi-

osophy of a stabilized society and the one toward which we must work.<sup>2</sup>

Dr. Seaborg's prediction is by no means a mountaintop view of the distant future. He has carried his concepts of recycling to the point of envisaging the precoding and tagging of material parts of a product, magnetically, isotopically, or otherwise, during production, in order to facilitate their later economical and efficient recycling.

Most of us would have neither the desire nor the data to fault Dr. Seaborg's concept of the recycle society on technical grounds. The path we are on leads toward his conclusions. So also do Buckminster Fuller's concepts of stretching our material usage by ingenuity and substitution.

After all, the process of stretching our resources through ingenuity is evident everywhere. One example, little known, is our present ability to make two cans from the amount of material that only 15 years ago went into one. As for substitution, citing again an example from the container industry, billions of practical, recyclable containers are now being produced from such annually renewable raw materials as trees, which can be grown as crops, rather than from scarce ores that can be mined but once.

However, Dr. Seaborg is a chemist and a proficient applied scientist, an academician, in contrast to business executives, who must direct their goals toward the feasible and practical. If corporate efforts toward progress get too far ahead of profitable operation, the best of socially responsible corporate goals will not be reached.

As a physical-world scientist, Dr. Seaborg thinks we can and will achieve a recycling society that will be sustained by a judicious mix of virgin and recovered resources. Managers of just such ongoing processes agree with his fore-

<sup>2</sup> "The Recycle Society of Tomorrow," *Futurist*, June 1974, pp. 108-115.



cast. But Dr. Seaborg foresees not just a recycle economy or a recycle technology; he forecasts a recycle *society*. It is critical, therefore, that we recognize that it is not enough that scientists can provide the technology; or enough that managers can harness the technology with adequate organizational arrangements; or even enough with both of these factors working in concert—unless the people will cooperate with the adaptive inevitabilities essential to achieve a recycle society.

Dr. Seaborg, who also has considerable status as an empirical social scientist, is strongly persuaded that we can and will muster all of the interrelated essentials for a recycle society. He notes with tempered realism:

Of course there will be some degree of negativism about the non-compliance with the required changes. . . . And there will be those who, with the usual amount of hindsight, blame others for not being able to anticipate current problems.

But, by and large, most people will respond positively as they have in the past in time of crisis. In fact, after the extended period of comparative affluence and self-indulgence most people have enjoyed in this country, we may witness something of a quiet pride and spartan-like spirit in facing some shortages and exercising both the stoicism and the ingenuity to face and overcome them.

What is important, though, is that the emphasis will shift from stoicism to ingenuity as we come up with new ideas and technologies to overcome our problems.

By the mid-1990's we should be a good way along in this shift. But the results of the changes and transitions we face will have left their effect on our society, for we will have realized that we will never again live in a society where so much is taken for granted—where so many apparently “knew the price of everything and the value of nothing.”

The environmental movement, the energy crisis, and

the problems yet to come will have changed all that well before 1990.<sup>3</sup>

One may well have some reservations concerning the schedule that Dr. Seaborg sets for this recycling of human nature's patience, while still applauding his emphasis on human ingenuity and social perspective as essentials in reaching a recycle society.

As noted earlier, there is now sound technological evidence that we can recover an increasing percentage of materials by recycling solid waste. The conservative Environmental Protection Agency can already foresee a potential recovery ratio of 53 percent for minerals (steel, tin, aluminum) and 21 percent for paper. And since 90 percent of municipal solid waste is combustible, there is a prospect of deriving billions of kilowatt hours of electrical energy from burning the residue of recycling, a fact little noted in current energy projections.

### *One Step at a Time*

A rope woven from many fibers is stronger than a rope the same thickness but of a single strand. This principle also applies, though often frustratingly so, to the presentation of a case for a multifaceted idea. And surely to deal with a concept as vast and complex as managing the environment, within the confines of a few pages, is an exercise in frustration.

It may also be frustrating to thoughtful readers—each of whom has his or her own wide choice as to where to begin weaving the strands of what will certainly have to be a strong rope if we are to succeed in harnessing our environment with it.

<sup>3</sup> Seaborg, *op. cit.*

There will be those, for instance, of a quantitative turn of mind, who will wonder how this discussion could have proceeded thus far without introducing strands so germane as the size and nature of specific resource scarcities, or the dimensions of the energy crisis. And there will be those who feel that if one is going to discuss managing the resource environment, there ought to be a mighty big plan emerging by now on how to go about it.

On the contrary, it would be cause for alarm if we were rushing toward totalitarian plans based on dogmatic assumptions about limited resources, or on past or present assumptions about man's limited capacities to cope. With regard to working from these assumptions, it is essential to be mindful of the "things that folks know that ain't so." We must also remember that we know, or are learning, some very useful things that are demonstrably and dramatically so. Some of this new knowledge should encourage us to plan big enough and boldly enough to meet the challenge of fulfilling total resource requirements.

Margaret Mead thinks it is fortunate that today we probably know "where we are" in a historical sense better than did any prior people who were caught up in what has been called, with hindsight, this or that "revolution." "This is the first time in history," says Dr. Mead, "that man has been able to label what was happening to him while it was happening, and this is profoundly important." There is ample evidence of this.

Our new terminology about the "atomic age," the "space age," and the "energy crisis" era has real meaning for us. Of this sort of awareness and its impact, Dr. Mead says, "Here we are [and] the principal point is we know we're here." Furthermore, we have accepted the challenge and are beginning to deal with it. We don't have any world plans yet, but we have an increasingly aware world.

### *Some Right Questions*

It would be an aid and comfort to have da Vinci with us in these times. He is alleged to have believed that perceiving the right questions immediately covered half the distance to the right answers. Knowing where we are is of great help to us in framing the right questions we need—especially the toughest and most sobering ones. In fact, we are not doing so badly with tough and realistic new questions about environmental management—even as we improvise with inadequate, but at least evolving, answers.

Cracking open the atom shocked us into a lot of realistic questions, more awesome than hopeful at first. Even if it has required a “truce of mutual terror” militarily (a *modus vivendi* answer, but an answer), we are doing rather well with nuclear answers to date—certainly when considered against the doomsayers’ prognostications.

We now have fears about whether or not we can control another type of bomb: the population explosion. We may consider for how many generations the question never occurred and the historical weight of assumptions that man couldn’t or shouldn’t control his numbers, but this basic question is now front and center. China is controlling the growth of her population. There is action as the debate goes on.

### NATURAL RESOURCES . . . HOW MUCH?

Thus far we have avoided the quantitative aspects of environment/resource management for both practical and tactical reasons, which have to do very much with this matter of “right questions.”

A very healthy dialogue is emerging and developing in this critical area where right questions and reliable an-

swers are essential. It will help to know whether we have to manage catastrophe, adequacy, or abundance.

On one side of the debate are the neo-Malthusians, the zero-growth advocates and no few doomsayers—in general, the limiters and dividers whose essential premise is a presumed scarcity or limit to resources. For them the issue is not whether the supply will last, but only for how long. Those holding counter views are neither reticent nor uncertain. Ranging from conservative scientists to resource serendipitists, their consensus seems to be one of optimism as to world resource potential, especially in a recycle society.

In fairness and in fact, it should be noted that the core of a large part of the argument is not so much whether Mother Nature has enough resources left, unexploited, in her cupboard, but whether man has enough ingenuity to continue to use them effectively. Here we must judge the effectiveness not just of the technological advances, but of their economic adaptation and social justice.

In 1968 the Club of Rome (a group of 30 people concerned with world problems from 10 countries and many professions) did much to polarize opinion on this issue when it met, deliberated, and then published its proceedings initiating a series of inquiries into the "Predicament of Mankind." The Club of Rome's "Predicament of Mankind" was not postulated on running out of resources so much as that man hasn't learned to manage those he has—including himself. (Even atomic bombs have to be fused and triggered by men in order for them to explode; and man now has at least the technological means to defuse his own population bomb.) It may not be fair that the Club of Rome has subsequently become tagged with the zero population growth concept. That, they concluded, is what man must live with, if he is lucky, and if his arrangements with nature are to continue unchanged from past patterns.

The Club's studies suggested strongly, even if implicitly, that we had better get on with improving our human ingenuity, or else. For this, let us hope that history will accord the Club of Rome some due merit, if only for sounding the alarm.

*Resource Scarcities—Intrinsic or Relative?*

"The literal notion of running out of mineral supplies is ridiculous," declared two Canadian scientists in a paper presented to the United Nations. "The entire planet is composed of minerals and man can hardly mine himself out. . . . The quantities of mineral materials in even the upper kilometer of average crustal rock contains  $2 \times 10^8$  metric tons of aluminum, over  $1 \times 10^8$  tons of iron, 800,000 tons of zinc, 200,000 tons of copper. Much the same sort of calculation can be made for seawater."<sup>4</sup>

Similar calculations have been made by responsible authorities as to unlimited potential sources of energy. But whether forecasts are of minerals or energy, the potential is a factor of economic cost and of social adjustments, or, in short, the well-known trade-off. The Canadian scientists' declared thesis, preceding the above quotation, is: "We are running out not of mineral resources but of ways to avoid ill effects of high rates of exploitation."

In its 1974 Report, the U.S. Environmental Protection Agency observed that, setting aside cost,

There are those that believe that maintaining high per capita growth rates of material consumption depends primarily on *human ingenuity*. Given this orientation, it is difficult to identify any specific natural resource com-

<sup>4</sup> David B. Brooks and P. W. Andrews, "Population and Natural Resources." Paper presented to United Nations Economic and Social Council symposium, "Population, Resources, and Environment," held at Stockholm, Sweden, September 28 to October 5, 1973.

modity that is essential or critical in any absolute sense or to identify any nonreplenishable resources that are exhaustible. To the technologist, the limits to economic growth lie *in man himself*, not in the inherent characteristics or physical limitations of the resource base. [Emphasis added.]

Continuing along the lines of the positivists' premises, the EPA Report further observed that "in this view, present knowledge of the extent of mineral deposits is infinitesimal compared with the unexplored reaches of the planet. Limits are those imposed by human knowledge, technology, and economic organization; natural resources are not believed to be in short supply in any real sense."

Neither the accumulation of evidence nor the seeming irreconcilability of interpretation of intervening trends seems nearly as hopeless as when the debate started. To a manager, the situation appears not unlike the seeming deadlock of a strike, of a disarmament conference, or of a truce negotiation. The tougher and shrewder are bargainers, the quicker they will spot the overlapping areas to maneuver. We have areas to maneuver that we ourselves can expand.

The United Nations and its agencies have made as thorough an inventory of man's resources and problems as has yet been possible. Of their interrelationships, Secretary General U Thant warned his colleagues that the deciding factor in man's survival was not the dimensions of either but man's capacity to control them. A decade later, Secretary General Waldheim has warned that the basic problem is still not quantity of world resources but human management of them.

### *The Hope of Human Ingenuity*

On balance, it does not really seem to matter whether one reads the despairing literature of the Malthusians or the

hopeful literature of the positivists; there is an ever present fulcrum on which the casemakers are leveraging their premises and conclusions. It is the factor of human ingenuity in the context of using technology, adapting to change, adjusting, shifting, rearranging, substituting, improving—in summary, man *managing* the relations between man and his resource environment.

At the least, the arguments over whether man can manage his environment benevolently and adjust his needs to accessible resources now and in the future are being distilled to the make-or-break point. The heat of accelerating history is on all of us. There are no cool places for the relatively fortunate. In Margaret Mead's terminology, "Here we all are and we know it."

This fact may be the critical difference between us and all those past civilizations that flourished and vanished. If the clear, warning handwriting on our walls had been on theirs, their civilizations might well have gone on.

We are now reading and heeding the handwriting. We are not necessarily better than those vanished predecessors. The issue is more internal than comparative: enough of us have gotten scared enough soon enough. But, since unharnessed fear is dangerous, the hope is that we have been "scared smarter" into accelerated, intelligent action, as opposed to having been stampeded into uncontrollable destructive use of new knowledge. Reduced to the rudimentary, it seems that more of us worry about more important things better than we used to.

In sum, since we are scared adequately but not witless, and seem now to have focused our worries on what, by historical comparison, are bold and creditable goals, our crisis conduct rating is very possibly much higher than we think it is.

"Mind is the great lever of all things," declared Daniel Webster to his colleagues in the midst of adversity. "Human



thought is the process by which human ends are ultimately answered." John Adams was so taken with Webster's words, he suggested they be reread at least once each year "forever and ever." Now is not a bad time. They apply. Indeed, Webster could well have been prompted to his remarks by a recent news item. The dispatch reports, from El Batan, Mexico, that some agricultural scientists have perfected and are growing a new strain of corn that, pound for pound, has twice the protein of milk and surpasses beef protein in quality.

From this same remote research center, thirty years ago, came a new species of wheat that has since increased production on poor soils around the world from levels of 6 to 10 bushels per acre to 50 to 60 bushels per acre. This has been a substantial factor in doubling world food production. And it is noteworthy that the methodology emerged in no small degree from the brain of one man, Dr. Norman Borlaug, whose "Green Revolution" led to a Nobel Peace Prize in 1970.

Most of the scientists in all of history are alive today, and the vast knowledge at their disposal has not yet had one generation's use. It is cynical to assume that science has no more to contribute.

Now, suppose that Malthus had lived next door to Dr. Borlaug . . .? One might also wish that Euclid had lived next door to Dr. Borlaug. It might have caused him to be more careful when he enunciated his theorem about the whole being equal to the sum of its parts. When applied to men working together, the whole is *not* equal to the parts, it is far greater. There is a limit to what one man can do with his muscles—a fact that gave civilization a slow start. Man's mind, cooperating with and guiding his muscles, or even working alone, vastly raises the potential. Two men, helping each other, extend the multiplier. Add tools of hand and mind, and that's how we got where we are.

The process need not stop.

Man and his tools were never more synergistic than now. Euclid would be numb with astonishment to see what is going on. One can be less sure about Malthus; pessimism dies slowly. But I can't believe that Euclid, in view of the knowledge man possesses today, would come out with the new theorem that man's problems are greater than his potentials. As one reads some of the current predictive literature on man's chances for survival, it would appear that the difference between the arithmetic of doom and the geometry of hope comes down to a matter of man's faith in his own synergistic capacities.

The Dr. Borglaugs among us are not a mere few. They are multiplying the loaves, literally. We are also multiplying, not just catching, fish. No longer an aquarium novelty or hatchery experiment, fish farming is a whole new cultivated source of food supply. Few of the technological miracles of modern times have exceeded those in agriculture, and we are now taking these into the sea. The desalting of sea water in even vaster quantities will permit irrigation of more land.

Our running inventories on known resources are still crude, transient, and generally underestimated. It seems a sure premise that where we are willing to use modern technology almost no essential natural resource need have a finite limit.

Fortunately, there are more than monetary ways to adjust the price of things. In management parlance we often speak of "adjusting the mix." In a significant way, that is how we will manage our future: as we encounter material shortages, we will offset them by increasing the use of applied human and technological resourcefulness in the mix. The limits to productive combinations, within which we can live both economically and socially, seem nowhere in sight.

## MORE OR LESS OF WHAT?

It is not much fun to debate the future if success in surviving is little more than mere survival itself. The coming Bicentennial is a good time to reevaluate the mix of things and qualities we have and those we need.

The United States has produced and shared more bread and other essentials of survival with its fellow men than has any other nation in history. Yet the 1974 World Food Congress tells us that human demands are greater than ever. We are more concerned than we ever were that minimum living standards—beyond mere subsistence—be made an integral part of our own lives. We are in pursuit of new goals—of better health care, better housing, better education and more equitable distribution of these benefits. We haven't arrived at any of these goals. But what is encouraging, beyond our creditable progress, is that in the face of the drastic impact of environmental deterioration, the energy crisis, and inflation we are not abandoning our minimal goals of living. Indeed, we keep up the pressure to advance them.

We are at a watershed of basic change. Of course there are severe adjustments to be made. As the traditionally richest nation in the world, we are assailed with concerns about becoming poorer. Yet evidence mounts that we are doing the best job of managing change that man has ever done.

This is demonstrated by the very comparisons that attend our present challenges. After all, we are the nation whose traditional standards and methods of consumption have made our way of life synonymous with affluence—and waste. If suddenly we are so sobered by the realities of transitions ahead that Dr. Seaborg can foresee a recycle society by this century's end, we are not only worrying smarter, we are managing difficult transitions realistically.

*Managing Ourselves and Our Natural Resources*

To make or to accept forecasts such as Dr. Seaborg's demands that we have a large measure of faith in ourselves. Even if his timing is hurried, he is realistic in seeing his recycle society as a combined achievement in managing both ourselves and our natural resources better. Any forecast that bases survival less on our continuing managerial ingenuity and more on "lucky breaks"—the overnight perfection of solar energy systems, vast new undersea discoveries of oil, or unlimited ore discoveries—is blind optimism and nothing more. Even a breakthrough requires management.

Sociology is neither so exact, so quantifiable, nor such a firm base for prediction as is technology. However, our reasoned confidence and expectations for the future are really more man-based than object-based. History may have become obsolete as a guide for analysis in these dynamic times—new ideas erode old premises.

Nevertheless, it would appear that when man had all the world's resources and no technology, he was in bad shape, even if he didn't know it. Now that he has the capacity to perform miracles of technology, is he still in trouble? If he is, the difference must be in his sociology. And anything that can make that much difference must be critical. That is why Margaret Mead's observation is so astute. We do know where we are. And whether we call it sociology or intuition, we know that we must cooperate our way out of whatever new environmental crisis we face. Maybe it is simply emergency awareness. Whatever term one uses, it is the motivating force that is pulling our sociological resourcefulness abreast of our technological gains. We will manage our resources and our environment better henceforth because we can now see the "alternatives."

Fortunately it is possible to be realistic without being negative. It is also possible to compromise and still end up better off than before. This is Dr. Seaborg's message. In light of this, it seems regrettable that as we face up to our challenges, with their motivations to action, it is so widely assumed that the only results will be retrenchment, retrogression, or other forms of negative compromise. Such reasoning sells us short on both logic and potential. It is similar to the attitude that having to lose weight by retreating to a leaner but balanced diet from a rich and fattening one is not worth it for better health and longevity. Why not see it as *advancing* to a leaner, more healthful diet?

Progress has always had price tags. Clearly we are now in arrears on some of our resource and environment use accounts. We will have to do some pay-up budgeting, even as we alter our consumer habits. In short, we face some compromising, and it is of the required, not merely recommended, prescription.

But the accompanying prognosis looks good. The price tags or trade-offs Dr. Seaborg puts on his anticipated progress only add realism to his salutary prospects for the re-cycle society.

Dr. Seaborg believes: "We will be making substantial sacrifices in the years ahead to change our life-style in order to match our economic and environmental needs. . . . We will," he adds, "become a highly disciplined society with behavior self-modified by social and physical conditions already being generated today." But when Dr. Seaborg looks beyond the compromises, he sees an adapted society that is "mentally and physically healthier and enjoying a greater degree of freedom, even though it will be living in a more crowded, complex environment."

He concludes, "What is important is that the emphasis will shift from stoicism to ingenuity as we come up

with new ideas and technologies to overcome problems.”<sup>8</sup>

Recycling, as a form of better resource management, sounds easier than more stoical cooperation in better management of ourselves. Yet cooperation is the key methodology through which people, living and working together, release and capitalize on that greatest of human relations potentials—synergism. Its fruits are worth a lot of stoicism. And loss of individual freedom does not have to figure heavily in the price.

Our Bicentennial affords us an assessment point for two centuries of such relationships. Do we gain or lose in freedom as we mix a little stoicism in adversity with ingenuity along the way? It seems absurd to ask. But it is not absurd to note that many of what we call our new freedoms—the relative but substantial progress we are making toward freedom from want, disease, ignorance, and discrimination—are based on hard-won cooperation. These freedoms are increasingly seen to be nature-based also. All mankind has an equal stake in the environment. Protecting and improving and managing it as a command joint venture affords a whole new common cause.

### *“Consider the Alternatives”*

If there is a single all-purpose good rule for good management—of anything by anybody at any time—it is, “Consider the alternatives.” We are now choosing to accept the responsible alternative between managing our environment—or else.

But immediately this choice opens up some brand-new alternatives to us, not only as a society but as individuals who wonder about alternatives of life style in a recycle so-

<sup>8</sup> Seaborg, op. cit.

ciety. And, of course, such individual speculation will descend from worldwide questions of resource and energy supplies to more personal levels. Will we all drive smaller cars? Will home have to be some variety of mass housing? Will more foods be synthesized and will there be less variety? Will family living patterns change? Will jobs become more routinized? What will we do for recreation? Will individualism and privacy survive? Will *I* be richer or poorer?

### *Time—The Priceless Asset*

No crystal ball focuses finely enough to see one individual amid the infinite possibilities of tomorrow. But considering all the alternative potentials, it is both possible and desirable that tomorrow's average individual will be able to feel better about life than he does today. This expectation derives less from calculating future wealth or from dividing population into existing resources, than from examination of another priceless asset—time itself.

Euclid was probably not guilty in this instance, but the theory that time is money is another conspicuously misleading understatement. Time is an extraordinarily versatile resource, and we are very likely to have a lot more time for personal use in the future.

We don't have to ascend some philosophical hill to see these time-related potentials. We have lived with the evidence of this accumulating and valuable—but rather blandly accepted—wealth factor for years. For example, the packaging industry produces cans and all manner of other containers. But it does something else: it saves billions of man- and woman-hours in the process, for the simple reason that it takes *x* hours less to heat and serve a can of peas than to pick, shell, and otherwise prepare them from

the field. The containers in home pantries make this point many times over.

It is easy to take these time-saving conveniences of modern life for granted. But the results of some rather simple arithmetic—our longer lives minus our shortened work time—give us a gross difference of at least twice as much time for living as the generations who wrote many of our rules for living.

If we do not feel all that time-wealthy, possibly it is because we are still pioneers in the use of a resource that even the Biblical authors assumed man would never have, much less in abundance. As long as it appeared that man could never get his work done (another dubious adage), he should rest only on Sunday, and certainly not before dark on a workday.

But we—with our tool technology and managerial skills and social arrangements—apparently can get our work done, in 35 or 40 hours per week. If we sleep 56 hours a week, and even if we add another 40 hours for chores of living, we still have some 30 hours of personal-use timewealth each week. Whether we use it wisely or not, it is a real and versatile human resource. A supply of time can make up for a lot of other shortages.

The presence and influence of timewealth factors in our lives tend to be blurred by our penchant for keeping our societal statistics in monetary terms. Millard C. Faught, a socioeconomist, has concentrated on what people do with their time. Although the record is uneven, Dr. Faught thinks we are doing a very good job of refuting the Puritan ethic fears that more time free from work would lead to idle boredom and sinfulness to fill the vacuum. On the contrary, he suggests that the people are well ahead of the social analysts.

After all, it was a little extra time for fishing and hunting that prompted some imaginative enterprisers to make



the first crude house trailers, which evolved into the mobile-home industry. For years our national parks were mostly for the bears. Now they are "standing room only" with time-wealthy visitors in summer. In winter, many local schools have more adults investing free time in continuing education than they have regular day students. More timewealth for the individual and within the home, in Dr. Faught's view, is a versatile resource for health, knowledge, and skill improvement, for closing generation gaps, for cementing family structures, and for more participative citizenship. Even if, in the future, we have relatively less money or fewer goods—but more personal timewealth—we can put more of ourselves into our lifestyles.

This hypothesis runs parallel with Dr. Seaborg's expectations for the recycle society. No matter what mix of resources lies ahead, increasing timewealth for the individual will be a strong and continuing trend.

There are already well over 5,000 experiments with various forms of a four-day workweek. Many computer-operator teams now work a three-day week, with two or four teams keeping the expensive equipment running longer at straight-time cost. There are other experiments with various kinds of flexible workweeks, aimed at working our tireless and costly technology harder and longer and ourselves in more rewarding ways. This is the surest route to go if we expect to compensate for material resource economies in the future.

We have already outgrown the term "manpower," as such. Today less than 1 percent of our applied energy in the United States comes from human muscles. Perhaps we should refer henceforth to "mantalent." After all, mantalent is the ingenuity resource that ultimately will determine all of the other resource questions raised here. It has figured in every hypothesis we have examined. It will decide

whether we can technologically achieve the recycle society, and whether we can devise rewarding human lifestyles for living in the recycle society when and if we achieve it. In view of all this, we must conclude that we look past too many of our human resource talents in our preoccupation with apparent natural resource scarcities.

### BY LUCK—OR BY PLAN?

Beyond wise resource use, versatile technology, clear recognition of necessity, motivation and ingenuity, new values of timewealth and mantalent, there is still something missing if we expect to achieve the quality of life we want in the years ahead.

We will need plans—not *a* plan, and not a set of totalitarian plans imposed from above. We want to go forward as free citizens. But we will need to plan as we have never planned before.

And we ought to face the fact that on the record—even the record of our past miraculous achievements—we are not very good at this function. A substantial number, and some of the most notable, of our forward steps were taken while we were slogging out from under avoidable crises. There is no scarcity of examples. Hindsight tells us even now that our environment would not be in such a mess nor our accessible resources so suddenly scant if we had done some better planning a long time ago on these counts. And why did housing and race relations and tax policies and traffic and strikes and inflation and the generation gap and equal rights get so in need of more than expedient attention? We need better planning emphasis, talents, and techniques to avoid—not just cope with—crisis. Moreover, if we can bring about a more integrated and better planned structure in which our society is getting the best returns on its technical

and economic potentials, the individual will stand a much better chance of planning and managing his own potential for a rewarding life.

### *A New Planning Structure*

Planning is itself synergistic. It is also catalytic. It multiplies what men can do with their resources and their own capacities. And it is no small consideration that planning can head off bad results even when it doesn't enhance potentials.

It is not that we haven't done a lot of talking about planning for a long time. But too much of it has been talk, among ourselves and within our institutional groups, about planning that the government should do. This flies in the face of our own strong insistence that we are self-governing.

There is an old saw that states, "If democracy is such a good idea, we ought to try it some time." Now is a very good sometime to try more participative planning of that society which we want to preserve as a democracy while we improve its servicing of our needs in a managed environment.

For this, we need some new social tools, on the unprecedented order of the managed technology we devised to contain atomic force and to land on the moon. The results could be more than worth the effort. Naturally, the place to start is where we are right now. If we can agree that instabilities and insecurities in our society breed cynicism and an adversary culture, it follows that we can at least recognize a starting point for reform. Leadership must respond to the felt concerns and obvious inequities that sap the national strengths. To do otherwise would be to abdicate responsibility.

These suggestions are intended to be indicative; they

will by no means exhaust the list. John D. Rockefeller III in his thoughtful book *The Second American Revolution* calls for a national planning society, not the dictatorial *planned* society. He means true national planning, with serious study and full review of alternatives, trade-offs, and priorities.

I realize that it would be inconsistent indeed to endorse long-range, goal-setting planning and then to come up with instant answers and arbitrary priorities; however, here are some of the steps that seem urgent to me:

1. It is time for the leadership of business to join the humanitarians in advocating and obtaining an income floor below which no member of our society is allowed to fall. The trade-off? The elimination of most current bureaucratic, inequitable welfare plans and no income ceiling for those whose talent or productiveness can enrich us all.

2. The fear of devastating effects of medical disaster haunts America. It is time for business, labor, government, and medical leadership to become positive advocates of a modern, efficient system of delivery of comprehensive health services that combine the best that public and private sectors can provide. We don't have it now.

3. It is time for business and union leadership to devise incentive systems—not expediencies—by which labor at all levels shares the rewards when the system produces satisfaction and the penalties when it doesn't. Obviously, this involves full labor participation in the planning function.

4. It is time for all leadership to sponsor, with their minds, hearts, and purses, a total renovation of our be-draggled and ineffective educational system.

5. No country should apologize for generation of capital and for rewards for successful use of capital. Until recently our own record in this has been superb. Let us unite in recognizing once again the importance of the generation of capital and rewards in this country. We should revive pub-

lic acceptance, and admiration, for a return on investment adequate to generate the new capital required for domestic stability and international leadership.

6. The scientific resources of industry, of universities, and of government can work together on an incentive basis, to accelerate the development of technology for pressing social ends. Such collaboration between public and private sectors is customary for urgent national defense goals. It is inconceivable that we do not direct our combined genius toward technologies for energy, for environmental protection, and for medicine.

To translate these goals into social action, we need immediate consideration of America's Social Policy Act. This bill does not have a number because it does not now exist. No congressman has yet introduced it. The delineations of national goals requested and received by Presidents Hoover, Eisenhower, Johnson, and Nixon deserve evaluation and modernization. These studies can serve as a launching pad for this legislation.

The Social Policy Act would create a permanent national planning structure, publicly financed and expertly staffed. Its function would be to develop and coordinate the goals of a planning society—for consideration and reconsideration by each president and Congress, to be sure—but, even more important, to demonstrate to a people starved for leadership and a sense of purpose that this nation is capable of achieving the greatness dreamed of by its founders—and by us.

None of this is new. It merely represents an extension of common practice to total social goals. Modern complex industry now virtually lives or dies by effective planning. Modern labor organizations have research and analysis departments that rival those in universities, which are themselves great socio-economic-technical research and planning

centers. Government divisions, each making plans, are legion. Yet all too often, these planning entities, each with potential pieces of complex puzzles, meet for synergistic exchange only in the arenas of confrontation. Dialogue is lost in dispute, and deliberation is given short shrift. A main reason for so much waste of planning potential is that lack of facilities for joint planning makes the fact of planning too late. Eleventh-hour emergency plans are likely to be bad compromises or even worse expediencies. And as the need for facilities for national planning goes unheeded, areas of consensus widen as to the degree and scope and necessary role of such planning. Missing answers only serve to silhouette the good questions.

### *From Patchwork to Comprehensive Planning*

Contemporary crisis allocation of resources, done now by the costly expedient of price penalties, must yield to comprehensive planning. Is there another choice? In the emerging areas of environmental control, our national program is one of patches—for want of an integrated plan.

We have a National Transportation Act and we have outdone the Romans in building roads. Yet our railroads are a disaster, both financially and as a public service. On some days we could fly to London—once we reach the airport of departure—almost as fast as we can get to work by car or by mass transportation. Technologically, we have miracles. Socially, we have traffic jams.

In the area of communications we have even more miraculous technology. We can talk to and from the moon. More important, we can talk to each other instantly, never mind the distance. But we can't teach children to read, and the ignorant make poor citizens in a complex society.

Educators are among the best educated of us, without

having a monopoly. They well know where the bridges are down between education and social needs. In a national planning arena, with all of the rest of us represented, could we not organize our educational tools better to serve all of our *other* planning needs?

As for health, we can raise perfect white rats. Medicine has won some deserved new laurels. But how far it seems from better medical science to better medical care in our society!

We tend to measure problems in terms of money. The source of money itself is a problem. We need vastly more risk money to put new technology to work and thereby to put more people to work in productive jobs. Yet tax policy, used as a social control, frequently becomes more of a social and economic growth inhibitor than a revenue source. Nevertheless, tax policy is rarely deliberated in a planning arena where its total effects can be taken into account.

We measure productivity as the output of a man-hour of labor, as if it were a function of manpower. Most of our productivity is now a product of toolpower guided by man-talent. The cost of providing the tools often exceeds, and must precede paying, the costs of wages for their use. It frequently requires well over \$100,000 of capital to add one new average job.

Management and labor leaders know these things. Both know that they could get more productivity out of the synergistic potentials of man and machine—and not necessarily by working harder. But within the present social framework, they cannot meet to plan. They have to meet to adjudicate. Often it is difficult to hammer out a contract, even for the short run, until the parties to it can guess what many other elements in our economy might do, since these elements have no long-range plans either.

The banking world has clearinghouses. Yet even the financial community cannot keep its house in order when it

has no planning information from the many interrelated areas of the economy that it is supposed to serve.

As a sequence of logic, as we plan for tomorrow, especially considering the diversity and magnitude of the challenge we face, we must begin by planning some better planning.

### AT THE BOTTOM LINE—A PERSONAL WORD

My own conclusion is that every institution on earth, every value, requires fundamental redefinition. What seemed infinite has become finite, and the finite is exhaustible. Furthermore, human competition for larger shares of a static or shrinking wealth can lead—and is currently leading—to chaos and barbarity.

There is a better way, though it is not easily achieved. It may be found in redefinition of basic institutional purpose. My management base, for example, has concentrated on maximizing profit through manufacture and recycling of packages. In so doing, it has demonstrated a leadership role in revolutionizing consumption patterns and living standards. But is package-making truly our business? Or are we the industrial institution that supplies protection for everything eaten or consumed by billions of people, after other institutions have supplied the production, preservation, and distribution technologies?

Where is our future? In defending what we have against hostile groups who think we have too much and they too little in a world permanently doomed to too little by exhaustion of known resources? Or does our own and Everyman's future lie in dedicating our minds, energies, and technologies to the rising expectations and needs of the human race, which currently grows by 200,000 people a day, 1,400,000 a week, and 70 million a year?



If I err, either in my assessment of the management challenge confronting us, or in my expectations that we can meet the challenge, I would rather close the loop with hope than with doubt. I can do so with good conscience. I think Mother Nature *will* prove a better partner, as we learn to cooperate with her, than when we simply exploited her largesse with wasteful unconcern. At the least, she is no more hostile nor any less neutral than before. She is even tempering her ultimatums with advance warning—which I think we are heeding in time.

Human nature accounts for the really critical equations in the challenges we confront. If we default, only to have our artifacts dug up by some future civilization, they will have to wonder how so ingenious a species vanished amid such abundance.

But I do not think we will be buried by today's crises. Most of them are of our own making. They can be solved by the willingness of managers of social, economic, and political institutions to replace their old definitions of function with the revitalized vision that tools are for the service of man, and that mankind has or can create the tools needed both for survival and for human satisfaction.

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Chairman HUMPHREY. Now, we have had what I would call the conflicting points of view, the points of view of accommodation, and in order to accommodate all members of the committee that are here, and I am happy to note that this hearing does attract a greater number of members of the committee than under ordinary circumstance, which I hope will be the continuing situation, we will adhere to the 10-minute limitation strictly, whoever is keeping the time here on the staff, so that we can all have a chance to get in.

First, Mr. Olsen, I want to say thank you. I think that your statement is the best case that I have heard for national planning yet. You have demonstrated beyond question of a doubt that the course that we are presently pursuing has very little to recommend it. And I would just thank you in a very real sense for pointing out the inadequacies of our present situation without providing too many remedies, with one exception that you say just leave it alone and somehow or another it will work.

Now, I have noted a few things that you have noted or brought to our attention. Let me just go over my notes here for a minute. You have indicated that the sponsors of the bill have assured us that the Economic Planning Board would not have the power to tell anyone what to do, but then you go on and assume that the suggestions which have been made creates an environment that is completely hostile to the spirit of voluntarism, even though we have indicated that this program of planning must be taken out to the community, it must be discussed at local, State, and regional levels, and also that any plan that may be developed by the Economic Planning Board must be submitted to the Congress, that the Congress can either accept or reject it, or can moderate it or accommodate it. And all the way through the whole entire process you are reaching out further to the decisionmaking relating to what goals and priorities should be than ever before in our history. In other words, when you reach out to the 50 Governors, when you go out to the innumerable counties and communities in America, it seems to me that you are not creating an environment that is completely hostile.

Now, you then go on to note, to show the inadequacy of Government, that we had a summit conference here last September, and that the emphasis in that summit conference was upon inflation, even though you today say that people should have known that we were in the throes of a full-blown recession. Now, there was about two or three of us that said that at that time, and the only ones that I recall saying it outside of one or two economists was in the labor organizations and the gentleman that is speaking to you right now. You may have said it there, but there were one or two. Mostly the prevailing attitude of the business community, in cooperation with the Government—that is, those who were the spokesmen of Government—was that the No. 1 enemy was inflation, and very little attention was given to what we call the recession. Again I would say that this is an indication that there was not the kind of coordinated, thoughtful planning that ought to go on in a government structure.

There is a great deal of difference between Government interference on an ad hoc basis and coordination of Government policy.

I notice you said, Mr. Olsen,

In addition, at the same time that we applied price-wage controls in 1971, the devaluation of the dollar effectively reduced prices of U.S. goods and services—particularly many basic materials prices—at or below world prices, thus attracting a strong demand overseas.

I mention this because this is just another instance where if there had been some foresight rather than just the pellmell rushing in and out, stop and go, yo-yo policies, we might have very well had a much better picture of our economy than was developed by what I consider to be the less than adequate and intermittent Government policies that had been pursued.

You have also indicated in your statement,

Far from fearing that a lack of central planning will lead to trouble, I believe that greater intervention by the Federal Government in the private sector causes shortages, bottlenecks, and other disruptions rather than to prevent them. We have few shortages today because the price mechanism is now permitted to both encourage more production and clear markets through timely price changes.

The reason there are no shortages today, my dear friend, is because there is very little demand. When you have 10, 9 million people unemployed, when you have purchasing power of the workers' salary down to 1964 levels, when you have a large percentage of your plant capacity, or a substantial percentage of it idle, you are not going to have any shortages, that is for sure. But I would challenge you. The Government established the Tennessee Valley Authority and it produced electricity, and had we listened to the private sector, Mr. Olsen, we would have lost World War II because we would not have had any electricity. And electricity was necessary for changing aluminum into aluminum oxide, and aluminum oxide into aluminum plate. I mean, from bauxite into aluminum oxide, to aluminum plate that was necessary for the airplane industry, so it was the planning of the TVA which is a classic example of what I consider to be good Government planning that produced results.

Had we listened to the private sector we would never had had rural electrification, and had we not had rural electrification, the whole world would be starving today, Mr. Olsen, not just a little part of it, because rural electrification has made possible the incredible development of American agriculture. The same thing is true of the rural telephone system. Had we not had the Government planning and the Government intervention, so to speak, we would not have had many developments that have taken place in medicine today through the National Institutes of Health.

I can name off a dozen different programs in which Government intervention has saved the private enterprise system. Without some kind of Government intervention, your whole monetary system would be a total disaster. If you leave the monetary system up to the private banks, they will eat each other like wolves and tigers, absolutely, and there is not a finance minister in the world that does not understand that. That is why they have just recently had a meeting.

Now, the interesting thing to me is the people who are opposed to any form of Government planning are likewise critical of Government for its failure to have foresight. But they are the very same people whose very success has rested upon their ability to plan.

Now, we have not planned in this country for communications. We have let the A.T. & T. plan for communications. We have not made the kind of plans for this country that we ought to have for transportation, and today our transportation system is a national disgrace.

The countries that have the best transportation systems are the ones that have planned it.

Now, all I am saying in substance is that your statement is a clear demonstration that what we have done thus far has been so inadequate that we find ourselves in the current predicament, and not only the current one, but since World War II we have had a series of booms and busts, so to speak, with tremendous dislocations.

I would just conclude in my time frame here that the energy situation itself is indicative of some of the failure of Government to have forecasting capacity, foresight, and to organize itself properly in planning. Now, here is a Federal budget of this year of close to \$400 billion, \$375 billion. Now, how any businessman can come before a committee of Congress and say that you ought not to worry about how that money is spent, you know, it is going to be spent, and you know that. The President says that he is willing to spend all of that up to less than about \$15 billion. He will go to \$360 billion or \$365 billion. The Congress may say \$375 billion. So all we are arguing over there is a detail. But the Federal Government is going to have a huge expenditure.

Now, do the representatives of certain elements of the business community believe that that kind of a budgetary impact should be unrelated to the long-term or relatively short-term design of the American economy? The decisions that you make in any one year affect what is going to happen in years down the line unless you take a look at it.

I think that, for example, if we started to pour huge sums of money today into one area of the economy without regard to what happens to another, we are in serious trouble. Let me give you a classic example. The Department of Agriculture opened up 62 million acres of reserve land in the United States without ever once consulting the fertilizer industry as to whether there was any fertilizer. They never talked to them at all. The Department of Agriculture called for an increase of a billion bushels of wheat without ever asking whether there are hopper cars, box cars, or storage facilities or elevators to handle it.

Now, you talk about, as Mr. Chase here I believe indicated, that we ought to take two areas, and I am in sympathy with that, by the way, energy and food, because they are critical, and these are the two classic examples of where there has been absolutely no planning whatsoever, either privately or publicly, and we find ourselves in a very difficult situation. The other area that I would put down basically is in transportation where we have had regulation that I think is really outmoded. I do not know what the ICC is doing to earn its money but where we have had very little planning.

Now, would you like to comment on that as to your testimony?

Mr. OLSEN. Well, am I limited to the 10-minute rule?

Chairman HUMPHREY. You go ahead, because you are going to have advocates here too.

Mr. OLSEN. I hope so. I am beginning to feel a little outnumbered. But, I have tried to take down all of the points that you have made, and let me just take one of them at the tail end about the booms and the busts.

I said in my statement that cyclical swings in the economy are due to Government's conduct of monetary and fiscal policy. I believe that this is established beyond any doubt whatsoever, and yet when it comes to intervening further in the private sector—in the name of economic stability—the Government acts like the host who invites a man to his home for dinner, and then proceeds to spike the punch with additional intoxicants without telling him. And when the guest begins to become a little bit intoxicated and misbehaves, then the host says you see this fellow is unreliable and needs to be controlled and restrained somewhat further. And this analogy sums up a good deal of the way in which the Government responds to the private sector.

Our economy is basically stable. It tends to move back toward equilibrium after every major swing which has been induced by Government policy.

Chairman HUMPHREY. Would you not think that planning would be required to give some coordination and balance to that?

#### EXISTING MONETARY-FISCAL POLICY

Mr. OLSEN. Yes. I think two things. One is that I do believe that planning with regard to existing monetary and fiscal policy, as I said in my statement, and a better comprehension on the part of Government and the public as to the effect of those policies on the economy are badly needed. There is no question about it. And as I said, if we begin to shed the light on monetary policy this year, in my opinion, we could do even more in this regard. I believe that monetary policy is the most important single policy the Government can apply to alter the rate of economic growth.

It would be a very good idea, I think, if the Federal Reserve were to plan for the effect of monetary policy not just in the next 3 months, or even in the next year, but in fact, over the next 3 to 5 years. The same holds true for fiscal policy.

Also, it is one thing for the Government to plan for itself, and here I'm thinking of the \$400 billion budget, and it is something else for the Government to plan for the private sector in a highly disaggregated and detailed fashion. And I might echo something which Mr. Chase said. I think there is an essential difference between planning and a planned economy, but I am afraid it would emanate here from the proposal currently before us.

Chairman HUMPHREY. You understand that the bill does not give any powers over the private economy?

#### POWERS OF A PLANNING BOARD

Mr. OLSEN. I realize it gives no powers as such, Mr. Chairman, but the bill sets forth a proposal for a balanced economic growth plan, and then calls for the Economic Planning Board to recommend policies to achieve the objectives of that plan. And the Government says that the Board shall have, shall provide directives to monetary and fiscal policy with regard to interest rates, tax incentives, and so forth.

Chairman HUMPHREY. No directives, just recommendations.

Mr. OLSEN. Well, recommendations then.

Chairman HUMPHREY. Recommendations.

Mr. OLSEN. I still feel, though, that there is a very fine line between recommendations and persuasion, and the former could easily slip over into the latter.

Incidentally, I think that the argument that the suffering in the private sector is a consequence of extreme swings in monetary and fiscal policy is very pervasive, but it typically comes early in the financial sectors such as we saw last year. There we saw extreme, almost frenzied, demand for short-term credit in an inflationary environment, and a sharp decline in the value of financial assets across the board, not only in short- and long-term debt instruments, but in the equity markets as well and, of course, but the distortions that you get as a result of that high inflation. This is not caused by the private participants in the marketplace. It is not their wish, nor do they undertake through, as I say, capricious decisions on the part of the banker-lender or borrowers for that matter, to create these extreme conditions in the financial markets. These are traced directly back to the way in which monetary and fiscal policies are conducted.

Chairman HUMPHREY. Without regard to what else happens in the economy?

Mr. OLSEN. No. I think monetary and fiscal policies can be conducted in the absence of detailed economic planning by Government with regards to the private sector.

Chairman HUMPHREY. Senator Javits is prepared to interrogate you.

Senator JAVITS. Well now, I first would like to point out to Mr. Woodcock, and to Howard Chase, who is a personal friend of mine for many years, that I think both, from the different disciplines of Government, of labor and business, put their fingers on what we are trying to accomplish. Mr. Woodcock's statement says that the concept of the planning as the framework within which decisions about specific matters take place, that it would provide the overview across the entire economy and to head into time that we now lack. I like those descriptions as characterizing what I had in mind in joining with Senator Humphrey. And also the statement again of Mr. Woodcock where he says similarly that it is not intended that specific goals would be set forth for business firms. Instead, the specification for national goals and policies would provide individuals and businesses with additional information on which to base their own decisions. And in that spirit, may I remind you, Mr. Woodcock, and perhaps you had it in mind when you wrote as you did, that the idea of a commission or a committee on national goals was Eisenhower's, a wild radical on economic policy. And that it was sinful and it never came to pass. And the most prescient document we have had since World War II is Bill Paley's report on raw materials to which we paid absolutely no attention, and now we have got our tongues hanging out precisely because of it.

