

NATIONAL ECONOMIC PLANNING, BALANCED GROWTH, AND FULL EMPLOYMENT

HEARINGS
BEFORE THE
JOINT ECONOMIC COMMITTEE
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NINETY-FOURTH CONGRESS
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NOVEMBER 13 AND 14, 1975

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NATIONAL ECONOMIC PLANNING, BALANCED GROWTH, AND FULL EMPLOYMENT

THURSDAY, NOVEMBER 13, 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 318, Russell Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Javits, and Fannin; and Representatives Long and Heckler.

Also present: John R. Stark, executive director; Richard F. Kaufman, general counsel; William A. Cox, Robert D. Hamrin, and Ralph L. Schlosstein, professional staff members; George D. Krumbhaar, Jr., minority counsel; and M. Catherine Miller, minority economist.

Representative LONG [presiding]. The meeting will come to order.

The chairman has been detained and has asked me to read his opening statement, which I will now do. And then I have a statement of my own which I would like to present.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Today we begin the second round in a series of hearings on the subject of Economic Planning.

The Balanced Growth and Economic Planning Act introduced by Senator Javits and our chairman, Senator Humphrey, has already provoked an extensive debate, and certainly considerable controversy.

In any vigorous debate there will be heat as well as light. The hope one has in that reason will prevail, that passion will give way before the facts, and the logic.

The fact cannot be disputed that the American economy has not been doing well I guess for a number of years. Certainly for the past two or three years it has not been doing well at all. While certain segments of it have done well, certain industries, some companies, some individuals have benefited greatly, the economy as a whole is not well.

The question is, Are our problems temporary and transitory or are they chronic and deep rooted?

Let any rational person judge for himself. Let him look at the numerous recessions, the inflations and the high rate of employment over the past 25 years, and certainly let him look at what the cur-

EDITOR'S NOTE.—Part 1 of this series incorporates hearing days of June 11 and 12, 1975.

rent administration is forecasting for the future. In his latest estimates the administration expects unemployment to average 7.9 percent for 1976, and it expects unemployment to average about 6 percent in 1979.

In a world of perfect competition and ample resources it would perhaps not be necessary to consider ways to improve economic policy for the short term or the long term.

But, let us not kid ourselves. We do not have perfect competition. There are many scarcities. We do not have a healthy economy and the prospects for the future are bleak.

In my judgment, a system of national economic planning is in the process of being developed now and I think the demand for it is going to grow, and I think it is going to grow so that sooner than most people expect we will have it.

The real question is not whether to move into a system of economic planning, but how that system should be structured and what it ought to be asked to do.

OPENING STATEMENT OF REPRESENTATIVE LONG

Representative Long. During the month of August I had the opportunity to travel extensively in Norway and Sweden and discuss economic planning with a number of officials in the government and central banks and with private businessmen in both of these countries. The chairman of our committee visited Sweden this past summer, and I think both of us came back impressed by the way these countries have used economic planning to direct the course of their economy.

There are three things that came out of that trip that I feel the Joint Economic Committee should carefully consider in its evaluation of economic planning, and if any of this morning's witnesses could comment on these things I would be personally most appreciative.

First, is the position of planning bodies within the institutional framework of the Government. Norwegian officials were very emphatic in stressing that if economic planning is to be effective it must be fully integrated into the ordinary decisionmaking process of the government. This they felt strongly on, mainly I think, the principal reason they felt this way is that it did not promote the antagonisms growing and the competition growing between the planning agency on the one side and the other regularly established governmental agencies on the other.

Second, the method used in Sweden to affect private investment and to avoid large cyclical swings seems to merit a careful investigation. And as I am sure all of you gentlemen know, the Swedes have developed an investment fund which they use to encourage private investment in times of economic slowdowns.

Third, problems involved in trying to coordinate economic policies differ due to population, geography, institutional arrangements and other factors. Therefore, different countries have approached economic policy coordination in different ways.

Chairman Humphrey recently inserted an article into the record on long-term planning by Professor Linbeck, discussing the differences in the Swedish approach and the French approach. It was

that—for example, the French approach to this problem—several people talked and suggested that the way the French have used credit policies to influence economic development, bears further investigation. It was also suggested that the Netherlands have done a good bit of work in this field and have a great deal of experience in this area. I think it is worth considering the economic planning and the ways to improve policy coordination. In doing that, we could certainly benefit from the experience that other countries have had.

I would like to submit my report that I have drawn on this trip, the talks and visits that we had with people, both in the private and the public sector, and without objection make it a part of the record of this hearing.

[The report referred to follows:]

INVESTIGATION OF PLANNING ACTIVITIES IN NORWAY AND SWEDEN

INTRODUCTION

In August of 1975 I visited Norway and Sweden to discuss economic planning activities. I spent several days in each country and had an opportunity to meet with a number of officials in various branches of government and in the central banks and also with many private businessmen. Attached to this report is a list of those individuals.

Three things have come out of this trip which bear careful consideration and further study.

First, the position of planning bodies within the institutional framework must be considered carefully. Norwegian officials feel quite strongly that economic planning should be fully integrated into the ordinary decisionmaking process.

Second, the method used in Sweden to affect investment by private industry and to avoid large cyclical swings merits a more detailed investigation. My first impression indicates that this might be useful to the United States, and I have asked the staff of the Joint Economic Committee to prepare a more detailed analysis of the Swedish Investment Fund.

Third, problems involved in trying to coordinate economic policies differ due to population, geography, institutional arrangements and other factors. It was suggested to me that the activities of other countries be explored, particularly those of The Netherlands, which has a great deal of experience in this area, and those of France because of the problems associated with planning in a country roughly the size of the United States. It also was suggested that the French have done a better job of integrating private industry into the planning process through their credit policies than have other countries.

PLANNING IN NORWAY

The Government of Norway has committed itself to pursue a general economic policy which aims at full employment, rapid economic growth, and a reasonable distribution of income both between social groups and the different geographical areas of the country. In order to achieve these objectives the Government influences economic development in many ways. When the authorities intervene actively, either by influencing the private sector or through actual investment or by other means, an overall plan must coordinate the means that will be utilized to achieve the determined objectives.

This basic objective has guided Norwegian economic policymaking since World War II. The United States provided considerable impetus to coordinating economic activities through planning by requiring detailed plans of the uses of funds provided under the Marshall Plan. These plans proved so helpful that they have been expanded considerably in scope, institutionalized into the government policymaking framework, and lengthened in time frame. Planning efforts also have become more sophisticated with the addition of mathematical models.

Planning in Norway serves three primary purposes. The first of these is to improve the design of public policy by laying out the policy in a coherent

fashion rather than allowing it to be developed haphazardly. The second is to assure coordination among different objectives. This allows the Government to assure that the country's resources are being used fully and at the same time avoid trying to do more than resources would allow. The third purpose of planning is educational. By showing where government policy is headed, the people and the representatives in Parliament can have a more rational debate about whether this direction is the most appropriate one.

The degree to which each of these goals has been achieved is debatable. It is clear that widespread discussions of economic policy have had an influence on policymaking. There seems to be general agreement on the overall policy goals and the methods of achieving them among government officials, members of the Parliament, and business leaders.

The Government is able to influence the economy through a series of positive and negative levers—positive levers to encourage full utilization of resources and negative levers to prevent excessive demand. Positive levers include normal monetary and fiscal policy; negative levers include licenses for building, concessions to exploit natural resources, and quality controls. Regulation of credit availability and the interest rate can be used to encourage or discourage total demand as necessary.

Each year the Government prepares two budgets: a State budget which includes the taxing and spending plans for the national government and a national budget which includes the taxing and spending plans for the national government and a national budget which includes total economic activity. This national budget is both a plan and a forecast. It describes physical resources that are available, the manpower, the projected consumption and investment, and the projected State budget. The national budget is the framework within which policy functions.

Obviously there are many differences between the United States and Norway. The parliamentary system of government allows a plan to be formulated within the executive area of the Government and assures its adoption by the legislature. The size of the country assures that leaders within Government, labor, business, and industry have a great deal of contact on an informal basis. This allows diverse points of view to influence the process of formulating an economic plan on an informal basis without institutional arrangements. The small size of the country also makes statistical data collection far easier so that it can be done more frequently. These and other differences, of course, limit the extent to which a large country like the United States could pattern its planning activities after those of a small country like Norway.

One crucial aspect of Norwegian planning, however, should be carefully considered by any country, large or small, which is contemplating an institutionalized planning activity. This is the degree to which planning activities have been integrated into the normal decisionmaking process.