Would you care to make any comment about that?

#### DUPLICATION—CROSS PURPOSE

Mr. WOODCOCK. Well, I agree with the point you make, Senator. For a long time I have generally felt we needed national economic planning. I feel it is consistent with democracy. But I really began to

think extremely seriously about it when the oil embargo hit and the automobile industry for the first time was crippled. I was particularly struck by the fact that the one company that was taken by the most complete surprise at that juncture was General Motors, a corporation which one would assume would have the greatest private intelligence capacity, and yet they were absolutely caught. And I came down here to find out what the Federal Government knew about this problem and I found that there were 62 separate agencies acting with regard to energy entirely on their own, and frequently at cross-purposes. And the only two places that I could find that supposedly knew what was going on, was the American Petroleum Institute, and the Energy-Economics Department of the Chase Manhattan Bank. They did have some concept, they did have some concept about what the problems were, where we were going and all the rest of it. And I just do not see how we can keep drifting without a care for the future, relying entirely upon this monetary magic.

I am advanced in years. This is where I came in. I do not want to go out the same way. And I would hope that we could have a little greater faith in ourselves and our ability to gather the data, the statistics, digest them and fashion ourselves some reasonable goals and get on with the job.

Senator JAVITS. Thank you, sir.

Mr. Chase, I like also your use in this same regard in describing what we have in mind of a planning society rather than a planned society. And you gave us the explanation for that by John D. Rockefeller III. Then you characterized the end result as to the fact that a planned society tended to become a dictatorship.

Then in your statement you said that "Responsible planning and national goal setting in itself can be training for citizen maturity and a remedy for self-centered materialism and avarice that all too frequently mar a society with no sense of national mission."

Now, the question. The hardheaded Mr. May, head of one of the major, one of those same 200 that we all know so much about, and the hardheaded Howard Chase, with a lifetime of experience in counseling business, do you believe that patriotism and morality can have any effect whatever upon business judgments and business leadership?

Mr. CHASE. I think without patriotism and morality, no judgments, from whatever source, are likely to be very helpful in extricating us from the problems that face this society.

Senator JAVITS. And is it worthy of American business, of which I think very highly, to impute that it will be motivated by nothing else than self-centered materialism and avarice, by conditioning all of its reactions to the money system?

#### WORKABLE RATIONALE

Mr. CHASE. Senator Javits, I hope that I am both hardheaded, but also somewhat of an idealist, and I have deplored for years, as has my friend and colleague, Mr. May, the adversary relationship of the we versus they theory that afflicts this society. I recall your special attention to the statement by Father Hesburgh in which he mentioned the need of mankind, the intellectual and moral need of mankind is to find a workable rationale for continuity in time of change. I would



hope that moral and patriotic businessmen and representatives of Government can find such a meetingplace in rationale.

I recognize the idealism of that statement.

If I may go back to Senator Humphrey, to a comment of your's about the private sector, I hope you will not lump all segments of the private sector into one lump of opposition to rational solutions to problems that mankind has gotten itself into.

Chairman HUMPHREY. On the contrary. I have to place a great deal of reliance on the private sector. This is our system and, therefore, one has to believe that it wants to do the right thing.

But, you believe there is a partnership relationship and I am so pleased with your we and they analogy there. I think this whole business of advocacy, or the we versus they is what has gotten us into an awful lot of trouble.

Senator JAVITS. And now, Mr. Olsen, turning to your presentation to us, which I welcome very much, I have the greatest respect for you, as I have for Walter Wriston, whom I have known for many years, and I think you have given us probably as strong a case as can be made for the proposition. But I agree with Senator Humphrey that I think it is a very strong document of proof of our theories.

Now, Mr. Olsen, one question of fact to rest. We are not the instrument of the Initiative Committee for National Economic Planning.

Mr. WOODCOCK. I can attest to that, Senator.

Senator JAVITS. And, therefore, I reject completely any effort to tie what they aspire to do to our motivations, purposes or the effect of our bill. And I would ask if Senator Humphrey would join me?

Chairman HUMPHREY. Yes. I think we should say that we have appreciated their initiatives, and we have appreciated their efforts, but we have written our own bill and may I say we have written it within the framework of our own thinking, and recognizing that it is subject to many adjustments.

Senator JAVITS. Now, therefore, your statement, Mr. Olsen, was directly tied to our bill, saying that "The Balanced Growth and Economic Planning Act itself and the factsheet that was distributed at the time of its introduction do not spell out how the private sector will be induced to perform in a way that would appear to be consistent with the economic plan," and being tied to the quotation immediately following by the Initiative Committee for National Economic Planning, which ends as follows: "And it would try to induce the relevant industry to act accordingly." That is not applicable to our bill, and I state that as a flat matter of fact.

Mr. OLSEN. I might add that I appreciate very much your response to that and to clarify that.

Senator JAVITS. It is not hostile at all, Mr. Olsen, but I think it is very important because I, too, like Senator Humphrey, respect enormously what Leonard Woodcock and his associates have started, and we conferred with them and we will listen to them, but we will also listen to you and to Mr. Chase and to other men of good will who wish to help in this work. So I hope very much that all who will testify will understand that that is not, that we are not their instrument, that we are not, we are not adopting, no reason why we should, any of the comments which they have to make.

Also, I think in a small way it is a little misleading to quote Kosygin in the context of our plan for this reason. We all know, as almost even the courts now take notice, judicial notice of common knowledge, and that we know that with the Russians it is not like they say. They speak of a democratic society, a socialist state from each according to his ability, for each according to his needs, one of the most idealist statements ever invented by man. But now, we know that it is all a lie and a fraud, so what is the use in quoting those fellows? They do not do what they say and everybody knows it, and that is all. I think it is very important that we do not miss the forest for the trees in that regard.

Now, the last point, Mr. Olsen, and I have got a minute or two and I would like to stay within my 10 minutes, but I must say I am very worried, sir, and I know you well enough to say this to you. I would hope very much that you and your associates would think over all of the statements in your statement, and it disturbs me very deeply where you say, "Some of our most perverse economic policy strategies have been candy coated for public consumption. They come in such packages as price-wage controls where labor, consumers, and business lose out." OK, I can understand your argument. I do not agree with it, but I understand it.

"Or as interest rate ceilings, which force savers to subsidize borrowers during inflation." Again, OK. I understand your position.

But I beg you to consider this as a moral and patriotic American. "Or as the minimum wage which prices jobs out of the market." By the way, I know of no proof of that whatever. I am the ranking member on the Labor Committee and there is absolutely no substance to back up that statement in terms of the minimum wage. The studies have shown time and time again that the total job market is not adversely affected by the raises we have made. Now, it may be higher raises would do it, but not those we have had.

And second, "and prevents the young and the unskilled from exercising the fundamental freedom of negotiating for a job on their own terms." Will you tell me, sir, the fundamental freedom of a black teenager in an environment of 50 percent unemployment looking for a job at General Electric or General Motors, or forget them, the corner drugstore, the fundamental freedom of negotiating for a job on his own terms that he has?

#### MINIMUM-WAGE IMPACT

Mr. OLSEN. Well, I hold to the earlier part of that statement, Senator, that as you say, there may not be any evidence to support this. I think it is open for debate and contention that, in fact, increases in the minimum wage do lead producers and people in the service industries to reduce job opportunities in order to hold the wage bill for the total firm constant when the minimum wage is raised. They will find ways of eliminating jobs in order to prevent the minimum wage from raising the total wage cost for that firm. And I do believe that prices jobs out of the market, particularly for the young and the unskilled, and I do feel that when Government establishes a minimum wage in such a fashion, it is in effect negotiating the wage terms for the individual rather than allowing the individual to negotiate on his own.

Senator JAVITS. Well, Mr. Olsen, I spoke before of just the common wisdom of all mankind. I am willing to let my question and your answer stand on the judgment of the people of the Congress on that test, and I would like to ask just one other question, Mr. Chairman. I am over a minute now, and I am sorry. Just one other point.

In your statement you say, Mr. Olsen, "Inflation and recession are substantially monetary phenomena and the responsibility of Government." And I ask you how that squares with the Arab oil holdup price, with the strike of the GM workers at Lordstown, Ohio, because they got bored on the job, and similar phenomena?

#### INFLUENCE OF ECONOMIC PLANNING

Mr. OLSEN. The increase in the oil price did not cause the recession that we are in now, and it did not cause by itself the inflation that we experienced last year. It certainly did contribute to it. There is no question about that. An event of that magnitude and of that kind is unusual in our economic history. By the time we entered the winter of 1973-74, we were already in the midst of a recession that began in November of 1973, and a recession which might have been milder, to be sure, had the oil embargo and the oil price increase not taken place.

This is a question again of debate, and you have mentioned this a number of times. But I do not know whether detailed economic planning could have averted the effects of the decision made by the oil-producing countries to raise the price of oil at that time, and certainly Government planning of the private economy could not have averted the war in the Middle East that caused an embargo to be applied at that time.

Senator JAVITS. Well, Mr. Olsen, my time is up, except to state one thing, that for 3 years we were discussing here the vulnerability of the United States to oil imports and we never did a thing to plan for it. And the Committee of Nine, which has saved the situation in NATO by September and October of 1973, even it, and I was its Chairman, had reported the grave danger to the whole world of a Middle East oil embargo.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Thank you, Senator Javits.

Congressman Long.

Representative LONG. Thank you, Mr. Chairman.

Mr. Woodcock, I agree with so much of what you say in your statement here that I really would prefer to spend my time discussing the subject with the other two gentlemen, and I do not mean that in any way to not be paying any attention to you, but it is just an indication of the fact that I do agree with so much of it.

Mr. WOODCOCK. Congressman, if I do not get any questions, I will not feel neglected.

Representative LONG. Mr. Chase, the general question on the cutoff date with respect to this, the terminal date, is something that I had not thought of before, but is very attractive to me. I was active in the early days of the Office of Economic Opportunity and argued strongly, and unsuccessfully at that time for two things. One, there should be a demonstration type of program rather than envisioned as a war on poverty because the building false hopes in many peoples'

minds, and also that there should have been cutoff dates at that time to see, and so that they could be in turn evaluated as to the determination as to which of them were successful and which were not. Some were and some were not. One of the more successful, in my opinion, was the project of Headstart, which I think has really just worked and made some real progress.

Congressman Reuss and I, when walking over to answer the quorum call, were discussing this, and he and I agreed that perhaps another item ought to be added to the food and energy approach there, and one that is of a critical nature, and really is perhaps more complex in that it deals with people. It seems that as these problems start dealing with more people as individuals they become more complex. And that is perhaps food, energy, and transportation, because it has so much of an effect on what is happening in our country and on the whole economy. You know, the food program in itself is not going to be successful without the transportation. And as we saw here within the last 2 years, the energy program, to a great extent, depends upon that, and I think that would be a good threefold working that perhaps would give us a better ability to judge the success that we have in planning as distinguished from planned, than just those two alone.

Both you and Mr. May, in my opinion, ought to be complimented for your very realistic attitude toward the relationship between government and business, and the responsibilities of business. And I was most pleased to hear your statement in that regard.

#### INDICATIVE PLANNING APPROACH

Mr. Olsen, with respect to your statement, you speak of the indicative plans in France. Tell me a little bit about that, if you would. I am not familiar with those, and I wondered how familiar you were.

Mr. OLSEN. I am not familiar in any detailed fashion, Congressman Long. It is planning, but as indicative planning no one actually complies with it in any essential sense. No one is forced to comply with it, and it is largely ignored.

Representative LONG. But is that not exactly what you want? Now, as I understood it, the questions that you were raising, it is that you did not want it forced down anybody's throat, you were worried about it being forced down somebody's throat, and that is what it would lead to, and yet you have described the one they have in France where it is being largely ignored.

Mr. OLSEN. I have to ask the question: Why does France then even bother going through indicative planning if that is true? And the same holds true in this case. If you are establishing national priorities, if you are establishing certain goals, such as those mentioned here with regard to employment levels and incomes distribution and so forth, it is very clear that "indicative" is not going to be characteristic of this kind of a planning exercise. If it is, then one has to ask the question: Why even go through it?

Representative LONG. Perhaps the answer to that question is the fact that if we take France as the example, and you chose it and I did not, that the unemployment rate in France today is about 50 percent less than what it is in the United States.

Mr. OLSEN. But it is obviously not due to the planning, since the planning is ignored.

Representative LONG. I think that it has had a great deal—you know, General de Gaulle was recognized for many things, but if De Gaulle was recognized in the academic community for any one thing more than any other thing, it was for long-range thinking, and his ability to see what things were going to be way down the road somewhere, and much of this came about during De Gaulle. And I think that perhaps this might be a classic example of the ability to get what Mr. Chase is talking about, of a plan, a long-range plan, such as the big corporations, that everybody else does, without a planned type of an economy and that perhaps it is symbolic of what can be done with some long-range planning in the setting of national goals and having them indicative of what we do, of where we would expect to be at some particular point in time. I don't know. I myself intend to do more study on this.

Mr. OLSEN. Well, I do not think that we would want to introduce into the United States the kind of economic or political environment that existed during the time of De Gaulle, that came about with the introduction of planning. Second, it is not because of planning that France has a low unemployment rate.

As a matter of fact, one reason why France achieved its most recent economic reform was that it separated itself from what was called the foreign exchange snake in Western Europe. As a result of not being tied to the high-valued currencies of the snake, such as the deutsche-mark, French trade was supported.

#### CARTELIZATION

Now, the third point is that France has a high degree of cartelization, and this cartelization is, in fact, coordinated by government. And you do not have free market, you do not have price market. You have, in fact, a cartelization system.

Representative LONG. Are you not, in effect, making my point when you speak of cartelization system?

Mr. OLSEN. I am not in favor of cartelization.

Representative LONG. And cartels by government?

Mr. OLSEN. I am not in favor of cartelization. I am in favor of a market economy.

Representative LONG. Mr. Chase, I understand, or I would gather from your comprehensive knowledge of this entire field, that perhaps you have done some study with respect to what has happened in France, and I wonder if you could shed any light on the subject we are discussing?

Mr. CHASE. I cannot speak in great detail. The areas of my observation have been in the planning with regard to creation of new cities, for example, movements of population, the gigantic rebuilding and social and public use of large areas down along the Mediterranean, in these areas.

Representative LONG. By the way, I was there last year and I helped put together the year before last the deepwater port, and I went to the port there about 20 miles west, I guess it is, of Marseilles where they are building this new port, and I was absolutely amazed as to what an integrated operation of a combination of transportation, industrial

planning that they were doing, and how it related to what the whole country's economic long-range objectives were and what their needs were. I was most impressed by it.

#### FRANCE'S NEW REGIONAL CITIES

Mr. CHASE. In the case of Paris, the French Government decided that Paris was large enough, and yet it had the natural attraction of a metropolitan center to the people from the provinces. Therefore, they, through planning, devised a concept for 12 new regional cities, and about 4 of them are virtually completed, with populations of about 400,000 each. The educational, cultural, transportation, communications facilities are built in. For this kind of planning I have profound admiration.

Representative LONG. That is my feeling. Now the chairman has informed me that the committee would undertake a study in some detail with respect to what has occurred in France, and perhaps its relationship here.

Chairman HUMPHREY. May I interrupt?

Representative LONG. I would second that.

Chairman HUMPHREY. I have sent a memo to the staff, and I was just talking with Mr. Kaufman of the staff on what to have and, gentlemen, I might say to all members of the committee that the Library of Congress, Congressional Research Service, will do an indepth study of what is happening in the industrialized countries in the form of planning.

For example, Canada has a very unique system that is out of the governmental sector. It is really private. Sort of what would you call a commission outside, and what the structure looks like, what its relationship is to government and the economy, and we will get that for ourselves.

Mr. OLSEN. Mr. Chairman, may I suggest that you also ask the staff to determine the degree to which planning explains the performance of the respective economies.

Chairman HUMPHREY. Yes, of course, I think that will be debatable, but I think that is very valuable, and we will do, as a matter of fact, and we will consult with some of the advocates and the opponents as to their measure as to what we ought to ask for in that kind of study.

Excuse me.

Representative LONG. In that regard, as I was mentioning to Mr. Chase, the attitude that we have had toward deepwater ports in this country, for example, and the attitude they have had in France, as an example, the difference is just unrealistic. Here we have got basically a monopolistic oil industry that is, under the legislation that was passed by the Congress, probably going to end up building the deepwater ports for the importation of oil in the tankers, and when they have in turn used these ports and the one at Marseilles, and it is an opportunity to really do some long-range planning in the relationship between transportation, and including pipelines and their energy requirements, their long-range energy requirements, their long-range transportation requirements, and the industrial community there that fits in with that. I certainly regret that we have not used that approach here.

My time is about up, Mr. Chairman.

Chairman HUMPHREY. Congressman Brown of Michigan.

Representative BROWN of Michigan. Thank you, Mr. Chairman. This has been a most interesting discussion, I believe.

Does anyone on the panel disagree with the statement that our economic system, whatever it has been, with its problems, has so far produced the best standard of living of any place in the world? Does anybody disagree with that?

Mr. WOODCOCK. It has greater disparities in some regard than other systems, but taken as a balance, I would agree with it.

Representative BROWN of Michigan. Is a decision to have the people's economic desires to direct the economy with as little influence as possible by Government not a plan?

Mr. WOODCOCK. Well, this gets to be contentious, Mr. Congressman. You know, an administered price industry determines that they are going to lay off people rather than produce products; that is something that affects individual economic freedoms.

Representative Brown of Michigan. Well, but that is where your influence should be brought to bear by Government, is it not?

Mr. WOODCOCK. Yes.

Representative BROWN of Michigan. But overall, I mean is not what we have, that is, basically that the desires of the consumer pretty much dictate in the marketplace—is that not a plan? I have thought the free enterprise system was a plan, and that, in this country, not only political freedom but economic freedom was a part of that plan. Is that not right?

Mr. WOODCOCK. That is making a beginning from a conclusion.

Representative BROWN of Michigan. Especially, Mr. Woodcock, in view of past statements you have made, when compared with present statements regarding our environmental goal, was that not planning with respect to the environment? And vehicle safety, was that not planning with respect to the protection of life and limb? The ICC, the FAA, was that not planning with respect to the providing of transportation?

Mr. WOODCOCK. I would say it was intervention, not necessarily planning. It was intervention that was brought about by the necessity of trying to meet a problem.

Representative BROWN of Michigan. But, what if you had a planning board, as we are talking about, with this legislation, would not that set an environmental goal, would it not possibly get into the question of vehicle safety, would it not get into the question of energy, and what kind of vehicle should be produced and all of that?

Mr. WOODCOCK. It would have to.

Representative BROWN of Michigan. Would it not get into whether or not we should proceed with an interstate highway system for vehicles at a time when we are talking about an energy policy which dictates use of types of vehicles we do not have? Would it not do those things?

Mr. WOODCOCK. Rather than do it on an ad hoc basis, it would try to view each of these component pieces as a part of a total system.

Representative BROWN of Michigan. But if a plan incorporated these segments, would not the segments have the same impact as the way we have been doing it in a fractionalized way or a fragmented way?

Mr. WOODCOCK. No, I do not think so. To take an example you made allusion to, my union is now advocating that there be a 5-year pause, as you know, for further emission requirements, not because we are opposed to going the rest of the way on emissions, but because from a cost standpoint, not necessarily technological, we cannot do that job and do the fuel economy job that desperately needs to be done to stem the tide of imports and also to further conserve the use of gasoline.

Representative BROWN of Michigan. And I quite concur with you.

Mr. WOODCOCK. But we look at each of these things as separated, as though one does not have relation to the other, and it is all ad hoc, and that is what gives us concern, gives me concern.

Representative BROWN of Michigan. I think I can quite agree with you on that statement. I think that there has not been the kind of coordination of, for instance, the very things I have talked about, about safety requirements, environmental requirements, and energy needs. But, it is your position that a planning board of this nature would do a better job of coordinating those things?

Mr. WOODCOCK. Well, the first job it would have to be to gather and coordinate the necessary data, which we do not have today.

Representative LONG. Would the Congressman yield for one second?

Representative BROWN of Michigan. Sure.

Representative LONG. With respect to the fuel thing, as you know, we have on the floor at the present time the energy bill. I was talking to some Members of the Michigan delegation who were telling me that they had understood your position to be, or the position of your union to be, that in the event that the fuel consumption tax was in the bill when it ended up in final form, that your union's position would be against the bill. Is that too strong a statement?

Mr. WOODCOCK. No. That is correct, sir.

Representative LONG. It is then?

Mr. WOODCOCK. Yes.

Representative LONG. Thank you. I appreciate it.

Representative BROWN of Michigan. Mr. Olsen, I think that I would like to add some support to your statement with respect to the summit conferences that were held on inflation. I attended all of the many conferences, as well as the main conference, as a congressional host, I guess, we were called, of the business and industry group, and at every one of the meetings, and, in fact, almost every one of the witnesses, as I recall, when talking about the problem of inflation, also with equal emphasis, stressed the need for incentives for greater industrial activity and expansion and for capital recovery and formation, in order to provide jobs. And, I would say the problem of recession, that aspect of our economic condition was stressed as much as the inflationary aspect.

I also would have to disagree with Senator Javits regarding his statements about the impact of minimum wage legislation. Because he will be most familiar with it, I would ask Mr. Woodcock, has not the statement of Mr. Olsen been confirmed by studies? You may not think they are credible, you may not agree with them, but have not studies shown that increases in the minimum wage lead to a diminution in job opportunities, especially for the young? Is that not true?



Mr. WOODCOCK. Well, I have read quite a number of master's theses and doctoral theses on both sides of the question, and each proved, at least to the writer's satisfaction, that yes, it does dry up jobs, or no, it does not dry up jobs. This is more belief and prejudice than I think it is fact analysis.

Representative BROWN of Michigan. Yes. But as I recall Senator Javits said that there was no evidence that there was any impact on job opportunities by increases in the minimum wage. I just contend there has been evidence. You may not agree with it.

Mr. WOODCOCK. I would think, Congressman Brown, you can say without fear of contradiction that there is no evidence that that poor, lonely teenager is in any position to bargain with any respective employer about what he is going to be getting. He is going to be told this is what this job pays, are you going to take it, and he says yes or no.

Representative BROWN of Michigan. On that subject, as I recall the justification made for minimum wage, it was that there ought to be a decent wage paid, that in our social consciousness, we feel that a person should be entitled to at least a minimum pay for an hour's work?

Mr. WOODCOCK. That is correct.

Representative BROWN of Michigan. If that is true, why is it not more justified to have the general public that is exercising that general social consciousness pay the difference between the two, the true value of the individual in that job and what he should receive as a minimum wage? Why, in effect, should you not subsidize marginal workers with general tax dollars rather than in effect penalize an industry that cannot afford to pay that individual what you consider to be the minimum wage? Why is that not more fair and equitable?

Mr. WOODCOCK. It would be much more difficult to administer, and I think it would be entirely unfair and inequitable. I am not sure even Mr. Olsen would support that.

#### SUBSIDIZING WAGES

Mr. OLSEN. No, on the contrary. I feel that one issue that has been lacking in a lot of economic discussions in recent months has been a negative income tax, or a reevaluation of the welfare program that would incorporate a subsidization of a wage level below the minimum level and, in fact, either a revamping of the minimum wage law or its elimination. This would be coupled with a negative income tax that would enable an individual to obtain a job at what would be below today's minimum wage, but would be supplemented through a Government payment in place of each of today's welfare programs. In my opinion, this would be a very desirable program and merits looking into.

Mr. WOODCOCK. If it were part of an overall plan, we would take a look at it.

Representative BROWN of Michigan. Well, it seems to me that we have been a rather imaginative and innovative people, and that mere difficulty of administration should not be a conclusive basis for not pursuing that which is equitable. Lately, it seems to me that the different areas—I have mentioned a few with respect to environmental goals, vehicle safety, the ICC, the FAA—it seems to me that there has been more and more criticism of what the Government has done

including wage and price controls. It seems that the Government regulation has come in for greater criticism of late than earlier. I presume, Mr. Chase, and you, Mr. Woodcock, since you are supportive of the idea of national planning, economic planning, that you feel that by having overall planning that some of these isolated, shall we say, activities of Government which are presently being criticized, would be eliminated? Is that your general position?

#### WAGE AND PRICE CONTROLS

Mr. WOODCOCK. With regard to wage and price controls, sir, on behalf of my union, I was opposed to them when they were first suggested in 1970. I continued to be opposed in 1971. I was opposed in 1973 because, you know, you set up a price commission; you pull together a lot of very estimable people with inadequate data that starts from what is in being. They haven't too much leeway to do the necessary things to keep things in proper balance of supply, and you just cannot do this on that narrow a base.

Representative BROWN of Michigan. Would the National Economic Planning Board contemplate or look into and set goals for the return to labor, return to capital, and things of that nature?

Mr. WOODCOCK. That certainly is a proper area, the consideration of what would be a fair incomes policy, and it would be a proper matter of consideration.

Representative BROWN of Michigan. Would you support an effective policy objective and implementation of that goal and objective with respect to wages and prices?

Mr. WOODCOCK. It would depend upon the total concept as against the power to inflict inflation on the economy. Obviously, one would have to be willing to take a look at that.

Representative BROWN of Michigan. But now, how do you distinguish that, if it were effective, how do you distinguish that from wage and price controls?

Mr. WOODCOCK. Because the one was operative in an unplanned situation and without regard to who would be the beneficiary of the imbalances that were brought into play.

Representative BROWN of Michigan. Could a planning board really reconcile those problems, do you think?

Mr. WOODCOCK. It could point out the alternatives.

Representative BROWN of Michigan. In an economic context or a political context?

Mr. WOODCOCK. It would point to the alternatives and possibilities so they could be thoroughly considered, and it is very possible, given the alternatives and probabilities, and all of the facts being out there, that the private organizations would measure their own conduct to avoid the business of having to get to that point.

Representative BROWN of Michigan. Thank you very much. My time has expired.

Chairman HUMPHREY. I think it should be noted in reference to wage-price control that within a period of 24 hours the Government made a complete 180-degree turn with absolutely no planning, merely a price-wage freeze period and the same man that put the freeze, the wage-price freeze on one day had 24 hours before said that under no

circumstances will there be any wage-price freeze. That is the amount of planning that you had.

Representative BROWN of Michigan. But, Mr. Chairman, would not under your planning, would not the present factors that go into our economic system, would they not be then anticipating governmental action rather than consumer action?

Chairman HUMPHREY. That is one of the problems, I think, as we ventilate this. This is the whole purpose, to see what the dangers are. And I do not deny that that is a factor.

Representative BROWN of Michigan. And I only say it because that is why the freeze was imposed as abruptly as it was, was not to let people take the actions they were contemplating taking.

Chairman HUMPHREY. There was a reason for it.

Representative BROWN of Michigan. In anticipation of it.

Chairman HUMPHREY. Congressman Moorhead.

Representative MOORHEAD. Thank you, Mr. Chairman, and thank you for assembling this very able and provocative panel for us.

Chairman HUMPHREY. It is good. Yes, sir.

Representative MOORHEAD. Mr. Chase, in his testimony, draws the distinction between a planned and a planning society.

Mr. Olsen, I would like to ask you, sir, if you agree with that distinction?

Mr. OLSEN. Yes, I agree with the distinction.

Representative MOORHEAD. Now, would I be correct in assuming that, if we could guarantee that a planning society would not become a planned society, you could support a planning society?

Mr. OLSEN. Well, forgive me for splitting hairs on this, but I do not feel that you could provide that guarantee. And may I give you an illustration of this? We are speaking about price-wage controls for example. Some of the greatest difficulty experienced in the private sector arises from the fact that concern over what Government will do or will not do hinders decisionmaking, or encourages unwise decisions.

For example, industry has, for some time now, been living with the fear that price-wage controls will be reimposed. This has a perverse effect, because it tends to encourage businesses to hold their prices higher.

Representative MOORHEAD. My point is this, Mr. Olsen. If you could answer the question affirmatively, then this committee should be looking at ways that we could write in the law a guarantee that we would not proceed from a planning society to a planned society. So if we could give you a guarantee, could you then support the concept?

Mr. OLSEN. I am afraid I would still have reservations, because I believe that even with a written guarantee, you would have intervention arising out of industry decisions that run contrary to the plan, and that you would have difficulties.

Could I give you another illustration along this line?

Representative MOORHEAD. Certainly.

#### HIGH COST NUCLEAR ENERGY PLANNING

Mr. OLSEN. In 1967, in the nuclear energy field, it was projected that we would have something in excess of 70 nuclear energy plants in place by the end of 1973. We actually had only 40. The reason for the

difference, and I could readily see how planning could have entered into this area, was that the cost of nuclear energy technology ran far higher than anticipated. So many conventional plants employing conventional fuels were constructed instead.

Now, had you had planning, detailed Government planning, even where you had guarantees of no intervention, those who were constructing or would be encouraged to construct conventional plants would be looking over their shoulder constantly, wondering whether Government would provide tax incentives or inducements to the nuclear field so to overcome the higher cost of the technology. This would have tended to discourage those building conventional plants, and you would not have had the private sector make up the difference in the shortfall between the 70 nuclear plants and the 40 that actually existed.

Representative MOORHEAD. Well, Mr. Olsen, let me see if I can put both you and Mr. Woodcock together here.

Mr. WOODCOCK. That will be very good.

Chairman HUMPHREY. Solomon, proceed.

Representative MOORHEAD. Mr. Woodcock, in his statement, said, "Instead, the specification of national goals and policies would provide individuals and business with additional information on which to base their own decisions."

Mr. Olsen, in his statement, said, "We made a positive step this year in obtaining from the monetary authorities a better insight into the targets for monetary growth. We should move further along this road to improve public comprehension with regard to linkage between monetary policy and income growth."

In both instances, they are saying that if businesses and individuals are informed of national goals, they can adjust within them, actually make better decisions if they have a better idea of what national goals are likely to be. So I think that you and Mr. Woodcock are on the same track.

#### IMPROVED DATA FORECASTING

Mr. OLSEN. Well, I can agree that we certainly can improve data gathering, which Mr. Woodcock has stressed also. I would concur with that. And data gathering with regard to our economy certainly can be improved, but that is something different from planning.

In fact, implicit in planning is that you will be able to forecast, and that you will be able to project what is going to happen ahead. This is not what will occur at all. In fact, one of the things you will find when you look at foreign planning programs is that in every case where you have had detailed economic planning by Government, in fact, the actual results have run contrary to the plans most of the time.

So, what I worry about here is the planning will lead to forecasting, and not only that, but that if it ignores monetary and fiscal policy, I can guarantee you you will have inflation and you will have recession, even in the midst of detailed economic planning.

Representative MOORHEAD. I am suggesting, sir, that when the Federal Government projects what they think they were going to have, the money supplied, that this is planning, sir; but, it is not.

Mr. OLSEN. I have no objections to the planning of Government economic and fiscal policies; planning of the Government's own activities is fine. But planning of the private sector by Government is something else.

Representative MOORHEAD. I think we can agree that we all believe in improved data gathering.

I would go to the next step and say that just as business forecasts from existing data, so should the National Government make forecasts. Let the business people see the figures. They can decide whether that forecast is sound or not. At least they know better on what basis the Government is going to act so that they can adjust their own decisions with some greater degree of certainty than they have today. And I think that is the essence of Mr. Woodcock's statement, and at least so far as monetary policy is concerned, that would be your conclusion, sir?

Mr. OLSEN. Yes; it is. There is language, however, in the proposed act which I feel runs contrary to that. That is the only reason.

Representative MOORHEAD. Well, maybe you could give us your suggestions of how the act could be amended, understanding that we not say that you thereby support the act. There is no reason, however, that you should not try to improve it.

Mr. OLSEN. I appreciate that invitation. Thank you.

Representative MOORHEAD. Thank you, Mr. Chairman.

Chairman HUMPHREY. Congressman Reuss. Thank you for remaining, and we turn the witness panel over to your tender mercies.

Representative REUSS. I want to commend my brothers, Humphrey and Javits, for introducing this thought-inducing bill. I know that when you get behind anything like this, every rightwing editorial writer in the country accuses you of wanting a police state or predicts that the U.S. Army is going to march up Pennsylvania Avenue and take over the Capitol.

Mr. WOODCOCK. Is that why we are here?

Representative REUSS. I notice that somebody on your staff does not like you, because right behind you is a picture of the U.S. Army marching up Pennsylvania Avenue to take over the Capitol. But, your internal security ought to find out who did this to you.

Chairman HUMPHREY. Strictly out of reference, may I say that that is a mighty fine looking picture and I am proud of that.

Representative REUSS. You have come back strong.

At any rate, each and every one of you has made a notable contribution, including the witness with whose comments I, this morning, disagree. He is an old friend of mine, also.

Mr. OLSEN. Thank you.

Representative REUSS. A thoughtful witness, Leif Olsen, and I am glad you have asked the staff to look into that French business.

Chairman HUMPHREY. And the others.

Representative REUSS. And the others. I spent about a week there not so long ago conferring at great length with the French Commissioner of Plans and the Minister of Finance. Somehow their planning works; they will tell a different story. They suggested that their planning process has been one of the reasons why France has so vastly outperformed the United States in recent years: Lower inflation, greater production and employment, the whole works.

Specifically, for instance, under their planning process, if an industry wants to crowd a plant into an already overcrowded Paris, they are advised by the planning agency that certain tax incentives would be available to them if instead they put their plant in the under-

employed south of France or in the ravaged coal areas of the North. So, I would not automatically write off the French experience as zany.

Chairman HUMPHREY. Many of our 50 States do exactly the same thing. If you want to come into Minnesota, we will give you a good tax incentive to put a plant in certain areas of the State. We want to have some control over population mobility, and it is a very good idea, and we will be glad to have the bank come out and join us.

Mr. OLSEN. We will take you up on that, Senator.

Chairman HUMPHREY. Thank you. They are waiting for you.

Representative REUSS. Minnesota needs another Olsen, I might say.

I might say that I liked your testimony very much, as did everybody, and Congressman Long mentioned his and my conversation on the way over to the floor a moment ago. Would you accept our suggestion that whatever may be said about across-the-board planning for widgets and gadgets and so on, that there really is needed planning on food and energy? Would you accept our suggestion that transportation, both mass transit in cities and other forms of transportation, have suffered from being unplanned and should have a little injection of common-sense and planning into their performance?

Mr. CHASE. Without any equivocation.

Representative REUSS. What?

Mr. CHASE. Yes, sir.

Representative REUSS. Good. Thank you.

Now, Mr. Olsen, you said in your statement, and this is really your central theses, and I quote: "There is no evidence that supports the crucial assumption underlying central planning, namely, that the severe inflation followed by the deep recession from which we are suffering stems from the failure of the Central Government to direct activities in the private economic sector." Let us just chat about that one.

In the last few years, the Federal Reserve and the other Federal authorities sat by, indeed did nothing, to stop the major banks, including some of the big New York money market banks from setting up these REIT's, real estate investment trusts. Stock in many of those REIT's is in the name of affiliated banks and was sold to a great many people, including a share of widows and orphans who, of course, believed that the big bank was behind them. They then proceeded to build office buildings all over Manhattan Island, which are not one-third full of tenants. One of the reasons they are only one-third full of tenants is that they abandoned the hitherto sound practice of waiting to build a building until you get a few rental contracts from tenants. They littered the littoral of Florida and Maryland and other coastal States with luxury condominiums, which are now going begging, and the same with the mountain areas.

Banks were, by default, persuaded to lend enormous sums of money to these REIT's, whether affiliated or not. In some cases, when the REIT's have gone sour, the banks, for prestige reasons, have bailed them out, thus causing liquidity problems for the bank itself.

I, for one, do not think this was good for the country. I think our overbuilding then added to the inflation in 1973 and deepened the recession now. You but have to look at the economic indicators to see how sick the construction industry is. Therefore, are you so positive that the severe inflation and the deep recession were not in part due to the failure of the Federal Government to analyze what was going on,

and to give timely, indicative notice to the people who were overbuilding commercial real estate in Manhattan and other big cities, and overbuilding luxury recreational homes, just to mention one example? I have got several dozen more. But you know something about this. You may even have a little REIT in your family. I don't know.

#### REIT'S TAX INCENTIVES

Mr. OLSEN. No. First, the REIT's, of course, were encouraged to proliferate by the tax incentives they were granted. In fact, I assume it was as a means of encouraging construction.

Representative REUSS. Did we plan adequately in putting in these nutty tax incentives?

Mr. OLSEN. This has come up a number of times this morning, but with regard to specific programs and specific objectives and the effects of specific programs, such as tax incentives and so forth, I do not mean for a moment to suggest that one should not consider what the long-range effects will be of a tax incentive program or some other Government intervention into the economy. That should certainly have been considered. But I think the REIT's are an illustration of what happens when the Government intervenes in the private sector, in this case, providing this kind of a tax incentive.

Now, the point is, it was not the REIT or their proliferation that created any inflation. I dare say that construction workers were mighty happy that you had the REIT's growing and providing employment in that fashion. But, it was the overly expansive monetary policies for the economy as a whole that led to excessive growth in which the development of REIT's participated. So, I do not feel and, you know, REIT's not only build office buildings, and I do not know that they participated in any major way in New York City because we have not had that many office buildings in the last 2 or 3 years, but they also built many individual homes in many parts of the country, the Middle West as well as in the Southeast and the West, the Far West.

Representative REUSS. Well, just taking your statement, Mr. Olsen, Humphrey and Javits, I take it, are saying this: "If there were things wrong with the REIT experience, you say the Government was responsible because somebody, somewhere, passed a law giving the tax incentives." I am darned if I can figure out who made the plan on that. These things just emerged from the administration in some obscure way and bubbled out of the Ways and Means Committee and through the floor in some unthinking way? What Humphrey is suggesting, as I take it, and he can disavow this if I have got him wrong, is that there should have been some coordinated approach at the top as to what the Nation really needed. Did it need, for example, all of these overbuild, untenanted office buildings and all of these \$200,000 unused condominiums? Would it not have been better to have more low, moderate income housing, for example, to keep the construction industry busy? And would not an overall planning agency have marked out the implications of this, and so perhaps have induced the Congress and the banks and the REIT industry to build more intelligently? What about it, Mr. Chairman?

Chairman HUMPHREY. That is exactly right.

Representative REUSS. Have I shamed you?

Chairman HUMPHREY. No, you certainly have not. In fact, when I get my time, I shall stress this.

Representative REUSS. I think this is really what we are groping for.

I have not joined in the Javits-Humphrey bill because, like Mr. Chase, I think it may bite off a bit too much, and I would sooner start with areas which are fairly crying out for planning. But if I may say so, I think you wield too broad a sword in saying planlessness is a good in itself, and I think in our colloquy you have indicated that maybe a little judicious planning does not hurt.

#### PRIVATE PLANNING AND GOVERNMENT

Mr. OLSEN. Let me say, first, I certainly do not want to be understood so say that the total absence of planning is a virtue. I am not suggesting that at all. What I am saying is that the private sector of the economy—individual business units and industries—engages in planning, and that has been well identified. And I believe that the private sector can do a whale of a better job in planning if Government did not threaten to intervene in the private sector, as it has in recent years, and which is, in my opinion, implied in this planning proposal. And you have, in fact, raised some of my fears with regard to this, because I think you would go further than simply planning here, that you would introduce directives that would allocate resources to achieve objectives which would be regarded as desirable and that you would have priorities in which those allocations would be met. What I worry about is, to use the automobile analysis comparison that has been used very often in this discussion, when they open up the hood of an automobile, what if somebody decided that it is inequitable for one piston to go down when the other goes up, and that they all ought to go up and down at the same time? I ask you, how will the car run when it does that?

Chairman HUMPHREY. It does.

Representative REUSS. That is my 10 minutes.

Chairman HUMPHREY. I will just take a few more minutes. We have had an exciting and I think a very rewarding morning here.

You know, I served as the mayor of the city of Minneapolis when I was a young man. I took a great interest in being a member of the city planning commission, and I want to give you a little story about it. In the mayor's office, when you came to the reception room, on the side of the wall about the size of this wall, was an architect's, and artist's vision of what the downtown of Minneapolis ought to look like 20 years hence. I remember people coming into that office and they would say to me, well, what kind of a nutty idea is this? What is this all about?

Well, I would say that is the way that our city is going to look, and we have got to start planning for it right now, and I have got a group of people here from the business community, from the university, from the labor movement, plus the city planning commission, which was an officially appointed commission, and we have this advisory, ad hoc body, and we had been talking about what Minneapolis ought to look like 10, 20 years from now. And I want to tell



you that I got more jeers and sneers from people about that than anything that I ever did in public life.

You want to know something, Minneapolis looks like that now. And you want to know something else? It is considered to be one of the top livable cities in the United States.

Mr. OLSEN. I agree.

Chairman HUMPHREY. And do you want to know something else? It's public and private that worked together there. There is not a public building except the county courthouse, the city library, and the public health. Those are the only 3 buildings out of about 80 that are in that whole area that have been totally government. The whole city has been totally modernized in that area, and that was once a slum area, the broken-down area of our city.

Public and private planning, we projected the costs, we put the plan within a time frame, we projected the amount of public money that was willing to go and if we could get the Federal Government and the biggest problem we had was the Federal Government. Nobody ever knew what this place was going to do. You could not plan that one bit.

We do get our people up there to put up the bonds and we could get our local businessmen to give us the promise of the development, and the Northern States Power Co., Northwestern Life Insurance Co., the Bell Telephone Co., we got all kinds of plans from them. We got the private banks, the First National Bank of our city, and so on. They all cooperated, everybody cooperated.

The one place that they did not cooperate was the Federal Government. Do you want to know what they said? We can't tell you what is going to happen; we have got no idea of what is going to happen. And that was the biggest roadblock to the planning of that city that we have had, and it has the biggest roadblock in this country.

We have a law like HUD, Housing and Urban Development, that compels every single municipality in the United States to get any Federal money to plan what it is going to do, not for 1 year, but a long-range plan. And if you are going to get any money for a medical school under HEW, you have got to have a plan. The only people that do not have any plans are the people that are demanding the plans. That is the Government of the United States, and God himself does not know what this Government is going to do. There is not a school superintendent in the United States that can predict what is going to happen in Federal aid to education. Nobody even knows whether we are going to educate the children from here on out. Maybe there will be no plan for them.

There is no long-range plan for education. We thought we had one once for regional health centers, but nobody has ever found out what happened about that, simply because there is no central planning mechanism in this Government, except the annual budget of the Government. They have a group of people who have a passion for anonymity that hide out in the Executive Office Building that nobody can ever get to, and the Federal Government has no way of ever ventilating its budget, except when it comes up here in a document like a holy writ and is like the Dead Sea Scrolls and comes up here wrapped in sealing wax. And listen, that is more carefully guarded than anything the CIA or the Pentagon ever dreamed up. There is not a living mortal

outside of the people in the OMB, the budget office of the President, that know what is in that budget document until they decide to release it.

Isn't it interesting: The most important fiscal document in the history of the world and not a single newspaper, radio commentator, or anybody knows anything about it. They are trying to find out who is seeing who and who is sleeping with who and so on, but they can never find out what is in the budget, not once. And I think the people ought to know that it is never brought to the attention of a Governor or a mayor, or a labor leader or a welfare client or a banker or a businessman; nobody ever sees it until it gets right up here, except for a handful of bureaucrats. I helped prepare those budgets when I was the Vice President, and I know whereof I speak.

Now, that budget has more effect on what happens in this economy than anything that your bank ever dreamed up. You look here like a peanut stand compared to that budget, and General Motors looks like it is a bicycle shop compared to that budget, and here we go along willy-nilly, throwing around \$300 billion to \$400 billion on an annual basis, and you have got to be insane to do this. Really, you have got to at least be drunk. Really, because the decisions that we made in that budget tie this Government for years.

Look what we did here with the defense budget just recently. Now, regardless of how you voted on it, the simple fact is that we are tied into the Trident, whether we need it or not. The B-1, whether we need it or not. We are tied in for years to come, and we make those decisions without regard to whether we can pay for them or what it is going to do, whether the economy is going to be distorted one way or the other.

Now, I am not an expert on all of that, but I know a lot about agriculture. I have spent some 20 years on that committee and I come from a rural area, and I want to tell you that when we sold that wheat to the Russians we had not any idea whether we could deliver it, and when we could deliver it, and we have been paying penalties to the Russians for slow delivery. They not only got the stuff at half the price they should have paid for it, but because we are so loused up in our transportation system, and our grain elevator system, and our storage system, we have been paying the Russians for being bad boys.