The following is taken from a Finance Ministry report on planning legislation:

"The economic planning organization is, in many countries, outside the actual central government administration. This is more for historical reasons than the result of the conscious and rational decision with regards to administrative expediency. It had often not been practicable when establishing a new apparatus to absorb it into the existing administration.

"In Norway it has been possible from the very beginning in 1945 to build economic planning into the traditional central administration. The existing administrative apparatus has thus been effectively exploited and has gradually acquired more and more the character of a modern planning organization. This development is very much preferable to building up a new organization outside central administration. The founding of an independent organization may easily lead to unnecessary duplication of work, to unnecessary rivalry and to confusion of responsibility. It should also be mentioned that a more independent economic planning apparatus will be less informed of government plans and intentions and would have fewer possibilities of producing realistic plans which could be put into action.

"It should be clearly understood when the location of the planning setup is determined that economic planning must be the responsibility of Government. When building up the administrative apparatus, care must be taken to avoid an arrangement which leads to a situation where the really vital questions are considered more or less divorced from the politically responsible ministers."

This viewpoint dictates that the planning organization be kept within the central government administration and that it be placed in the ministry which has the closest contact with the application of economic policy, the Finance Ministry. In my discussions with those involved in economic planning within the Finance Ministry, it was stressed repeatedly that no sharp distinction was made between economic planning and ordinary decisionmaking. Planning is really the coordination of many decisions which would be made in any event.

The role of credit policy in economic planning needs to be discussed explicitly because it is quite important and it is quite different from the way the United States manages its credit policies. Those I talked with, both within the executive branch of the Government and at the central bank, stressed that it would be impossible for the central bank to pursue an independent policy. While the bank might be asked for advice on specific measures, it is Parliament that frames policy and the instruments used to pursue that policy. An annual credit budget is formulated which estimates both planned investment and estimated savings.

Estimates of planned investment are based on extensive surveys of private industry and always produce an excess demand for credit relative to estimated savings. This is due partly to a policy of keeping interest rates artificially low and controlling the flows of foreign currency into and out of the country. A generally restrictive fiscal policy has allowed a lenient monetary policy to be followed. Since the demand for credit always exceeds the supply, some rationing is necessary.

Certain sectors of the Norwegian economy have been singled out for special credit treatment. These include residential construction, fisheries, agriculture, and education. A special state credit bank has been established for each one of these areas in the economy. In formulating its national budget, the Parliament decides on the amount of credit which should be made available to each one of these sectors, and that credit then is made available to the state bank. The remaining credit is allocated both among other industries and among various regions of Norway. The decision on how to allocate this credit is a cooperative one made by the private banks, the Ministry of Finance, and the Central Bank of Norway. Everyone stressed cooperation among these various parties, but it is clear that the Government has the legal authority to direct credit allocation in some detail, and that the Ministry of Finance has a great deal of weight in these decisions. While the total amount of nongovernment credit is discussed in the Parliament, it is generally discussed in terms of total volume and not in terms of specific allocation.

There appears to be a general public consensus in Norway that direct controls and rationing are appropriate devices for the Government to use in influencing economic decisions. My discussions with the private industrial leaders indicate that they have not felt unduly constrained by these government policies. This is true in spite of the fact that private industry cannot circumvent government credit regulations by borrowing outside the country for any period of time since government permission is necessary before a private borrower can accept a long-term loan from a foreign source.

In summary, while there are many advantages that a small country may have over a large one in coordinating its economic activities, it is clear to me that there are some important lessons to be learned from Norwegian planning efforts. The most important of these is the manner in which planning is integrated into the normal everyday decisionmaking process. Such problems as duplication of work, unnecessary rivalry, confusion of responsibility and inadequate information can arise easily when planning activities are separated from those who make decisions and have the responsibility of implementing them. These problems are formidable and must be avoided.

It also is clear that planning does not play a static role in the Norwegian economy. It began as an effort to lay out the uses of Marshall Fund money and it has been expanded to include the entire economy. The Government prepares a national budget for the overall economy, a State budget for the Government itself, and credit budgets for various special sectors of the economy. These budgets are prepared both on an annual basis and in the form of a four-year projection. Even longer term projections currently are in the process of being formulated.

Just as we in the United States are trying to learn from the Norwegians about their planning activities, the Norwegians actively are engaged in learning from others who undertake some form of planning. Discussions with various

officials disclosed that certain Norwegian activities have been patterned after French and Dutch planning. Several officials suggested that since France is a large country and has many of the problems associated with large countries, it would be particularly useful for the United States to investigate the economic planning process in France.