And I remember when I first read about it, there was a big article saying well, the Russians will never—they got a lot of wheat, but where are they going to put it. They don't have to worry, we couldn't deliver it. We couldn't deliver it. Now, here you come in, every businessman comes in before the committees and talks about the growth of the American economy. God, I hope it is. I am a growth man, and I want you to know I believe in expansion and growth, but you cannot—we cannot even deliver on the railroad system today what we are presently producing. You cannot.

We are going to have 2,300 million bushels of wheat this year. Will you tell me how we are going to distribute it? Every farmer in America is going to be taking a loss of 8 cents to 10 cents, 15 cents a bushel, waiting for transportation, and that is a cost that he is going to have to pay. And you are going to talk about individual freedom, and I think my farmer is entitled to get the maximum price. And I think that it is the duty of the Government to have a transportation system that will deliver, not just worshipping at the altar of free enterprise

and then sinning in the backroom. And I think that is what is going on. I think he is entitled to have the credit to take care of some planning, and to me it is something more than just a structure. It is a question of whether you are going to put this country together or whether you are going to let everybody do his own thing at the expense of somebody else.

Now, we don't do that in many areas. Let me tell you that any successful business enterprise and they have been here, and I am a businessman, believed in it, and I am a free enterpriser to the degree I want it to last, but I do not think free enterprise will last in the law of the jungle. I just do not believe it will. My little business depends on farm-to-market roads, Mr. Olsen, and if we have not got farm-to-market roads out where Humphrey's drugstore is, then we are dead, and I do not care when you say Humphrey, you ought to have freedom, well, we have got plenty of freedom, and I went through a depression of freedom. What I want to know is where is the income?

Now, you mention here that Government, our concern about inflation, and I had a little look at your statement, and it really bothered me, because this is what I think is wrong. We have worked hard to reduce inflation. We must exercise patience and wisdom in the conduct of monetary and fiscal policies to avoid another painful round of inflation, followed by more recession or worse unemployment. That is what you say. That is the whole problem we are working on hard, on inflation, and we forget that people are involved that just plain lose their incomes. Inflation is an inconvenience to everybody, and unemployment is a disaster to those that are the victims.

Now, what is wrong in this Government today is that there is no proper balance. We are absolutely unconcerned as a Government today with the reemployment of millions of people, except for temporary palliatives. Excedrin, we cannot even get that, we don't even have economic Excedrin, we have cheap aspirin, and then, by golly, the doctor wants to take that away from us in the middle of our pain. I just think that it is outrageous and that is why, may I say, I feel that some kind of planning, and I don't know, I will be frank, I think we may have gone too far in this bill, that is entirely possible, but I learned something in government, that it is very hard to build anything up. It is easy to tear it down, so when you come in with a proposal, you come in with the ballpark, and you have got the 50,000 seats. You may end up with only a little community gathering when you are through, but you'd better be able, you've got to be ready to whittle off, you see.

So, now I have given you my interpretation, and would you like to present yours?

MR. OLSEN. Well, I think we still have to make distinctions between the kind of planning that, as you said, is envisioned in this ballpark presentation, and the kind of planning that you undertook in the city of Minneapolis.

Chairman HUMPHREY. Not a bit.

MR. OLSEN. Planning on an individual project of that kind, where you had something in mind that you wanted to achieve is fine. But, assigning a blueprint like this to the total economy as a whole—

Chairman HUMPHREY. But it is not a directive, sir. You use the words—

## CONTINUITY IN PLANNING

Mr. OLSEN. I recognize that it is not a directive, but as you yourself said earlier, the Nixon administration in the summer of 1971 just flip-flopped like this from no controls to controls, and this did very little to create any great confidence on the part of the private sector, the business, consumer, and labor sector. In fact, you cannot get even in the face of guarantees, as you say, you can still get quick changes in the way in which Government will respond to the private sector, when the private sector does not seem to be performing in compliance with a detailed plan.

Chairman HUMPHREY. You see, I am sure we are both concerned about the same thing, Mr. Olsen, because I surely do not impugn your motives one bit. My feeling about what happened is that it was the result of failure to really be cognizant of many segments and factors in our economy that were so definitely interrelated. There was an absolute lack of planning.

Now, you take monetary and fiscal policy. I agree with you as to its importance, but let me just point out to you that monetary and fiscal policy alone are not enough, any more than fiscal and budgetary policy are. What our worry is, what my worry is, I must not speak for the others, is here is the Congress and the President going down the road on budget policy and fiscal policy, and over here is my dear friend, Mr. Burns, and the Federal Reserve Board, feeling they are occupants of Venus or Mars, that occasionally they are willing to look at our goals and objectives, Presidential and Congress, but they are running their own show. And I am not saying that they are trying to hurt us. To the contrary. All I am simply saying is that Mr. Burns refuses, and I only use him as a name, the Federal Reserve Board refuses to really take a look at what the elected Representatives of the American people say ought to be policy and the goals of this country. They have set themselves up as a supertribunal that simply says, "Well, now, you yokels over here, you don't know what you're doing. We are going to control the spigot."

I happen to believe that we ought to at least have a little input occasionally to suggest, you know, as we are walking down the street somewhere, don't you think maybe you ought to join the team for a half an hour or so and try it for size.

Mr. OLSEN. We have an agreement on this, Senator.

Chairman HUMPHREY. Do you?

Mr. OLSEN. Yes. I might add that I have testified in this regard also, and I do feel, as I said in my statement, that bringing monetary policy out in the spotlight is very definitely a step forward, and we should do a lot more of it.

Chairman HUMPHREY. Thank you.

Mr. OLSEN. Now, I might add further, events so far this year were predicted by a number of forecasters and economists and others. You identified this yourself with regard to your participation in the summit meetings last year.

Chairman HUMPHREY. But government did not, as such.

Mr. OLSEN. No, unfortunately. Now, what is exasperating to me is that when you have a minority view that has a rational and consistent forecast of what is happening, it is almost impossible to focus public

attention on this. In our case we employ monetary theory, and we have demonstrated that you can forecast inflation and cycles within a reasonable degree of accuracy from monetary policy.

Chairman HUMPHREY. I agree with that.

Mr. OLSEN. Last year, when it was clear that we were in a recession—I might add further—

Chairman HUMPHREY. I mean, I think, Mr. Olsen, I think it is fair to say that it was clear to you and I think it was clear, and I see my friend, Mr. Keyserling, back here, and clear to Leonard Woodcock, and it may have been clear to Mr. Chase and others, but may I say the general attitude at the time, as enunciated by the highest counsels of Government, the Chairman of the Council of Economic Advisers, Mr. Stein, and later the Chairman of the Council of Economic Advisers, the esteemed, Mr. Greenspan, and others, they did not see it as a recession. To the contrary, the President of the United States, speaking with the advice and the counsel of all of his top advisers in December 1974 was still for a 5-percent increase in taxes.

You see, my point was that there was not any, really, the kind of input that we are talking about in the Economic Planning Act, with all of its inadequacies. That is my point. I think that we can bring better, more thought to bear upon the subject matter if we had some kind of structure. I am not at all sure, as Mr. Chase has pointed out, but what we may have gone too far. I have always been one that believed, for example, even in the negative income tax field, the family allowance, that we might have been better to have tried it in certain areas to see how it works. This is a very vast country; it has very complicated political, social, and economic mechanisms.

Mr. OLSEN. New York City is a very good place to start, incidentally.

Chairman HUMPHREY. And may I say most respectfully, the problems of that city are so vastly different than the problem of the city that I have been associated with that I think that it would be almost impossible for me to give even a relevant experience, and therefore it is difficult. I realize that national economic planning has its limitations. But I just want to clarify one thing, and then I will shut up here on this.

We are not, despite the interpretation, trying to say to General Motors that this is the way you will operate your business. We would be willing to say under economic planning that there ought to be in the next 5 or 6 or 3 years in the amount of mass transportation facilities, let us say, as compared to something else. We might be able to say, and maybe such a planning agency would say that the emphasis for some of our governmental capital, at least for the next 4 years, ought to be in middle-income housing. Or, as was said here by Mr. Chase, in the instance of the French with their new cities.

We have had a miserable failure in this country on new cities, and I will tell you why, because there has been very little followthrough on the part of the Government. Let me tell you, I have had some experience in this and know a little something about it. The Government has never had a continuity of program, so the developers of new cities have never been able to know what is going to happen next year.

We have Johnathan in Minnesota, a new city; a town called Johnathan. We have another one, Eden Prairie, just southwest of Minneapolis, and I was out there last Saturday, and the developers there have

no more idea what is in store for them next year than I have of what is going on on Mars this afternoon. And we are just depending on them to go willy-nilly with their program.

Now, thank God, we have adventurous business people, and I must say that I am devoted to them. We have Cedar River project in the Twin Cities of Minneapolis again where there was no continuity, and we had a number of emergency meetings with HUD after the fact to see if we can keep it alive. This is my point. We asked people to put in hundreds of millions of dollars in that development—investors, people—and all at once the Government says they have got a plan, they have a New Communities Act, except nobody knows what is going to happen. I just do not think, you know, that that is any way, it is just no way to run a circus, much less the Government.

I have got to go for a vote, and I am going to let my colleague, Congressman Brown of Michigan, conclude the hearing, if he wishes to, because I think you have some observations.

Representative Brown of Michigan. Well, just a couple, Mr. Chairman. I want to relate back to your earlier discussion about budget and all and I just want to query you as to whether or not you think that the Congress will, in effect, abide by its plan in the Budget Control Act with the figures that have been developed?

Chairman HUMPHREY. No, but I think it will be better. Somebody once asked me what do you want out of your life, Humphrey, and I said not perfection. I am a human being, but just to do a little better, to do a little better. I think the Budget Reform Act will make a better fiscal policy, budgetary policy, and we will have to fool around with it and adopt it. And may I say to Mr. Olsen that your admonition here of not having these strict controls I think is well made, too. I believe in a good deal of flexibility, believe me, and I want to tell you as one that has been in public life that I do not mind changing my mind. Somebody once said, you know, you have not been consistent and I said, what is good about being consistently wrong. Once in a while you make a mistake, and I have made my share.

Mr. OLSEN. Thank you very much, Mr. Chairman. I appreciate your comments, and it certainly has been a pleasure being here with you.

Representative Brown of Michigan. With the chairman here, I just wanted to ask him how under planning we would reconcile the consumer price problem with the agricultural return problem? Now, you are talking about the Russian wheat deal and I have many farmers who think that was the greatest thing since sugar, you know, and then you have others, those same people who were very unhappy about the President imposing. I don't know whether it's indicative or imperative planning, when he squelched the more recent deal. It seems that those are the kinds of problems that you run into in any kind of planning, and I do not know how you are going to accomplish the reconciling of those differences.

Chairman HUMPHREY. I have to leave at this time, but I do not think we can reconcile. We can ease them.

Thank you very much, gentleman.

Representative Brown of Michigan [presiding]. I won't take much longer of your time, but I would just like to ask for your comments about the setting up of a Council of Economic Advisers, the broad spectrum as is contemplated with this legislation, which would be out-

side of the executive branch, outside of the Congress, in which would participate representation from labor, from business, from the financial community, academic, and so on?

I ask that, because it seems to me that the political pressures seems to always have at least as great or a greater impact than economic pressures in arriving at decisions. In my years in the Congress, I have yet to find a majority in the Congress of a different political faith that agreed with the Council of Economic Advisers of the President. There seems to be always this difficulty.

Is it possible to have kind of a purist group that could advise both the administration and the Congress with respect to the matters that are contemplated by this legislation as a start in this direction, rather than formalizing, as it is proposed in the legislation? Would you be willing to participate? Do you think it would be valuable?

Mr. Woodcock.

#### LEVEL OF PLANNING BOARD

Mr. Woodcock. Well, the thing that would bother me about that, sir, is that, you know, under our system of government the executive has the vital function to perform, the legislative body has a vital function to perform, and if you take something out entirely separate, it would diminish that authority, and that is why I think the concept of an economic planning authority, no matter what it may be called in the executive, but also which would tie back and forth to the legislative is much better. After all, whoever is the President, whoever is the dominant group in the Congress were chosen by the people and do have a constitutional function. And I do not think it would help particularly to have some advisory group separated from that with apparently a life of its own.

Representative Brown of Michigan. Well, does not this legislation contemplate participation in the creation of the board, in its membership, in having both the executive branch and the congressional branch?

Mr. Woodcock. Oh, yes.

Representative Brown of Michigan. And in the formulation of the plan?

Mr. Woodcock. And also, let's call them nonpolitical groups that would be advisory and have an input capacity outside of that, but the decision would come back to the executive and the legislative for decisions.

Representative Brown of Michigan. I do not think this legislation contemplates the elimination of the Council of Economic Advisers to the President, however, does it?

Mr. Woodcock. Well—

Representative Brown of Michigan. Would not this be kind of imposing an advisory body and a planning board, et cetera, that would be somewhat separate and distinct from congressional activities and executive branch activities?

Mr. Woodcock. Well, I would contemplate that the function now performed by the CEA would be absorbed into the new group, absorbed and widened, obviously.

Representative Brown of Michigan. Mr. Olsen.

Mr. OLSEN. I do not think the bill provides for that. I think the bill provides for the continued existence of the Council of Economic Advisers as it is now constituted.

I just might add a thought here, because I am not quite sure what you have in mind in this regard. But a forum, if you will, or a council in which labor and business, together with government, meets, has many desirable features. Now, Mr. Woodcock is presently a member of the Management-Labor Advisory Committee that Mr. Dunlop has coordinated and chaired, and I think this has, in a sense, provided a useful forum for an exchange of ideas. It is something that did not exist some years ago, and I think perhaps it has been helpful in some ways. Perhaps Mr. Woodcock would like to make a comment or two about that since he has had the, of course, direct exposure to it.

Representative BROWN of Michigan. Would you care to comment, Mr. Woodcock?

Mr. WOODCOCK. I do not believe we have the time.

Representative BROWN of Michigan. OK. Am I not correct that the construction industry committee did function pretty well? I know that is not in your bailiwick exactly, but was not there a feeling that it was a successful activity during the wage-price control period?

Mr. WOODCOCK. Yes, yes, definitely, because I think it helped to fill a void, because the collective bargaining, by the nature of the industry, is fragmented and in the local labor market areas, and this was a central point and some degree of control over the process.

Representative BROWN of Michigan. And that was really outside of the executive branch or the Congress in its operation?

Mr. WOODCOCK. In the beginning it was, except that it was done by a little force and duress, let me say. But then afterward it was brought under the statutory controls that were enacted.

Representative BROWN of Michigan. Mr. Chase, would you care to comment?

Mr. CHASE. Public respect or disrespect for any body, however constituted, is going to depend on the quality of its work. Taking that into consideration in the original testimony, I indicated that we had no quarrels with the apparatus which the bill designs.

Representative BROWN of Michigan. Well, gentlemen, do you wish to make any comments in summary?

Mr. CHASE. Would you allow 30 seconds for another area?

Representative BROWN of Michigan. Certainly.

Mr. CHASE. This has perhaps not been touched, but really stems from a comment that you made, sir.

You asked us if we agreed or disagreed that our economic system is the best in the world and we agreed, with certain qualification, that it also produces vast disparities. And you asked the question whether free market was not a plan. Of course, it is a plan, and I agree thoroughly with you that it has created and demanded initiative and enthusiasm and imagination in the course of our history.

But, one of the reasons that I see for rational planning at the very high levels is the state of the world itself. We are the first world. There is a second world, which is ideologically our enemy. There is a third world which is prepared to say "a plague on both your houses." And now as a result of the oil boycott, and so forth, we have a fourth world



of 40 to 50 nations which have no access whatsoever to the free market and, therefore, may be presumed to be hostile.

My concern is that we need planning to nurture and preserve the free market that has given us the satisfactions that we enjoy. And I hope you will regard that as germane.

Representative BROWN of Michigan. I certainly do. I guess the trouble with or the difference in views here is that we all have the same goal and objective. It is just we are concerned about how such a planning system would be implemented, how comprehensive it would be, et cetera. I do not think there is any question but we should be doing something about critical materials, which we are going to face that as a problem, and it is either a matter of living with the situation or coming up with substitutes and all of these things. I guess that in my thinking, planning is necessary in many of these areas and it needs to be planning that takes into account, when you adopt safety standards or environmental standards, takes into account the energy problem and so on, and I quite concur in that.

At the same time, I reject the idea that all facets of our economy would be somewhat surveilled by a Federal planning board.

I would not want to end up just substituting a governmental abuse to the abuses that exist and create the disparities that you are talking about in our free market system.

Gentlemen, it has been a pleasure to have you with us. Thank you very much.

While you are here, I will let you know what we are going to do tomorrow. Tomorrow we will have Mr. Keyserling, Mr. Leon Keyserling, Mr. Robert Nathan, Mr. Leontief, and Mr. George Hagedorn. Mr. Keyserling and Mr. Hagedorn are economists, and Mr. Nathan is with Robert R. Nathan Associates, and Mr. Leontief is with Harvard University, and Mr. Hagedorn is with the National Association of Manufacturers. We look forward to their testimony, and in the meantime we wish to thank you again for yours. Thank you.

Mr. OLSEN. Thank you.

Mr. WOODCOCK. Thank you.

Mr. CHASE. Thank you.

[Whereupon, at 11:48 a.m., the committee recessed, to reconvene at 10 a.m., Thursday, June 12, 1975.]

# NATIONAL ECONOMIC PLANNING, BALANCED GROWTH, AND FULL EMPLOYMENT

THURSDAY, JUNE 12, 1975

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

The committee met, pursuant to recess, at 10:12 a.m., in room 1202, Rayburn House Office Building. Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey and Javits; and Representative Long.

Also present: Richard F. Kaufman, general counsel; Loughlin F. McHugh and Jerry J. Jasinowski, professional staff members; George D. Krumbhaar, Jr., minority counsel; M. Catherine Miller, minority economist; and Michael J. Runde, administrative assistant.

## OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. Would the witnesses come forward to the stand: Mr. Keyserling, Mr. Nathan, Mr. Hagedorn, and Mr. Leontief. Mr. Leontief may be delayed. The flights are very much delayed due to the inclement weather, so he may be coming in just a little bit later, and if that is the case, why we will, after Mr. Keyserling's testimony, we will go to you, Mr. Hagedorn, and then if Mr. Leontief comes in we will pick him up, and Mr. Nathan. I think we will put you as sort of the cleanup here. Is that agreeable?

Mr. NATHAN. Fine, Sir.

Chairman HUMPHREY. Today, we continue the first part of what will be several rounds of hearings by this committee on the subject of national economic planning.

This committee prides itself on being one of the few congressional groups that has tried, over the years, to look over the horizon at problems which would not normally be focused on by the regular legislative committees of the Congress.

These hearings represent just such an effort. The issue of national economic planning itself is one that is just barely coming into focus as a major public policy issue. I might say that I except that as the months go on that it will be much more in the eye of the public.

The bill that Senator Javits and I introduced as you gentlemen know, provides a mechanism for both the executive and legislative branches of government to look ahead. It also provides a means of communication with State and local governments in order to develop long-term, economic policy.

A good deal already has been written about the Balanced Growth and Economic Planning Act of 1975. I might add that some of it is not too accurate, but we would expect to approach positions such as this: it would provide and produce sometimes more heat and light. It may, therefore, be useful to briefly summarize the principal elements of the bill, and I do that for the purpose of this record. And I might say I shall do this at practically every hearing in order to clear away the misunderstanding and sometimes the deliberate misinterpretation.

First, the objective of the bill is to establish procedures for the Federal Government to follow in the development of long-term economic policy. Last year, Congress enacted the Budget Reform Act to fill the gap that existed in the area of short-term economic policy. I think it should be noted that that was a very significant piece of legislation, and I believe that it is going to help us a good deal in all matters relating to sensible fiscal and budgetary policy. Congress is now better equipped to handle the short-term problems, which on the executive side are dealt with through the Council of Economic Advisers, other economic experts in various agencies, and, of course, the Office of Management and Budget. But no agency in Government has the responsibility for long-term economic policy.

The bill creates an Economic Planning Board in the Office of the President to help fill this need. I might add, there was quite a discussion amongst those of us who were interested in this legislation as to whether there should be a board, or simply a director of planning. Now, I came down for the idea of a board because I believe that you get a little better interplay through such a structure.

Second, the bill provides for democratic planning. By that I mean a great deal of input from other sources rather than just those appointed on the Board. We do not seek to set up a group of technocrats to make long-term economic decisions for the rest of us.

Under this bill, Congress is given a central role in the planning process and we have also provided a significant role for State and local governments. I want to emphasize this, because any kind of economic policy has to be more than Executive edict or even Executive suggestion. It has to have the concurrence and hopefully the support and understanding of the Congress of the United States. And since we have a Federal system, and the State and local governments are so vitally a part of that Federal system, we have included a very significant role for State and local governments. The planning board would draft a proposed plan with the aid of a Council on Economic Planning, composed of Cabinet members and other high ranking executive branch officials, and an Advisory Committee on Economic Planning composed of four persons appointed by the President and eight persons appointed by Congress.

That, in a very real sense, is the idea factory, so to speak for the plan.

The President, after approving the draft submitted to him by the planning board, would transmit a proposed plan to Congress. At the same time, copies of the proposed plan would be sent to the Governor of each State. The Joint Economic Committee would hold extensive hearings on the proposed plan after receiving the views of each standing committee of Congress and the reports of the Governors. It is assumed that the Governors would hold hearings or establish a procedure for holding hearings and discussions on the proposed plan in their respective jurisdictions.

It is our intention that the reports of the Governors will include the views of citizens and local officials within the States after public hearings have been held within the States in accordance with procedures established by the Governors.

Congress can approve, disapprove, or modify any portion of the proposed plan, and any portion of the proposed plan that is not approved may not be implemented by the President.

What we have done is to provide for the widest public participation in the planning process.

Third, the bill provides for a Division of Economic Information within the Economic Planning Board to obtain information directly from Federal agencies and to assist in the distribution of information so that decisions by individuals and firms; that is, business firms, and States and local governments can be made on a more informed basis by all of those groups using the same data.

Yesterday, we heard eloquent testimony from Leonard Woodcock, president of the United Auto Workers, on the multiplicity of data-gathering agencies within the Federal Government and the cross-purposes and confusion which they sometimes serve to produce.

I believe that our decisions are improved in direct proportion to the quality of information available.

Finally, it must be pointed out that the Humphrey-Javits bill provides for a voluntary system of economic planning, and I understand that. No authority is placed in the Economic Planning Board or any other agency of Government or in the Office of the President to order or direct the private sector of the economy to do anything as a result of a particular approved plan.

There has been considerable confusion on this point, and there is understandable suspicion on the part of some that the Federal Government will seek to expand its control over the economy and seek to manage it.

I can categorically state that it is not the intent of the authors of this bill or of this bill itself, and there is not a single word or phrase in this bill which could be used to expand the Government's control over the economy.

It is intended that the plan that results from the new procedures will establish agreed upon, long-term economic objectives, and that it will identify the resources required for achieving the objectives. The plan may also recommend legislative and administrative action to achieve the objectives. But it must be emphasized that the plan can only recommend steps to achieve objectives. Congress will be required to pass on those recommendations and it is only Congress that can establish, in the first place, the national goals, just as it could right now if it had the procedures to do it.

Yesterday, one of our witnesses stated that the line between persuasion and coercion is a thin one, and that it would be easy to move across it into a system of mandatory central planning as it is the case in a number of foreign countries.

In my judgment, the line between a free society and a controlled society is not that thin. There are constitutional and institutional safeguards which will keep us on the free side of that line. In fact, the difference between democracy and authoritarianism is persuasion and coercion, and I am rather amazed that anyone would try to pretend

that there was very little difference between persuasion and coercion. Our whole society is based upon consent. Government by the consent of the governed, and consent is just another word for the fulfillment of persuasion, and it is not consent by order, but rather by reason, by debate, discussions, dialog, and ultimately decision.

As I see it, the effect of this economic planning bill would be to strengthen those safeguards that we cherish so much in our society of sensible, voluntary action, of cooperation and coordination of public and private activities.

We are honored and pleased to have before us this morning a distinguished panel of economists. Leon Keyserling, former Chairman of the Council of Economic Advisers, and an old, tried and trusted friend; Robert R. Nathan of Robert R. Nathan Associates, one of the leading economists of our country; Wasily Leontief, of Harvard University and a Nobel Prize winner, who will be with us shortly; and George Hagedorn, chief economist of the National Association of Manufacturers. And I might add that in all of our sessions we are going to try to have a variety of points of view. We seek to get some intellectual ferment relating to this legislation. As you men who are experienced in appearing before committees know, legislation introduced is but the focal point for our discussion. Sometimes and most of the time you have some very substantial alterations. I have said that a Senator's success in legislation is whether or not the bill that he once introduced is still carrying his name by the time that it has worked through the legislative process.

I am going to ask, therefore, that Mr. Keyserling lead off with a summary of his prepared statement. And I might add that in order that we can have questions, because other members of the committee will be here, I would urge each of you to try to limit his initial presentation to around 10 minutes or so, so as to allow ample time for good discussion and exchange of views. I might add that we will include the full body of the testimony in the record and I also take the liberty of including your testimony in the Congressional Record so that we can get a wider distribution of what you have to say.

Mr. Keyserling, welcome. We are sure happy to see you.

#### **STATEMENT OF LEON H. KEYSERLING, PRESIDENT, CONFERENCE ON ECONOMIC PROGRESS**

Mr. KEYSERLING. Mr. Chairman and members of the committee, I have prepared a summary statement under the initial instruction of 15 minutes, and a comprehensive statement which I hope will be included in the record.

Chairman HUMPHREY. Both the summary and comprehensive statements will be included in the record at the end of your oral testimony; and may I say that as chairman of the committee, I will have them presented to the Senate for the Congressional Record. So, we can take care of you in 15 minutes: go right ahead, sir.

Mr. KEYSERLING. I could probably amend it to 10.

I think the chairman will share with me a realization of the difficulties of expressing great words of wisdom in an intensely short period of time.

Chairman HUMPHREY. I have had problems with that.

## PLANNING VERSUS RESTRAINT

MR. KEYSERLING. I would greatly reinforce what Senator Humphrey and Senator Javits so eloquently said yesterday by recounting my avid dedication to the idea of national economic planning. I have the advantage of being ancient. I first advocated it in 1933 in an article entitled "Planning in Place of Restraint." I believe we planned during the years of the Council of Economic Advisers under President Truman when we got unemployment down to 2.9 percent and envisaged in our reports a degree of planning which the great, departed economist, Alvin Hansen, said was the finest example of economic planning ever put out by American economists. I participated in virtually the type of economic planning that is really now being advocated during World War II and the Korean war. Then, beginning in 1953, and I saw the true purposes of the Employment Act gradually being decimated. And when I saw a long-term retreat, not limited to one political party, for full employment and full production, which we have never attained since 1953, and moved in the long run further and further away from these goals, I conducted for many years a campaign, ill-accepted by some, a criticism of what was not being done as well as on what was being done, and my position all boiled down to the point that there was no planning.

## A REALISTIC FARM POLICY

And I also recognized that planning for full employment is not limited to jobs. Coming close to a matter which is at the heart of the interest of the chairman of this committee, as early as 1954, I put out a book called "Full Prosperity for Agriculture." And what did it say? It says you cannot turn farm policy entirely over to the Department of Agriculture. I pointed out at that early date that we were budgeting for a food supply that would not meet the real needs of the American people, not just those who could buy, but the real needs of the millions who could not buy. And I pointed out further that this was intimately connected with full employment, because we were, by the farm policy, and still are, driving many millions of farm people into the cities. And I predicted that they would become one-third to one-fourth of all the unemployed people in the cities, so that you have a wrong farm policy just because it was a wrong economic policy for full employment.

## MASS TRANSPORTATION

I had the same experience with respect to mass transportation, and I am not ashamed to say that for 6 years before the Interstate Commerce Commission and for the short period before the Supreme Court of the United States, I bitterly opposed the Penn Central Railroad merger, not on the grounds that I was against bigness, but on the grounds that this was a deliberate plan to starve the needed railroad service in the communities served and that it would not even serve the purposes of the railroads but would put them into bankruptcy.

And I turned to the then sitting Council of Economic Advisers and said, why are you ignoring this, why is this just a transportation prob-

lem? This is a full-employment problem. This is a full-production problem. Railroads are essential to whether we can have full employment and full production.

#### ENERGY POLICY AND SHORTAGES

Now, I have done the same thing with respect to gas transmission lines, with respect to electric power, and pointed out that the policies of the regulatory commissions were going to lead us into intense shortages, and we always like to explain it by what the Arabs did. Well, they did plenty, but my goodness, if we knew how much more what we have done at home for 20 years has to do with the pending shortages of electricity that are much more serious than the past shortages of oil, we would not try to garnish ourselves with glory by saying that it was not under our control, because it was done by other countries.

Now, this brings me immediately, having stated my qualifications to speak on this subject, to the statement that I am intensely for the purposes of the Humphrey-Javits bill, and also equally for the purposes of the Humphrey-Hawkins bill, and I want to raise some questions as to whether we may not need to do a lot more thinking between the interrelationship between the two.

Chairman HUMPHREY. Yes.

#### SHORT AND LONG RANGE PLANNING

MR. KEYSERLING. And I want to make two distinctions, one of which has been made by the chairman, whom I honor probably as much as any other man in the Congress or in public service, and we do not always agree completely. One is whether there is a legitimate distinction between short-range and long-range planning, and whether you can divide the policies designed to achieve full employment between a Council of Economic Advisers presumably charged with the short-range aspects of getting and keeping our economy healthy, and another agency charged with the responsibilities in the long run.

If one looks back to the criticism I have made of why we have failed so abysmally to achieve or sustain full employment and full production, it is largely because economists have done nothing but short range. You cannot have a full employment policy without a gradual change in our tax policy and our money policy and our housing policy, and our social security policy and our income distribution policy. And that general transition has got to start today and go on for a long time. And the bricks that you lay today have got to be built into the concept of a structure that is culminated within 5 or 10 years, or whatever you have in mind, and then you keep it in repair and may add some additional wings.

So, first of all I want to raise the basic question of whether you can separate between short range and long range.

Second, I want to raise the basic question of whether you can separate between a full employment policy and a policy which is designed to achieve what is called long-range economic planning, placing accent upon a full-employment policy, but presumably including other things.

I do not accept the idea that there can be a viable dichotomy between a full employment policy narrowly defined, whether short range or long range, and these other aspects, such as transportation and housing and energy and many other things; this idea being that these other things are part of the long-range economic plan, but they are in some ways separable from the pursuit of full employment. I challenge this completely. I say that, in the first place, full employment is not just jobs, and no one has stated that more eloquently than President Truman in 1953. Full employment means full production. Full employment does not mean full employment by building bonfires or made work, or too much supplementary reserve employment projects. And I am for some of these projects, but not as a substitute for a full employment economy. Full employment means the dedication of, if you will, our human and nonhuman resources to the meeting of the needs of the American people in accord with their priorities. And you cannot separate full employment from these other objectives. You cannot separate them analytically in the treatment of full employment, because if I make a long-range budget for full employment, which I have done, I have got to take into account the relative technological trends in different sectors. We are never going to maintain full employment unless we take into account the changing structure of employment opportunity. For example, the automobile industry, at its last peak, was producing, let us say, 3 million more cars than several years earlier, but it had fewer people engaged in making automobiles. It had more people in the union because it took on other things besides automobiles.

Now, this trend is continuing. It has been continuing for 20 years and it is going to go on in the mass production industries. So we are not going to get enough additional employment to restore full employment and to meet the growing needs of a growing population and a changing economy until we figure out the needed shifts in employment and when we do that, we find that the big opportunities for employment are the very things that some economists falsely called a noneconomic problem, the health services, the human services, the housing services, all of which they have so largely neglected. They come before the summit committee, they parade before your committees, and they talk about how they are going to get to full employment, and they forget all about housing. They may have uttered a word about it, but they have not really come forward and said that one-third to one-fourth of all of the GNP deficit, and one-third to one-fourth of all of the excessive unemployment, is due directly or indirectly to what has happened in the housing industry. Why should we not plan for housing as the first and foremost step toward the restoration of full employment? And there are other examples of consanguinity or confluence between full employment and what we call meeting the priorities of our needs. It is all one economic and social budget and it is all one national purposes budget, it is all one national prosperity budget, and I have been using those terms for 20 years. So the whole thing has got to be put together.

Now, the best way, and I think I can get through in a few minutes now, the best way we can realize what we need to do in planning, and



goodness knows I am for planning, is to get a little more precise definition of the precise manner in which we have not planned, which will tell us what we need to have in planning legislation, and what we need to do after we get the legislation.

Now, where have we not planned? And I am using as an example our failure, our abysmal failure to have a healthy economy in terms of full employment and full production. But, as I have already said, this involves housing; it involves education; it involves health; it involves every program that consumes economic resources and employs people and uses money. They all have to be put together at the Federal level.

Now, let me digress for a second to say what I mean by mandates, because I am going to say I think you need some. I agree completely that this planning legislation should not mandate the private economy, and I would not elaborate upon that. I agree completely with what has been stated.

But I do think that the Congress has to mandate the executive branch as to some fundamental objectives. I think otherwise, although I hate to make a dire forecast, otherwise you are going to set up another agency gathering tons of information with another drawing upon the substantially outmoded thinking of the American School of Economics. But with this alone, they would still be free, in the balancing off of all of the factors, in their tradeoff theories and in their inflation theories; they would still be free to say that we have got to have a tradeoff between unemployment and inflation, which I think is a dastardly idea. I will not go into the details of this tradeoff. I have been shown that it does not work for 15 years, but they would still be free to say 4 percent unemployment, or 6 percent, and they would still be able to plan for whatever their erroneous thinking leads them to.

Now, planning at a certain level is an executive function, and a job for the technicians. But there are some things about planning that are too important to be left to the economists, and too important to be left to the executive branch. I think it is time for congressional mandate in the legislation as to certain basic national objectives. For example, the Economic Report of the President or a report that is sent out under some new agency should not remain free to say that we shall get full employment in 1980, or that full employment in 1980 means 5 percent unemployment. Legislation should impose upon them the responsibility to send to the Congress a program to get unemployment below 3 percent in  $x$  years.

Now, I do not care exactly about the figure.

Chairman HUMPHREY. Yes; I understand.

Mr. KEYSERLING. And for the economists to tell you that we do not know enough to do that, we cannot do that, how did we get unemployment down to 1.2 percent in World War II? How did we get unemployment down to 2.9 percent at the end of the Truman administration? The wars did not do it. We had the Vietnam war and unemployment was still 5.6 percent.

It was down because we realized during World War II and during the Korean war that human being employed are more useful to themselves and to the Nation than unemployment, and the economic and technical problem is not too hard when you recognize that. And it was not because of the wars. We had the high unemployment during the Vietnam war. We got unemployment down in the other wars because we planned; we planned it that way.

I submit that, during the less pressing times of peace there are some basic mandates which should be articulated by the Congress as fundamental goals of national purpose, and there are a number of these mandates which are stated in the Humphrey-Hawkins bill, amended print of March 20, 1975.

Next, what are the errors, what were the errors as to why we did not get the planning, and the ones which I think have to be articulated in legislation?

#### FORECASTS AND TRADEOFFS

The first error is the substitution of forecasts for purposeful goals. Everybody is forecasting where we are going to be. Anybody can make a forecast when we are in trouble. That does not require much brains. But the duty of national policy is to circumvent and reverse the morbid forecasts which will become reality if we run its course, so you need goals, not forecasts, and we have not had them.

The second error is the tradeoffs theory, which I am not going into, the idea that you trade off employment for price stability. I have written books on that farce. I have testified before to committees on it, and I will not review that evidence. It is all reviewed fully in my comprehensive statement today for the record.

Chairman HUMPHREY. Go ahead.

Mr. KEYSERLING. I think you have got to have a legislative mandate that articulates a matter of national conscience that goes beyond economics. Even if a tradeoff "works" it is unconscionable to say that 25 to 30 million people who are now in the families of the unemployed, if you count correctly, say to them that you shall bear the curse and the burden and the hardship of unemployment and have your incomes cut to one-third of what they were in order that the economists, Leon Keyserling, may be able to buy a new car, or have another steak dinner at a little bit cheaper price than if they were not unemployed. This is unconscionable, this is a stain on America, and it ought to be a matter of congressional decision that that particular road to dealing with inflation is blocked off.

Following that particular road has not only given us high unemployment, it has given us more inflation, and I am not going into the details on that.

The third error, and I am just going to mention them, is the way the economists use the established version of Keynesian economics. They say when the economy is slack, fill 'er up, and they are like the guy who goes to a gas station and says "fill 'er up," and he does not care if you put the oil in the tires. But the real problem is distributive. The problem is where you fill 'er up, and where you stimulate some sectors and help them to do better, while you restrain other sectors which are in relative excess.

## THE DISTRIBUTIVE PROBLEM

The whole American economic problem is distributive and the economists have been afraid to talk about it, and we are never going to get anywhere near full employment until we deal with this distributive problem. Therefore, legislation has to impose upon the planning body a responsibility which goes beyond planning and becomes a fundamental, political, social, and moral objective; that is, that they have to give consideration to the distributive pattern which effects how the economy performs. And when they get into that, they get into everything, and that is just why you need planning, and cannot separate short range from long range.

Then, we have neglected the logistics of the economic problem. The programs now acted upon, taxation and so forth, are really pitiful compared with the logistics of the problem of getting back to full employment. And the reliance, and I am almost done, the reliance has almost entirely been upon fiscal policy. Ridiculous.

Money policy is important. The social insurance programs now are or soon will be spending more money than traditional fiscal programs. The Federal housing policies cover more dollars of investment than the traditional fiscal programs. The farm policy, as I have stated, the transportation policy, they all need to be put together into one program and one policy, and so I heartily underscore every element in the planning objective. But I would point out that all of the defaults have occurred in the nonpursuit of full employment. In the pursuit of full employment you would, by definition, achieve all of these other purposes which are inseparable from full employment.

Chairman HUMPHREY. You heard Mr. Olsen yesterday just emphasize the fiscal and monetary aspects, and I gather that is to what your remarks are directed?

Mr. KEYSERLING. In fact, that is what they are directed to. I heard Mr. Olsen, and I did not completely agree with Mr. Olsen.

Chairman HUMPHREY. I gathered that from your comment.

Mr. KEYSERLING. Now, finally, to come to the question of administrative setup, let me just illustrate that. I do not want to get into details, but from 20 years in the Government, I came to abhor the idea of nonplanning in the name of planning, and a prime illustration of nonplanning is setting up two competing agencies whose functions would be the same if they did their jobs.

Now, let me read section 208(3).

Chairman HUMPHREY. Is that of the Employment Act?

Mr. KEYSERLING. This is the Humphrey-Javits bill. Section 208(3) says "recommend" and this is for the new agency and the new body in the new agency sending up a report to the President, "recommend legislative and administrative actions necessary or desirable to achieve the objectives of the plan."

Now, listen to this "including recommendations with respect to money supply, growth, Federal budget, credit needs, interest rates, taxes and subsidies, antitrust and merger, changes in industrial structure and international trade," and so forth. Now, that includes money, the Federal budget, interest rates, and taxes.

Now, either you are going to have two agencies of the Government, this new agency and the Council of Economic Advisers under the Em-

ployment Act, both dealing with the subject of taxes and money and interest rates and so forth, by way of recommendation, clearly not mandate, sending up two competing reports, or you are going to have one of them not doing the minimum essentials of what it needs to do if it is going to do its assigned job.

#### ONE AGENCY—ONE PLANNING FUNCTION

And let me tell you that the one lesson that I learned in the Government when I did planning in it during wartimes, is that you have to concentrate this thing. I am not making any particular defense of the Council of Economic Advisers as a group of men or of the Employment Act of 1946. I do not care if you write proper substitutes for both. But I say, whatever you do, give careful consideration to putting in one place the planning function which is indivisible by the very definition of what planning needs. You cannot really break it down between short range and long range, you cannot really break it down into one category of things and another, and that is shown by the language that I just read, which, if you were attempting to break it down, you would immediately arrive at the conclusion that this was short-range economic matters, and you handle that by the Council of Economic Advisers.

Chairman HUMPHREY. I may say, Mr. Keyserling, that I have some concern about that section of the bill myself. I had an original proposal some years ago which you are familiar with, the Balanced Growth and National Development Act, in which we merged the Council of Economic Advisers into the planning apparatus.

Mr. KEYSERLING. Well, I think you need one body with appropriate affiliate advisory services bringing in the State and local levels and the public at large. But you cannot separate short range and long range. If your short-range steps are wrong, your long-range steps cannot be correct, and if you do not have the long-range perspective, you cannot take the short steps correctly. You cannot imagine making tax policy sensible if you are trying to build a structure of what the American tax policy should be, which is horribly regressive now, if you take it to one group to tell us what we should do now, and to another group for what results we should have 5 or 10 years from now.

Put the thing together in one agency, and have it under that agency, and have one definition of what the planning comprises, which might be a good composite of these two interesting bills, Humphrey-Javits and Humphrey-Hawkins, and legislate that. I cannot imagine anything more important.

#### NO MANDATE FOR PRIVATE SECTOR

And finally, I want to say to Senator Javits that I am entirely in agreement with the idea that there should be no mandate in the sense of mandates to private enterprise as to what to do, or the local governments. I agree with that completely.

#### MANDATE THE EXECUTIVE BRANCH

But I say that the Congress has to mandate the Executive branch, because if the Congress does not mandate the executive branch, you can

set up two agencies, and you can have 8,000 economists and they will do what they have been doing all along, they will make a tradeoff between unemployment and inflation, et cetera. And in fact, the language of Humphrey-Javits intimates that in section 208(1) when it sort of refers to full employment and price stability and so forth and so on. It is a disastrously wrong economic policy. It is an immoral policy, and you have to find ways to stop inflation which does not disemploy 10.5 million people, true unemployment concept.

And I say the Congress has to say this, that this planning board, there are some things that are too important for technical planners, just as there are some jobs which are too big for generals in time of war. The Congress should say that the national policy for full employment means sending up a plan that will arrive us at such and such a percent of unemployment consistent with full employment, within a given period of time. This is what the Employment Act originally intended, but they have construed it to mean anything.

So I think you have to have a few congressional mandates in the picture.

Thank you for your patience and the privilege of being here.

Chairman HUMPHREY. Thank you very much, Mr. Keyserling. And may I say most respectfully that you always amaze me with both your knowledge and your eloquence and your ability to articulate even the most difficult economic and social matters. I want to thank you and we, of course, will incorporate in the record the body of your summary statement as well as your comprehensive statement.

[The prepared summary and comprehensive statements of Mr. Keyserling follow:]

#### PREPARED SUMMARY STATEMENT OF LEON H. KEYSERLING<sup>1</sup>

Mr. Chairman and members of the committee, what I shall now be saying is a summarized version of my comprehensive prepared testimony, including charts. I would appreciate it if this comprehensive testimony and charts can be included in the printed record, and I assume that the testimony I am now offering will also appear ultimately in the printed record.

I have been invited to give my separate views on the "Balanced Growth and Economic Planning" proposal of Senators Humphrey and Javits for long-range economic planning, and on the "Equal Opportunity and Full Employment Act" proposal of Senator Humphrey and Congressman Hawkins for full employment.<sup>2</sup> I respectfully submit that this dichotomy between long-range economic planning and the restoration and maintenance of full employment is not practical. The successful pursuit of sustained full employment must, in my view, contain practically every important element of long-range economic planning. Long-range economic planning, in my view, will achieve its full objectives mainly by concentrating upon sustained full employment when adequately defined and sought. Any substantial dichotomy between the two would, in my view, defeat the purposes of both.

This position can be made clear by defining the true meaning of full employment. The goal of full employment is not satisfied merely by the full use of the labor force, any more than the goal of full production is satisfied merely by a given level of output. Both include the use of manpower and other resources with due attention to social justice and the meeting of the great priorities of our national needs. Both depend essentially upon balanced economic growth. Indeed, social justice and priority service are not only needed products of full employment and full production; they are also, for reasons which I shall state, essential to achieve and maintain full employment and full production. The failure to act in this broader perspective is the central reason why we have egregious-

<sup>1</sup> Chairman, Council of Economic Advisers under President Truman. President, Conference on Economic Progress.

<sup>2</sup> Expanded and revised March 20, 1975 Subcommittee print of Subcommittee on Equal Opportunity, House Committee on Education and Labor

ly failed for so long to achieve and maintain full employment and full production. The avoidance of long-range economic planning, as I shall demonstrate, has been the central reason for this failure. I have asserted this position through my more than 40 years of devout commitment to both full employment and economic planning.

I can best illustrate my basis thesis by discussing our long-term failure to achieve or maintain full employment, and the reasons for it. The main reason, as I have just said, is the failure to plan.

Some still take the position that planning is long-range and in the future, and that not much time or effort should be devoted to it until we first take the immediate measures required to restore full employment in an economy which is now sorely stricken. Nothing could be more dangerously incorrect. We need to plan today to get where we want to be tomorrow, even though we cannot plan successfully today without taking a long look ahead.

If we continue to improvise rather than plan today, we will, as four times in the past since 1953, have another inadequate recovery followed by another stagnation and then another recession. And we cannot begin to plan effectively today unless we take a long look at the past, measure precisely where we have fallen short, and the extent to which the failure to plan has contributed to these unfortunate results.

During the years 1953-1974 inclusive, through fairly consistent patterns of inadequate upturn, stagnation, and then recession or absolute downturn, we forfeited more than 2.6 trillion dollars of G.N.P. measured in 1974 dollars. To illustrate the connection between this and the neglect of our great domestic priorities which it is the purpose of planning to serve, we consequently forfeited enough public revenue at all levels to have been consistent with almost 700 billion dollars of additional public outlays, applied to our grossly neglected domestic priority needs. This priority neglect, in turn, was a major reason why we suffered the G.N.P. losses. Concurrently, we suffered more than 54 million man-years of excessive unemployment, true employment concept. If we do no better in the future—and I see no prospect of doing better without drastic changes in national policies and programs under planning—we will during 1976-1980 inclusive forfeit 1.2 trillion dollars of G.N.P. again measured in 1974 dollars, and more than 460 billion of priority public outlays, and suffer another 16.5 million man-years of excessive unemployment, true employment concept. For the details on this, see my comprehensive testimony and Charts 1, 2, 3, and 4.

The first persistent and causal error, in need of correction through planning, is to substitute purposeful quantitative goals for excessive emphasis upon pure forecasts. The President's January 1975 Economic Report, and the work of the new Budget Committees in the Senate and the House, forecast intolerable levels of unemployment for several years ahead. Purposeful planning should reverse instead of vindicate these morbid forecasts. We have gotten unemployment below 3 percent in times of war, and even to 1.2 percent, and it is no easier to obtain full employment through making weapons of destruction than through the happier process of translating unused resources into employment and production and meeting essential domestic needs.

A second reason why we have done so badly through a failure to plan is that stagnations and recessions have been repeatedly contrived, responsive to the so-called "trade-off" theory, and even today as adequate program of economic restoration is being estopped by this false theory. The empirical analysis essential to planning would reveal that, during the past 20 years or longer, a healthy economy generates far less price inflation than a sick economy. This record is fully developed in my comprehensive testimony and my Charts 5 and 6.

The third persistent and causal error, through lack of planning, has been the distorted use of the Keynesian economics in an aggregative or blunderbuss manner to stimulate the economy when it is too slack and to restrain it when it allegedly has been too tight. But the real trouble has been distributive, and has called for microeconomic as well as macroeconomic measures through the process of planning. And this would also have developed due attention to the great priorities of our needs which are a major concern of the planning process. See my comprehensive testimony and Chart 7.

The fourth persistent and causal error, due again to the absence of planning, has been and still is adherence to a false dichotomy between purely economic objectives and fulfillment of the priorities of our human and social needs which are essentially economic in nature because they require the use and allocation of our economic and financial resources. This unfortunate choice between purely economic and human purposes has never really been valid. The chronic failure

to allocate a large enough proportion of total resources and incomes to these human or social purposes has been and remains a primary reason why we have not achieved the economic balance essential to sustain full employment and full production. Under current and prospective technological trends, nothing could be clearer than that the improved distribution of income, and the relative and positive enlargement of human welfare services, are the foremost requirement for a fully used economy in conventional terms. The purposes of planning are therefore all one.

The fifth persistent and causal error has been the treatment of the Federal Budget and the Federal deficit as entities in themselves, instead of recognizing fully that the Federal Budget is but one of the means toward achieving the three great goals of full resource use, priorities, and social justice. Current examples of this are the President's program and the recent pronouncements of the new Committees on the Budget in the Senate and the House, more concerned about the Budget and the deficit than about restoration of a full and just economy. My comprehensive testimony and Charts 8, 9, 10, 11, and 12 demonstrate how the Federal Budget should be attuned to these three great goals, and how this offers the only prospect of a Budget in balance and then in surplus. To treat the Budget upside-up instead of upside-down, we need planning.

The sixth persistent and causal error, in the absence of planning, is the neglect of the logistics of the economic restoration task. The 1975 tax reductions, combined with real prospects for Federal spending, are woefully short of the requirements for restoration of a reasonably full economy at any foreseeable time. Appropriate goals for full economic restoration by the end of 1977 are set forth in my comprehensive testimony and Charts 13 and 14. These require planning.

The seventh persistent and causal error has been the misuse of the Federal Reserve Board policy of tight money and excessively high interest rates, with some undulations. My comprehensive testimony and Charts 6, 15, 16, 17, and 18 portray fully the intolerable results of this policy, and how it should be coordinated with other national economic policies under the process of planning.

The eighth persistent and causal error is excessive reliance, under the Employment Act of 1946 and elsewhere, on fiscal policy proper. A full national economic program, geared to full employment and full production, must necessarily fuse and integrate many other programs, powerfully economic in their effects, including the Social Insurance programs, the housing program, the farm program, the regulatory programs related among other things to energy and mass transportation, and many others. Uncoordinated treatment of these areas has frustrated full economic performance, ignored social priority goals, contributed to serious shortages of energy, food, and housing, and reflected lack of economic planning. My full discussion of these issues is contained in my comprehensive testimony and in Charts 19, 20, 21, 22, 23, and 24. These illustrate that what we must do toward full employment and full production, as set forth in the Humphrey-Hawkins proposal, is about the same as the planning defined in the Humphrey-Javits proposal.

The current advocates of planning legislation divide clearly into two main groups, with approaches so different that a discerning choice between them appears essential. On the one hand, as reflected in the Humphrey-Javits proposal, there are those who urge legislative initiation of "planning" mainly as a mechanism for the more orderly and systematic handling of economic issues, the more comprehensive gathering of facts, and a longer look ahead. Partly for reasons of "practical politics" and to "reduce controversy," this legislative approach seeks to avoid specific policy mandates, written into the law *ab initio*. My own profound concern, based upon my experience in the governmental process including the wartime years when we did plan, and also as a close observer of that process during the past 22 years, is that this limited approach, whether through one existing agency or through a new agency or through more than one agency, would alone be greatly disappointing. I respectfully submit the imperative need to deal first with some basic national objectives which must be decided before planning can achieve its full potentials. I believe that these basic objectives of planning are much too important to be left entirely to technical planners, or even to policy makers in the Executive Branch.

A fundamental reason we have fallen down is neither lack of information nor lack of planning, although both are essential. The main reason is lack of proper analysis, proper purposes, and proper values, rising in part from a severe cultural lack in economic thinking. For example, the persistent and abysmally wrong decision deliberately to contrive high unemployment and low production

in a failed effort to contain inflation cannot be cured by pure planning; it was in fact a type of planning for the wrong purposes. Planning in itself would not determine whether we should accept 4 percent, 6 percent, or even 8 percent unemployment. The new planners, if not mandated, might do the same thing again, and probably would. We must mandate a revision of some of these erroneous approaches even before we start to "plan," and a large part of this reconstruction will not come without help of Congressional mandates, to define what we are planning for.

I therefore urge the second approach to economic planning legislation, which combines establishment of the mechanism for planning with a few mandated objectives of national policy. These mandates may make the enactment of planning legislation somewhat more difficult. But it might well make it easier, because the people at large would better understand what the drive for planning is really all about, and therefore be less confused by ideological objections to it. But even if the task were to be made somewhat harder, I believe this to be an inescapable obligation of the Congress, for otherwise we might get more "planning" and end up where we are now. These mandates are a unique feature of the Humphrey-Hawkins proposal.

As to the administrative structure: The prime significance of what I have thus far said is that, under planning, all of these inseparable policies should be treated, in the overall, at one place and together, toward the balanced and consistent establishment of goals and means. The Humphrey-Javits proposal would establish, apart from the Council of Economic Advisers functioning under the Employment Act of 1946, a new "Economic Planning Board" in the Executive Office of the President, mainly to provide for the development of a "Balanced Economic Growth Plan." I question the need for another large and costly agency. There is really little or no essential difference between the activities intended under the Humphrey-Javits proposal and the original plenary intent of the Employment Act of 1946, which legislation should not resurrect. The difference results from the fact that the Employment Act of 1946 has fallen far short of execution in accord with its original plenary attempt, because of the precise defaults which I have already cited categorically.

Regardless of what new agency might be established and what it did, the Employment Act of 1946 could not fulfill its essential and original purposes without overcoming these defaults, and in that event another agency would be duplicative and counter-productive. If the results under the two agencies was substantially inconsistent, they would need to be completely reconciled before transmission by the President to the Congress, or an impossible situation would result. If the results were entirely consistent, why have two agencies?

Essentially, as I have said, planning by the Federal Government is economic in nature because it calls for the use of economic and financial resources, and for the development of *one* plan, unified, consistent, and all inclusive. For this purpose, I believe that all experience demonstrates (and we learned this the hard way during wartime) that the use of one agency is preferable to the creation of additional agencies, with one superimposed upon another. It may be difficult to recruit appropriate persons for the CEA for this larger task, but it would be equally difficult to recruit them for some other agency. The CEA should be authorized by legislation, and the Humphrey-Hawkins proposal does this, to call upon the larger and more specialized agencies to do the work required to fill in the gaps in information, research, and analysis which the CEA itself cannot undertake. The CEA, as a general planning staff, would make full use of the line agencies.

This major concentration within the CEA under the President would not overlook the valuable contributions to be made by the members of the Cabinet, the Federal Reserve Board, etc. The CEA already has, and could further improve, a wide range of working relationships with these other instrumentalities, and their comments upon the President's Proposed Economic Reports have always been obtained. But I believe it would be highly inimical to effective action, if legislation were to bring all these other equally into the formulation of the national economic plan, as the Humphrey-Javits proposal would. The result would be excessive diffusion of responsibility, excessive delay, and grievously watered-down decisions. Fifteen Cabinet-rank officials, each from a specialized agency, cannot develop an optimum overall plan.

The type of planning now under discussion, and which I heartily support, is not in ideological conflict with our economic system, our political structure, nor our way of life. It represents an imperative step toward the intelligent deploy-



ment of our full economic capabilities, toward the improved understanding and manifestation of the national conscience on the part of a better-informed citizenry, and toward realization of the human promise of America.

PREPARED COMPREHENSIVE STATEMENT OF LEON H. KEYSERLING<sup>1</sup>

Mr. Chairman and Members of the Committee: In opening up a new nationwide discussion of national economic planning, this Committee in my view is riveting attention upon what I believe to be the central and towering issue confronting the American people on the domestic front—an issue which I believe to be vital also to our position and efforts in the world at large. I commend the Committee upon the timeliness of its current inquiry.

I have not come to my ardent support of planning lately nor lightly. By written and spoken word, and by deed when given the opportunity, I have advocated national economic planning throughout the more than four decades that I have been on the Washington scene. Throughout my 20 years in the Federal service, working first for the Legislative Branch, and then in high administrative and policy posts in the Executive Branch, during periods of war and peace, prosperity and recession, stable prices and inflation, I have observed the value of planning when attempted, and the immense price paid when it has been neglected. I have deplored the general failure, today, to study the record and profit by the example.

There are many who still take the position that planning is for the long-range and for the future, and that not much time nor effort should be devoted to it until after we take the immediate measures required to restore an economy which is now sorely stricken. Nothing could be more dangerously incorrect than this position. In one sense, we are always acting in the present, and short-range and long-range interpenetrate. We need to plan today to get where we want to be tomorrow, even though we cannot plan successfully today without taking a long look ahead. If we continue to improvise rather than plan today we will, as four times in the past since 1953, have another inadequate recovery followed by another stagnation and then another recession. And we cannot begin to plan effectively today, unless we take a long look at the past, measure precisely where we have fallen short, and the extent to which the failure to plan has contributed to these unfortunate results. It is a striking characteristic of our faltering and unpromising current efforts to overcome our current economic and related social troubles that we are not benefiting much by an empirical examination of why we got into the same kind of trouble before, and why we never made a full comeback.

Many economists and others have said that our recent and current difficulties have been so different from those in the past that we cannot derive many guides by looking further backward. I submit that these people are entirely wrong. To be sure, no two periods are exactly alike. But allowing for quantitative differences, there has been a remarkable similarity in the nature and causes of all of the so-called business cycles since 1953, and a remarkable similarity in the national policy errors of commission and omission which have caused one cycle to follow another with distressing regularity.

I therefore deem it helpful to this Committee, paraphrasing Lincoln, to examine where we have come from and why, as a first guide as to where we should go and how to get there. And the very first step in this connection is to quantify what we have lost thus far by going in the wrong directions and failing to plan.

During the years 1953-1974 inclusive, through fairly consistent patterns of inadequate upturn, stagnation, and then recession or absolute downturn, we forfeited more than 2.6 trillion dollars worth of G.N.P. measured in 1974 dollars, and consequently forfeited enough public revenue at all levels to have been consistent with almost 760 billion dollars of additional public outlays, applied to the service of our grossly neglected domestic public priority needs. Concurrently, we suffered more than 54 million man-years of excessive unemployment, true employment concept, which includes full-time unemployment as officially recorded, the full time equivalent of part-time employment, and concealed unemployment in the form of those who are not actively seeking jobs because of scarcity of job opportunity and therefore are not counted as unemployed.

If we do no better in the future than we have done in the past—and I see no prospect of doing better without drastic changes in national policies and programs under planning—we will during 1976-1980 inclusive forfeit another 1.2

<sup>1</sup> Chairman, Council of Economic Advisers under President Truman. President, Conference on Economic Progress.

trillion dollars of G.N.P., measured in 1974 dollars, and more than 460 billion of priority public outlays, and experience another 16.5 million man-years of excessive unemployment, true employment concept. The ratio of unemployment to G.N.P. loss would not be nearly as large in the long past, because higher incomes and other factors increase the number of dollars received by each employed worker. But 16.5 million man-years of excessive unemployment would be intolerable and dangerous beyond description. See Charts 1, 2, 3, and 4.

The first persistent error, in need of correction through planning, is to substitute purposeful quantitative goals for excessive emphasis upon pure forecasts. The President's January 1975 Economic Report forecasts 7.8 percent full-time officially recorded unemployment in 1976, 7.5 percent in 1977, 6.9 percent in 1978, and 6.8 percent in 1979. The new Budget Committees in the Senate and the House forecast 7.0-7.5 percent full-time unemployment at the end of 1976. Through planning and setting specific quantitative goals, and devising means toward their attainment, these morbid forecasts should be reversed instead of vindicated. I submit that we should at once set about resolutely to reduce full-time unemployment to about 3.0 percent by the end of 1977, and to do still better later on. This would be difficult but feasible and desirable. Full-time unemployment was reduced from 17.2 percent in 1939 to 1.2 percent in 1944. President Truman, when I served as Chairman of the Council of Economic Advisers, never asked me to forecast unemployment. He dedicated himself to its reduction, and by 1953 full-time unemployment was only 2.9 percent. These very low levels of unemployment were not the result of war itself. They resulted because, during wartime we recognized that jobs are more beneficial to individuals and to the economy than unemployment. This is equally true in relative peacetime or in full peacetime, and it is no easier to obtain full employment through making weapons of destruction than to obtain it through the happier process of translating unused resources into employment and production and meeting essential domestic needs.

A second reason why we have done so badly through failure to plan, is that stagnations and recessions have been repeatedly contrived, responsive to the "trade-off" theory that higher employment and greater resource use bring more inflation, and that higher unemployment and more deficient resource use bring less inflation. Even today, an adequate program of economic restoration is being estopped by this false theory.

It is literally immoral that more than 10.5 million breadwinners, true unemployment concept, and 25 or more million people in their families, suffer the distress and humiliation of unemployment, on the alleged ground that the comfortable and even the affluent may be able to buy a second car or another steak banquet for somewhat less than if unemployment were one-third or one-fourth of that amount. More important, the empirical evidence for more than twenty years is that a healthy economy generates far less price inflation than a sick economy. The most poignant example was from first quarter 1974 to first quarter 1975. The real economic growth rate was minus 5.8 percent. Full-time unemployment was 6.2 percent, and rose to 8.9 percent in April 1975. The rate of consumer price inflation was 11.2 percent, and of industrial price inflation 21.4 percent. I have not time here to carry the examples further; my Charts 5 and 6 illustrate in detail the usually inverse correlation, or in any event no appreciable correlation, between the condition of employment and production and the amount of price inflation. Under the processes which planning induces, no one in his right mind could have attempted the "trade-off" with all of its malevolent consequences.

The very recent reduction in the inflation rate from more than 13 percent to about 8 percent is not properly attributable to the false claim that this has happened because we have continued to accept an intolerable and rising amount of unemployment. It is rather because some of the transitory factors generating double digit inflation, such as the Arab oil boycott and some crop failures, have waned in their influence. We never would have gotten up to 13 percent or even 8 percent inflation, if we had maintained a healthy economy throughout, and the surest and best way to reduce inflation much further is to restore a healthy economy as rapidly as feasible. If the "trade-off" theory is consigned to oblivion, and under the goals and programs I recommend, I estimate that inflation might be reduced to 3.0 percent by the end of 1977.

Moreover, the absence of planning has resulted in a gross misinterpretation of the true function of prices. Our real wealth and well-being are not determined by price trends per se, but rather by how close we come to full use of our resources, social justice in the allocation of resources and income, and taking care of the great priorities of our needs. Historically, rising, stable, or falling price trends have been contributory or inimical to these three great purposes, depend-

ing upon whether these price trends within the complex of other trends and policies have worked toward or against these great purposes in terms of the relationships between price trends and other trends. The problem is therefore basically distributive, and this has been egregiously neglected in the usual treatment of price trends and other economic trends, in that the usual treatment has worsened the distribution and therefore worsened everything else. If the actual price increases during recent years had been in the context of policies successfully designed to achieve these three great purposes, we would have made a livable bargain, although of course far less price inflation would have made the entire economic problem far more manageable. But these actual price increases during recent years, accompanied and augmented by national policies which have maldistributed resources and incomes and thus thwarted these three great purposes, have been a cruel, indefensible, and stupid inflation.

The process of planning would guide price trends in the light of achieving these fundamental objectives instead of defeating them. The experience of some other advanced industrial nations, with far better economic and social performance records than ours, should have taught us all this.

The third persistent error, through lack of planning, has been the distorted use of the Keynesian economics in an aggregative or blunderbus manner to stimulate the economy when it is too slack, and to restrain it when it has been alleged to be too tight (never really too tight for many years). But the central problem, as I have stated, has been distributive. And this has called for the application of microeconomic along with macroeconomic measures to stimulate some sectors while restraining others. The failure to do this may have seemed to have helped the economy in the short-run, but it contributed to the poor economic performance in the long-run, and did violence to all criteria of simple justice. For example, each upturn period has been marked by a much more rapid growth in investment in production capabilities than in ultimate demand in the form of consumer spending and public outlays combined. With the resultant advent of stagnation and then recession, the correct remedy was to apply the preponderant direct stimulus to ultimate demand. This is true today, for although investment recently has declined more than ultimate demand, the correct way to reactivate the former is to expand the latter. See Chart 7. But actual policy has not nearly adequately reflected this. The processes of planning would provide the missing link in economic analysis and policy.

The fourth persistent error, due again to the absence of planning, is adherence to a false dichotomy between purely economic objectives and fulfillment of the priorities of our human and social needs. Even if vindication of these needs imported a somewhat lower rate of real economic growth, we have become rich enough to value justice and human decency above progress narrowly conceived. But this unfortunate choice has not really confronted us in the past, and does not now. The chronic failure to allocate a large enough proportion of total resources and incomes to these human or social purposes has been in the past a primary reason why we have not achieved the economic balance essential to sustained full employment and full production. This is even more true today and in the future. Under current and prospective technological trends, nothing could be clearer than that the improved distribution of income, and the relative and positive enlargement of human welfare services, are the foremost requirements for a fully used economy in conventional terms.

Because the Federal Budget is the main single instrument for taking care of needs just cited, the fifth persistent error has been the treatment of the Federal Budget as an entity in itself, or at least an excessive tendency in this direction, instead of recognizing fully that the Federal Budget is but one of the means toward achieving the three great goals of full resource use, priorities, and justice. To take a glaring current example, the recent pronouncements of the new Committees on the Budget in the Senate and House do not set even tolerable goals for production, employment, and service or priority needs, and then shape the Budget as an instrument to be attuned to these objectives. Instead, these Committees have first decided what the Budget and the deficit should be, and then resigned themselves to the miserable production, employment, and priority results which a Budget of this type and size assures.

Although the condition of the national economy is infinitely more important than the Federal deficit, the current upside-down approach does not augur well for the Budget itself. The deficient average performance of the economy during the fiscal years 1971-1976 (1976 estimated) resulted in an average annual deficit of 25.1 billion dollars, and 51.9 billion (original estimate) in 1976 alone. The needed

increases in the Budget which I propose would result in a deficit of 59.5 billion in fiscal 1976, smaller than the estimates of some others because I project more real economic growth due to greater stimulative efforts. But the average annual deficit during fiscal 1976-1980 under my projections would be only 14.3 billion. Further, the Budget would be balanced by fiscal 1979, and would show a surplus of 7.5 billion in fiscal 1980 and 13.0 billion in calendar 1980. The planning process would, for the first time in recent years, relate the Federal Budget more sensibly to national economic objectives. For my Federal Budget analysis, see Charts 8, 9, 10, 11, and 12.

The sixth persistent error, in the absence of planning, and in some ways the most important today, is the neglect of the logistics of the economic restoration task. In first quarter 1975, measured in fourth quarter 1974 dollars, the economy was running at an annual rate about 215 billion dollars below reasonably full resource use. To achieve this reasonably full resource use and reasonably full employment by the end of 1977, we need from the first quarter 1975 base an expansion of 395 billion in the annual rate of total national production from that base to 1977 as a whole. The goal would be considerably higher in current and prospective dollars. We need, from that base, to increase civilian employment by 8.4 million by 1977 as a whole. See Chart 13, and see Chart 14 for 1980 goals.

Measured against this need, the 23 billion dollar tax reduction in early 1975 is terribly inadequate, and is misallocated in large part in terms of the need for economic balance. The "multiplier" effect of tax reduction is relatively low, so that its total stimulative effect may be only in the neighborhood of 30-40 billion. This is the purely economic reason why we should supplement the tax reduction with about a 30 billion dollar increase in Federal spending, measured in fiscal 1976 dollars, above the President's originally proposed fiscal 1976 Budget. A large part of the increased investment would have a "multiplier" effect of about three, and would employ two to three times as many people per dollar spent as the same amount of tax reduction. At least equally important, from the viewpoint of both the economic performance and national priority needs, these increases in the Federal Budget would accomplish purposes which tax reduction cannot possibly accomplish. For many years now, we have had a misplaced predilection for tax reduction, and this has reflected the very antithesis of planning. With planning, we could not possibly make the relative uses of Federal tax reduction and of increased Federal spending which we are now making. I should add that, with the Federal Budget I recommend, and with optimum economic performance, the Federal Budget in ratio to G.N.P. in calendar 1980 would be considerably smaller than now.

The seventh persistent error, and the most revolting of all, has been the use of the Federal Reserve Board monetary policy of tight money and excessively high interest rates, with some undulations. This misguided policy has really been in effect since 1952, it has gotten much worse during the most recent years, and I am not satisfied either with the extent of modifications in recent months nor with the prospects for the future under Dr. Burns. This policy has stunted real economic growth, augmented unemployment, transferred more than 800 billion dollars in interest-payment income in the wrong direction since 1952, imposed intolerable burdens upon public budgets, wrought havoc upon housing, plundered the average family, been inflationary per se, and in general has fed the fat and starved the lean. There is no support for this policy except empty claims of omniscience, and unwarranted assertions of independence. Under planning, which develops a cohesive economic policy and measures policies against goals, it would have been utterly unthinkable that the prevalent monetary policy would have continued for so long with such devastating results. See again Chart 6, and see Charts 15, 16, 17, and 18.

The eighth persistent error, and one still palpably in effect, is the excessive reliance under the Employment Act of 1946 and elsewhere on fiscal policy proper. No fiscal policy, even if correct, can achieve the needed results if monetary policy goes its own way, and at times leans heavily in the opposite direction. And many other neglected or misdirected national economic policies need to be fused into one program and one purpose in the drive for a full and just economy.

The Social Insurance Programs, for example, are relatively neglected by the economists, although it now and soon will collect and spend more money than the Federal tax and spending program proper. Housing has been allowed to suffer a veritable disaster, and even the best current remedial proposals fall far short of the need. I have demonstrated that the deficient housing perform-

ance, over the years, has accounted directly and indirectly for about one-fifth of the total national deficiencies in production and employment during 1953-1974. For my housing analysis, see Charts 19, 20, 21, 22, 23, and 24. Without planning, the current economic restorative effort does not recognize the role of housing therein.

In the longrun, agricultural production has been unwisely restrained, and this accounts not only for the food shortages which still exist relative to the real needs of all our people and what we should be doing internationally. Long-range farm policy also accounts for many millions of farm people being driven to urban areas where they constitute one-third to one-fourth of all the excessive unemployment and welfare costs in these areas. The shortages in energy, in mass transportation and elsewhere have not resulted only nor mainly from the dereliction of regulatory agencies. They have resulted from the restraining effects of a national economic policy of scarcity rather than abundance, and from the failure under the Employment Act of 1946 to recognize that energy and mass transportation are too important to be left entirely to the specialized regulatory agencies. Planning does not exist, so long as each regulatory agency does its own way, without guidelines from a central planning agency.

The prime significance of all this is that, under planning, all of these inter-related and inseparable policies and programs could be examined at one place and together, toward the balanced and consistent establishment of goals and means. Of course, specialized agencies would continue to be needed for detailed execution, and to help the top economic general staff, at its request, in gathering information, doing research work, and filling in the gaps.

All of what I have said thus far leads directly into a discussion of the fundamental distinction between the planning process itself and policies reflecting ultimate economic and social objectives, although the two interrelate at many points.

The current advocates of planning legislation divide clearly into two main groups, with approaches so different that a discerning choice between them appears essential. On the one hand, there are those who urge legislative initiation of "planning" mainly as a mechanism for the more orderly and systematic handling of economic issues, the more comprehensive gathering of facts, and a longer look ahead. Partly for reasons of "practical politics" and to "reduce controversy," this legislative approach seeks to avoid specific policy mandates, written into the law *ab initio*. My own profound concern, based upon my experience in the governmental process including the wartime years when we did plan, and also as a close observer of that process during the past 22 years, is that this limited approach, whether through one existing agency or through a new agency or through more than one agency, would alone be greatly disappointing.

All experience indicates that planning without predirection from the Congress, of the kind I have indicated, would result in a large amount of insufficiently purposeful work, an excessive number of jobs for economists and other specialists, and many cross-purposes. I feel that it would lead finally to much nationwide disillusionment, by failing to deal first with some top priority matters which must be decided before planning can achieve its full potentials. In short, the basic objectives of planning are much too important to be left entirely to technical planners, nor even entirely to policy people in the Executive Branch.

These basic objectives involve, from the outset, some meaningful definitions of what we are planning for, and this definition neither starts with planning as narrowly conceived nor is it primarily the responsibility of technical planners, nor of other Executive Branch officials. The responsibility for this meaningful definition, as I see it, resides at the very outset in the elected representatives of the people, the Congress, in the form of explicit legislative declaration of our ultimate and basic goals. This is needed as a constant and vigilant guide to what the planning should be all about. To take one example among many, no amount of pure planning would prevent the economists and others in charge from deciding to accept 4 percent, or 6 percent, or 8 percent unemployment for various tendentious reasons, instead of committing themselves to continuous full employment which is a fundamental human necessity and right in our free society.

I submit respectfully to this Committee, and to all those in the Congress interested in planning legislation, that even the most objective research and planning need to be responsive to clear and selected purposes. Even pure science and pure research cannot look into everything; they must start with an effective hy-

pothesis of what is sought. The main reason we have fallen down is neither lack of information nor lack of planning, although both are essential. The main reason is lack of proper analysis, proper purposes, and proper values, rising in part from a severe cultural lack in economic thinking. For example, the persistent and abysmally wrong decision deliberately to contrive high unemployment and low production in a failed effort to contain inflation cannot be cured by pure planning; it was in fact a type of planning for the wrong purposes. The new planners, if not mandated, might do the same thing again, and probably would. We must mandate a revision of some of these erroneous approaches even before we start to "plan," and a large part of this reconstruction will not come without help of Congressional decisions.

I therefore urge the second approach to economic planning legislation, which combines establishment of the mechanism for planning with a few mandated objectives of national policy. For the reasons I have stated, this must include some elements which are purely economic and some elements which some deem to be purely social or moral, for the two are really inseparable. These mandates may make the enactment of planning legislation somewhat more difficult. But it might well make it easier, because the people at large would better understand what the drive for planning is really all about, and therefore be less confused by ideological objections to it. But even if the task were to be made somewhat harder, I believe this to be an inescapable obligation of the Congress, for otherwise we might get more "planning" and end up where we are now.

Finally, with full appreciation of the ability, experience, and effort which have gone into the drafting of the main planning proposals now before the Congress, I would like to express frankly my own views about the administrative structure for planning in the Executive Branch. For this purpose I shall consider, by way of example, the "Balanced Growth and Economic Planning Act of 1975," proposed by Senators Humphrey and Javits, and the "Equal Opportunity and Full Employment Act," introduced by Senator Humphrey as S. 50 and by Congressman Hawkins as H.R. 50 at the start of this session, and now before the appropriate Subcommittee of the House Committee on Education and Labor in revised and improved form, including in Section 3 the development of a "Full Employment and National Purposes Budget." The Humphrey-Javits proposal would establish, apart from the Council of Economic Advisers functioning under the Employment Act of 1946, a new "Economic Planning Board" in the Executive Office of the President, mainly to provide for the development of a "Balanced Economic Growth Plan." For reasons which I shall now state, and which are implicit in what I have already said, I believe that legislation to improve and enlarge the scope of the Council of Economic Advisers and of the Employment Act of 1946 would be far preferable to the establishment of another large and costly agency.

There is really little or no essential difference between the activities intended under the Humphrey-Javits proposal and the original plenary intent of the Employment Act of 1946. The difference results from the fact that the Employment Act of 1946 has fallen far short of execution in accord with its original plenary attempt, because of the precise defaults which I have cited categorically earlier in my testimony. Regardless of what new agency might be established and what it did, the Employment Act of 1946 could not fulfill its essential and original purposes without overcoming these defaults, and in that event another agency would be counter-productive.

It would be hard to attempt to list the really essential activities under the proposed new "Economic Planning Board" and those of the CEA under the Employment Act without reaching the conclusion that there would be duplication and overlapping all along the line. If the results under the two agencies was substantially inconsistent, they would need to be completely reconciled before transmission by the President to the Congress, or an impossible situation would result. If the results were entirely consistent, why have two agencies? This difficulty would manifestly not be cured by the Humphrey-Javits proposal that the Chairman of Economic Advisers be one of 15 officials participating in a new "Council on Economic Planning," designed to review and make such revisions as it deems appropriate in the "Balanced Economic Growth Plan."

Essentially, planning by the Federal Government is economic in nature because it calls for the use of economic and financial resources, and for the development of one plan, unified, consistent, and all inclusive. For this purpose, I believe that all experience demonstrates (and we learned this the hard way during wartime) that the use of one agency is preferable to the creation of additional agencies,

with one superimposed upon another. It may be difficult to recruit appropriate persons for the CEA for this larger task, but it would be equally difficult to recruit them for some other agency. The CEA should be authorized by legislation, and the Humphrey-Hawkins proposal does this, to call upon the larger and more experienced agencies to do the work required to fill in the gaps in information, research, and analysis which the CEA itself cannot undertake. The CEA, as a general planning staff, would make full use of the line agencies.

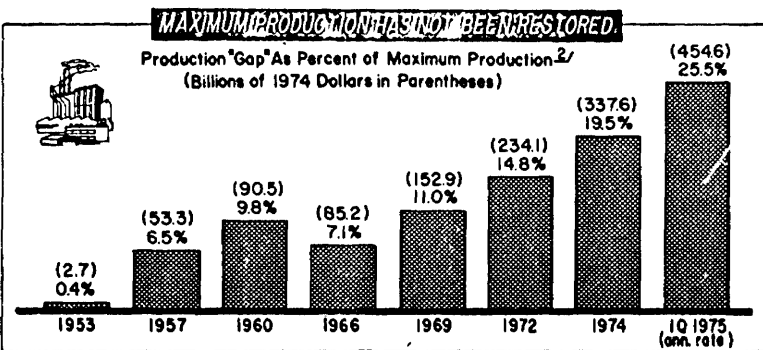
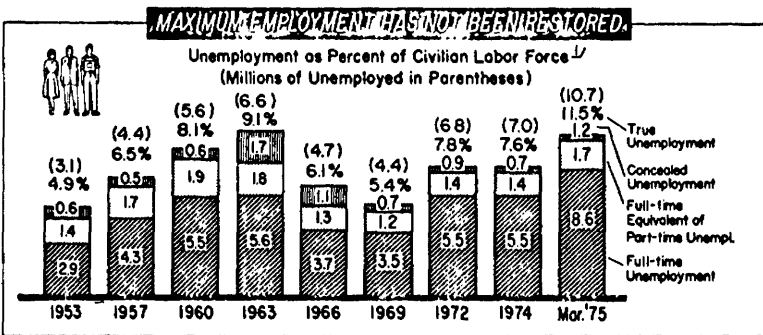
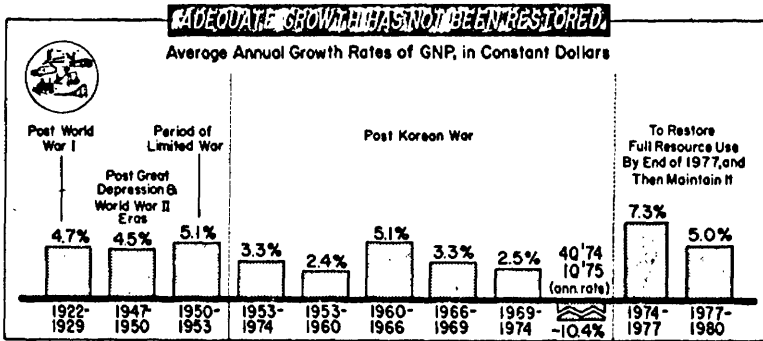
This major concentration within the CEA under the President would not overlook the valuable contributions to be made by the members of the Cabinet, the Federal Reserve Board, etc. The CEA already has, and could further improve, a wide range of working relationships with these other instrumentalities, and their comments upon the President's Proposed Economic Reports have always been obtained. But I believe it would be highly inimical to effective action, if legislation were to bring all these other equally into the formulation of the national economic plan, as the Humphrey-Javits proposal would. The result would be excessive diffusion of responsibility, excessive delay, and grievously watered-down decisions. Fifteen Cabinet-rank officials, each from a specialized agency, cannot develop an optimum overall plan.

To the extent that what I have said is measurably sound, it provides clear criteria bearing upon the enactment of appropriate planning legislation. There is no time here for me to cover the details of the main planning measures now before the Congress, and these have been studied and will continue to be studied carefully by the various Committees of the Congress, by the membership at large, and by their competent staffs. I do feel bound to say that, by the criteria which I have set forth, the Humphrey-Hawkins proposal, in the expanded and improved form of the House Subcommittee Print of March 20, 1975, is by far the best planning proposal which has thus far emerged. It undoubtedly needs further improvement. It fully defines the full and necessary content of national economic planning, and in this respect is especially similar to the Humphrey-Javits proposal. It adds the essential ingredient of legislative mandates. And it provides for what I believe to be a simpler and far preferable administrative structure. There are also meritorious aspects in some of the other planning proposals, including the Humphrey-Javits proposal.

The type of planning now under discussion, and which I heartily support, is not in ideological conflict with our economic system, our political structure, nor our way of life. It represents an imperative step toward the intelligent deployment of our full economic capabilities, toward the improved understanding and manifestation of the national conscience on the part of a better-informed citizenry, and toward realization of the human promise of America.

CHART 1

# BASIC U.S. ECONOMIC TRENDS, 1953-MARCH 1975



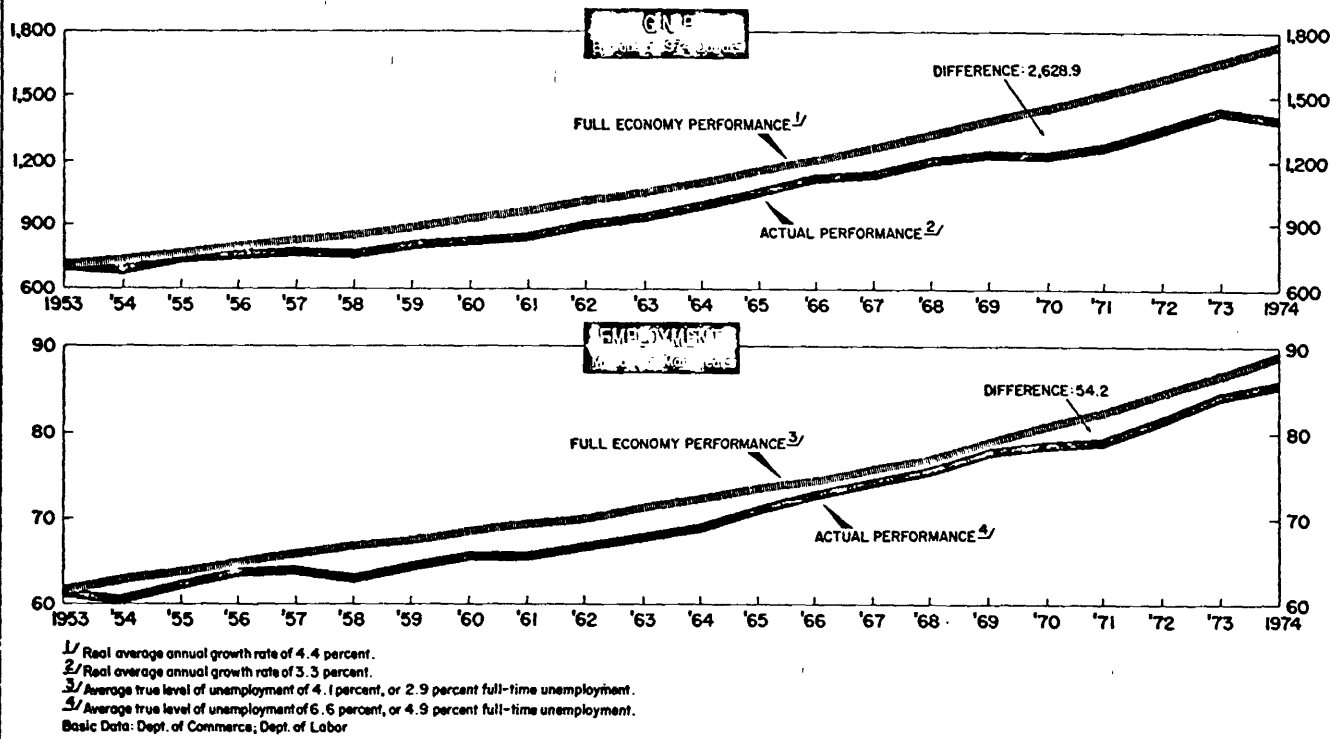
<sup>1/</sup> In deriving these percentages, the Civilian Labor Force is estimated as the officially reported Civilian Labor Force augmented by concealed unemployment. Thus, some of the percentage figures on full-time unemployment vary very slightly from the official reports, which do not take account of the augmented labor force. Full-time unemployment of 2.9% and true unemployment of 4.1% would be consistent with maximum employment. All data relate to persons 18 years of age and older. Components may not add to total, owing to rounding.

<sup>2/</sup> Maximum production equates with average annual growth rate of 4.4%, 1953-1Q 1975.

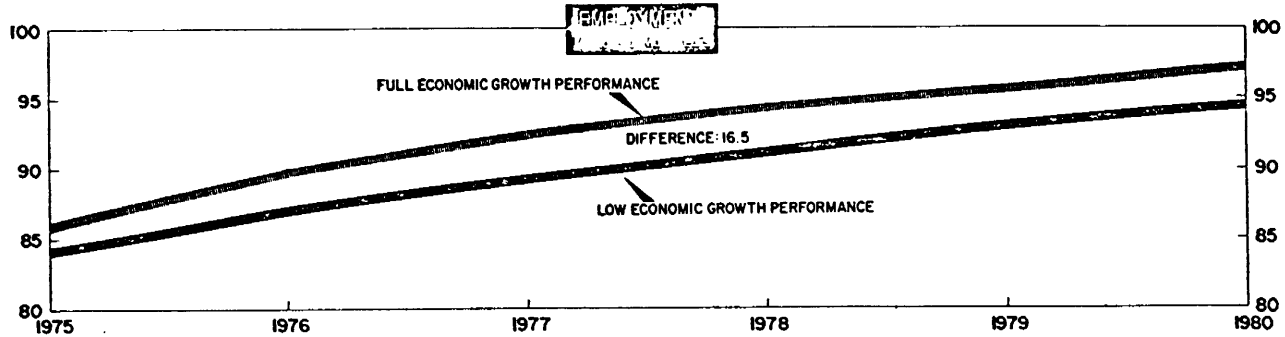
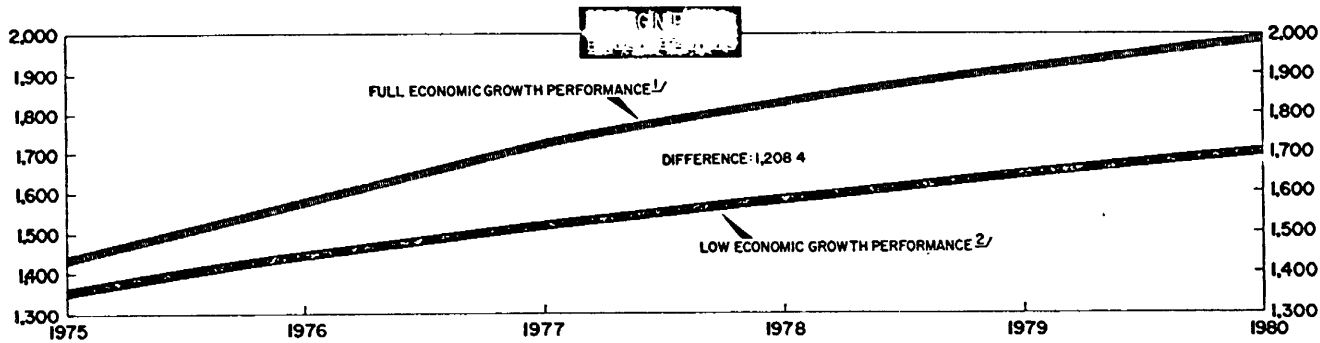
Basic Data: Dept. of Commerce; Dept. of Labor



## COST OF DEPARTURES FROM FULL ECONOMY, 1953-1974



# BENEFITS OF FULL ECONOMIC GROWTH, 1975-1980



















1/ Real average annual growth rate of 6.9 percent 1975-1980, to allow for full catch-up by end of 1977.  
 2/ Real average annual growth rate of 4.5 percent, or higher than during 1953-1974, due to very low level at start of 1975.