PLANNING IN SWEDEN

The central aims of economic policy in Sweden are similar to those of other Western countries—full employment, rapid economic growth, a more uniform distribution of income, reasonable price stability, balanced foreign payments.

The following statement from *The Swedish Budget 1975/76* expresses the priority assignment among these various goals:

"The primary aim of policy is to maintain full employment. To this end policy is directed at a further expansion of production and demand, even if this leads in the short run to greater strains on the external balance. But in order to comply with the aim of full employment in the long run, policy must also be designed to promote conditions for a restoration of the external balance which was lost in 1974."

The problem of achieving these goals with policies which will work in the short term and be consistent with the long-term framework has been the central theme of recent planning efforts.

The basic outline of planning activities in Sweden is similar to that in Norway. Two budgets are prepared each year—one for the total economy and one for the Government. The Government's budget is concerned with the allocation of resources within the total framework specified in the overall budget. The annual budget is supplemented by the "long-term survey" which covers a five-year period.

The annual budget—which could be called a plan for the total economy—is the result of many intraparty discussions. It is prepared by the various Ministers who have frequent discussions with each other and with various private industries most heavily affected. Most of these discussions are held on an informal basis and they still exert substantial influence in formulating the national budget.

These annual budgets are quite detailed with special emphasis on housing and labor policy. Overall, the Government pursues a "tight" fiscal policy and depends on special credit or manpower policies to achieve the desired targets. Public works and financial incentives to stimulate geographic and vocational mobility are common devices used to maintain low unemployment rates.

The division of responsibility between fiscal and monetary policy to achieve the stated goals also is agreed upon informally. However, the interrelationships among those persons responsible for formulating these policies is far greater in Sweden than in the United States. For example, the Deputy Finance Minister is Chairman of the Board of the Central Bank. This Board is composed of six members elected by Parliament; five of them are active members of Parliament. Once a decision has been made, it becomes the responsibility of the Central Bank—called the Riksbank or Parliament's Bank—to provide adequate credit to finance those activities approved by Parliament.

The long-term reports should be regarded mainly as forecasts, with some discussions of economic policy alternatives, rather than as plans. The most recent report was prepared in 1970 covering the 1971-75 period; it was updated in 1973 and extended to 1977. These surveys deal with the development of the basic sectors of the Swedish economy during the forthcoming period and are based on detailed surveys with private business firms and other organizations in the private and public sectors. This approach to the long-term forecast results in a considerable exchange of information between representatives of the various sectors of the economy during the preparation of the report. The result of this survey is to disclose inconsistencies between various plans, which must be resolved either by the market mechanism or by government policy. In general, these reports have not been regarded as official government policy, but rather as a method of transmitting information about activities in the various sectors of the economy. The Swedish long-term survey often was contrasted with French long-term plans which are much more a statement of government policy. Businessmen seem to be very pleased with the Swedish type of planning activity because it furnishes a broad outline of government policies and provides a stable framework for business activity.

One of the most interesting aspects of Swedish planning is their system of investment funds. This system is designed to smooth out functions in investment and thereby contribute to economic stability. During prosperous periods business is encouraged to make deductible allocations of profits to investment funds for later use in that business, subject to government approval. The intention is to have these allocations simultaneously restrain the normal increase in business spending on plant and equipment during the boom period so that less urgent projects will be deferred until a later date. During a recession, on the other hand, the funds are released by the labor market authorities in order to encourage the earlier scheduling of planned projects for employment-creating purposes. The system thereby dampens fluctuations in business investment—restraining investment when business activity is at a high level, and stimulating investment during periods of downturn. Sweden has been experimenting with various forms of investment funds since 1938, and major revisions in the legislation were enacted in 1968. The present law allows each company to allocate up to 40 percent of its profits before taxes in any one year to the investment funds. Of this allocation 40 percent is deposited in the Bank of Sweden in a block account with no interest paid.

The basic incentive in the investment fund system is that firms are allowed to deduct additions to the fund from their current profits before paying tax. The tax on these profits does not have to be paid at all, provided they are used at a time that is accepted by the authorities. Moreover, if the funds are used at a time when the Government finds this appropriate from the point of view of economic stability, the firm is allowed to deduct from current profits an additional 10 percent of the amount taken from the investment fund.