CHART 4

## COSTS OF DEFICIENT ECONOMIC GROWTH U.S. ECONOMY, 1953-IQ 1975 AND PROJECTED 1975-1980

(Dollar items in billions of 1974 dollars, except average family income)

1953-1974 <sup>1/</sup>			
<b>Total National Production (GNP)</b>  1953-1974: \$2,628.9 1969-1974: 601.1 IQ 1975: 299.1	<b>Man-years of Employment<sup>2/</sup></b>  1953-1974: 54.2 Million 1969-1974: 16.0 Million IQ 1975: 6.5 Million	<b>Personal Consumption Expenditures</b>  1953-1974: \$1,217.9 1969-1974: 192.5 IQ 1975: 132.8	<b>Gov't Outlay for Goods and Services</b>  1953-1974: \$ 758.0 1969-1974: 395.1 IQ 1975: 110.3
<b>Private Business Investment (incl. Net Foreign)</b>  1953-1974: \$ 653.0 1969-1974: 13.5 IQ 1975: 56.0	<b>Average Family Income (1974 Dollars)</b>  1953-1974: \$23,565 1969-1974: 3,140 IQ 1975: 2,250	<b>Wages and Salaries</b>  1953-1974: \$ 1,491.3 1969-1974: 199.8 IQ 1975: 143.0	<b>Residential and Commercial Construction</b>  1953-1974: \$275.8

1975-1980 <sup>3/</sup>			
<b>Total National Production (GNP)</b>  1975-1980: \$1,208.4 1980: 298.4	<b>Man-years of Employment<sup>2/</sup></b>  1975-1980: 16.5 Million 1980: 2.8 Million	<b>Personal Consumption Expenditures</b>  1975-1980: \$ 488.0 1980: 133.1	<b>Gov't Outlay for Goods and Services</b>  1975-1980: \$462.4 1980: 105.9
<b>Private Business Investment (incl. Net Foreign)</b>  1975-1980: \$258.0 1980: 59.4	<b>Average Family Income (1974 Dollars)</b>  1975-1980: \$ 9,050 1980: 2,300	<b>Wages and Salaries</b>  1975-1980: \$ 575.8 1980: 145.2	<b>Residential and Commercial Construction</b>  1975-1980: \$103.2 1980: 22.7

<sup>1/</sup>Deficits 1953-1974 are calculated from a 1953 base, in that growth rates since then have averaged for too low. Deficits 1969-1974 and IQ 1975 are projected from a 1968 base, writing off the cumulative deficits 1953-1968. IQ 1975 figures are of annual rates. Residential and commercial construction deficits are calculated only from a 1963 base. In terms of what would have been needed, IQ 1975, to restore full production as of then, the estimated deficit was 215 billion dollars.

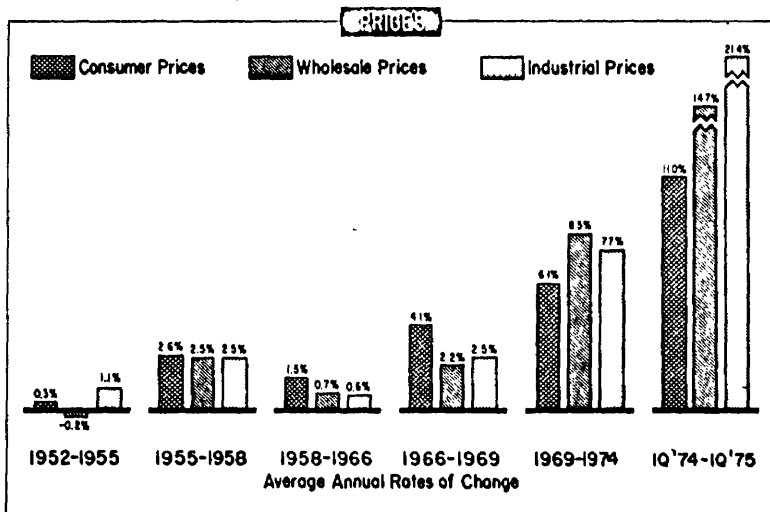
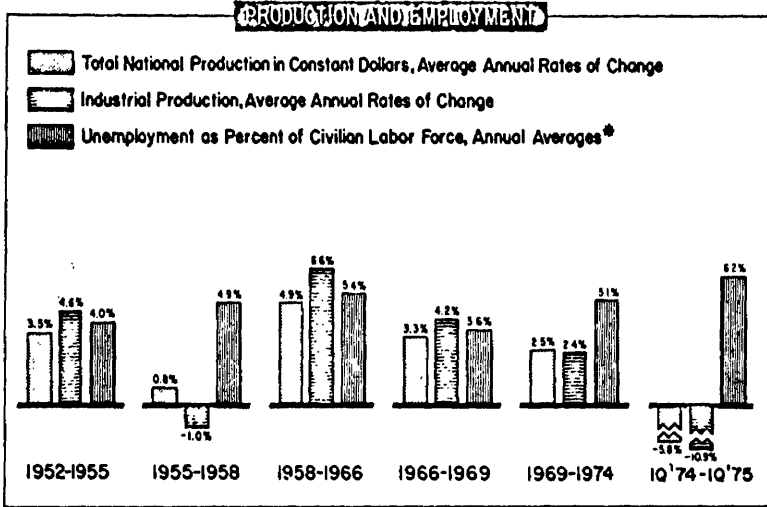
<sup>2/</sup>Based upon true level of unemployment, including full-time unemployment, full-time equivalent of part-time unemployment, and concealed unemployment (nonparticipation in civilian labor force) due to scarcity of job opportunity.

<sup>3/</sup>These deficits are projected from a 1975 base, writing off the cumulative deficits 1953-1975.

Basic Data: Dept. of Commerce; Dept. of Labor

CHART 5

## RELATIVE TRENDS IN ECONOMIC GROWTH UNEMPLOYMENT, & PRICES, 1952-1Q 1975



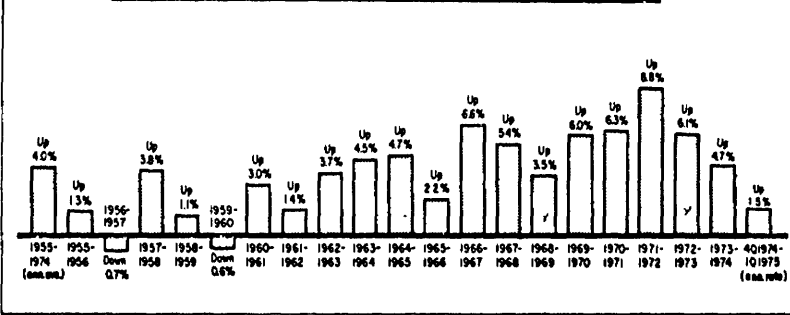
\* These annual averages (as differentiated from the annual rates of change) are based on full-time officially reported unemployment measured against the officially reported Civilian Labor Force.

Source: Dept. of Labor, Dept. of Commerce, & Federal Reserve System

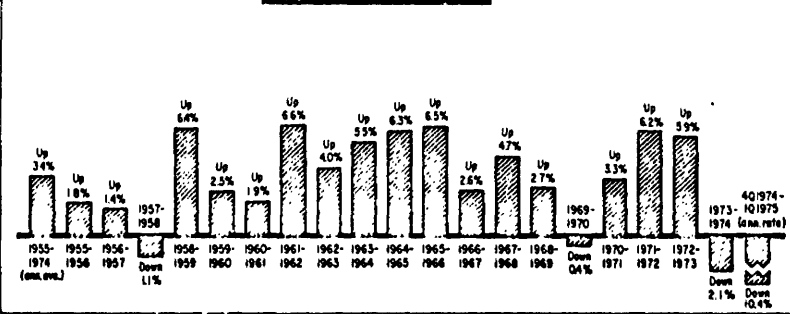
CHART 6

# COMPARATIVE TRENDS IN NON-FEDERALLY HELD MONEY SUPPLY, G.N.P., AND PRICES, 1955-IQ 1975

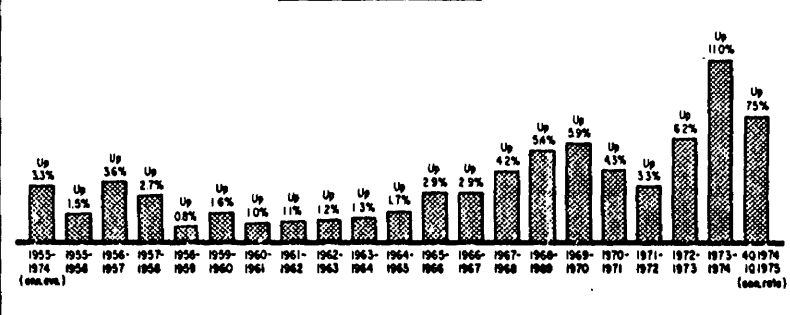
**ANNUAL GROWTH IN NON-FEDERALLY HELD MONEY SUPPLY**  
(Source: Board of Governors, Federal Reserve System)



**ANNUAL GROWTH IN G.N.P.**  
(Source: Bureau of Economic Analysis)



**ANNUAL TRENDS IN PRICES**



1/1Q 1975 estimated.

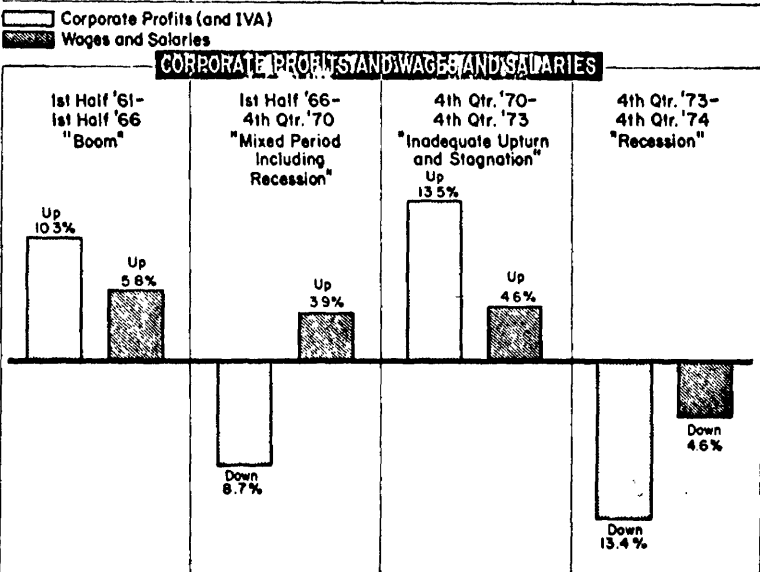
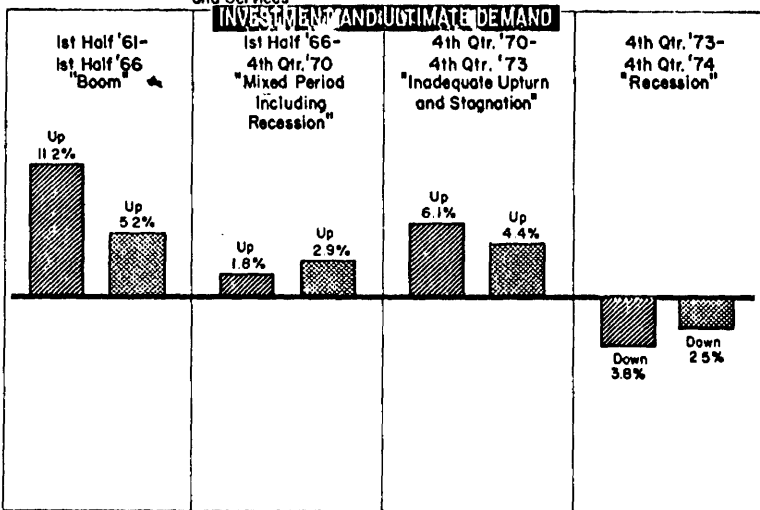
Data: Dept. of Commerce, Dept. of Labor, Federal Reserve System

CHART 7

# COMPARATIVE GROWTH RATES, 1961-1974

(Average Annual Rates of Change, in Uniform Dollars)

Investment in Plant and Equipment  
 Ultimate Demand: Total Private Consumption Expenditures Plus Total Public Outlays For Goods and Services



Basic Data: Dept. of Commerce

# GOALS FOR A MODEL FEDERAL BUDGET, FISCAL 1976 AND CALENDAR 1980 GEARED TO ECONOMIC GROWTH AND PRIORITY NEEDS

(In Fiscal 1976 Dollars)

	ALL FEDERAL OUTLAYS			NATIONAL DEFENSE, INTERNATIONAL AFFAIRS, AND SPACE			DOMESTIC PROGRAMS <sup>1/</sup>			INCOME SECURITY, OTHER THAN VETERANS (Excluding Subsidized Housing)			MANPOWER PROGRAMS, INCLUDING PUBLIC AND PRIVATE SERVICE JOBS		
	Total Expenditures (\$ Billions)	Per Capita (\$)	% of GNP	Total Expenditures (\$ Billions)	Per Capita (\$)	% of GNP	Total Expenditures (\$ Billions)	Per Capita (\$)	% of GNP	Total Expenditures (\$ Billions)	Per Capita (\$)	% of GNP	Total Expenditures (\$ Billions)	Per Capita (\$)	% of GNP
President's Budget, 1976	349.4	1,629.66	21.89	103.1	480.87	6.46	246.3	1,148.79	15.43	116.1	541.51	7.27	4.5	20.99	0.28
Goals for Fiscal 1976	379.5	1,770.06	22.13	103.1	480.87	6.01	276.4	1,289.18	16.12	126.0	587.69	7.35	12.5	58.30	0.73
Goals for Calendar 1980	470.0	2,110.46	20.43	110.0	493.94	4.78	360.0	1,616.52	15.65	150.0	673.55	6.52	7.0	31.43	0.30
	HOUSING AND COMMUNITY DEVELOPMENT			AGRICULTURE, NATURAL RESOURCES, ENVIRONMENT AND ENERGY			EDUCATION			HEALTH			TRANSPORTATION		
	Total Expenditures (\$ Billions)	Per Capita (\$)	% of GNP	Total Expenditures (\$ Billions)	Per Capita (\$)	% of GNP	Total Expenditures (\$ Billions)	Per Capita (\$)	% of GNP	Total Expenditures (\$ Billions)	Per Capita (\$)	% of GNP	Total Expenditures (\$ Billions)	Per Capita (\$)	% of GNP
President's Budget, 1976	6.9 <sup>2/</sup>	32.18	0.43	11.8	55.04	0.74	7.4	34.51	0.47	28.0	130.60	1.75	11.4	53.17	0.71
Goals for Fiscal 1976	9.5	44.39	0.55	14.0	65.30	0.82	9.5	44.31	0.55	30.0	139.93	1.75	14.0	65.30	0.82
Goals for Calendar 1980	18.5	83.07	0.80	30.0	134.71	1.30	17.5	78.58	0.76	50.0	224.52	2.17	18.0	80.83	0.78

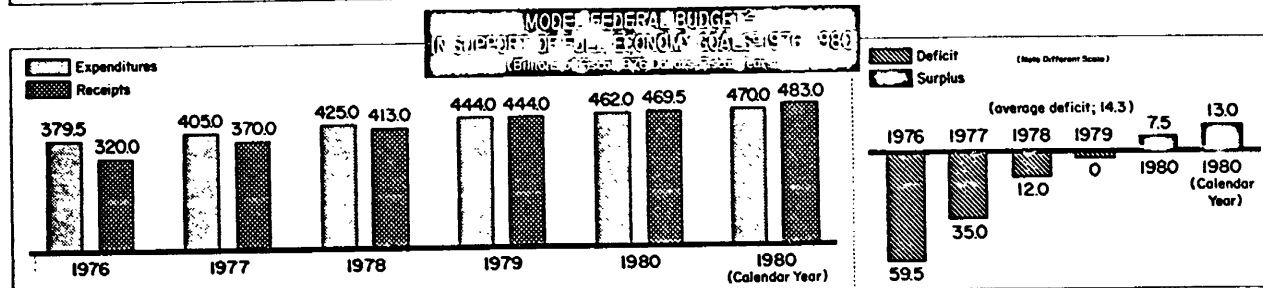
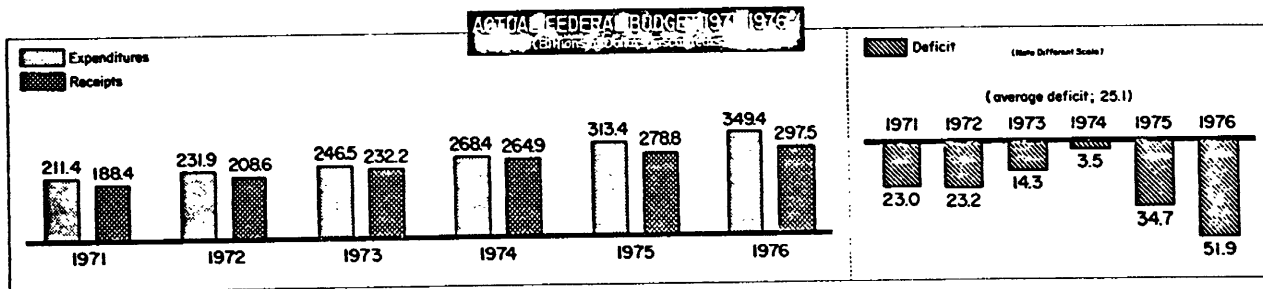
<sup>1/</sup> Includes categories other than those listed in detail.

<sup>2/</sup> The housing portion of this \$6.9 billion in the President's Budget proposed for 1976, coming to \$2.8 billion, appears in part in "income security" and in part in "commerce and transportation" in the President's Budget. The proposed goal increases for "housing and community development" includes \$2.5 billion for housing for fiscal 1976 and \$10.0 billion for calendar 1980.

Note: Population—214.4 million for fiscal 1976 and 222.7 for Calendar 1980. GNP (in fiscal 1976 dollars)--\$1,596 billion for President's Budget; \$1,715 billion for fiscal 1976 goal; and \$2,300 billion for calendar 1980 goal.

Basic Data: Office of Management and Budget for President's Budget; Dept. of Commerce for population

# FROM FEDERAL DEFICITS IN AN UNHEALTHY ECONOMY TO A HEALTHY BUDGET IN A HEALTHY ECONOMY

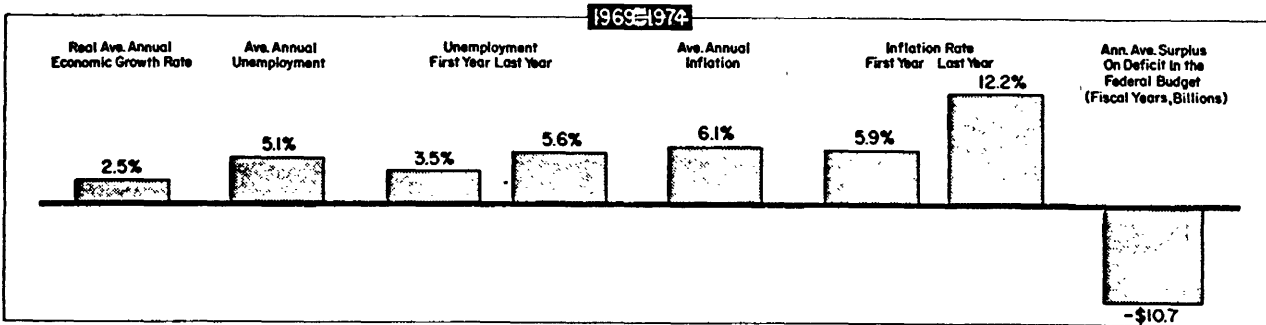
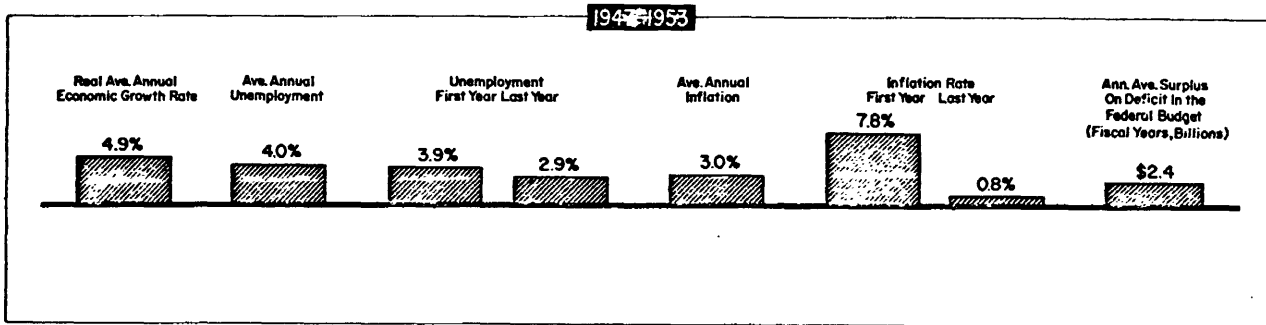


1/ Budget for 1976 is as proposed in the President's Budget. Budget for 1975 is estimated.  
 2/ Model Federal Budget depicted in detail on another chart.  
 3/ Full economy goals shown on another chart.

Basic Data: Office of Management and Budget for actual Federal Budget



# ECONOMIC PERFORMANCE AND THE FEDERAL BUDGET

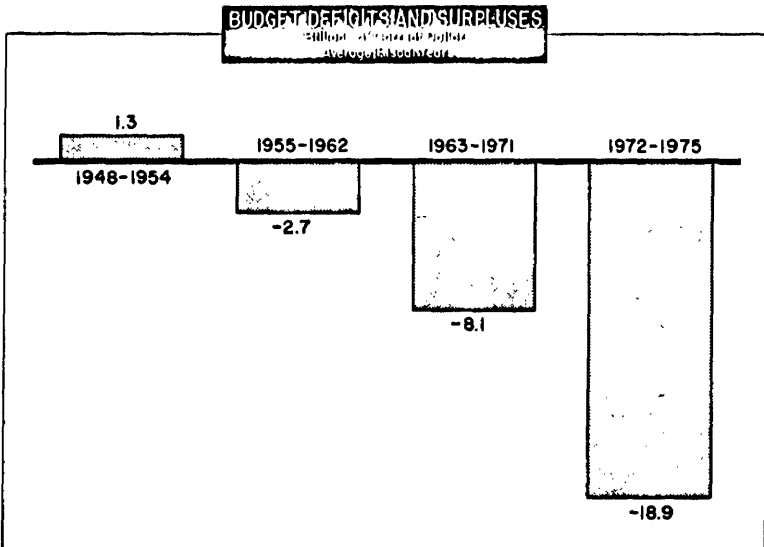
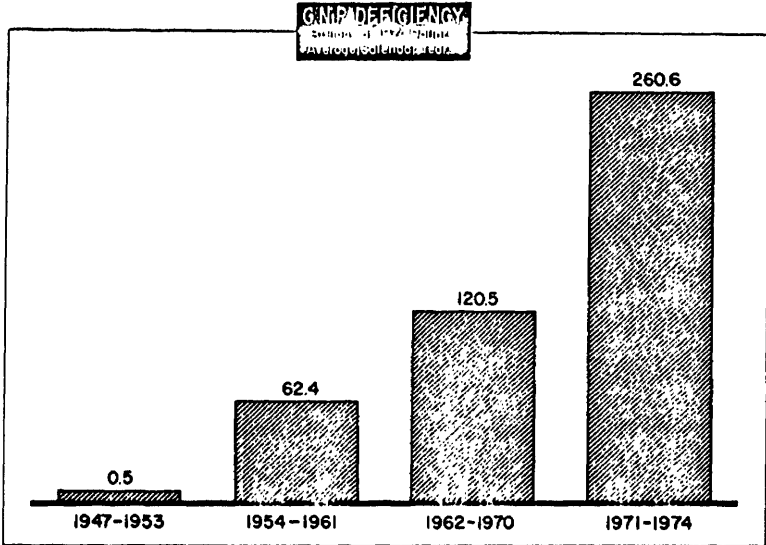


Source: Dept. of Commerce; Dept. of Labor; Office of Management and Budget

CHART 11

# G.N.P. DEFICIENCIES AND BUDGET DEFICITS

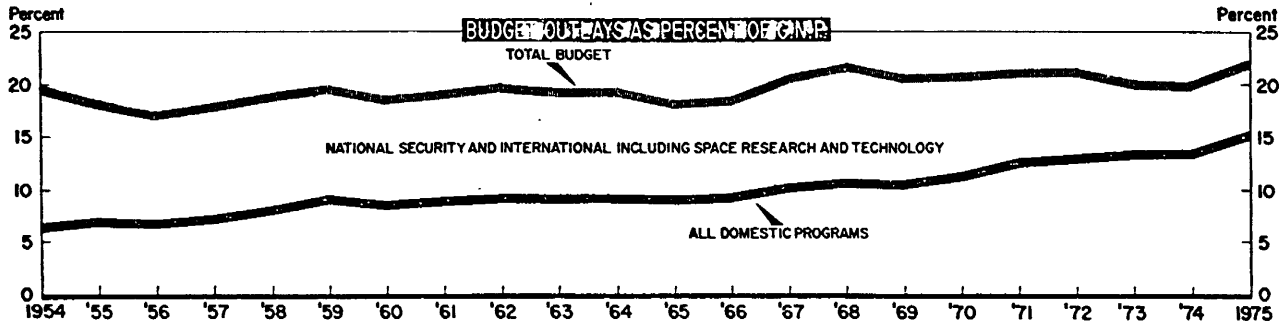
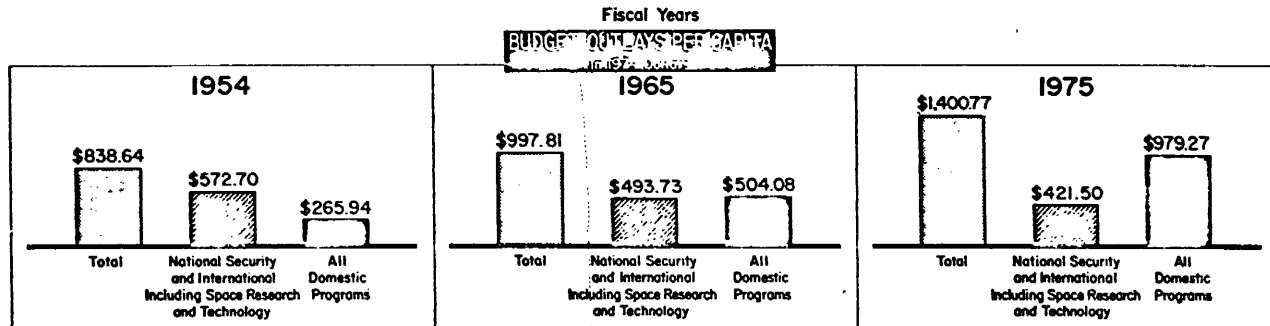
Annual Averages, 1947-1974



∟ Production deficiencies represent differences between actual production and production at full economy rate of growth. Projections from 1948.

Source: Dept. of Commerce; Office of Management and Budget, for actual figures

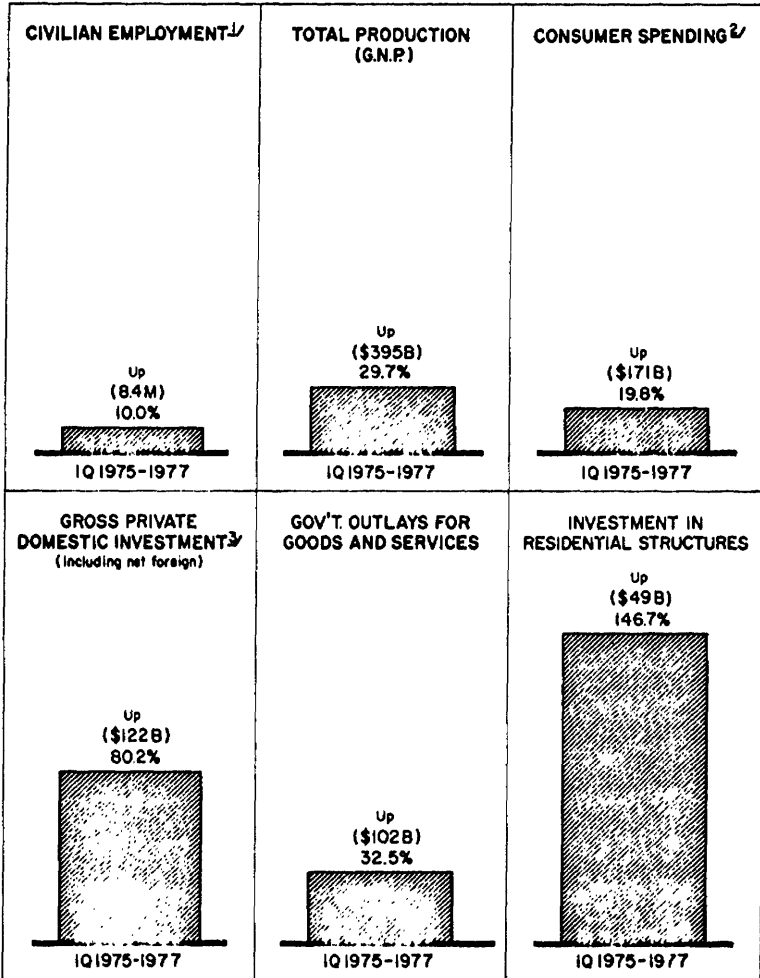
# FEDERAL BUDGET ON A PER CAPITA BASIS AND IN RELATION TO G.N.P., 1954-1975



Source: Dept. of Commerce, Office of Management and Budget

## GOALS FOR THE U.S. ECONOMY, 1977 PROJECTED FROM IQ 1975 BASE TO ACHIEVE FULL RESOURCE USE BY END OF 1977

Total Percentage Changes  
(Dollar Items in 4Q 1974 Dollars, Absolute Data in Parentheses)



<sup>1/</sup> Unemployment down from 8.4% (7.6M) to 3.0% (2.9M) by the end of 1977.

<sup>2/</sup> Growth is less than growth of G.N.P., because of needed growth in public outlays to meet domestic priorities and needed growth in gross private domestic investment.

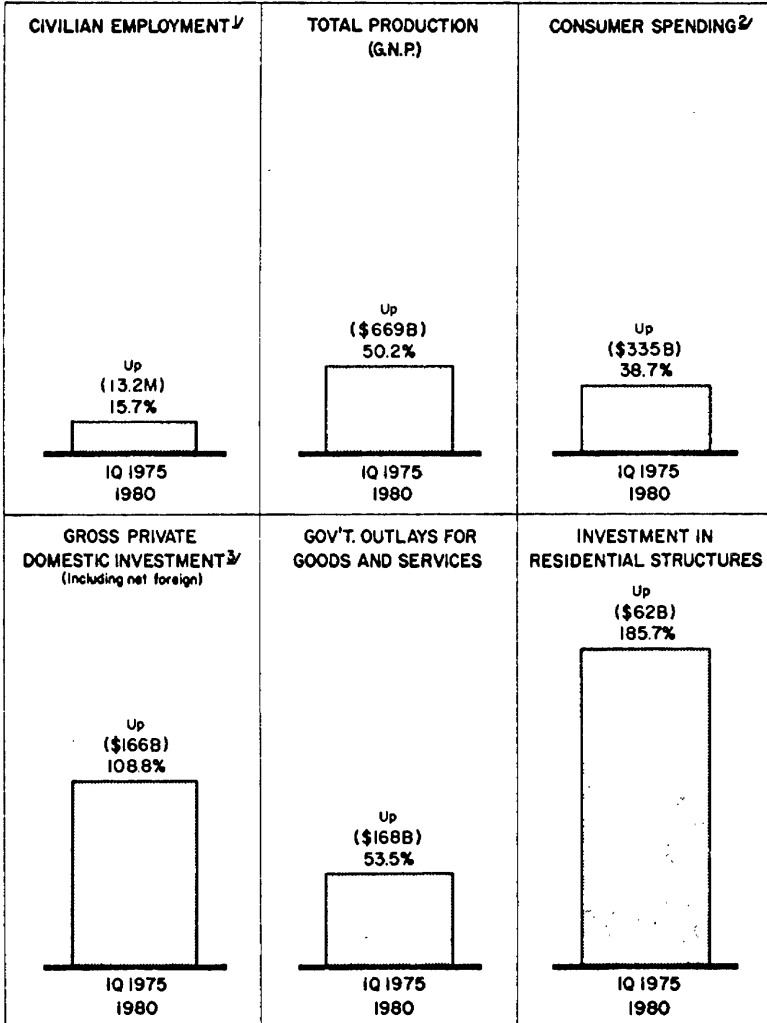
<sup>3/</sup> Nonresidential and net foreign investment up 61.4% (\$73B). Investment in residential structures up 146.7% (\$49B).

Note: In IQ 1975 dollars, the dollar projections would be about 6-7% higher.

## CHART 14

## FULL RESOURCE USE GOALS FOR THE U.S. ECONOMY, 1980 PROJECTED FROM IQ 1975 BASE

Total Percentage Changes  
(Dollar Items in 1974 Dollars, Absolute Data in Parentheses)



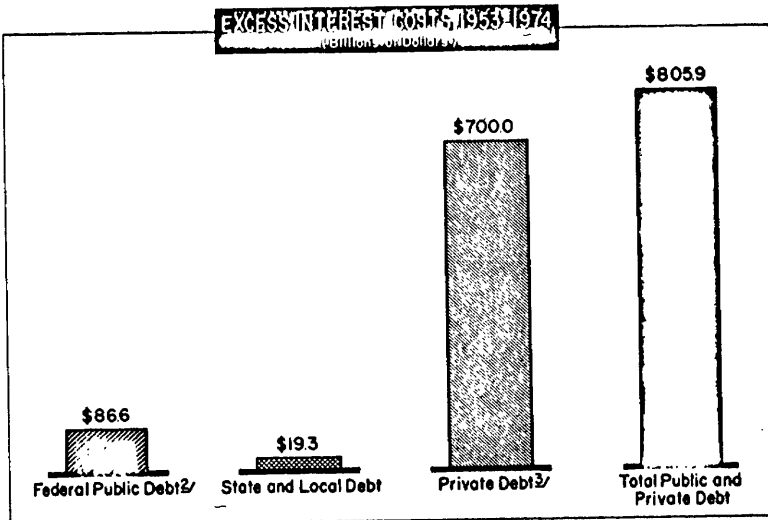
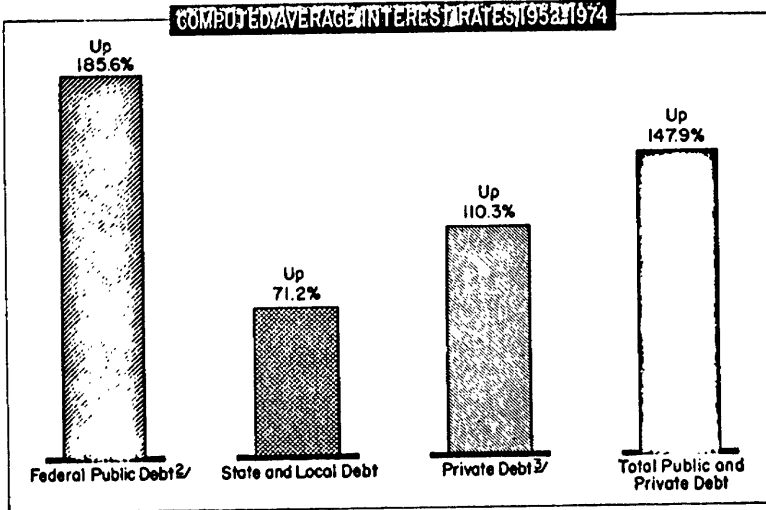
<sup>1/</sup> Unemployment down 60.5%

<sup>2/</sup> Growth is less than growth of G.N.P., because of needed growth in public outlays to meet domestic priorities and needed growth rate in gross private domestic investment.

<sup>3/</sup> Nonresidential investment and net foreign up 87.0% (\$103B). Residential structures up 185.7% (\$62B)

Note: in 4th Q 1974 dollars, the dollar goals would be about 6-7% higher.

# INCREASES IN AVERAGE INTEREST RATES, AND EXCESS INTEREST COSTS DUE TO THESE INCREASES, 1952-1974<sup>1/</sup>



<sup>1/</sup> 1974 estimated.

<sup>2/</sup> Includes net foreign interest.

<sup>3/</sup> Computed as a residual by subtracting Federal Public and state and local debt from total public and private debt.

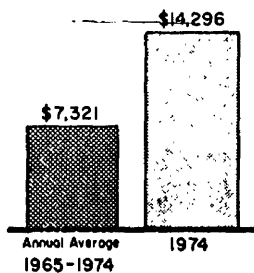
Source: Dept. of Commerce, Economic Report of the President

CHART 16

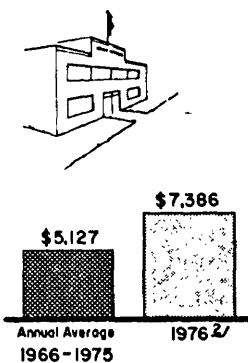
## EXCESS INTEREST COSTS IN THE FEDERAL BUDGET 1965-1974 CONTRASTED WITH OTHER COSTS FOR SELECTED BUDGET PROGRAMS<sup>1/</sup>

Millions of Dollars

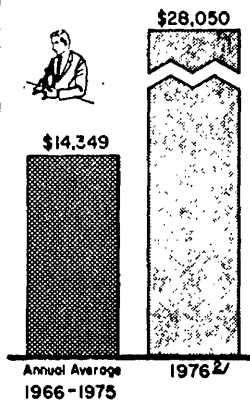
### EXCESS INTEREST COSTS IN THE FEDERAL BUDGET



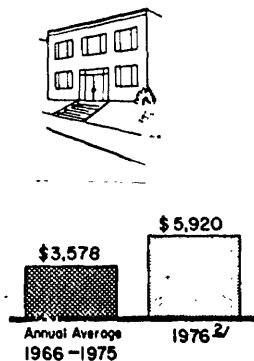
### BUDGET OUTLAYS FOR EDUCATION



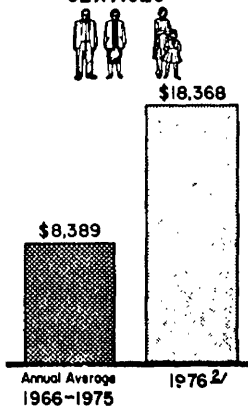
### BUDGET OUTLAYS FOR HEALTH SERVICES AND RESEARCH



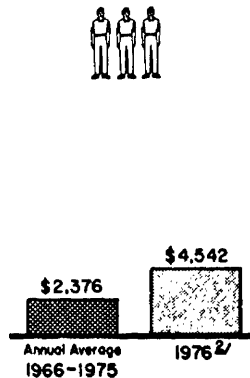
### BUDGET OUTLAYS FOR HOUSING AND COMMUNITY DEVELOPMENT



### BUDGET OUTLAYS FOR PUBLIC ASSISTANCE AND WELFARE SERVICES



### BUDGET OUTLAYS FOR MANPOWER PROGRAMS

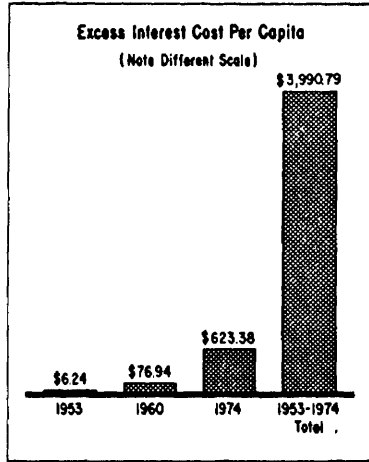
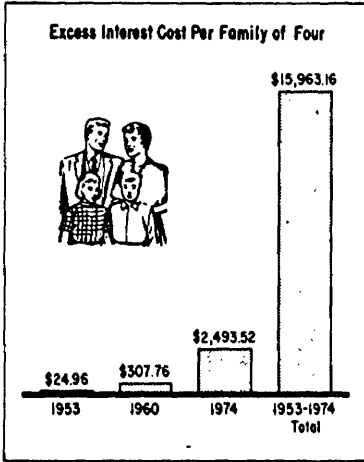


<sup>1/</sup> Interest costs, calendar years; budget outlays, fiscal years. 1974 interest costs and 1975 budget outlays estimated.

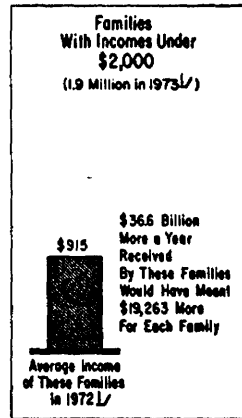
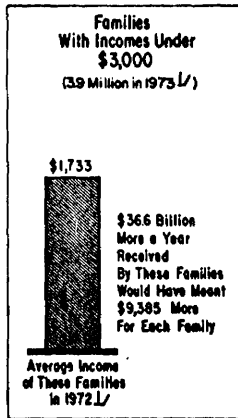
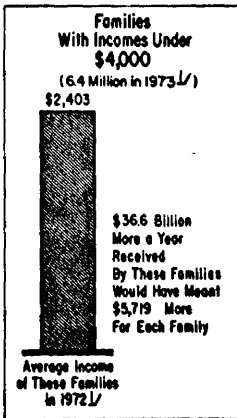
<sup>2/</sup> Proposed in fiscal 1976 Budget.

# THE BURDEN OF \$805.9 BILLION IN EXCESS INTEREST COSTS, 1953-1974 UPON THE AMERICAN PEOPLE

Calendar Years



## HOW \$36.6 BILLION A YEAR, 1953 - 1974 - EQUAL TO ANNUAL EXCESS INTEREST - MIGHT HAVE HELPED LOW-INCOME FAMILIES



<sup>L</sup> Latest Available.

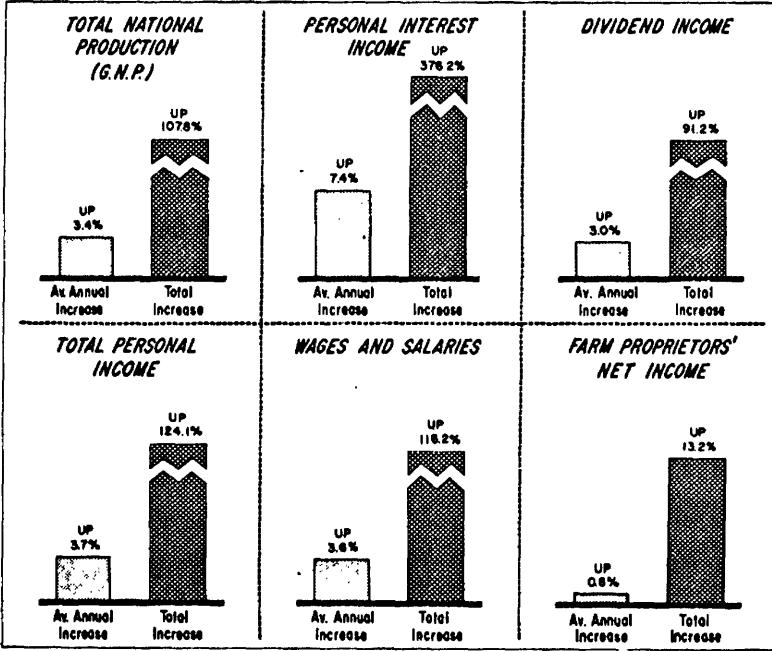
Source: Economic Report of the President, Dept. of Commerce, Bureau of the Census.



CHART 18

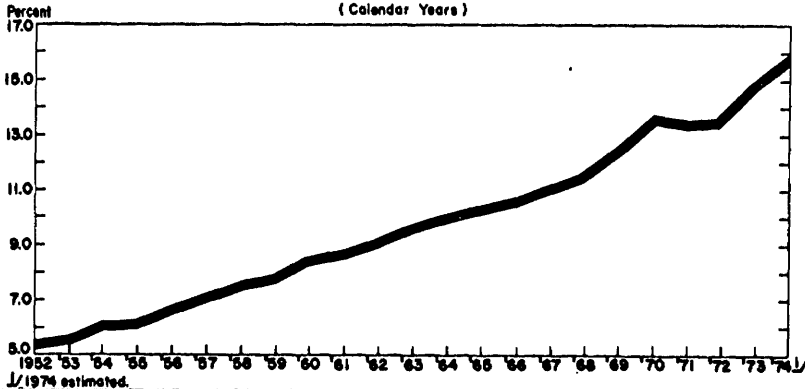
## COMPARATIVE TRENDS IN PRODUCTION AND INCOMES, 1952-1974

In Uniform Dollars



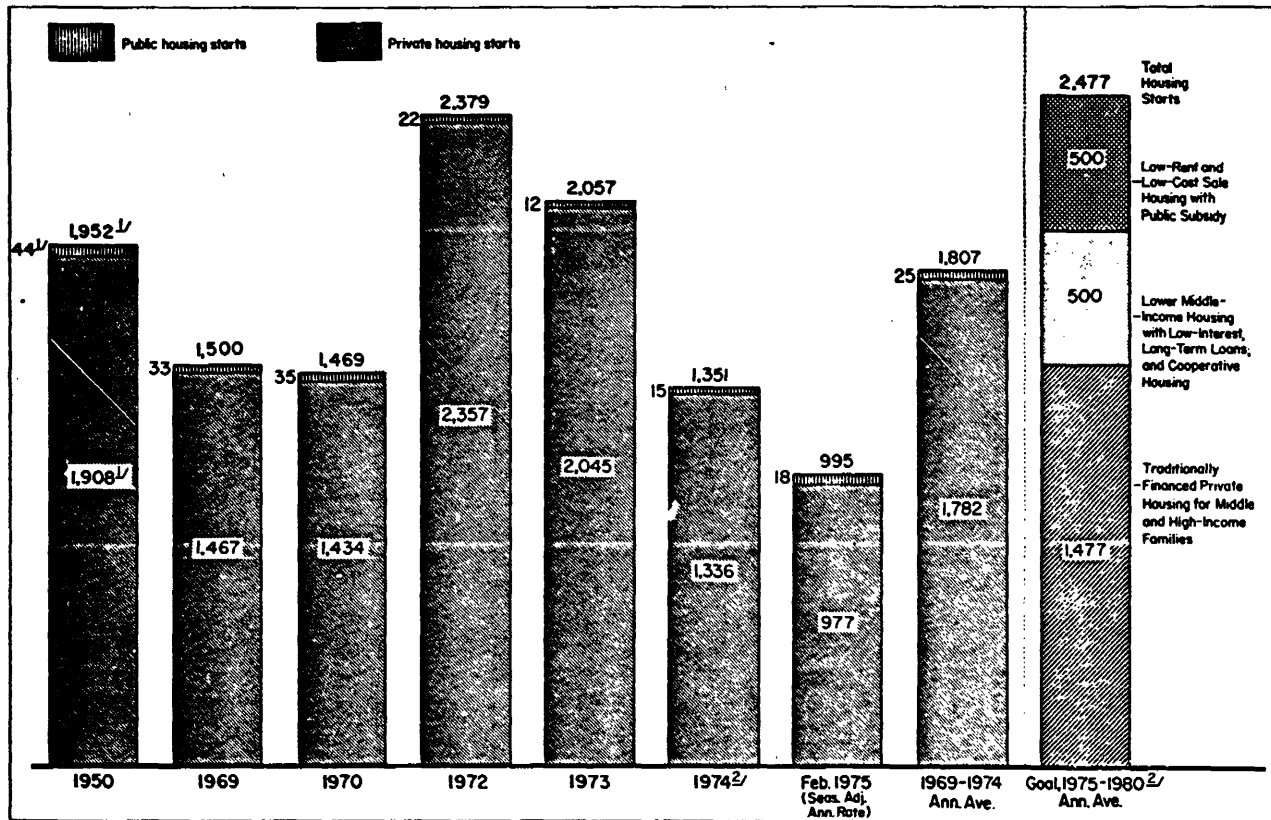
### TOTAL PUBLIC AND PRIVATE INTEREST CHARGES, 1952-1974, STATED AS PERCENT OF TOTAL NATIONAL PRODUCTION (G. N. P.)

(Calendar Years)



# HOUSING STARTS, 1950-FEB. 1975, AND GOALS FOR 1975-1980

(Thousands of Units)



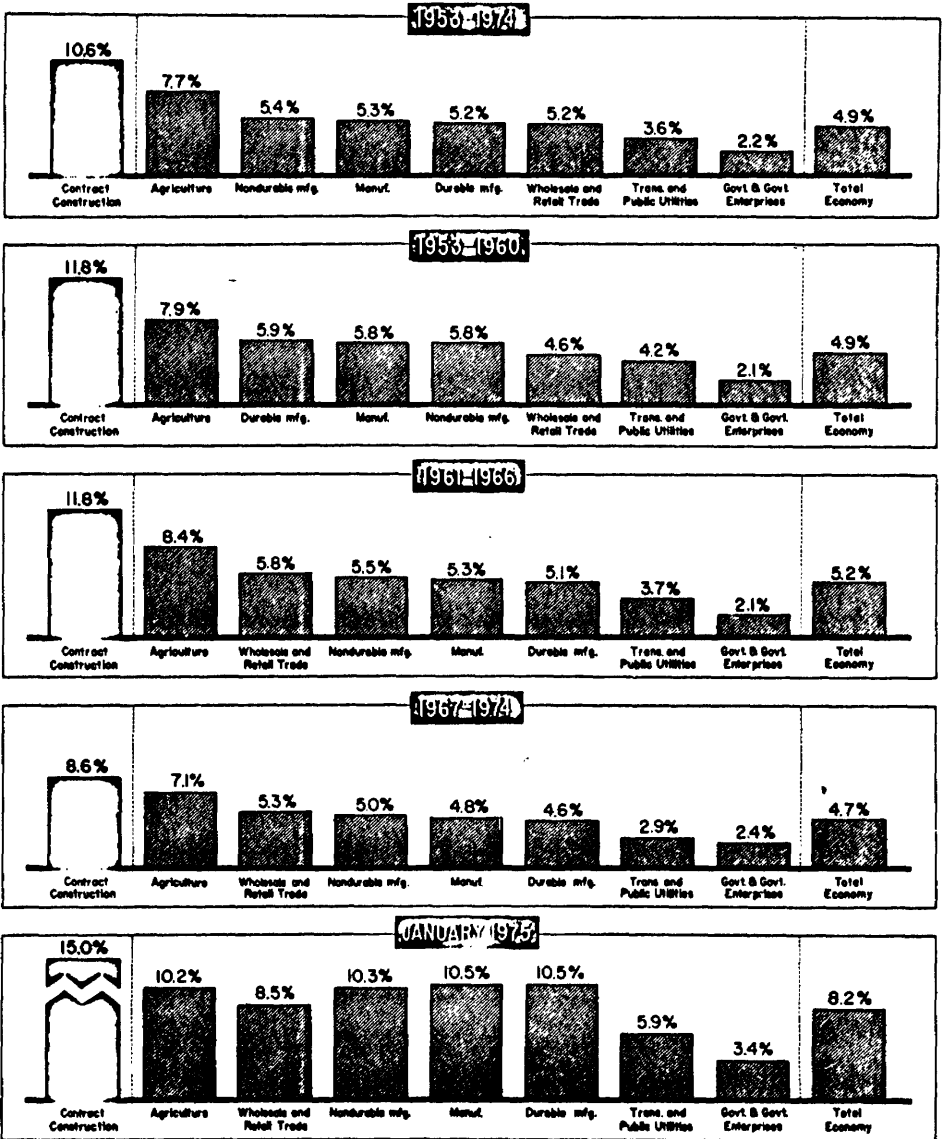
1/ Non-farm only, farm not available

2/ Inclusive. Based on needed annual average of 2.2 million during 1970-1980 inclusive.

Source: Dept. of Commerce, Bureau of the Census

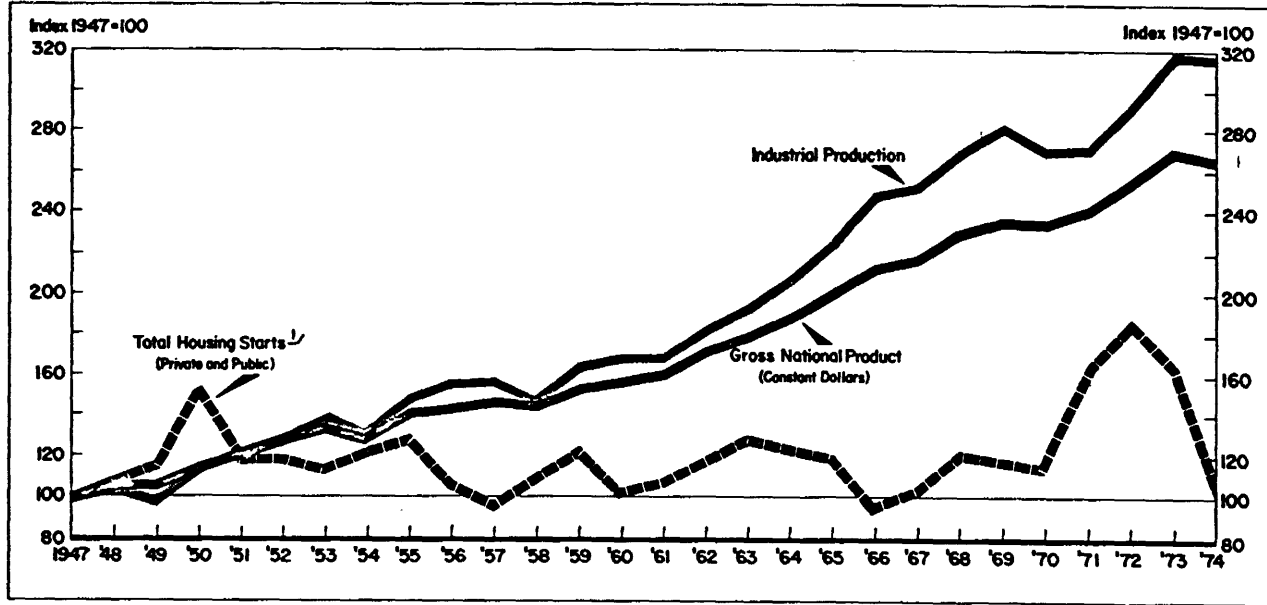
CHART 20

### AVERAGE UNEMPLOYMENT RATE, CONTRACT CONSTRUCTION COMPARED WITH OTHERS, 1953-JANUARY 1975



Source: Dept of Labor, Bureau of Labor Statistics

## HOUSING STARTS, INDUSTRIAL PRODUCTION AND GROSS NATIONAL PRODUCT, 1947-1974

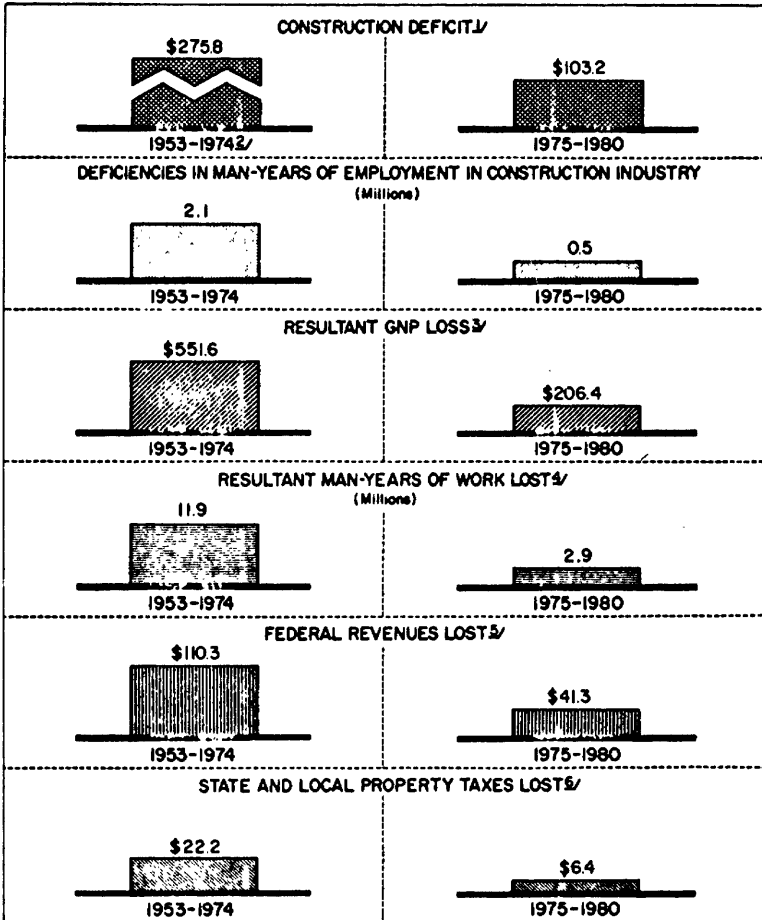


✓ 1947-1958 is non-form only.  
 Source: Dept. of Commerce, F.H.A., and V.A.

CHART 22

## IMPACTS OF DEFICITS IN RESIDENTIAL & COMMERCIAL CONST. 1953-1974, AND PROJECTED 1975-1980

(All Dollar Figures in Billions of 1974 Dollars)  
(Note Different Scale In Each Box)



<sup>1/</sup> Deficits measure actual (estimated for 1975-1980) performance against estimated needed performance in terms of model for total economy.

<sup>2/</sup> Actual average annual growth 1.9%; needed, 4.9%, or higher than needed growth rate of 4.4% for total economy.

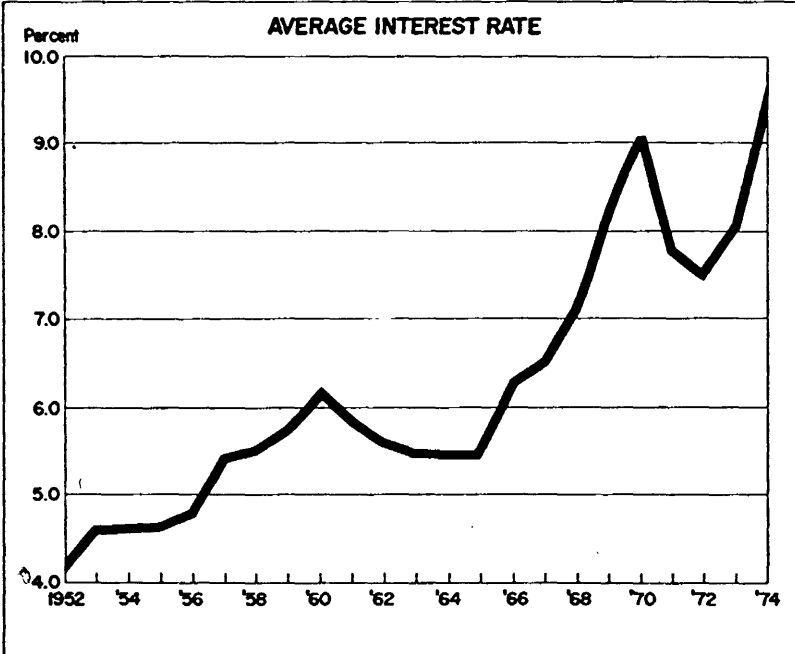
<sup>3/</sup> Based on multiplier of 2.0.

<sup>4/</sup> Based on G.N.P. loss, after allowing for that part of the G.N.P. loss due to repressed productivity growth among those employed even in slowly growing economy.

<sup>5/</sup> Equals 20% of G.N.P. loss.

<sup>6/</sup> Assumes property tax loss is 2% of private construction deficit, cumulated.

## INTEREST RATES ON FHA NEW HOME MORTGAGES, 1952-1974



Data: Economic Report of the President

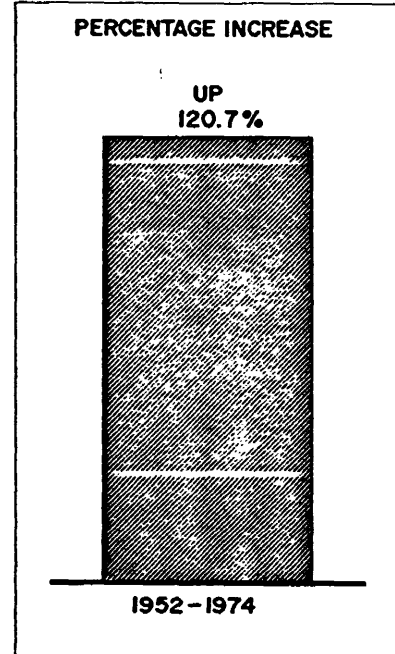
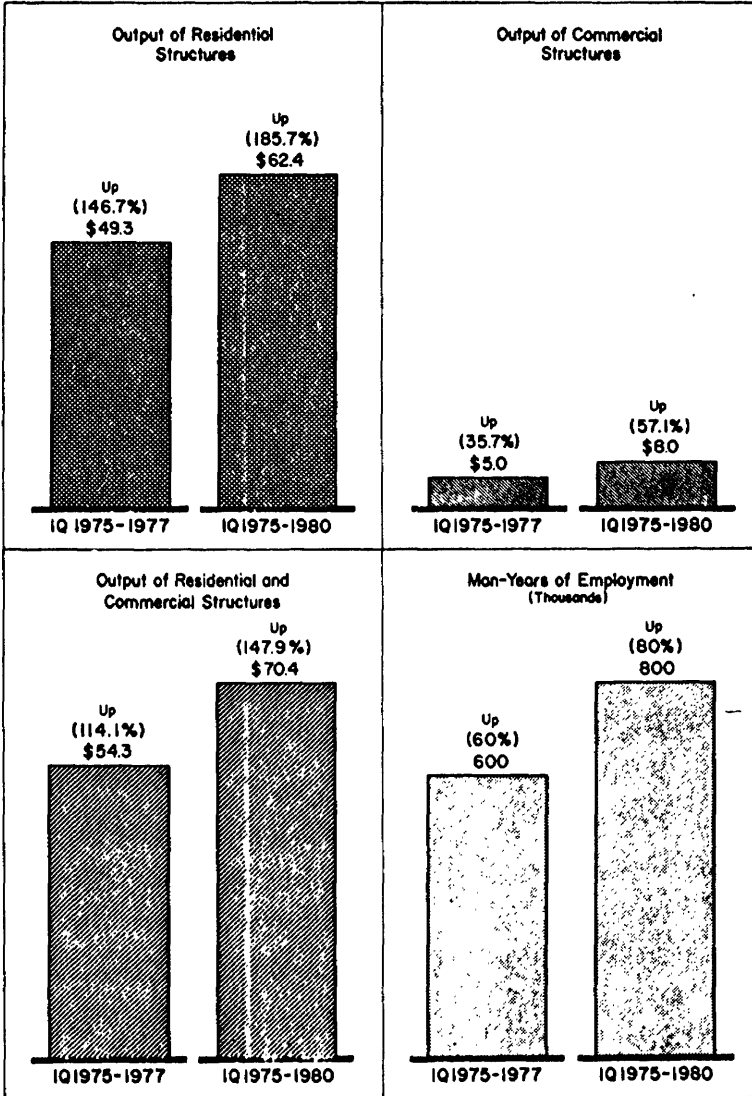


CHART 24

# GOALS FOR RESIDENTIAL & COMMERCIAL STRUCTURES 1977 AND 1980, PROJECTED FROM IQ 1975 BASE

(Total Percentage Changes in Parentheses)  
Dollar Items in Billions of 1974 Dollars



Chairman HUMPHREY. Now we will turn to you, Mr. Hagedorn; that is a good Minnesota name.

Mr. HAGEDORN. Oh, there must be a branch of the family out there.

Chairman HUMPHREY. Quite a family out our way. And after Mr. Hagedorn we will have Mr. Nathan and then we will have questions.

And may I say, Mr. Hagedorn, that I hope none of you will think that I am impolite or not interested, but I have a legislative matter up on the floor of the Senate very shortly and I will have to leave for a while, but I shall return. So if I walk out on you, Senator Javits is here, and Congressman Long is here and I will ask Senator Javits to take over for us for a while while I am away, and if he has to leave, why we will keep filling in, Gillis, so stay put.

Representative LONG. I will check in.

Chairman HUMPHREY. Yes, sir. Thank you.

#### **STATEMENT OF GEORGE G. HAGEDORN, CHIEF ECONOMIST, NATIONAL ASSOCIATION OF MANUFACTURERS**

Mr. HAGEDORN. Well, thank you, Mr. Chairman. Since you are going to leave, I will try to crowd whatever wisdom I have into the first part of my statement.

I suppose the reason we are all here is that all of us sense that something has gone wrong in the American economy. A lot of things have gone wrong in the American economy. We have an accumulation of problems, macroeconomic problems such as inflation, unemployment, underutilization of our productive capacity. Then we have a whole sequence, a cumulative sequence, of special problems: Energy, transportation, health care, a problem of a shortage of capital. What seems to have been happening is that none of these problems really gets solved so that we keep adding new problems without really eliminating any from the list. And the problems that we have seem to get worse rather than better.

Now, I think probably all of us would agree too that this indicates a need for planning, a need for planning at least in the general sense that we have to take a more rational, systematic look at our economy and figure out what has gone wrong in it, what has been the causes of the various troubles we have seen, and what are the cures. We should not deal with surface symptoms, but really analyze the problem out. We sense the need for that type of planning.

#### **CONSEQUENCES OF A PLAN**

We need to plan in such a way that we, and especially you in Congress, can consider all of the consequences of your actions, not just the immediate results, but the results over a longer period. And the indirect as well as the direct effects, effects of the choices that we make as a Nation, the ultimate as well as the immediate impact of what may be done.

As illustrations, economics is full of traps where the long-range effect of some particular kind of policy may be different from the short-range effect. For example, you can lower interest rates by simply increasing the rate of, increase in the money supply, pour out more money. There is more money on the market, and a greater supply of



money to be offered and that lowers the interest rates. But, we have also learned that over the longer run, increasing the rate at which you produce money has a reverse effect on interest rates. It raises interest rates through creating the strong conviction in the public that this is going to be a continuing process, it will result in greater inflation and, therefore, that lenders will be repaid in dollars that are worthless than the dollars they have loaned and, therefore, they demand a higher interest rate as repayment for that.

#### DIRECT AND INDIRECT EFFECTS OF POLICIES

And we also know that indirect, unintended effects of national policies can sometimes be more important than the direct and the intended effects. I suppose the intended effects of wage and price controls was to stop inflation. The unintended, indirect effect was to create a series of very serious shortages of critical products in the country, and it is this sort of a problem that needs to be recognized more than it has in the past.

Our machinery for policymaking has concentrated on short-range problems, immediate problems and direct effects of what we may do. We need to take a longer, more critical look at all of these things.

Now, as soon as you start to talk about planning, of course, and you have found this out, I am sure, Senator, planning means a different thing to almost everybody who talks about it. And just to illustrate two ends of the spectrum, I would say one concept of planning tends to start with the view that the economy is sort of a wet lump of clay and we can grab that lump of clay and mold it into whatever shape we want. We can pick out a mold in advance for what the economy is going to be, and push that lump of clay into it, and lo and behold, it will take the shape that we want. I would suggest that is the wrong way of looking at our economy, and any concept of economic planning that starts from that kind of a premise is going to be a failure, and is going to lead entirely in the wrong way.

Now, I am speaking here, Senator, in an effort to be as helpful as I can in assisting you as you approach this problem of planning.

Now, another concept of the economy, and this is the way I think it should be looked at, is to view the economy as a living, breathing organism, not wet clay to be pushed into a mold. It is an organism that has characteristics of its own, and those characteristics have to be respected if we are to plan for that organism in a way that will really be helpful to its growth and its health.

When you plant an acorn, you cannot plan that you are going to get a maple tree out of it. What you have to plan is that you will get the best oak tree that you possibly can get and you want to see that your oak tree has the soil and light and air that it needs for healthy growth. You do not try to design the oak tree in the sense that you would say now, we will see to it that a limb comes out at this particular point, or that it will branch off in so many precise branches, and there will be a certain number of leaves on each branch. You try to create healthy conditions, you try to plan healthy conditions for that oak tree to grow.

And to use another analogy, certainly anyone who has a young child in his family wants to plan for that child. You want to plan so that

his future will be the best it possibly can be, but you have to respect that child for an independent being that cannot be pushed into directions that he is not naturally suited to go. You will want to plan healthy nourishment, both for his body and for his mind. You want to protect him against disease. You are not going to start off with a plan that says I want a basketball player; therefore, I will plan this child so that he will be 7 feet tall. You are sure to be disappointed, and you will probably wreck the child's health when you approach planning in that way.

It seems to me that planning is not a form of engineering. You are not dealing with inert material. It is more like protective health care for an individual, seeing that he gets the right diet, and the right nourishment and allowing him to grow freely, according to his own nature. I believe that is the kind of planning that we need to have in this country, Mr. Chairman.

#### FEARS OF NATIONAL ECONOMIC PLANNING

And since there is this range of views, this misunderstanding, this condition where everybody who talks about planning seems to mean something different by it, I would urge you most sincerely, Mr. Chairman, that in your undertaking legislation you should make it perfectly clear what your initial philosophy is. If you do not do that, you will create unnecessary fears perhaps on some people's part, if they interpret the word "planning" to mean what some extremists in the wet clay approach to the economy would have as a view of the function of planning. If people interpret it that way, then you will arouse great fears in the country as to really what will happen as the result of undertaking your planning. I am sure that is not your intention. I am merely making that point that you should clarify all of this in your initial philosophy, maybe clarify it with specific language in the legislation, or maybe your legislative record should establish these facts.

But, I would urge you, before you undertake legislation, to make sure that you understand and the public understands exactly what concept of planning you have and what sort of a voyage you are undertaking.

Chairman HUMPHREY. Might I interrupt just to say that is exactly the purpose of these hearings.

Mr. HAGEDORN. Thank you.

Chairman HUMPHREY. To air it. This is not a legislative committee, as you know.

Mr. HAGEDORN. I understand.

Chairman HUMPHREY. This is advisory and consultative and hopefully out of this dialog and discussion, and the constructive approach that you have made, Mr. Hagedorn, as well as all of our other witnesses, we will come down to a much more clear and precise understanding of exactly what we are talking about and what we mean. And I think that your statement thus far has been very helpful in this.

Mr. HAGEDORN. Well, thank you. I would stress this, that there is this great need for clarification. And I might say that I feel very privileged to be able to be here and to contribute what I hope might be some small modicum of thought to that process of clarification.

## PRESERVE OUR FREE MARKET

I would urge you, as you view this prospect of undertaking a process of national economic planning, that it needs to be designed for the preservation of a free market economy, because that is really the most precious possession that we have. We do not live in a controlled economy, where all economic actions are mandated to us, where I am told when I might buy a pair of shoes and how many pairs of shoes I might buy in a year, or whether I should spend my money on shoes, or on the opera, or on football games or what. Each of us is left free to make choices of that sort for himself, and that is the sort of thing that we want to preserve. And we need to have a business system that is free to make choices and to take the risks that are involved in any set of choices.

Some concepts of a planned economy would both relieve business firms of the necessity of making choices as to how much of a given product they are going to produce and also relieve them of the risks of making a mistake when they make those choices. I think we have to preserve an economy where people take their own risks and make their own decisions on the specifics of what they are going to produce and how they are going to produce it. I think you should say, if you are approaching legislation, you should say that explicitly in your legislation, to allay the fears that would otherwise be created. Some of those fears have been expressed, the fear that you may be creating, you may be heading toward the economic police state, and I certainly do not think that is your intention. But I would urge you to put explicit language in your legislation, or at least in your legislative record, to assure people that that is not what you are intending to do, and the implementation of your legislation will not be guided by any such philosophy.

And I think you need to go beyond that. You need to assure people that the Government does not intend to use such mandatory devices as price controls, quantity of production controls, allocations of capital. At least you need to assure people that these are not going to become the normal, accepted role of Government in its relationship with the economy. This sort of thing may be necessary in some kinds of national emergencies, but some concepts of planning seem to suggest that this kind of mandatory intervention, tax penalties for doing certain specific things, and tax rewards for doing other certain specific things, the choice to be made by the central planner will become standard procedure. That disturbs many people, and I think will create an opposition to this type of undertaking that has so much potential for a real constructive breakthrough in our economy and you would not want to see that happen.

## BETTER INFORMATIONAL FRAMEWORK

I believe that in a planning system, it can serve very fruitfully as providing a better informational framework for the kinds of decision-making, both within the Government and in the private sector of the economy. We need factual information that we do not have now to understand where we are, and how we got there, and how we may get to where we want, and we need analysis that we do not have now to really interpret this and tell us what it means.

Now, in calling for planning as a way of providing a better informational framework, I should add here that we have to respect the limitations on what we can do. With all respect to you gentlemen in Congress, you cannot pass a law that suddenly creates a new fund of economic wisdom that has not existed before. Our economic wisdom is pretty much what it has been. There is a gradual process, but there has been no quantum jump to a new, higher level, and I do not see it suddenly happening. Nor do I see the initiation of planning as a way of creating a quantum jump in economic wisdom. We should have to respect the limitations of our wisdom and realize that some types of things are too uncertain, and we may be creating more damage than good.

I would argue, for example, that the whole fine tuning approach that we have followed, not consistently, but from time to time in the past 10 years, has generally not produced the results that it wanted, and simply because we never did have the economic wisdom, the real understanding of just where we were in the cycle.

#### INVESTMENT CREDIT

For example, Congress suspended the investment credit at the end of 1966. It was feared that we were in a capital goods boom then, and why do we need an investment credit. Maybe it is just creating an artificial expansion in capital spending of the kind that creates difficulties for the economy. So, at the end of 1966, the investment credit was suspended, just at the time when the capital goods boom was collapsing and we were going into a minirecession, at least in the following period. And again, the result was, of course, that Congress has reinstated the investment credit, I believe in March of 1967. The whole approach was recognized as a mistake and we simply did not have the economic wisdom we thought we had, and had misinterpreted the real situation.

#### SYSTEMATIC REVIEW OF ECONOMIC PROBLEMS

I think the most important contribution of a planning effort would be for a more systematic review of our economic problems, their causes and their cures. We seldom do that. We are always dealing with symptoms, rather than analyzing a problem back to its original causes. How did we get into the transportation problem that we have now, with the railroads in shambles, at least in some parts of the country. It is bad decisions in the past, a long record of bad decisions in the past, and those should be analyzed. And we should try to figure a way to unwind all the wrong things that have been done in the past. This should be a primary function of planning, that kind of a careful, systematic look at what has happened and how we got into the problems we are in.

I think also that a look should be taken at the fate of planning in other countries. I mention only the Western industrial countries. You have had planning in France, you have had planning in Japan, you have intermittent planning in Britain both in the 1940's and in the 1960's. Mostly, it turned out to be an exercise in futility. And I think the reason it turned out to be an exercise in futility was that nobody had thought through, really, what they wanted planning to be. They

had not decided between the lump of wet clay approach and the planting of the acorn approach to planning. Different people had different ideas, and the plan very shortly became something that was done as an exercise and nobody paid much attention to it, either within government or outside of government. I am sure you do not want planning to turn out to be that kind of a futile exercise in this country, so I would urge you to consider carefully exactly what you want planning to be.

Thank you very much for listening.

Senator JAVITS [presiding]. Thank you, Mr. Hagedorn. Your suggestions have been extremely helpful. And Senator Humphrey and I had a word before he left, and he said your points are well taken.

[The prepared statement of Mr. Hagedorn follows:]

#### PREPARED STATEMENT OF GEORGE G. HAGEDORN

National economic planning is a concept that could have great potential for usefulness but also, unfortunately, great potential for danger. This results from the fact that the concept is in need of extensive clarification—planning seems to mean something different to everyone who talks about it, both among its advocates and its opponents. If the best possibilities of planning are to be realized, and the worst dangers avoided, we will have to make much greater progress than has been achieved so far in understanding clearly what we are dealing with. I appreciate the privilege of participating in a dialogue that may, in some small way, contribute to that process of clarification.

Certainly, the question: "Should we, or should we not, have national economic planning in this country" is much too simplistic to serve as a useful basis of discussion, at least at this stage of thought on the matter. It merely raises other questions, as for example:

1. What is to be the *scope* of planning—is it to embrace the entire economy, or merely the governmental sector?

2. What is to be the *depth* of planning—is economic planning to deal with the fine detail of the millions of distinct kinds of goods and services produced, or only averages for very broad sectors?

3. What is to be the relationship between planning and action? Is the plan to be considered a mold into which the economy is to be forced? Or is the plan to be simply a helpful guide which independent decision makers can follow, or not follow, as they independently choose?

4. Suppose economic developments begin to depart from those previously set forth in an accepted plan. Will this be taken as a signal for action to force the economy in the desired direction? Or will it be taken as a signal to change the plan?

5. How, if at all, is planning to be implemented? Are wage and price controls to be contemplated as a possible instrument? How about control of production schedules? Is mandatory allocation of capital to be one of the instruments of planning?

6. Is planning to be "indicative" (which, taken literally, would imply that there be no implementation at all), or is to be "imperative" (which might imply rigid regulation of everything)? If planning is to be something in between, how shall we define that something?

7. Is the adoption of national economic planning to be regarded as a repudiation of our traditional reliance on the impersonal forces of the free market system? Such an interpretation might seem to be implied by some of the statements of extremist advocates of planning.

It might seem that we could embark on a course of national economic planning, leaving questions like these to be answered as we went along. I would suggest, however, that this would be both an unfruitful and a dangerous way of proceeding. It could raise false hopes in some sectors of our population, and false fears in others. The false hopes and the false fears could be extremely damaging—economically, politically, and in fact to the whole fabric of our national unity.

#### EXPERIENCE ABROAD WITH PLANNING

The lessons of planning in other large industrial countries are enlightening. France, Japan and the U.K. (intermittently) have undertaken to prepare national economic plans since World War II. The results cannot be described either as a

national disaster, or as a glorious national success. The outcome in those countries must rather, for the most part, be regarded as an exercise in futility, which had no important direct impact, constructive or adverse, on the course of events. The fact is that decision makers—either governmental or private—have, after a brief interval, paid practically no attention to the goals stated in the successive national plans. Indirectly, of course, this kind of planning has been damaging in distracting attention from the real issues that need to be dealt with.

I am sure that, as we contemplate national planning in this country, none of us would want to see that happen here. This outcome has been the result of the fact that in those countries no one really defined the objectives of national planning or thought through the answers to the questions listed above. I would most earnestly urge Members of Congress to think through the meaning and objectives of national economic planning, and not simply to enact legislation calling for planning in the vain hope that it will somehow define itself as time goes by.

In what follows, I will offer more concrete suggestions that (hopefully) will assist you as you consider the possibility of legislation to establish a more rational basis for national economic planning. It simply will not do to establish a new agency in government charged simply with preparing a "national economic plan," if Congress does not tell the agency in fairly precise terms what it is supposed to do. The whole subject needs to be given an intellectual content it does not yet possess.

#### PRESENT STATE OF THE ECONOMY IN RELATION TO NATIONAL ECONOMIC PLANNING

In his state of the union message to Congress of last January, President Ford described the state of the economy as "not good." That is, if anything, an understatement.

There has, in fact, been a progressive deterioration in the health of the American economy, extending over roughly the past decade. It is not merely a matter of periodically recurring fluctuations in the state of business—these are probably inevitable and efforts to suppress them entirely would be counterproductive. But what we have seen is a steady worsening in the character of business necessities: We had a "mini-recession" in 1967; an ordinary "garden-variety recession" in 1970; and finally, what has to be called a "maxi-recession" in 1975.

Inflation has come in waves, with periods when it was growing in intensity, and periods (like the immediate present) when the latest inflationary wave was receding. The real cause for concern is that during the past decade each wave of inflation has been worse than the one before. The process finally culminated in the double-digit inflation of 1973-74. That latest wave of inflation is now subsiding, but we are left with an uneasy feeling that the subsidence may be merely temporary as it proved to be in 1971-72.

During the past decade the record of growth in productivity has been below normal. So has the rate of growth in real wages. By almost any statistical criterion, the record of the American economy during recent years has been substandard.

We have serious underlying national problems which have undermined our economic health. One such problem is the serious shortage of capital which impairs our ability to grow, to create jobs, and to improve productivity. This problem has developed insidiously but persistently over at least the past decade. The external symptoms of this capital shortage are clearly visible but the problem itself has not been called forcibly enough to the attention of the nation.

What conclusion are we to draw from all this? Surely the evidence suggests that we must have been doing something wrong—probably several things wrong. But where precisely did our errors lie?

Does the sorry record of the past 10 years indicate the final failure of our free enterprise system? Did we foolishly cling to an outmoded and unworkable private market system for regulating the economy? Was government excessively reluctant to intervene to improve upon the state of affairs? Did we all suffer from a refusal by government to pay sufficient attention to the needs of the economy, or to involve itself in the detailed workings of the economic system?

Statements of some of the advocates of economic planning suggest that they would answer yes to those questions. However, in the face of what actually happened during the past decade, such an answer is incomplete and unconvincing. Government passivism has not been the problem—instead government has been too eager to insert its own presence in areas better left to the free market and, where government's presence is essential, it has performed badly.

The fact is that during the past decade, government has shown a higher degree of attention to the state of the economy, and a greater willingness to

intervene in the operations of the marketplace, than ever before. We had the "New Economics" of the mid-1960's, and the "New Economic Plan" of the Nixon administration in 1971. Both were intended to promote price stability, full employment, and economic growth. The end results have been the highest level of unemployment and the fastest rate of inflation in the post-World-War-II era.

The wage-price control episode of 1971-74 was, whatever the rhetoric of those responsible for it, a repudiation of the free market system. We all know that ultimately it was completely useless as protection against inflation, and severely damaging to production and investment. We are still suffering from the capacity-shortages arising from the disincentives to investment created during the control period.

In a vain effort to preserve the fixed exchange rates established by the Bretton Woods system, and to avoid a devaluation of the dollar, government resorted to many unprecedented forms of intervention in the international flow of funds. We had the Interest Equalization Tax, the Controls on Direct Foreign Investment, the voluntary program for restraining bank loans abroad, new restrictions on tourists, etc. The result, of course, was total failure in achieving the announced objectives and distortion in the flow of trade and investment. The outflow of investment resulting from maintaining an artificially high value for the dollar during a long period leaves an aftermath which still hurts us. However, things have been much better since the attempt to maintain artificial exchange rates was abandoned as hopeless in 1973, and this matter left to a free market.

What we have suffered from during the past decade has clearly *not* been a generalized reluctance by government to be continuously active in the economic field. Rather, it has been misinformed or ill-conceived actions by government which led to results quite different from those intended.

We should not, however, draw the lesson that government ought to shut its eyes to what is going on in the economy. Government must, on the contrary, be keenly aware of developing problems and consider the most constructive solutions—as for example the problems of capital shortage and energy self-sufficiency. Governmental activism has too often been superficial and disruptive busy-work rather than fundamental attacks on carefully analyzed central problems.

Far from demonstrating the inadequacy of the free market system, in its own sphere of action, the experience of the past ten years has been a lesson in the futility and counterproductiveness of attempts to supplant it on a large scale by centralized control of such functions as price making. But government has its proper sphere of action in the economic field—e.g., monetary and fiscal policy, information gathering, etc.—and it is of critical importance that these functions be performed efficiently.

A proper framework of economic planning might have helped to avoid the serious mistakes which contributed to the progressive deterioration in our economy during the past ten years. A badly-designed national system of planning might simply have encouraged more or worse mistakes.

Government economic programs and policies need to be better planned in several respects. More careful consideration needs to be given to which economic functions can best be performed by government, and which are best left to the free market. More attention needs to be given to the long-range effects of government actions, as compared with their immediate effects. Greater recognition needs to be given to the indirect impact of government policies, (as, for example, the effect of price ceilings in creating shortages, and the effect of taxation on capital supply) which is often not visible to the untrained eye, and is usually not intended by the authors of the policies.

Planning that leads in this direction can provide better guides to government decision-making than we have had in the recent past. Superficial planning, more concerned with setting impressive numerical goals than with devising realistic means for achieving them, can make things worse.

#### NATIONAL ECONOMIC PLANNING AS A MEANS OF ESTABLISHING AN INFORMATIONAL FRAMEWORK

As a means of establishing a better informational framework for decision makers, both public and private, economic planning can serve a useful function. Decision makers have sometimes been misled by faulty or insufficient economic

information. A notable case is the statistics which failed to reveal the accumulation of inventories in the period leading up to the present recession.

Economic forecasters have failed to foresee some of the most striking of economic developments of the recent past: e.g., the sudden emergence of double-digit inflation in 1973 and 1974, after a period of relatively stable prices in the two preceding years. Although many observers shared a general feeling of uneasiness in the early fall of last year, none of them anticipated the sudden deep plunge which began in October and carried the industrial production down by 12 percent in just five months. Not only is our supply of facts inadequate, our rival economic theories for interpreting them are all faulty.

Certainly we must strive to do better, and economic planning, properly conceived, can be a vehicle for such improvement.

We must, however, be aware of the limitations on human ability to grasp all the aspects of our economy and to analyze them in a way which gives each its proper weight. We should not base any effort toward economic planning on the assumption that a quantum upward jump in our economic wisdom has occurred or is about to occur. Sadly, there are no signs of such an event.

Nor should we base a move toward planning on the assumption that planning will in itself, automatically and instantaneously, produce a higher level of economic understanding. The most we can do is design the planning apparatus so that it will contribute to gradual cumulative increase in understanding. Meanwhile, it must live with the present limitations on human economic wisdom.

The most that planning can do—and it is considerable—is to bring forcibly to the attention of the decision makers the long-run implications of the decisions they have to make. The decision makers include you in government and us in the private sector. In fact, every individual has his own economic decisions to make.

Ultimately, however, the responsibility for making decisions must rest where it is. You in Congress cannot abdicate in favor of planners, although you may profit from their information and advice. If a free government and a free society are to be maintained we cannot turn over our respective prerogatives to a regiment of planners.

#### RECOMMENDATIONS ON LEGISLATIVE PROPOSALS FOR NATIONAL ECONOMIC PLANNING

If Congress undertakes to frame legislation on the subject of economic planning, the following recommendations are offered as guidelines:

*1. Legislation should describe in clear terms the nature, scope, objectives, methods of implementation, and limitations of the kind of economic planning contemplated.*

A mere endorsement of "planning" as a good idea, without further definition, could at best lead to disappointment and at worst to economic disaster. Merely setting up a new agency assigned to prepare "a plan," unspecified as to character, would make Congress the captive of its own bureaucratic creation.

I urge you to study and think through all the questions that arise when "national economic planning" is proposed, to postpone legislation until you have reached answers that satisfy you, and to ensure that legislation results in planning activities that conform with your conclusions on the proper role of planning.

*2. Legislation on economic planning should, in explicit language, make it clear that it is not intended as a repudiation of the free market system or as a move to a radical change in the way our economy is to be organized and operated.*

Without such a clear statement of intent, enactment of such legislation might seriously damage the public confidence which is essential to a healthy economy.

It might be thought that Congressional support for the free market system should be taken for granted and there is no need for an explicit statement to that effect. Unfortunately, at the present stage of discussion of planning, statements of some zealots seem to take the view that a move toward planning is indeed intended as a move away from the free enterprise system. Without an explicit declaration to the contrary, enactment of planning legislation might be interpreted as endorsement of that extremist view. This conclusion could have devastating effects on confidence and on planning in the private sector.

There is precedent for such a legislative statement of support for the free



enterprise system. The Employment Act of 1946, in its Declaration of Policy, specifies that actions taken under the act shall be performed "... in a manner calculated to foster and promote free competitive enterprise and the general welfare . . ." Needless to say, the specific provisions of an economic planning act, should be in accord with such a declaration of policy.

3. *Economic planning could be most helpful in providing an informational framework for the guidance of decision makers and the legislation should be framed with that in mind.*

The information provided must be factual and realistic, and not the expression of Utopian hopes. The limitations of economic data and analyses must be fully recognized. Gradual improvement can be expected, but no sudden breakthrough as a result of enactment of planning legislation.

4. *One focus of planning should be in the area of government planning of activities that indisputably belong to government.*

The record of the past ten years has not been one that gives us assurance that government decision making in the traditional areas of government responsibilities has always been planned as carefully as it should have been. Machinery that compels a careful scrutiny of government actions, in the light of their long-run effects could be helpful.

In the past, government programs have grown in an irrational fashion, uncoordinated with each other, and unrelated to the original purpose they were intended to serve. The result has been an accumulation of costly and unproductive (often counterproductive) government activities which consume resources that would be better employed in the private sector. More systematic economic planning within government would help to avoid this.

Congress has already established a Congressional Budget Office to evaluate systematically the long-run fiscal effects of various government programs; actual or contemplated. Perhaps similar machinery is needed within Congress to consider the long-run effects of other economic programs of government which are not primarily fiscal in character.

5. *An important function of planning should be to identify underlying economic problems, to analyze their causes, and to propose effective remedies.*

A prime candidate for such attention would be the problem of the national shortage of capital. This is a problem which affects the welfare of everybody, yet it has received very little public attention and virtually nothing has been done to correct its basic causes.

National economic policy in recent years has been concentrated on dealing with the end results of economic problems that have been neglected or mishandled in the past—energy, inflation, balance of payments, transportation, etc.

If economic planning could reconcentrate attention on underlying causes, rather than surface symptoms, it would be a great step forward.

Senator JAVITS. And now, Mr. Nathan, we all know you so well.

**STATEMENT OF ROBERT R. NATHAN, CONSULTING ECONOMIST,  
ROBERT R. NATHAN ASSOCIATES, INC.**

Mr. NATHAN. Thank you very much, Mr. Chairman.

Senator JAVITS. And if you could try to keep your statement to 15 minutes.

Mr. NATHAN. I will try to do it in even less time so that there will be opportunity for questions.

Let me just make two or three short preliminary observations. I was pleased to hear what George Hagedorn had to say about things that have gone wrong, because the timeliness and relevance of these hearings are predicated on real experience and not abstract theories of planning. We really have problems.

I think just two or three figures and facts are of significance in this respect. In the first quarter of 1975, our gross national product, taken from official publications, was at a \$227 billion level below potential. When you stop to think of our needs, this is a rather serious statistic.