Investment funds may be released in three ways. First, a company is permitted five years after an allocation to use up to 30 percent of the fund for purposes specified by the law. This 30 percent represents the so-called "pre-sector" which was established mainly to induce companies to set aside investment funds. The other two ways permit the discretionary use of sterilized funds when the release is authorized either by the Crown or by the Labor Market Board. The Labor Market Board normally establishes a release period, which may be fixed either for an individual fund or generally. This is to achieve proper economic timing of investment projects. The law also contains a requirement for a firm to draw on its fund for a specified time, but this provision of the law has never been used. Investment funds may be used to finance physical investment in plant and equipment and on occasion to finance temporary inventory investment.

Although I was not able on this short trip to explore the experience with investment funds to the extent that I would have liked, it is an innovative proposal and certainly merits more consideration. Accordingly, I have asked the staff of the Joint Economic Committee to prepare a more detailed analysis of the Swedish Investment Fund and the way in which it has been used.

While the Swedes did not discuss the integration of economic planning activities into the normal decisionmaking process as explicitly as the Norwegians did, it is clear that this has been done. The annual budget is prepared in the Ministries which have the direct responsibility for making and carrying out economic policy. The long-term survey is prepared largely within the Finance Ministry but with the cooperation and input of businessmen and the other necessary government agencies.

NORWAY

Minister Per Kleppe,
Minister of Finance.
Mr. Thorvald Moe,
Budget Department,
Ministry of Finance.
Mr. Per Schreiner,
Planning Department,
Ministry of Finance.
Mr. Arna Oien,
Director General,
Economic Policy Department,
Ministry of Finance.
Mr. Petter Jakob Bjerve,
Director,
Central Statistical Bureau.

- Mr. Per Sevaldson,
Central Bureau of Statistics.
- Mr. John Tvede,
Norges Bank (Central Bank of Norway).
- Professor Lief Johansen,
Faculty of Social Sciences,
University of Oslo.
- Mr. Carsten H. Schanche,
President,
Aker Group.
- Mr. Halvor Gjestland,
Vice President and Financial Manager,
Aker Group.
- Mr. Einar Joys,
Senior Vice President,
Det Norske Oljeselskap A/S (Norwegian Oil Company).
- Mr. Erik Brand Olimb,
President,
Det Norske Oljeselskap A/S (Norwegian Oil Company).

SWEDEN

- Mr. Krister Wickman,
Governor,
Rikshanken (Bank of Sweden).
- Mr. Goran Backstrand,
Swedish Secretariat for Future Studies.
- Mr. Lars Ingelstrom,
Swedish Secretariat for Future Studies.
- Mr. Bengt Ake Berg,
Budget Chief,
Finance Ministry.
- Mr. Carl-Hohan Aberg,
Planning Chief,
Finance Ministry.
- Professor Borge Kragh,
Finance Ministry.
- Mr. Gunnar Ribrant,
Deputy Assistant Secretary,
Industry Ministry.
- Mr. Rune Olsson,
Assistant Secretary,
Housing Ministry.
- Mr. Osten Johansson,
Chief,
Bureau for Planning and Research,
National Industrial Agency.

Representative LONG. We are very fortunate to have with us this morning three outstanding spokesmen from the private sector. Thomas Murphy, chairman of General Motors; Mr. John Diebold, chairman of the John Diebold Group; and Robert Roosa, a partner in Brown Bros. Harriman & Co. They are certainly all highly distinguished, eminent men with extraordinary records of achievement. Then following their testimony in a question and answer period we will hear from the Honorable Joseph Alioto, the mayor of San Francisco.

Mr. Murphy, we would like to hear from you first, if you would, sir.

STATEMENT OF THOMAS A. MURPHY, CHAIRMAN, GENERAL MOTORS CORP., DETROIT, MICH.

Mr. MURPHY. Thank you, Mr. Chairman.

Mr. Chairman, and members of the Joint Economic Committee. I am Thomas A. Murphy, chairman of General Motors Corp.

General Motors appreciates the opportunity to appear before your committee today to comment on S. 1795, the Balanced Growth and Economic Planning Act of 1975. I hope that as a result of these hearings, we will all develop a deeper appreciation for the traditional wisdom, based on the concept of individual responsibility and freedom which has guided our economy and underlies our record of progress.

My comments today are a summary of the statement which has been filed for the record of these hearings.