## FIGHT AGAINST INFLATION

When you take the unemployment rate of 9.2 percent in May, and add the part-time converted to full-time equivalent, 9.9 percent of the labor force was idle. And when you take the "discouraged workers," those wanting to work and able to work but who are not actively seeking jobs because they feel they cannot find work, in March—and that is only reported quarterly—it included 1,100,000 unemployed. If we assume that number has not changed, we had about 11 percent of the labor force idle in May. This is pretty sad and the saddest part of all of it is the fact that this recession was designed and programmed, did not just happen. It was designed and programmed as a means to fight inflation. We had three quarters of less than normal growth and four quarters of very serious recession declines before we had any signs of abatement in the inflation picture. And when we look at the April and May wholesale prices, especially April, I am not sure that we are anywhere on the road to reasonable price stability, especially crude materials, excluding foods, grains, and fibers, which rose 1.1 percent in April and 1.9 percent in May.

## PRICE STABILITY VIA UNEMPLOYMENT

So, we may be engaged in a futile pursuit of reasonable price stability through the unemployment route. I agree with Leon Keyserling, that is not the way to go to achieve our goals. So we really have problems.

One of the issues I think is most important for this committee to concern itself with is what do you really do about solving the inflation and recession problem. I must admit to a deep frustration concerning the application of the Employment Act of 1946. I think the Employment Act of 1946 was the greatest economic charter ever adopted—whereby the Government undertook to accept responsibility for policies designed to bring high levels of production and employment. And I suspect that if one could go to court and find a judge who had gumption and courage enough, probably some people could be found guilty of violating that law. I really do believe that the Employment Act of 1946 has been, for all intents and purposes, repealed or ignored or violated by individuals who, presumably, are supposed to carry out the law. And this raises very real questions about how we go about this planning issue.

I feel the need for planning is tremendous. I agree with what Keyserling said on that score. I agree with Mr. Hagedorn and what Mr. Keyserling said about the need to classify what we mean by planning. And I am not going into details. It is clear that this proposal has no objective of regimentation, Government ownership, detailed control, direction of what you produce and what you consume, where you eat and what you eat and things of that nature.

## EFFECTIVENESS OF PLANNING

On the other hand, I think it does have very meaningful and constructive aspects in terms of trying to make the economy function more effectively, and not just in higher employment and higher production, but also in terms of distribution, in terms of equity, in terms of sharing and participation in benefits.

We have had a fair amount of experience in this country in this area. We did have the National Resources Planning Board of the 1930's that I believe made some contributions to getting us out of the Great Depression, not fully, by any means but given the limited data, given the limited economic knowledge, given the limited understanding of the functioning or malfunctioning of the system, I think when one looks back one finds the National Resources Planning Board had some usefulness.

I think we can look favorably on what we did in planning in World War. I happened to be involved as chairman of the Planning Committee of the War Production Board. I do not think that credit can go only to the civilians, or only to the military, or to the economists, or the engineers, or the scientists. It cannot go to any one group. On the whole, the wartime mobilization was a major success because there was planning of access to resources and use of resources and priorities and goals and programs and policies. I think the same thing can be said for much planning abroad.

Sure it has been varied, but I happened to work with Jean Monet in 1945 and 1946, especially in 1946 at the Commissariat Du Plan, which was the planning instrument in France. Over the years there were ups and downs, back and forth movement and varied effectiveness of planning in France. I believe the early rehabilitation of France from the terrible destruction of World War II was tremendously enhanced by that planning operation under the guiding genius of Jean Monet. And I have watched Taiwan, Korea, Sweden, and Japan and other such efforts to think ahead, look ahead, organize ahead. On the whole they are more positive than negative, and on the whole, except for the Communist or totalitarian regimes, individual and business freedom has been enhanced and not curtailed by these kinds of overall planning approaches.

#### PUBLIC ADMINISTRATION AUTHORITIES

The real issue this committee faces is how to organize for this job. Leon Keyserling has raised some very real questions as to whether we should set up competing agencies, whether we should have duplication or not. Maybe what we ought to do is get some public administration authorities in and not economists, to consider these organizational issues. Maybe economists are not the best organizers, although I am not sure the public administration people are always fully cognizant of all of the implications of substantive issues. I happen to be a member of the National Academy on Public Administration, and I do think that an organization like that could make valuable contributions to this thinking, because what you have here is a very real problem as to how to go about organizing for planning.

What do we have now? We have the Council of Economic Advisers and the Joint Economic Committee which came out of the Employment Act of 1946. They have made a major contribution. I do not think there is any doubt about it, but it falls far, far short of what that act called for. We have had inflation we have had unemployment, we have had waste. When we have an economy that is running in the first quarter of 1975 at a \$227 billion gap below potential, and in the second quarter it is going to be a \$250 billion gap, then something is wrong.

And when you have administration leaders saying we are on target

and the recession is bottoming out and will turn up, and then make forecasts that have levels of unemployment 3, 4, and 5 years hence which we heretofore regarded as meaningful recessions, and levels of price increases 3, 4, and 5 years hence that would scare the life out of people about the threat of inflation only 3, 4, or 5 years ago, then I say something is wrong.

Senator JAVITS. Would you allow me to interrupt to ask you, at this point, whether they are either guessing or planning to make those projections? Are they either guessing or planning?

#### PROJECTIONS AND/OR ASSUMPTIONS

Mr. NATHAN. Let me change the word "guessing" to "projecting." They are only projecting, they are not planning. Except I must say, that in the President's budget message that was issued in January, when those figures were presented, the President's statement was that the figures for 1975 and 1976, if I am not mistaken, were forecasts. In other words, the short-term economic assumptions presented for calendar 1975 and 1976 are forecasts of probable economic conditions during these years. Then it goes on to say:

The longer range assumptions for the period 1977 to 1980 are not forecasts of probable conditions, but rather projections consistent with moving gradually toward relatively stable prices and maximum feasible employment.

I don't know who wrote those words, but anybody talking about going all the way to 1980 with unemployment remaining at the levels of those figures, literally not falling below 6 percent until 1980, and saying those are consistent with maximum feasible employment, and with relatively stable prices, in my judgment, proves the worst kind of negative, defeatist attitudes that one could possibly conceive, almost bordering on irresponsibility.

Representative LONG. And these forecasts have a way of sort of becoming self-fulfilling prophesies, do they not?

Mr. NATHAN. They sure do.

Representative LONG. And that is what worries me about it.

Mr. NATHAN. They surely do become goals and prophesies. I tell you, if this economy of ours, with 8 to 10 percent unemployment in 1976 and 1977, is faced with levels of price increases indicated, then we are in desperate trouble. That means we have no idea of what to do about inflation and unemployment. I am convinced that with intelligent, forward-looking plans and efforts to think through what our problems are and what to do about them, we can do an awful lot better than these assumptions, because this is nothing but defeatism, and in my judgment, it is a prescription for termination of the free enterprise system, which would be tragic.

Let me say that there are so many problems facing us that I don't believe, and I am really very respectful of what Leon Keyserling has said about this problem of competing agencies, I do not believe in the real world in which we live the Council of Economic Advisor's is ever going to engage in the kind of basic perspective that is going to be needed in the planning sense. I believe that they are always going to be doing things on an *ad hoc* basis.

I think, like George Hagedorn, they are always going to do something of a fine tuning because you have cyclical problems, and you have

emergencies arising. I believe there are going to be cyclical matters and emergency matters which will command the concentration of the Council of Economic Advisers.

The problem Leon Keyserling poses is the right one. Current problems and related current policies are meaningless unless they are done in a meaningful perspective of basic goals and purposes. That does not, however, necessarily mean that the same people who are handling these current proposals, current programs, current plans, have to also provide the basis for the long run. I have a feeling that since both would be in the same executive branch, something could be done to bring about a coordination of those functions. I am not wedded to the idea that the organization setup suggested is going to be put in this legislation, but I think there is a pretty good chance to do something effective as a result of this economic planning board and the Joint Economic Committee and the congressional office of the budget, all coming up to this congressional setup through the budget committees and the Joint Economic Committee.

One reason why I say that the separate entity might be advantageous is that in a sense the report of the Joint Economic Committee and the report of the planning board would not sort of whitewash or reduce planning to the lowest common denominator by the executive office or by the President. Congress still would have access to both of those entities through hearings and through reports. I would take my chance on duplication or competitive agencies in trying to pursue this problem.

#### AGRICULTURAL AND ENERGY POLICIES

One final point is terribly important. I am only going to mention some of the problems that a planning body might really do something about. I feel that we have done a miserable job in agriculture, a miserable job in designing our agricultural policies, from the point of view of prices, the point of view of domestic nutrition, the point of view of the longer run needs of the people in the United States and we have done a terrible job in agriculture in failing to coordinate our domestic agricultural policies with international population, hunger and human needs.

In the oil and gas field, had we done some planning and really focused on these resources and energy problems, we would not have been as shocked as we were when the embargo came along. As of today we are wholly devoid of intelligent, constructive planning in this whole energy field and in moving toward independence or near independence. We should at least have some goals. There are people who really believe that if we could manage our balance of payments, which we probably can, maybe the thing to do is use up the OPEC oil resources and leave more of ours available for later; namely, discover it and maintain reserves. We are doing nothing in terms of building storage and reserves for even an emergency. Basic planning on problems of this nature would really help us a great deal.

Representative LONG [presiding]. The fact is, Mr. Nathan, if we look at some of it on that particular point, if we look at some of the recent actions, both the executive branch and legislatively from the standpoint of proving up additional reserves on the basis of the information that has come to the forefront, and the report on the last

quarter, within the last month or so, some of these seem to be moving in the opposite direction.

Mr. NATHAN. They certainly do. I tell you. I would have rather seen certain kinds of price and allocation controls rather than taking away the incentives for drilling.

Representative LONG. I agree.

Mr. NATHAN. I think we know something now about the costs of new oil. The problems of distinguishing between new and old oil is sort of fouled up. The administration's policies on energy just drive me up a wall, because we don't know what the President is doing. On the one hand, he comes up with these taxes and excises and fees to increase the prices, which OPEC does much better than he can do. They can raise oil prices much more. On the other hand, the President raises the price of oil with not a bit of misgiving, and then somebody comes up with the strip mining bill, which will cost a little of course, and the President vetoes that bill. Goodness knows the price of coal has gone up to a point where there would be good profits even paying for restoring surfaces out of present profits. If not, there would be a little higher price of coal in order to restore the contours and our surfaces, but the bill is vetoed. If because of inflationary purposes, then why push up oil prices?

Then we come up with other problems. On May 30 came the mid-session review of the budget showing unemployment projections of tremendous magnitude, and literally the same week came a veto of emergency employment provisions, with the President saying that the recession is going to be over by the time such legislation could be effectuated.

#### CAPITAL FORMATION INVESTMENT

Well, there are areas such as the environment, conservation, Federal, State, and local relationships, savings and investment, and others where planning is greatly needed. One final point that Mr. Hagedorn talks about is the subject of capital formation and investment. We need to modernize and expand our capacity to increase production; I am not sure the problem lies in inadequate savings. It may be that the answer lies in some of our incentives. When we get to higher levels of employment and production, we find that private investment does not always use up our savings at such times, and that is one reason that you have Federal deficits in fairly prosperous times.

These are illustrative of the kinds of issues. Mr. Chairman, that require more and better planning. I do not believe that you ought to be tied right now to any permanent organizational formula. And whether it is duplicative, competitive, is less important than whether we have assurance that it will be done, and that we are going to have some planning. We have to move ahead within the free enterprise concepts to be much more effective and not be as wasteful and as costly in our mistakes as we have been in the past. Thank you.

Representative LONG. Thank you very much, Mr. Nathan. We are appreciative of your thoughts and your wisdom in these very complicated matters. Your prepared statement will be included in the hearing record, and we will come back with some questions with regard to these matters in a minute.

[The prepared statement of Mr. Nathan follows:]

## PREPARED STATEMENT OF ROBERT R. NATHAN

Mr. Chairman and members of the committee, thank you for the opportunity to participate in this important discussion relating to national economic planning in the United States. The need for economic planning and for much improved economic policies in the United States is apparent to every thoughtful person.

We are in the midst of the most severe recession since the 1930's. There is little evidence either that recovery will be vigorous or that the recession will overcome the serious inflation it was designed to combat.

In the first quarter of 1975 the gap between actual and potential Gross National Product in current prices was at an annual rate of \$225 billion. In the current second quarter of 1975 the GNP gap will be about \$250 billion. That is a tremendous price for the United States and the world to pay for a very limited and perhaps temporary abatement in the rate of inflation.

The severity of the recession is also revealed in the level of idleness in our labor force. Last month 9.2 percent of those normally employed and actively seeking work could not find jobs. When part-time idleness is converted to full-time unemployment equivalent, the labor force time lost was 9.9 percent. In addition, the last quarterly figure on "discouraged workers" was for March 1975, when 1.1 million normally employed individuals were idle but not counted as unemployed because they were not actively seeking jobs—having little hope of finding employment. Taking these three categories into account, we can conclude that some 11 percent of the labor force was idle in May.

This recession, as well as the one in 1970-71, did not just happen. Both were designed and pursued as a means of fighting inflation through a "soft economy." This one got out of hand but perhaps one might accept these bitter doses of medicine if a cure were in prospect. However, I know of no economist who is confident that we will achieve reasonable price stability as the result of the policies now being pursued. In fact, the Administration itself does not envisage reasonable price stability for the entire balance of this decade.

This Committee does not need a restatement of any more facts giving evidence of the dismal failures of the aimless economic programs and policies of recent years. It is clear that this country has suffered from severe economic mismanagement.

Clearly, we do need national economic planning. This does not mean government ownership of productive resources. It does not mean government regimentation and control of those functions and activities which we traditionally leave to the private sector and to state and local governments.

Economic planning does mean that there will be careful and thoughtful consideration of goals and purposes for the nation and for regions and sectors. It does mean that there will be formulations of overall fiscal and monetary policies of incentives as well as constraints to induce efficient and expansive private production. It does call for the formulation of a variety of programs and measures that will not just provide us with high levels of production and employment along with price stability, but which will also assure full opportunities for every citizen to participate and share in the great productive resources of this nation.

The principal issue is not whether we have national economic planning, but how and where it is to be undertaken. We must not assume that the mere establishment of planning mechanisms will yield good economic planning. In my judgment, the Employment Act of 1946 was one of the great economic charters of this nation. Yet in recent years that existing legislation has been largely ignored, if not "repealed" by failure to carry out its mandate.

It is most difficult for the Congress to formulate legislation which will definitely assure good planning. But surely the requirements set forth in the Humphrey-Javits bill will enhance the prospects for getting such results. Although the Employment Act of 1946 has been largely neglected, the very fact that the Council of Economic Advisers must submit reports and must testify before the Congress at least permits some focus on the failures as well as the successes of the public economic policies.

I believe that the legislation setting up the Committees on the Budget in the Congress will prove fruitful, but here again there can be no absolute assurance of success and effectiveness because it depends so much on what the members of those Committees decide and how the full Congress responds.

I support the Humphrey-Javits bill because it will focus attention on economic planning, which the Council of Economic Advisers has so strongly neglected in recent years. It isn't just the long-term versus short-term perspective which warrants this legislation and this new mechanism for national economic planning, but there is some difference in emphasis and orientation of the planning function as distinct from the policy formulation and coordination functions.

Planning can be worse than useless if it raises false hopes and is never implemented. In too many of the less developed countries of the world expectations have been enlarged and the disillusionment has been damaging.

Equally important, economic policies that deal on an *ad hoc* basis are often ineffective or counter-productive. Thus, policy formulation and policy coordination must be based on fundamental planning goals and programs. Similarly, planning must be realistically related to the real world of policies and problems to avoid its becoming a futile exercise of ivory tower research.

The problem is necessarily one of assuring that both the planning job on the one hand and the policy formulation and coordination task on the other will be effectively performed and interrelated. I believe the Humphrey-Javits bill and the Humphrey-Hawkins bill will tend to achieve these purposes. If they do not prove to be of optimum effectiveness, surely the organizational structure can be amended.

The fact that the Congress will have access to both the Council of Economic Advisers and to the National Economic Planning Board will at least afford opportunities to focus national attention on critical issues and constructive programs.

I know of no way in which the Executive Branch of the Government can be forced to carry out such broad mandates as called for in the Employment Act of 1946 or in the suggested "Balanced Growth and Economic Planning Act of 1975." However, these legislative vehicles will certainly help focus the attention of the country on those issues and those policies and those programs in which the public is vitally interested and which will strongly influence the economic well-being of the nation.

Representative LONG, Mr. Leontief, we are pleased that you were able to be here, and we understood your problems. And we will be most honored to hear from you at this time, sir.

**STATEMENT OF W. W. LEONTIEF, PROFESSOR OF ECONOMICS,  
HARVARD UNIVERSITY**

Mr. LEONTIEF, Congressman Long, I must apologize for being a little late. It is my custom usually to come early enough to hear what other people are testifying to. But unfortunately, I was held circling over the Capitol.

I will try not to take more than 15 minutes, and since I think that the general feeling that our system does not work as well as it should was expressed very eloquently from many different points of view, I intend to center my remarks on the specific topic of these hearings—the planning approach to management of the national economy—keeping out of the ideological controversies which tend to generate more heat than light.

What we have tried to do was to tackle one problem after another as they came up. The resulting overall picture has been most depressing—difficulties having cropped up here and there and everywhere. We appoint a committee which tries to deal with one particular problem, and more often than not it simply shifts the difficulty into another area. The ordinary citizen, the bystander, even many of the Congressmen, really cannot follow, not to say, understand, the disjointed sequence.



## PLANS AND ALTERNATIVES

What is required first of all is a systematic procedure. We should try to present a comprehensive, detailed picture of the actual state of the economy, then proceed to look ahead. That means compiling systematic pictures of the possible alternative future states of the economy, each corresponding to one of the different policies one might pursue, or to a different course of external events which we might not even be able to control, but which will have to be taken into account as soon as they occur or preferably even in advance of their occurrence. These would be pictures of the economy 2 years from now, 4 years from now, 6 years from now, and so on.

In the case of energy, one obviously must look 10, 15, or even 20 years ahead. In areas in which a long-term process is involved, future developments can be anticipated with a fair degree of accuracy. I do not mean to say that they can be anticipated on the basis of information that the Government or private business has in hand at the present time. One of the greatest deficiencies from which all decisionmakers in the economic field are suffering—and the decisionmakers in the executive and legislative branches of our Government in particular—is the lack of well-organized factual information.

Representative LONG. Is it the absence of the information, or is it the absence of the information in a form which we can use it and understand it, Mr. Leontief?

## ORGANIZED INFORMATION

MR. LEONTIEF. You took the words right out of my mouth, Congressman. I have in mind not just piles of facts and figures, but detailed information providing us with a view of the U.S. economy as a system consisting of many different but independent parts. It is the knowledge of these interrelationships that would permit the policy-makers to transform the sequence of disjointed and often mutually inconsistent governmental interventions into an orderly and systematic process of national economic planning.

I cannot abstain from reminding you that at the present time all Federal statistical agencies taken together spend not more than \$200 or \$250 million on gathering the basic data on the basis of which all governmental and many corporate decisions are actually made—think of it, \$200 million in a \$1,400 billion economy.

The annual appropriations to Federal statistical agencies should be increased by at least \$250 million. Comparing this figure with the cost of, say, a squadron of advanced military planes or a single submarine, one must agree that this would be a worthwhile investment of public money.

Such basic economic information can and should be presented in such a way that even an ordinary citizen could understand its meaning. We do not have to gage the state of the economy by the movement of a few general indexes: The "GNP," the "wholesale," or "price index" are indeed very abstract summary notions. We can and must describe its state in terms of much more concrete details: So many million tons of steel produced, so many passengers transported, so many houses and apartments built. While the average rate of unemployment for the country as a whole is 8 percent, in Massachusetts 20 or 25 percent of

workers might be unemployed. To secure an understanding of the governmental actions and the economic field by businessmen, by laboring men, and by the rest of the community, its aims and goals have to be presented in specific tangible terms.

Why not leave all economic planning to private individuals and corporations? Because the individual decisionmakers cannot see the entire picture. Ask corporate planning officers about the assumptions concerning the future state of the economy on which they base their plans or even concerning the state of their own industry, or of the industries to which it sells its products, and more often than not you will find them to be not only different, but contradictory. Put all their individual plans together and you will find that they could not possibly be realized at the same time. Each single plan is based on assumptions concerning the prospective moves of the other fellow which have no resemblance to what they actually intend to do.

Just putting the entire picture together is bound to yield a more realistic, less speculative view of the country's economy. Without such an internally consistent view, how can one decide, in case the situation calls for it, on effective remedial action?

#### INFLATION—A SYMPTOM OF ECONOMIC DISORDER

Turning to the specific problem of inflation, I think that we cannot stop inflation by purely monetary and fiscal means without inflicting in the process some great damages on the economy. Inflation is a symptom, not the cause of our economic ills. To reestablish, and what is more important, to maintain a full-employment balance, we have to visualize it in great detail.

This is indeed a difficult assignment. But without such constant and effective monitoring how can one expect the trade unions to moderate their demand for increase in money wages, the manufacturers to abstain from rising prices, and most of all, how can one expect the Government to be able to carry out its part of the bargain by keeping the economy advancing smoothly and steadily on an even course?

In the coming year, important international negotiations will be conducted and agreements on various economic matters will have to be reached with other countries. In order to be able to deal effectively with the outside world, one must know and have reasonably good control over what is happening at home. It is pathetic to see how our negotiators, confronted with representatives of governments who seem to have a pretty good hold on their domestic situation, often seem to have a very vague idea of what can be expected to develop in their own backyard. One even has occasionally the feeling that we enter foreign commitments as a means of controlling indirectly the domestic situation.

#### SHORT-LONG RANGE PLANNING RELATIONSHIP

Now, there is the question of the relationship between shortrun and longrun planning. There is a natural tendency whenever one faces both shortrun problems and longrun problems to pay immediate attention to the first and neglect the second. The result is that the longrun problems are not solved and, of course, they always come home to roost in the form of intractable shortrun problems.

Representative LONG. Eat, drink, and be merry, for tomorrow you may die.

Mr. LEONTIEF. That is why I would suggest keeping the longrun planning process separate from the activities of the Council of Economic Advisers which cannot help from having its hands full of immediate, unpostponable, shortrun decisions.

The planning approach cannot be introduced at once. A new machine has to be installed and put in operation step by step. The more powerful the machine, the slower the process of gaining the experience required for its effective handling.

Of all the examples of effective planning which I have seen, the best can be found in the small country of Norway, which incidentally is a democratic country with flourishing private enterprise. It offers a picture of even progress, of a modern economy propelled forward by private initiative, and guided by a very visible public hand.

Representative LONG. How long have they been carrying on their plan in Norway, Mr. Leontief?

Mr. LEONTIEF. They started at the end of World War II; that is, many years ago.

Representative LONG. May I depart for a minute from what we have as our established procedure here to pursue this Norwegian thing for a minute. How is this problem of being sure that you do not go into a planned economy when you are doing planning, which is really, as Mr. Hagedorn pointed out, and I think was pointed out by our witnesses here yesterday, a real problem? How do we really separate this thing, because it is a danger, it is something that everybody is scared of, and I think scared of with reason?

Now, how have they done that, and how has it worked under the Norwegian process?

#### SEPARATION OF PLANNING FROM PLANNED

Mr. LEONTIEF. From the time our Government was first established 200 years ago, gathering and assimilation of useful economic and technical information has been recognized to be one of its important responsibilities.

With inauguration of national economic planning in addition to publishing comprehensive, up-to-date information on the actual state of the economy, the Government will also provide systematic projections describing what it expects or, should one say, intends, the state to be 2, 4 and, say, 6 years from now.

Most large, many middle-sized, and even some small businesses prepare such economic projections themselves or purchase them from independent private consulting organizations. Without such background information, how can they formulate their own corporate plans? Official overall projections can be expected to be utilized by corporate planners in the same way. The only difference being that these can be expected to be much more comprehensive, internally consistent and because of that, more reliable.

When it comes to the question of plan fulfillment, let us not forget that about one-third of goods and services produced in this country are being purchased directly by the Government. By obeying the injunction of its own planning body, it can thus make a major contribution to the realization of a national plan.

Those who object to planning because it means governmental interference seem to forget that the Government affects all aspects of the economic life of the country, now, without any plan. It does so in a rather unsystematic, haphazard fashion.

By coordinating its various moves, by making them mutually supporting rather than permitting different agencies to operate at cross purposes—that is, by proceeding in accordance with an internally consistent plan—the Government should be able to achieve much better results with less, rather than more, unnecessary interference.

Representative LOUG. Thank you. It has been most interesting, Mr. Leontief, and the committee is appreciative of your views.

Mr. Hagedorn, you expressed a view contrary to that of Mr. Leontief's and Mr. Nathan's with respect to the success of planning in some of the countries abroad. I understood Mr. Nathan's statement and Mr. Leontief's testimony to be that they feel that these have been perhaps even more than just modestly successful, and yet that they have been able to do it with not only not a planned society, but really with perhaps giving more freedom than we have done here by the hit-and-miss type of operation we have.

Do you have any further comments on that? And I would like perhaps to get the comments of all of the other three.

Mr. HAGEDORN. I was speaking of the three countries that I mentioned—France, Japan, and the United Kingdom—which tried planning back in the 1940's and then tried it again in the 1960's.

Now, I think largely in those countries what happened was that after a year so, nobody paid any attention to the plan, either in the Government or in the private sector. The planning system cannot be described in those countries as either a great disaster or a great success. To a large extent it was a nullity in all of those countries. It was just something that was forgotten and done as an exercise.

Representative LOUG. Mr. Nathan.

Mr. HAGEDORN. This may be different from the experience of others.

Representative LOUG. I think Mr. Nathan has a considerable amount of experience. And I would add one comment. Of course, when you are dealing with figures here, you are not even sure that the basis is a true comparison, but I made the point yesterday that just looking on the face of them, and there might be some distinctions that I do not realize, that the unemployment in France at the current time, in spite of the fact that they had substantially more of an impact of the impertation of oil in this whole situation with this dramatic increase in the price of a basic commodity, this most basic of commodities nearly other than food, that they were more dependent on the Arab Nations than we were, and that their unemployment, at least according to the figures I have seen, is about 50 percent lower than it is in the United States. I do not know whether there is any relevancy between this and the fact that they have been doing some planning, and I do not even know that the figures are true comparison figures. Would you like to comment on that, Mr. Nathan?

Mr. NATHAN. Yes, I think it is a strange thing for people to be so fearful about planning because of the damage it might do. When we look at some of these countries, it is hard to see the effects of total planning, because they do not do total planning. Therefore, people say, well, they are not doing any planning, or they are ignoring planning, and planning is a failure. I think we get mixed up between ideology on the one hand and planning on the other.

## PLAN WITHIN IDEOLOGY

I know of no country that has pursued planning, detailed, superficial, philosophical, conceptual goals, or what have you, that has become a totalitarian country because of planning. I think the ideology is there, and you plan within that ideology rather than the ideology being determined by the planning process.

Representative LONG. I think that is a very good point, and what we here should remember is that we are working within that context of what your political ideology is and economic ideology, and we can do it within that context without running into the danger.

Mr. NATHAN. Absolutely. I have worked in some 30 countries, mostly less developed, though not all. I find that when you try to help them plan, when they are socialists, they stay socialists, and the planning is usually worse than if they believe in a certain amount of freedom. You help them plan within that framework. And I do not think you change their ideologies by the planning process per se. Sometimes you can make them see certain things that they otherwise do not.

But, let me just take a minute about France. France came out, as we know, of World War II badly destroyed in every respect. The kind of planning they did in the immediate postwar period was far more penetrating than what they have done more recently, because there was a need for resource allocation, resource mobilization, resource expansion, and I think they did an excellent job.

On the other hand, in recent years, they have maintained this mechanism which has probably intervened far less, but has had, I think, some continuing success.

Sweden has had planning for a long time, and I will be there in about 10 days, and then I will be in Norway for a while, a couple or 3 weeks from now, and I think these governments, without trying to regiment their economies, without trying to own, without trying to control, have had a wholesome influence.

Japan has not had its fantastic growth rate and very high investment rate just by chance. It is true that it is a different society. They have far more of a sort of joint effort between large business and the Government than do we, and they believe in cartels and they believe in quasi-monopoly, if not monopoly. But this is well thought out ahead of time.

I could take you to a place like Korea. Under Rhee there was supposed to be a free enterprise system. But it was about as lacking in freedom as anybody could conceive. There was no plan, and the economy was stagnant. Then came a big change. They have now had some excellent planning there and that country has had a growth rate that is quite phenomenal. It had an export growth rate of 40 percent a year compounded, which is unbelievably high. In 1960 Korea's exports—South Korea—were \$30 million a year, and this past year they were \$4.5 billion; from \$30 million 15 years ago. A lot of planning took place there, but it was not the regimentation, it was not the detailed planning, and the Government does not own facilities, but it does direct the flow of credit, incentives, organizing, and whatever.

And we can look around and we can look at Taiwan and we can look at Korea, and Singapore, and we can look at Malaya and some countries in Latin America and, there are a lot of countries that have

benefited by it. But again, I say a lot of people say, oh, but they are not really planned because the nature and character of their plans are what people sort of do not want.

Representative LONG. The very danger that everyone is scared of is the fact that they did not go to that extreme in it and is in many instances, in my opinion, looked upon as a failure in the planning itself.

Mr. NATHAN. That is correct. Surprisingly, yes.

Representative LONG. That really surprises me. I know that you have had some experience other than in your constituency that you have in Norway, Mr. Leontief.

#### NATIONALIZATION

Mr. LEONTIEF. Planning has very little to do with nationalization. Nationalization in a free country usually comes when an industry finds itself in trouble, and private enterprise does not want to run it any more. Nationalization is a rescue operation of the last resort. The healthier the economy, the less likely will it be necessary for the Government to take over the railroads, utilities, and so forth. Planning, like good piloting, should make it possible to keep the economy on an even keel, guiding it through dangerous shoals even in stormy weather. Far from opening a path toward Government takeover, planning can safeguard the health of the economy as a whole and all its separate parts, thus reducing the threat of insolvency and eventual nationalization.

Representative LONG. Would you agree with this point? I am one of those that believes that the very fact that we have not done any planning is one of the things that is responsible for Government intervention that we have had to the degree that we have had in the last few years, and that is going back to what Mr. Keyserling was talking about. In many instances, we have come on the short-range basis to take care of an emergency. And sitting on the Rules Committee in the House as I do, it is always surprising to me to see how many pieces of legislation come through that committee, before going to the floor of the House of Representatives, called emergency legislation. We emergency this, emergency that, emergency this, and we go from one to the other, and we have got ourselves involved without any cohesiveness as to the relationship that we want in one to the other in operating to the degree that it has become nearly a controlled economy by Government intervention, by treating emergencies and treating symptoms rather than thinking out beforehand on how the Government can stay out of these things and allow people to look at the long-range objectives.

Mr. LEONTIEF. One of the principal arguments against the introduction of national economic planning in the United States is that it was tried in other countries and supposedly, it did not succeed. First, in some of these countries such as the previously cited Norwegian example, planning has worked very well. Second, even if the planning approach has met with difficulties in other countries, there is no reason why we must make the same mistakes. Many new ideas originated in the old world but were brought to full fruition here in the United States. The first automobiles were built in Europe, but it was this country that created the modern automobile industry. It was the Russians who launched the Sputnik, but it is the American know-how—

the American capacity for organization—that will make it possible to launch the Space Shuttle next year.

Planning is one of the most difficult tasks that an advanced society can undertake, but it is also one of the most rewarding. This country possesses the capabilities of accomplishing it.

Representative LONG. Mr. Keyserling, it has been an hour and 15 minutes since you had an opportunity to say anything. What are your comments on what has been going on here for the last hour and 15 minutes?

MR. KEYSERLING. Maybe I can make up for it.

In the first place, while I have not had anything approximating the experience of Mr. Nathan in working in detail with other countries—I have done most of my work in the United States—there are some advantages in observing other countries from the outside, and I have also done some work with some countries. I think I am quite familiar with the situation in most of the countries in Western Europe, including the Scandinavian countries, with the situation in Japan, with the situation in India, and Israel, which gives you a pretty variegated example.

First, I would repeat what Mr. Leontief said, that vast dissimilarities in conditions in the United States and other countries should lead to care in making comparisons. I have seen these comparisons misused almost as often as they have been properly used.

#### VALUE OF DEMOCRATIC PLANNING

Allowing for that, I would make a generalization. Practically all of the countries I have mentioned, and I would have to exclude Britain, which has not been successful for a variety of other reasons, but taking Western Europe, taking the Scandinavian countries, taking especially Germany, and taking Japan, they have all illustrated the immense value of democratic planning, which has nothing to do with totalitarianism, and I think they all offer an immense example for the United States. We hear a lot of things about them that are not true, and I remember, as to Germany, when the then Chancellor of the Exchequer Ehrhart was over here, he was making speeches and everybody in America was interpreting them to teach America the lesson that we could succeed better if we even got rid of all government interference and let freedom have its way. But there was no meeting of the minds as to terminology, and the German economy, which Ehrhart was describing was, and always has been, because they are a disciplined people, a much more planned economy than we have been. I will not go into precise examples, but they certainly effectuate much more central control of the flow of credit and the banks than we do in the United States, and they have a much more planned economy than we do. And they have made a marvelous record.

I would like to tell a little story about France. When I was on the Council of Economic Advisers during the Korean war, and I think we were doing a lot of planning then, and a lot of the French productivity teams came in to see me, and I showed them what we were doing and how we were planning for materials and the building of an industrial base and the allocation of all of those things. I said that some of these approaches would be needed later in peacetime. They

would not all be needed, but I showed them the process, and they became very impressed. And I became, as soon as I got out of the Government, a consultant working with the French Government, and I was over there, and I was with them in some of the very early stages of their indicative planning, which has been a success.

Now, the point of the story is not to say what I did, but that later on, when President Kennedy became President, there was a great deal of concern about the slow pace of economic growth and the high unemployment and so forth. And I said why don't you send some of your Council of Economic Advisers people over to see what France is doing. And they went over to see what France was doing, and they came back with the report that well, that may be good for France, but it has nothing whatsoever to do with the United States. But they learned some of it from us, I am all for that kind of planning, with proper adaptations.

#### PLANNING FOR THE FUTURE

If I may say a few other words about some of the things that have been brought up. I listened to what has been said here, suggesting a dichotomy between short-range and long-range planning, supporting I will not say a preconceived but a prearrived at view as to agency structure. Nonetheless, there seems to be almost complete agreement that you cannot really separate the two. There is no way better to illustrate this than what you said, Congressman Long, when you referred to the mess that the agencies create when they come in with short-range emergency, improvised solutions and forget about the long range. The very meaning of planning, for we are always acting in the present, we can never act in the future, the real meaning of planning is what you do now for today relates to a longer time pattern, a longer time perspective. And what we expect to do tomorrow must build upon what we do this year, the next year, and over the longer period for several years.

Now, the examples of private planning have been considerable. It is inconceivable that General Motors or any of the great business organizations that we talk of as doing planning, would have a dichotomy and a separation between short range and long range. They are taking a look at the whole picture, and they are looking as far ahead as they can, and they are concerned about it today, but they put the two together. And in a family, they have got to have planning in the short run, but they would not turn to one person to define that and a different group to lay out the plan for the long-range future, as to how they are going to have money to educate their child 20 years from now. It has all got to be part of one plan and program, or you get the mess that you have got now in government policy.

#### CENTRALIZATION OF STRATEGY

Now, you come in that connection, and may I say that, in the years that I have been shedding blood in favor of economic planning, I have pointed out that planning will involve many savings. Nothing would do more to weed out the duplication of government agencies, and that is why I would be so unhappy to see planning starting by creating a new agency, nothing would do more to weed out the excess in government



and the cross-purposes and duplications of agencies than to have a centralization of strategy, and that is what planning is. In the name of trying everything, in the late war against poverty, we set up thousands of organic units at all levels of government and elsewhere. But a planning unit could say, look, there are five strategic things that the Government ought to do, and you would have a more effective war against poverty, and you wouldn't be organizing chaos in the name of participation. But I was not heeded, and see what happened? We ought to have brought the things together, and there were only four or five things that needed to be done.

#### CONGRESS MUST SET MANDATES

Let me take the related matter of organization now. I realize that at this early stage nobody is committed finally to any pattern of organization. It is exploratory, it has got to be looked at. But I have spent 20 years in government, and 22 subsequent years watching the Government closely, as I am mostly concerned with public policy. I believe that, just as in our law procedure and substance go together, so in government administration and substance go together. I do not primarily care whether we have the Council of Economic Advisers or some other agency in place of it. I have no vested interest in it. I do not care whether we have an employment council instead, and I do not care whether we set up something new or build on what we have got. But I cannot follow the argument, because the Council of Economic Advisers has fallen down under a plenary Employment Act, and nobody has talked about its falling down more than me, that we should set up another agency which would have to do essentially the same thing as what the Council ought to do if it continues to exist.

Now, let us take that argument a little bit further. I am even more disappointed and dismayed with the operation of the Federal Reserve System than I am with the operation of the CEA under the Employment Act. Should we set up a second Federal Reserve System? I am more disappointed with the way, and I worked 9 years in the housing field, and drew most of the basic housing legislation and drew for President Roosevelt the Executive order that put them together into one agency, I am as disappointed as anybody could be with the operation of the Department of Housing and Urban Development. They have piddled away and defied the act of 1949, which I drafted for Wagner, Ellender, and Taft. So, what are we going to do, set up another agency because we have lost confidence in them? And I could carry this on ad nauseam. I think the Congress has to set certain mandates. I think it has to design the confines of planning that go beyond what agencies should decide.

Now, if one is interested, and sometimes economists get a little bit interested, if one is interested in more and more economic studies coming out, and they are interested, they are delectable, people can write articles about them, more congressional hearings with more studies, that is one thing. But that is not good government. If you have two planning agencies, the reports under both concepts have to be approved by the President and go up as the President's report. They both have to deal with very much the same subject matter. Now, how

could they not be consistent if they are both going to be sent up by the President at the same time to the same Joint Economic Committee? They are both the President's program, so if the President sends up two programs instead of one, he cannot say one is going to deal with 5 years from now and another is going to deal with now. If they are inconsistent, then this is the very antithesis of planning in the executive branch, and how could the executive branch send to the Congress two basically inconsistent programs for the Congress to proceed at the same?

So I hope that the questions of organization will not be considered as subsidiary questions. Organization and performance are intimately related in a Government which now has—and let me say something about the gathering of information, if I may. I disagree with Professor Leontief. We do not get too little information. We ought to have half as many people in the Government as we have gathering information. They are running into themselves, and it is running out of their ears, and half of them are doing nothing. The number of statisticians and research people and economists scattered among the countless agencies is fantastic. The trouble is they do not realize that even pure science and research needs to be guided by a question. Somebody has got to be asking the questions.

**Representative LONG.** That is just what I was thinking.

**Mr. KEYSERLING.** And when a scientist asks a question, the great scientist first asks a question and first has a hypothesis.

I am president of a nonprofit, nonpartisan private work group that works with four, five, or six people. I do not have 60, 600, or 6,000 people on my staff, and I have made studies of all of these various subjects which I think are pretty responsible studies of the application of the planning approach to agriculture, to transportation, to housing, and to other things. And when I turned to the Department of Agriculture, which had thousands or tens of thousands of research people, I could not get the information I asked for, because with all their work, they had not even asked the important questions. And when I turned to the Department of Commerce, I could not get the figures on income distribution as of that time, because they had not thought that was important enough a problem to gather statistics on. And they did have one very able girl who has passed away since, but it frustrated her. So the problem was having somebody who could ask the questions.

Now, I do not see a planning body as a huge agency to spend \$250 million or so a year more on giving economists jobs to gather information without knowing what they are gathering it for. I see a planning agency, whether it is the Council of Economic Advisers or some new agency, but not both, being an economic general staff that certifies to the large scale departments what kind of information they need from them and what kinds of questions ought to be asked, and get that information from the specialized, the larger agencies, not build up their own staff. The Council of Economic Advisers should have been saying to the Interstate Commerce Commission: Is there any connection between your detailed regulation of railroads and our broad components of what kind of a railroad system we need for the kind of an economy that we want? Now, the same thing as to the Department of Agriculture.

## SMALL PLANNING AGENCY

So I see a small, a small planning agency performing the overall function of providing a unified economic and social budget. I do not care what you call it, performance budget for the American economy, but obtaining the detailed information and help from the mass agencies and directing and stimulating their research and activity along fruitful lines by relating to the whole.

Representative LONG. Mr. Hagedorn, Mr. Keyserling in his prepared statement and also in his remarks intimated or suggested, I guess nearly asserted, that the current administration has nearly or deliberately brought about this high unemployment, and low production in order to contain the inflation problem. What is your view on that? Do you think this was a deliberate move on the part of the present administration?

Mr. HAGEDORN. I think the current situation has to be viewed in the background of a long series of economic mistakes that have been made.

I would date this process roughly back 10 years, to 1964, the beginning of the "new economics" at that time.

And I might say that I want to put myself on record as agreeing very strongly with both Mr. Keyserling and Mr. Nathan on the fallacy of the tradeoff theory, that you can trade off unemployment against inflation, and that you can have less of one by having more of the other. I think that has been one of the great fallacies that has misled national economic policy for at least the last 10 years.

Representative LONG. There does not seem to be much question about that. And that is the policy that is being followed today, is it not?

## STOP AND GO ECONOMY

Mr. HAGEDORN. Well, the policy that has been followed more or less continuously over the past 10 years was to stimulate the economy with the feeling that well, you know, we have a margin, and we do not have to worry about inflation until that margin is used up. Then suddenly, you find that the economy is running into an overheated period, and then people step on the brakes hard in the other direction. And we have had this stop and go economy for the last 10 years.

Now, I do not think that you are ever going to have an economy that does not have some degree of fluctuation. But what is of concern in this process that has occurred roughly in the last 10 years is that both the problems of unemployment and inflation seem to get worse in a series of waves. I might say look at the unemployment problem first of all. Over the past 10 years, we had what is called a mini-recession, if you will forgive me for using that jargon, in 1967. We quickly got out of that. Then we had a recession in 1970. I would say an ordinary, garden variety type of recession.

Now, we have this time what you might call a maxirecession, and it is that process of getting worse continually as it recurs that is starting to worry people as to what happens the next time.

Representative LONG. The peaks are getting higher and the valleys are getting deeper.

Mr. HAGEDORN. And the inflation problem the same way. It has occurred in waves. After the stimulation of the economy with the across-the-board tax cut in 1964, you did get a faster rate of economic activity; and also in 1966, you began to run into an inflation problem. As we look back, you know, it seems almost comical that we were worried about an inflation of 3 percent, compared to what has happened since. But we were worried, and what happened? Well, the Federal Reserve Board stepped heavily on the money supply, and we had a very slow growth of the money supply in 1966. We had a credit crunch, we had housing reduced to a very low level, and we got into the minirecession of the next year. We got into the minirecession, and everybody reverses over to the other side. And it has been that process. And the result of it has been that the problems of both inflation and unemployment keep getting worse.

Now, we happen to be right at this moment in a position where the unemployment problem is at a maximum or close to a maximum.

Representative LONG. We hope.

Mr. HAGEDORN. Yes; close to a maximum. I would guess for this year, whereas the inflation problem is receding. Now, are we going to suddenly throw all of the weight over onto the other side of the ship? You know, looking at the spectacle of the way economic policy has been made over the past 10 years in this country, it gives me a picture of, say, an excursion boat, and all of the people aboard it crowd on say the left-hand rail to look at something they see over in that direction, and the boat starts listing in that direction. And the captain gets panicky when the boat started to go over there, and the captain shouts to them: "Everybody over to the right-hand rail." So everybody runs over to the right-hand rail, and the boat starts listing in that direction. And it keeps going on and the boat goes back and forth, and each time it dips down in one direction or the other, and each time it dips a little further, and some kind of a catastrophe lies ahead for that boat. And what the captain ought to be doing is saying, please try to keep in the middle of the boat, or distribute yourselves around the boat, don't crowd on one side or the other, rather than encouraging this process of going from one side to the other to correct the problem as perceived in the immediate present.

Representative LONG. And that requires some planning to get them all in the middle of the boat?

Mr. HAGEDORN. That is right, and the action by the Federal Reserve System and the fiscal action by Congress, not rushing toward stimulation, all-out stimulation one year, and all-out restraint the next year. That is the sort of thing that has got us into our macroeconomic problems.

Representative LONG. Thank you.

Senator JAVRS [presiding]. I must apologize to you, but I am the ranking member of the Labor Committee, and we had an executive meeting upstairs, and I simply had to absent myself.

I would like to thank you on behalf of the committee for the time and attention you have given to your testimony. And I have just one or two questions to ask.

First, let me say, Mr. Hagedorn, that I think I like very much your description of the bill. I would like to pick out two, not for the pur-

pose of repeating them, but solely so that they may be highlighted in the testimony.

You say in your prepared statement in describing the bill: "Machinery that compels a careful scrutiny of Government actions in the light of their long-run effects could be helpful." That, of course, is what Senator Humphrey and I have in mind. The description again, the same idea, "The most that planning can do—and it is considerable—is to bring forcibly to the attention of the decisionmakers the long-run implications of the decisions they have to make."

I think that expresses very well our feeling. It expresses obviously Mr. Nathan's feeling and I think perhaps in the general principle of a bill, as Leon Keyserling suggested.

Now, could we have from you witnesses, and you are all very consequential people in your own right, any consensus on the following:

Mr. Keyserling suggests that we ought to have one administering agency—to wit, the Council of Economic Advisers—for short- and long-range policy planning. He is shaking his head.

Mr. KEYSERLING. No, sir. I see one agency, and I do not care whether it is the Council of Economic Advisers or a new agency.

Senator JAVITS. I understand. Good. A single agency for both functions under the Employment Act of 1946 and our bill, correct? That is your point?

Mr. KEYSERLING. Under the functions of the Employment Act as those functions would have to be if it had not been rendered meaningless. In other words, a fulfillment of that job.

Senator JAVITS. Right. Now, would you agree with that?

Mr. HAGEDORN. Let me say I would not make a matter of principle out of the machinery. I have devoted my thinking more to the substance of what the planning process should be than the organizational machinery for carrying it out.

I would say, though, yes; I share the qualms about the proliferation of numerous Government agencies, all of which might be doing the same thing, in which case they are unnecessary, or might be working at cross-purposes, in which case you could do damage. And, in general, Senator, and I mean this to be a helpful comment, the complex machinery that you have proposed in the Humphrey-Javits planning bill seems to me very, very cumbersome. You are going to have a planning board, a council on economic planning, an information commission, an advisory group, and then the process is to be referred to the 50 Governors and they are to farm it out to the localities. I don't know what kind of a horse a process like that could design. I think you are more likely to turn out with a camel than with a horse.

I would not make it a matter of principle on any of these comments.

Senator JAVITS. Thank you.

Mr. HAGEDORN. I am offering them for what they are worth.

Senator JAVITS. Mr. Nathan.

Mr. NATHAN. I do not think the major issue is whether it is one or two organizations, but I am convinced that you are going to have to have some different kinds of people doing these tasks. I agree with Leon Keyserling, that the long and short interrelate, because short-run actions and policies that take no consideration as to where you are going or where you want to go, can get you off on a bad tangent. And

also what Mr. Hagedorn says about false starts and up and down and fast and slow alternatives, is correct.

But on the other hand, if you are going to really probe into the basic problems, there are certain characteristics of the analytical process which are different from policy formulation and policy implementation and coordination. No matter how hard you work at it, you are going to have certain ad hoc things that have to be done, and they ought to be done in the perspective of goals. But that is not always possible. You know, sometimes you have got political considerations. You do have some alternatives which are not really clear in terms of the basic perspective one seeks, and I have had a lot of experience in a lot of countries where we had a 5-year planning group that was so ivory tower in nature as to not know what is going on. Then their plans are just a lot of paper that gets filed on shelves.

On the other hand, if you have the basic planning function done well, often you find these people are just not very good on the give-and-take of policymaking and experimentation. It is all or nothing. In other words, either we get 100 percent or nothing is worthwhile. In reality of life, and in politics and in government and in business, sometimes you have to take 60 percent rather than nothing, or 80 percent. There will be policy coordination and policy cross-fertilization that take certain kinds of operating maneuvers, if I may use that word, not in a pejorative manner, but in a constructive way. I think that the kind of people one would need in policy formulation and policy coordination have to be a little faster and a little more flexible perhaps, and a little more imaginative than the planners. On the other hand, you do have to have planning people who do not work as fast, who can probe and dig, and be thorough. I do not care whether that planning function is part of the same body that has the policy and coordination role, or whether it is separate, but they obviously have to be interrelated.

In many countries, I have seen established a national planning commission or a national planning cabinet post, that does the longer run planning. You have an economic and social council that really includes the cabinet. It says to agriculture, what is your price policy on this, and how does your policy fit? You have the two mechanisms and it works very well as long as the one ties in with the other, whether they are in the same agency or whether they are separate, but they are meaningfully pulled together by the chief executive or vice president for economic affairs, or whatever it is. There has to be an interrelationship, but I also think you are going to have somewhat different people for these different tasks.

I agree with Leon Keyserling that you do not need a phenomenally large bureaucracy and that you ought to call on all agencies to participate. The worst thing in the world is to have a planning body that does all the planning itself. If you have that in the White House, or wherever it is, Interior is going to say, boy, you are not planning for me and when that plan comes down I will pay no attention to it, or Agriculture or Commerce or Treasury will have that attitude. So you want to bring them into the process so that they play a part of planning and implementing. You are going to have to have a reasonable number of first-rate people on this particular job wherever it is located.

Mr. KEYSERLING. May I make a point?

Senator JAVITS. I will come back to you in a minute. This reminds me of the fact that Mr. Keyserling made it clear that he expected whatever we did to be mandated on the Federal level as a matter of basic policy. That is, you were saying that the Federal Government, as far as you are concerned, this is the policy of the Federal Government once it is turned out to the Congress and the President approves it, et cetera, so that you would automatically then answer your question about a Government agency, and Government agencies would, insofar as policy binds them, participate, and obviously it is not substantive law in that regard, but they would be bound.

Mr. NATHAN. But then if it were spelled out very precisely—it is awfully hard to mandate principles, you know—you could mandate to the Administration that they have to set up this kind of an organization, with this kind of a staff, with this kind of a structure, with this kind of personnel and so forth. Even so, they can frustrate it. I honestly believe the violation of the Employment Act of 1946 is about as illegal an operation as I can imagine. But I favor mandating to the fullest extent possible. But you should not have any illusions that the executive branch is always going to follow in detail, because every time you put a tax on, somebody learns how to evade it or to avoid it, and it is a constant process.

Senator JAVITS. Mr. Keyserling.

#### COORDINATED AND INTER-RELATED AGENCY

Mr. KEYSERLING. I just want to say one word more on what Mr. Nathan said, because I agree with him and I think he agrees with me, because toward the end of what he said he said obviously the two have got to be coordinated and interrelated.

Now, under the current, proposed structure in the Humphrey-Javits bill, and the current structure of the Council of Economic Advisers, they would not be interrelated except in two senses, except in the sense first that both of them do have to emanate from the President, but since they were not otherwise interrelated, you would have two top-level, ambitious agencies coming up with different results and the President would have to set up a third agency, and I am not joking, in the White House, to decide between the two. And there is a lot of that going on, because of the duplication, and we all know about the problem of the third government in the President's office. So that worries me.

Now, I accept Mr. Nathan's distinction between the kind of people who have to act and the kind of people who have to indulge in sort of the long-range research and thinking and the perspective, but I do not make a demarcation between acting in the short run and acting in the long run. I make a demarcation between two types of functions. I think you have to have in one place the people who will devise the economic policy, send it up to the Congress through the President, fusing the short range and the long range. And then ancillary to that I would not care so much if that was a separate agency, but probably should be in the same agency, a group of people doing the kind of long-range studies and so forth that the National Resource Planning Board did. And I think they would be a different type of people, but that is

the demarcation that I would make, and I would prefer to put them together under one direction. But in any event, short range and long range cannot be separated or covered by two different agencies.

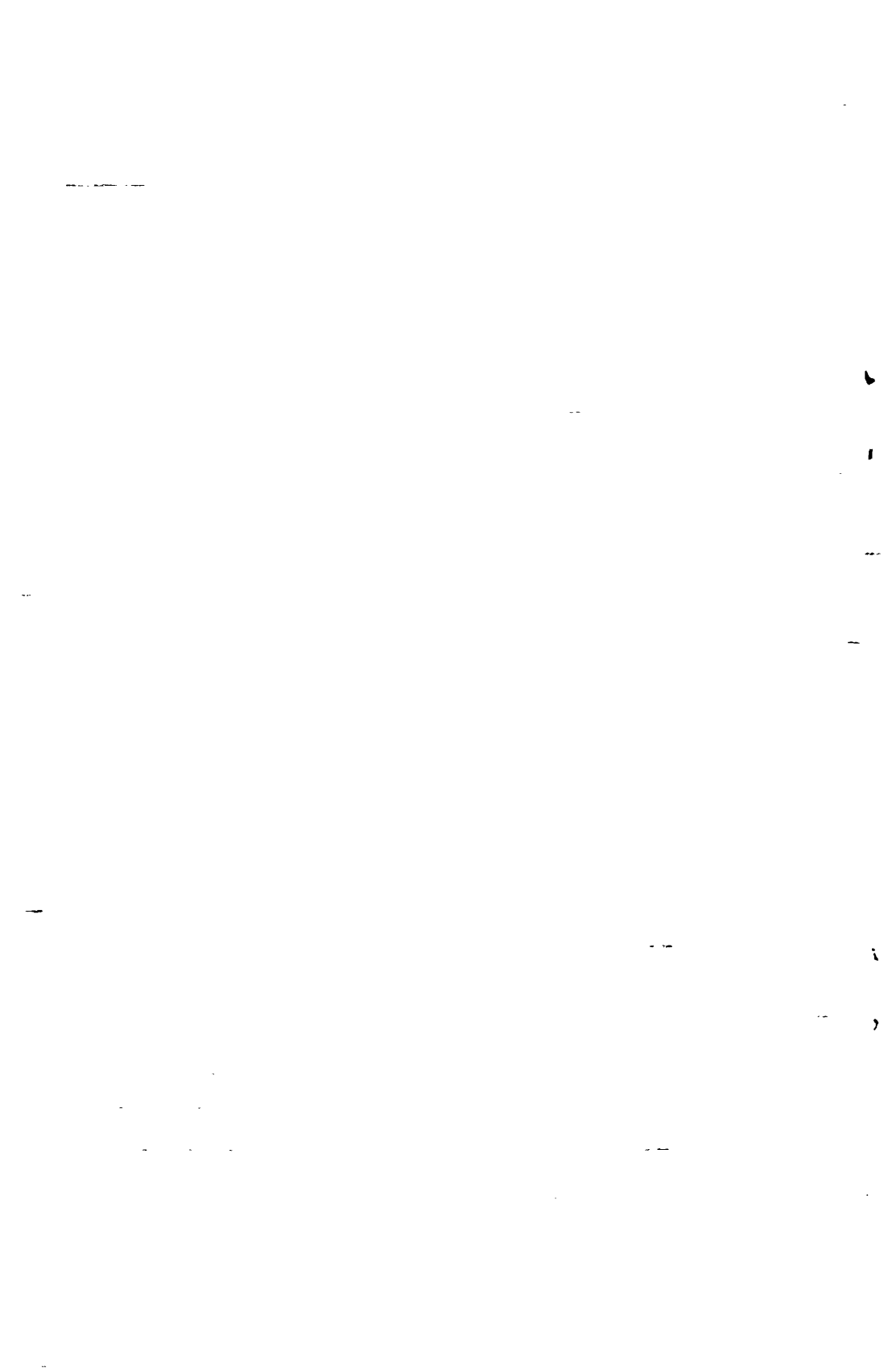
Senator JAVITS. Thank you very much, Mr. Keyserling.

Gentlemen, not only the committee but the country is very grateful to you. And as was demonstrated from the reference to the consolidated book on the budget, we are planning now, except that it is neither organized nor articulate, and that is really what we are talking about. I am confident that whether it is the Humphrey-Javits bill or any other bill, it is going to happen and you are tremendously helpful in respect of the direction which this kind of public policy has taken. We are very grateful to you.

The committee will stand adjourned, subject to the call of the Chair.

[Whereupon, at 12:40 p.m., the committee adjourned, subject to the call of the Chair.]





## APPENDIX

### MONOCULAR PLANNING: INFLATION CONTROL IN THE CONTEMPORARY USA

(By Robert F. Severson, Jr., and Abraham J. Simon<sup>1,2</sup>)

Washington administrations have a tendency to deal with inflation, unemployment, and other such economic ills generally through short-run policy manipulations. For example, the Nixon Phase I and other subsequent attempts to deal with inflation have been based implicitly on the assumption that we need overcome only short-term aberrations. Our inflation problem is instead the result of long-term structural changes in the American economy. Where inflation was once useful and used as an implicit tool for combatting other economic ills such as unemployment, it has become a major malady itself. Unconsciously, we have relied too much on this single tool, with results contrary to what we were trying to achieve. Our continual reliance on this one tool puts us in company with the carpenter who uses his hammer to cut boards into proper lengths.

We use inflation to fight unemployment because we believe that allowing some inflation enables us to squeeze out higher levels of production from an economy that underutilizes its productive capacity. We recognize that our economy is so structured that we have to "tradeoff" some price stability to gain higher levels of employment. Prior to our current experience, the trade-off inflationary costs we incurred appeared to be worth the employment benefits we were seeking.

In dealing with our new inflation problem, unfortunately, the antithesis is not a simple reversal of accepted practice. Encouraging unemployment in order to reduce the level of inflation is an unpalatable economic solution for the American society. However, such unthinkable solutions are being considered.<sup>3</sup>

The classic case for inducing unemployment as an anti-inflation measure presumes that increasing unemployment might inhibit wage demands. However, it is possible to demonstrate that an imperfect market structure, coupled with labor's expectations of stabilizing monetary and fiscal policy, does not weaken wage demands, even in the face of increasing unemployment.

Increasing levels of unemployment are also supposed to serve as an "incentive" for greater productive effort from those who remain employed. While such an outcome is possible, it does not appear that greater productivity is realized during the initial stages of a downturn in economic activity.<sup>4</sup> However, rising unemployment cannot claim the virtue of increasing *overall efficiency and* production once we account for the increasing ranks of idle labor.

One of the keys to the solution of our inflation puzzle lies close to this productivity-efficiency nexus. There is need in a static and a dynamic sense for a policy instrument that prevents the erosion of old productivity gains and promotes the development of new productivity gains. Need for increases in overall productivity cannot be met with an antithetical inflation policy which induces unemployment and inhibits productivity-increasing investment.

Nor is the use of a price fixing authority a satisfactory device for achieving this overall productivity-efficiency goal. A highly industrialized economy contains

<sup>1</sup>The authors are, respectively, professor of economics at Central Michigan University and assistant professor of economics at Rutgers University, Camden, N.J. 08102 (Department of Business and Economics).

<sup>2</sup>Not to be quoted without permission by the authors.

<sup>3</sup>"Depression May Be Needed To Solve U.S. Problems" is an item that appeared in the *Philadelphia Inquirer* of March 1, 1974 under the byline of Hobart Rowen of the *Washington Post*. Rowen was quoting from comments by Paul McCracken that had appeared in the *Wall Street Journal* on the drastic measures needed to stem the current inflation. Rowen also quoted other economists in a similar vein.

<sup>4</sup>See Edwin Kuh, "Cyclical and Secular Labor Productivity in United States Manufacturing," *Review of Economics and Statistics*, Vol. 47, No. 1 (February, 1965), pp. 1-13.

institutionalized rigidities which evolved over time to meet specific socio-economic needs. Some of these rigidities erode productivity and add to the inflation problem. Introducing additional rigidities to the system can hardly be expected to solve a problem which has as one of its main sources a fundamental lack of flexibility.

There is a need for balanced macro-economic guidance with regards to efficiency, productivity, and inflation. Such guidance, if not to be ad hoc and haphazard as is presently the case when fiscal or monetary tools are used, will necessarily involve explicit macro-economic planning. Such planning would include a fiscal policy-making authority comparable to the monetary authority we already have in the Federal Reserve System. The need for this kind of planning arises not from a particular political or ideological posture, but instead from a realization of the failure of traditional monetary and fiscal policy to encourage the kinds of economic behavior and economic results deemed desirable.

Our discussion proceeds along four lines: (1) the reallocative effect of a natural monetization process as opposed to inflation per se; (2) the reallocative effect of our refusal to allow deflation to occur; (3) the evolution of imperfect markets in response to normal economic forces and business fluctuations; and (4) the need for economic planning in an economy containing high degrees of market imperfections so as to achieve greater economic stability and to enhance individual economic freedom of action concurrently.

## I

A national economic structure is a living thing. It has within it elements that are growing, elements that have matured, and elements that are dying. Those economies which are industry-oriented develop a special reliance which contributes to further complications; because of increasing specialization they become more monetized over time. As an economy becomes more and more specialized, allocation of resources and satisfaction of consumer demand becomes increasingly dependent on a system of money prices for goods and services which were produced previously by the same person who was to consume them. Such a process causes a relative withering away in the non-monetary sector of an economy. The concurrent increased demand for money is indicative of relative and absolute growth of the monetary sector of such an economy.

For example, a century ago, we had a very small supply of money in relation to the size of our population.<sup>5</sup> At the same time, the level of living for the general public did not suffer from what would be considered a thoroughly inadequate money supply for a given level of prices and economic specialization. The reason for this lies in the fact that people bought fewer of the total things they consumed in those days. They shelled and canned the peas they grew and ate, or stored their own productivity in the cellar. Today we hire sets of different people to grow our peas, to shell them, to freeze or can them, to store them, and to disburse them at the end of the production and marketing chain in a no longer shiny supermarket. At each link in this chain we have to disburse money to the people performing these specialized tasks. It would be no more correct to ask these specialists to serve without pay than it would be to ask the peas to come ripe daily an hour before we sit down to dinner. In fact, this specialized system of organizing production has come to be accepted as something we consumers want, and as something which we believe to result in greater amounts of production that could ever have been achieved under the old "self-sufficient" way of doing things.

Hence, for a given price level, the size of the money supply had to increase so as to accommodate the new levels of trading and the newly created producer

<sup>5</sup> Using statistics on the money supply brought together in *Monetary Statistics of the United States* (NBER, Studies in Business Cycles, Vol. 20, Columbia University Press, 1970) by M. Friedman and A. J. Schwartz, we find that the money supply in 1871 was about \$1 to 2.4 billion. Some 90 years later it stood at 214 billion. This is the M<sub>1</sub> definition of the money supply which includes currency and coin in the hands of the public plus demand and time deposits at the commercial banks of the public. During this period of 90 years this version of the money supply rose from 153 to 162 times. The money supply was doubling roughly every 12.4 years (since it doubled about 7.26 times during this period). The compound growth rate is around 5.7%. During this same period the population rose from 39.8 million in 1870 to 178.5 million in 1960. These figures are from the *Statistical Abstract of U.S., 1967*. During this same 90 year period the population rose about 4.5 times. Its compound rate of growth was between 1½ and 1.75% a year; closer to the latter than the former figure. Clearly, the amount of money in use per person was rising significantly during this period. If we were to deflate money supply by some price index to arrive at real money balances we would find that the rate of increase of the money supply for real as opposed to inflationary needs would still be significantly greater than the rate of increase of population.

interdependencies arising from specialization. If the money supply is expanded only for this purpose, the system should remain healthy assuming that productivity per unit of resource input remains at least constant. In fact, such productivity should be rising because of rising specialization. If the money supply increases to equal only the price of a newly monetized service, then the population will have suffered no diminution in their real standard of living. This sort of expansion of the money supply is not inflationary in and of itself. This kind of "inflation" even has the effect of goading further specialization by individuals within the economy. Awareness of additional services available for money can have the effect of persuading individual producers to seek higher money incomes so as to gain the wherewithal to purchase these services. In so doing they are likely to be automatically and inexorably self-directed into doing increased amounts of that thing which yields the most money income from the least effort. In short, they will specialize to gain greater money income and in the process will be creating more monetized production. A population will not suffer diminution but will enjoy an increase in its real standard of living if increased monetization makes possible greater specialization in the production of goods and services.

As a result of the process of specialization and monetization, micro-economic units will be reallocating their use of resources. The cumulative effect of all such actions will be to reallocate resources throughout the economy from the non-monetized to the monetized sectors. This kind of reallocation is a result of a specialization-monetization process and should not be confused with inflation of the money supply which is unaccompanied by a rise in monetized real output. Most confusion enters when we think only of money as something which must be scarce relative to demand and in fixed supply in order to have value; this format is only valid in a static model, and is very misleading in a dynamic model.

Certainly, money supply has to be scarce relative to money demand in order for money to have value. But this is not the same as saying that the supply of money must be constant in a dynamic and temporal context. The fact is that money is not a constant, hasn't been in the past, and will not be in the future. Neither has the relative scarcity of money been constant over time. When there is insufficient money in a system, the people within such a system find substitutes for the coin of the realm. For example, there was insufficient money available in Clearwater County, Minnesota, at the beginning of this century as the area experienced a land and timber boom. In place of cash, merchants and their customers used credit and "chips" issued by these merchants. The use of credit, of course, constituted a variation in the velocity of circulation of the medium of exchange. However, though the "chips" were not legal tender, they did function as a means of payment, constituting a form of money, and easing the "money" shortage which had developed in a booming economy.

Such a boom does in itself force a twofold monetization effect on an active economy because: (1) it activates heretofore dormant factors of production and draws them directly into the monetized economy, and (2) it reallocates to this newly monetized area some of the production in the non-monetized and older monetized areas of an economy. In the Clearwater County example, the trees represent the dormant factors which were being drawn into production by the high level of demand for wood products in the very active national economy. Concurrently, alternatively employable labor and capital were called into the county by entrepreneurs to help deforest the land and rearrange it into farms. The labor to do this was coming in from neighboring areas and from other nations. The capital to assist them arrived in barrels and creates in the form of tools and implements. And the entrepreneurial skills entered from old areas that were relatively more monetized to this new area which was relatively less monetized.

All of this activation and reallocation of resources resulted from an expanding urban demand for food, housing and heating. This example illustrates the one side of money supply expansion that is rarely well explained: the side where rises in prices are needed to bid away factors from one productive activity to another more productive activity. Specifically, the result of this secular process is *increased monetized production concurrent with reallocation of resources.*

Therefore, the simple expedient of assuming a one to one correspondence between inflation and expanding supplies of money is, to say the least, misleading.<sup>6</sup>

<sup>6</sup> F. Machlup explores in depth some of the difficulties in defining inflation and recognizing its causes in his "Another View of Cost-Push and Demand-Pull Inflation," *Review of Economics and Statistics*, Vol. 42, No. 2 (May, 1960).

Structural changes in the American economy due to specialization, required expansion of the money supply to compliment economic development, and such expansion was not inflationary. Expansion of the money supply without equivalent expansion of monetized activity would have been inflationary. We need to take account of this effect in our policy manipulations. That is, we need a monetary policy which effectively supports developmentally needed marginal increases in monetization of the economy, while concurrently combatting inflation.

## II

Understanding the monetization effect of secular movements is an important part of understanding inflation, but it must be remembered that secular movement is only part of the process. Concurrent to secular movements are those things we've long referred to as cyclical movements.<sup>7</sup> This concurrent cyclical and secular shifting within our economy further obscures our understanding of the process of inflation. The popular wisdom views the inflationary portions of business cycles as relatively good, especially if the choice is between inflation and deflation.<sup>8</sup> But we've also come to overlook the micro-economic benefits derived from deflation, especially when it is a short-lived phenomenon. Just as there are social benefits derived from inflation, so are there social benefits derived from deflation.

It seems strange to speak of the "benefits" of the deflationary portion of business cycles, but there are some useful reallocative functions which flow from such shifts in economic activity.<sup>9</sup> We have fought to keep these shifts from occurring on the same scale as they occurred in the past. It is significant that our partial winning of that battle accounts for our longer-term inflation problem and for our continuing "trade-off" problem between inflation and unemployment. At present it would be a clearly unacceptable political decision to use deflation on a significant scale to eliminate our "trade-off" problem. Nevertheless, bringing inflation under control in the long run with acceptable levels of unemployment, and without significant deflation, requires an explicit recognition of the reallocative nature of both inflation and deflation. Such recognition emphasizes the need to develop new supplementary allocative mechanisms for our imperfect markets, mechanisms which will deal with problems once automatically solved by inflation and deflation in an era of more perfect markets.

The Employment Act of 1946 denies us the option of obtaining the "social benefits" of deflation: This policy statement institutionalized the outlawing of any significant level of deflation by placing a full employment policy obligation on the government. It thereby removed a natural function of the market mechanism. The policy built-in a structural bias in favor of a little bit of inflation, assuming such would always be preferable to the horrendous experience of the pre-war decade in which deflationary phenomenon was surfeit. This tampering with the basic market mechanism was supposed to have positive effects which would outweigh any negative effects on the American economy. For some time it seemed as though this new solution would serve us very well indeed, and that it would be a long-run advantage to the citizens of the economy. However, if deflation is disallowed in an economy, there are grievous consequences unless some institution is created within the economy to perform the beneficial functions it formerly performed. When we outlawed deflation as a structural feature, we created our new economic stability problem in the form of inflation.

Doing away with automatic, self-leveling deflation also did away with the mechanics which periodically swept away a portion of our micro-economic units. Deflation surely wiped out the most inefficient of our firms, and it is noteworthy that it also concurrently took some firms that might have survived if deflations were not long-lived. Some of these unfortunate firms would have been able to survive if only they had timed their entry into the market so as to coincide with an inflationary surge rather than a deflationary surge. No matter, our financially

<sup>7</sup> The authors caution against the presumption of predictability based on the use of the term "cyclical." We are using the term as a short-hand method to refer to fluctuations in the level of economic activity.

<sup>8</sup> The upward and downward movements of economic activity in a modern industrialized economy are not perfectly symmetrical in their impact on the economy. To us, inflation is primarily upward movements in prices, while deflation is primarily a reduction in employment rather than in prices.

<sup>9</sup> When we speak of the "social" benefits of inflation or deflation we are stressing the social as opposed to the private frame of reference in assessing the economic benefits that flow from the social costs. This frame of reference derives from the monumental study by A. C. Pigou, *The Economics of Welfare*, Macmillan & Co.

weak producers were put out of business and with them went the present jobs of their employees. While deflation created the social ill of unemployment, it also created the social good of eliminating some inefficient production units which were allocating our resources poorly.

We have come to assume that having inefficient productive units which employ people is preferable to not having these units at all. That may be an acceptable short-run notion, but as one short-run leads into another, we add more and more inefficient productive units to our economy. Where is the mechanism to cull our inefficiency? Without a culling mechanism, *ceteris paribus*, we continually lower productivity and thus feed inflationary fires.

The real macro-economic result of the monetary losses incurred through a deflation are at least marginally desirable. Certainly, the owners of firms destroyed by deflation withstand a monetary loss. Those who provided credit to such firms may withstand a monetary loss also. On the micro-economic level, there is the real agony of economic death; the owners of such firms have to deal with this agony. This trauma is certainly a factor for humanitarian consideration. Nonetheless, there is concurrently a macro-economic reality to be considered regarding the physical assets of newly-defunct firms. The firm's buildings and equipment still exist and can be utilized by competing firms, or in different industries, which have not yet reached peak efficiency levels. The reallocation process is at work in such a case and these micro-economic failures also represent windfalls and brightened financial prospects for remaining and new producers during a subsequent upswing period.<sup>10</sup>

It is at this point that it becomes obvious that if we are to have employment guaranteed through inflationary "goads," we must concurrently have a reallocation mechanism to perform the function of the outlawed deflationary "goad." Failure to have the latter can result in serious declines in productivity per factor employed. If productivity is declining, concurrent with a conscious inflationary policy, inflation becomes a matter of great danger. It is possible that we are bringing ourselves to the threshold of a runaway inflation such as has been experienced by our Latin American neighbors.

Our pro-inflationary view was not unreasonable, if considered in perspective of the most pressing and apparent problems of the Great Depression. Maintaining stability in the value of money is of little social import to a nation whose people are unable to transfer their potential productivities to each other. The breakdown of our economic machinery was the thing to consider; a machinery that was trying to accommodate the large scale trading of the fruits of finer and finer degrees of specialization. Our macro-economic sophistication, and our concurrent depression circumstances in the 1930's made an economic policy with an inflationary bias tolerable, even desirable.

In our attempts to overcome the Great Depression we confused the monetization process with its cousin inflation. Since we perceived the monetization process as beneficial, our failure to differentiate between monetization and inflation led us to perceive inflation to be the crucial ingredient of our previous economic success. This perception was especially important during periods of downward slides in the cycle and is in fact a recurring theme in our economic history.<sup>11</sup>

But there was a substantive difference between depression-era and earlier attempts to use inflation as the nostrum to bring about economic health. Both the magnitude of the sickness and the degree of monetization recently achieved contributed to our concerted inflationary effort of the 1930's and subsequently. Unfortunately, the manner in which we have used inflation has not resulted in sufficiently increased levels of productivity. As a result, we are experiencing more and more the real income redistributive and social conflict costs of inflation, and less and less the benefits of reduced unemployment, higher productivity, and higher real incomes.

We meant to do away with the possibility of deflation by using monetary and fiscal policies biased in favor of inflation. This was supposed to ward off economic collapse, and may well have done so. We thus avowed our refusal to accept apparent inevitable declines normal to a market pricing economy. In our drive to provide basic security in our economy, we've tried to guarantee high levels of activity by having "appropriate" levels of inflation. But we lost the former

<sup>10</sup>This also encourages monopolization and calls for vital concern on how to control monopoly and have the benefits of its productive capacity without the drawbacks of its market power.

<sup>11</sup>The Free Silver Movement and the Populist Movement are both examples of popular movements whose belief basis rested on this erroneous perception of inflation.

automatic, self-leveling, weeding-out effect of deflations by adopting long-term use of an inflationary policy.

The peril of runaway inflation mentioned above may seem fanciful, given the mix we have thus far concocted. One of its principal ingredients has been that of declining productivity due to dynamic inefficiencies in the allocation of resources during continual inflationary periods. However, a further provocative possibility must also be considered if downward movements in prices are eliminated or cushioned through a stabilizing monetary and fiscal policy.

We must have changes in prices because our resources are allocated via movements in relative prices. With downward price rigidity, relative movements in prices must take the form of upward movements in the price level. That is, market allocation of resources requires some price flexibility and with the discouragement of downward changes, we are left with one-way price flexibility. Thus, even if there were no erosions in productivity, the allocation and reallocation of resources (in a dynamic environment with downward price rigidities) causes dynamic inflation.

Of course, stabilizing monetary and fiscal policy exacerbates our situation. Our position deteriorates further due to the tendency toward declining productivity in inflationary environments. Add the strong possibility that inflationary expectations may be generated at any time by a random shock, and we find inflation accelerates sufficiently to remove the restraining blinders of the money illusion (or other stabilizing factors). When this happens, we then have the elements necessary for runaway inflation.

### III

There is one more element affecting inflation which must be considered. We assume highly competitive markets to be an ideal state, and in fact, traditionally consider departures from perfect competition as aberrations. Naturally, our discussions of inflation are colored by this outlook. Yet we all know we do not have perfect competition in our market system. We call departures from perfect competition "imperfections" and there are perjorative overtones in this term. We shall not refer to these as market imperfections, but as "noncompetitive behavior."

Contrary to common implication, a good deal of this noncompetitive behavior is not the result of successful, nefarious plotters who gain control of us through manipulation of our economic machinery. It is likely this noncompetitive result arises from the natural behavior of individuals maximizing their personal utility. The maximization of personal utilities need not result in the promotion of competitive behavior. Our models presume competition to be the result of such behavior, and the assumption works well enough for the static case. However, when the frame of analysis shifts to the dynamic case, this utility assumption needs modification.

In our dynamic analysis, we would be more accurate if we assumed "cooperative" rather than "competitive" behavior. When accepting the proposition that man is a social animal, we need not concurrently accept the proposition that he is a competitive animal. It would be more appropriate to accept him as a cooperative animal among the other members of his species. Empirical observations should convince us that much more of what people do is cooperative than competitive, and we should be ready to find that competition is the rule at only an exceedingly small margin of total behavior patterns. We mislead ourselves with our emphasis on the importance of competitive behavior.

For example, when we classify labor unions as noncompetitors, we are only citing a phenomenon which is a departure from the perfect competition ideal. But in so doing we cloud the issues because unions exist for the express purpose of providing a vehicle by which to attain a more cooperative economic atmosphere for their members. That is, they intend to achieve success through cooperative behavior rather than through competitive behavior. The competitive portion of their behavior is merely that maneuvering undertaken by two or more unions to accomplish the fact of organizing laborers into a common unit. Once accomplished, the competitive behavior ceases to be of major significance, and the surviving union begins to perform its functions as a promoter of cooperative behavior among its members. The result may be a more perfect maximization of laborer's utilities than could be expected under the rubric of our competitive assumption. In short, the presumptions of competition and utility maximization do less than introduce clarity to understanding, and do in fact introduce great

distortions of reality, especially since competition itself is a generator of disutility.

If we accept noncompetitive behavior to be at least as normal as competitive behavior, we are ready to deal with the real world economy. The fact that we do not have perfect competition as set out in classroom models greatly aggravates our problems in achieving economic stability. Noncompetitive behavior leads to price rigidities; to significantly stickier prices than would obtain under competitive behavior. Such price rigidities are generally treated as exceptions to the rule. But these rigidities are a normal and natural part of our working economic system, and in fact have become a more rapidly increasing absolute function since the advent of our formal post-war economic policy.

Given the existence of capacity and resource constraints, we have long noted that these rigidities tend to be asymmetrical. On the downside, price rigidities tend to be translated into reductions in the volume of employment and real output. On the upside, as full employment is approached, prices tend to become less rigid as the volume of economic activity expands. The upswing result is rises in the level of prices and in the money value of output. The downswing experience should show not only significant increases in unemployment, but also significant decreases in the level of prices. The introduction of our peculiar monetary and fiscal stabilization policy has admirably tended to eliminate significant downturns in economic activity. This same policy, however, also eliminated the main device by which price rigidities were overcome on the downside of the cycle.

Nor have the degree and types of noncompetitive behavior over time remained constant in our economy. As was pointed out above, the death of a micro-economic unit does not carry with it the evaporation of the physical assets of the firm. These assets are purchased by other firms in the dissolution ceremonies following the firm's demise. It is quite rational to expect the major purchasers of more specialized equipment as such sales to be those who were in the same business as the defunct firm. It is noteworthy that successful bidders increase their capacity to produce by such purchases. It is further noteworthy that these surviving firms pay lower prices than they would have had to pay for newly constructed equipment. Thus there is a two-fold gain to the successful firm: increased capacity to produce at bargain prices on the equipment which increases this capacity. The successful firm can now, if it chooses, produce more units of the product and produce each unit at lower costs than were previously possible. When such firms take over assets, they do so in an atmosphere in which competition is reduced by the failure of at least one of the firms with which they shared the market.

This first stage change in the extent of competition, can and has occurred a great deal in our economy. It has happened as a result of conspiratorial attempts on the part of producers, as was the case with Rockefeller's South Improvement Company and its heir, the Standard Oil Company. But recognizing examples of such planned actions as these does not set aside the fact that combinations and consolidations of micro-economic units can and will naturally occur in the absence of offensive micro-economic planning to achieve such goals. The micro-economic level of activity must at least offer the possibility of stupendous success if there is to be any appreciable amount of specialized production in an economy. Such is not an exception but a rule of pragmatic economic activity in a world wherein the solution of old economic problems in turn results in the creation of new economic problems.

These first stage changes in the extent of competition indicate that there are natural forces arising from competitive behavior such that there is a natural tendency of competition to eliminate itself. In a dynamic world Schumpeter, among others, has stressed certain tendencies that lead to a regeneration of competition. Given these countervailing dynamic forces that change the degree of competition, our real problem comes to the forefront when the change in the extent of competition is no longer optimal. Note that in terms of our frame of reference there may be too much as well as too little competition, i.e., an optimal competitive mix is required to maximize the utility of individuals. Too large a degree of competition in an economy develops market power exploitation problems which surpass the price rigidity phenomenon discussed earlier.

Much of our economy is past a stage of economically efficient reductions in the degree of competition because of mergers, failures, and growth. It has passed



into a stage of inefficient reductions in the degree of competition in the private sector. The process has been exacerbated by the growth of giant government in the public sector in response to the needs and pressures of the private sector. This is also notable in some instances at the municipal and state level, especially during the past thirty years. At the same time, partnerships have developed between giant corporations and giant government.<sup>12</sup> This has added a new and significant dimension to the problem of market power, a problem that makes it even more difficult to control inflation or defend the preeminence of competition.

Our real economic world has thus become less and less similar to our ideal economic world. Yet we retain a philosophical bias promotive of an unattainable ideal. This translates into attempts to regulate the seeming aberrations of our ideal. That is, when noncompetitive behavior was seen as unavoidable in the production of electricity, we set up public utility regulatory bodies to protect the consumer. In transportation, we set up the Interstate Commerce Commission. The commission we created was to deal with problems of railroad services, the only viable interstate transportation facility then in existence. We have since added motor trucks and airplanes to that market and concurrently brought them under a jerry-rigged control system. Our one-industry aberration bias has thus worsened the economic atmosphere.

The piecemeal fashion in which we've gathered up firms and industries to be regulated has not resulted in effective regulation. This is so because we've glided into regulation as a reactive response to a negative stimulus from the firms and industries involved. Bad behavior by some among the firms in these industries has usually been the reason for our intervention. We've tried to solve the problems thus created by trying to re-establish perfect markets (or some semblance of the operation of perfect markets) through government regulations. As such, our attempts most assuredly had to fail. We should instead have been trying to develop an inter-industry policy aimed at drawing forth the most efficient use of each industry's resources. Such a policy would only be a part of an integrated economic policy dealing with peripheral relations between industries. Instead, we have developed a series of regulatory bodies which fail to take into account the effect of their decision on those consumers and producers outside that particular body's area of competence.

It should not be presumed that these remarks are meant to be critical of these organizationally unrelated governmental bodies. The chairmen and directors of these organs of government have received explicit (if contradictory) instructions from our three branches of government. It would be unfair to presume that the fault lies solely with the "bureaucrat" when the instructions they receive are themselves contradictory. It is therefore quite normal to see the anti-trust division of the Department of Justice seemingly involved in legalistic word games with such oil companies as Exxon, Mobil, Texaco, Gulf and Standards. In so doing we are sidestepping the real issue, we're treating a symptom. We all know we're not going to "restore" perfect markets to that industry, nor are we even sure we would want to. Yet, at root, we continue to pursue an anti-trust policy which is fundamentally committed to this restoration ideal, or, at worst, to the presumed effectiveness of specialized regulatory authority.

The lack of an integrated and relevant economic policy towards behavior of firms in non-competitive markets is the real problem. If we were to develop such a policy, and develop it with a view to maximizing social return within the constraints of a private return oriented economy, we could expect much better macro-economic results. Such a policy would have to take into account the economic costs of dissolution as the possibilities of encouraging a favorable economic behavior from industrial giants by placing a non-directive, peripheral planning system upon the total economy.

#### IV

The heaviest drive to monetization of American economic activity is likely behind us. In the private sector, industry after industry have insured themselves against catastrophic monetary readjustments by embracing oligopolistic practices. Oligopoly pricing and price rigidities are no longer the exception, but instead the rule in both product and factor markets. The last stronghold of atomistic competition, agriculture, is rapidly adopting oligopolistic patterns. Certainly, the middlemen grain dealers are not of the classical, tiny, perfectly competitive

<sup>12</sup> See, for example, S. Melman, *Pentagon Capitalism* (McGraw-Hill, 1970).

variety. They are able to influence price and are now oligopolists capable of significant impact on crop prices through their manipulations of quantity. The public sector itself engages in buying and selling activities of such significant volume as to render numerous markets imperfectly competitive. That is, public sector monetary and fiscal activities as well as resource allocation activities are on such a scale as to seriously weaken competitive market structures. In this dominantly oligopoly market environment the very processes of resource allocation and demand satisfaction activities which necessarily involve changes in relative prices in turn, necessarily generate continual upward pressures on the price level. Given the context of our national preference system, formally adopted after World War II, a system which stresses the humanity of reasonably full employment, and given our imperfect market structures, we have laid bare the need for systematic macro-economic planning.

Unfortunately, what we have now is ad hoc macro-economic planning, carried out through momentarily expedient monetary and fiscal policies. The consequences for resource allocation, productivity, and price stability are disastrous.

Despite the reality of ad hoc macro-economic planning, there is opposition to the development and exercise of macro-economic planning in the context of a formal agency. Most often this opposition is based on the presumption that it will inevitably lead to an authoritarian, centrally directed economy. We must face up to this criticism, but we need not bow down to it.

The nature and elements of criticisms against a macro-economic planning authority sound strangely familiar. One of the main arguments against the creation of the Federal Reserve System stemmed from the ideological fear of centralized control of the banking system. These fears proved groundless given the care with which the superstructure of the Federal Reserve was constructed. In fact, subsequent modification of the law creating the Fed were in the direction of providing it with more authority to do its job rather than less. Is commercial banking and national monetary policy less responsible and less conducive to economic stability than it was in 1914?

The assumption of the inevitability of authoritarian direction is no better founded than an assumption of the inevitability of perfectly competitive markets. Both are economist's abstractions, both are skeletal frames upon which we proceed to build more complex descriptions of economic reality. In the Soviet Union they must concern themselves with making appropriate alterations in their authoritarian directed approach; but they try to do so without denying themselves the self-perceived benefits of their present system. We are confronted with the same sort of problem; i.e., we must make appropriate alterations of our market pricing system without denying ourselves the self-perceived benefits of our present system. In short, we must examine the manner in which the market system would normally solve our current problems, take note of our institutionalized market imperfections, and therefrom derive an appropriate policy mix which will result in a maximization of market-directed gain, a minimization of market-directed loss.

In a monetized economy, reducing the level of inflation is accomplished, ordinarily, by the automatic interaction of three major productivity variables: (1) forcing unemployment of less efficient labor inputs; (2) forcing producers to achieve cost efficiencies; and (3) forcing producers of an older and/or declining product specialty, to reduce prices to consumers. We already legally and consciously interfere with the natural order of the market place by trying to disallow the first of these variables as a means by which to contain inflation. We call this appropriate, socially, while we call it inappropriate, socially, to interfere with the remaining two variables.

Properly managed, the market mechanism need no more lead to uncontrolled inflation than it need to lead to uncontrolled unemployment. The market mechanism can promote efficiency, can promote high productivity, and it can also ensure that market prices ultimately reflect cost efficiencies even when markets are less than perfect. However, traditional monetary and fiscal *policies* have encouraged the tendency of firms in imperfect markets to refrain from passing on cost savings to consumers. Therefore, if our first criterion is that we do not increase unemployment to combat inflation, our second and third criterion must be that we increase the force on firms to minimize costs and insist that they transmit these savings to the consumer in the form of lower prices.

We already possess half of the institutional organization we need to accomplish a balanced economic policy which will minimize both unemployment *and* inflation. The Federal Reserve Board, the primary unit for continuity in mone-

tary policy, is the embodiment thereof. We need a comparable body in the area of fiscal policy, a body appointed in the same manner as are members of the Federal Reserve Board. This recommendation carries with it the assumption that these board members would serve fourteen years, one appointed every two years, etc.

This body would make day to day decisions on fiscal matters, mainly the timing of expenditures as directed by current regional economic indicators. It would also make short-run revenue decisions, mainly the shifting of tax incidence to coincide with currently perceived national indicators. Our regulatory bodies could also fall under the aegis of such a unit. This would provide an opportunity to install a new consumer oriented approach to regulation; an approach contrary to our current "fairness to the producer" bias.<sup>11</sup> All such decisions would have to be made within the context of a set of long range goals (e.g., 4 percent maxima for unemployment within a 4 percent maxima of "inflation") and within a circumscribed area of authority granted by Congress.

In short, this fiscal authority would have ultimate constraints placed on it by the Congress, constraints similar in nature to the "reserve-requirement" constraint, or the "issuance of notes" constraint placed on the Federal Reserve authorities. It might be argued that the Federal Reserve Board and this new authority would be reviewed by a super-planning authority to provide an incidence for coordination of the two bodies. It would seem more appropriate, at first glance, to at least organizationally retain that function in the Executive branch so long as both the Federal Reserve Board and its counterpart are directed to pursue the same national economic objectives and to pursue them in an aura of cooperation.

Most important among the instructions given to this new authority would be the instruction to perform its duties in a peripheral manner, and to do so through the market place. This kind of instruction is necessary to ensure that consumer direction of the economy will not decline at a rate as bad as has been the case since World War II.

The contemporary, highly monetized market economy of this nation cannot continue as a healthy, viable system unless we choose between unemployment and inflation. The installation of a strong and consistent peripheral planning approach on the federal level is the only way we can set aside the need to make such a decision. In the bargain, it can make it possible for us to achieve both the employment and the price stability goals of the Employment Act of 1946.

<sup>11</sup>In a related paper currently in preparation, we are examining the viability of an industry wide  $MC=AR$  solution as a peripheral constraint to be used as the basis for regulation of firms which achieve relatively high levels of monopolization.