GENERAL COMMENTS

In preparation for this meeting today, my colleagues and I undertook a very careful reassessment of the proposed legislation and of our views with respect thereto. We received the thoughts of many others who have analyzed the proposal, the brief episodes of what might be called economic planning in U.S. history, and the results of the attempts at planning abroad.

As Prof. Herbert Stein, former Chairman of the President's Council of Economic Advisers, notes, there has been no evidence that economic planning in other countries has avoided the common problems of recession, inflation, shortages, pollution, urban congestion, or other items on the list of social evils.

Mr. Chairman, the central point I wish to make today is this: the essence of any national economic planning process, if it is to be translated into specific courses of action, presupposes that the course of economic development will be different from the course which consumers would pursue if given free choice. If there was to be no difference, and plan would be unnecessary.

But it does seem clear that a difference is intended when the bill's proponents defend it on the ground that it will permit people to express their choices through means other than their wallets. What they seem to be saying is that the plan would override the composite judgments of individual consumers. There is no reason to expect that the size of anyone's wallet would increase as a consequence of the plan and what would be lost is the right of each individual to use what he has in his wallet as he chooses.

There is no way to impose a national plan on the private sector—no matter how well thought out the plan might be—without substituting control by a central source for those individual decisions made in the marketplace.

This is the primary reason for my concern. It is the basic reason why we oppose the bill.

As we view it, the bill carries implications which are a serious threat to the welfare and freedom of our citizens and to the continued dynamic development of our national economy. I have used the word "implications" because the exact nature of some of the provisions of S. 1795 is unclear. Nevertheless, the thrust of the proposal and what appear to us to be the inevitable restraints of the planning process are, in our view, obvious enough.

DESIRABLE PLANNING

Our opposition to this bill is not based on any aversion to planning in the sense of having a prudent concern for the future, its opportuni-

ties an its risks. Looking ahead, anticipating problems, coordinating policies, operating more efficiently, making decisions on the basis of better information are obviously desirable—desirable for Government, for business, for all of us in this country.

I would give my unqualified endorsement to a proposal showing promise of improving the capability of Government to manage its affairs more effectively. There are a few who would claim that Government could not improve its performance of existing functions. If Government were to manage these presently assigned responsibilities on a steadier course, many of our basic concerns about the economy—and more particularly the concern I feel about preserving personal freedom—would be largely resolved.

I would enthusiastically support attempts to consolidate Government functions, to improve the quality of useful economic data, to remove duplication, to eliminate waste. I fully support the effort President Ford has encouraged to free citizens and businesses from the shackles of red tape and bureaucracy and unnecessary, unfair, unclear, and—of particular importance—inconsistent rules and regulations. This would reduce the regulatory burden and bring coordination and order into the governmental process. This would be planning of the highest order for a more smoothly functioning free society in the United States.

It would, of course, be a difficult and time-consuming job. But it is not one that requires new legislation—particularly legislation such as S. 1795. This bill, as we read it, provides for much more than putting our Government house in order and is many times more complex.

S. 1795—A VIABLE ALTERNATIVE?

Recognizing that the word “planning” is ambiguous, S. 1795 seems to point in the direction of centralized control of our country’s economic affairs. While I am aware that this has been denied, the proposed new bureaucracy and the mandate to be given it would open up the prospect of Government managing our economic life to an even greater extent than at present. It seems unavoidable that the scope of the bill would be well beyond the objective of more effective management of existing governmental functions.

The bill, with its ambiguous and ill-defined goals, contemplates the creation of a national plan. Actions to implement the plan are clearly and strongly implied, which reinforces our doubt that only voluntary cooperation would be sought. For example, section 212(a) states:

The President, with the assistance of the Board, shall take appropriate actions * * * to encourage state and local governments and the private sector to carry out their programs and activities in such a manner as to further the objectives of the plan.

It is a short step indeed from planning to planned.

Thus, in spite of the disarming language of the bill and its seeming appeal to rationality, I submit it must be viewed as still another move toward centralized direction of our economic affairs and away from the free choices of people as consumers and workers. If the bill does not intend this, then it is difficult to know what is contemplated by the language of section 208 which calls upon the President to submit a plan that would:

(1) Establish economic objectives * * * (2) Identify the resources required for achieving the economic objectives of the plan by forecasting the level of production and investment by major industrial, agricultural and other sectors * * * (3) recommend legislative and administrative actions necessary or desirable to achieve the objectives of the plan * * *.

Under S. 1795 an Economic Planning Board would be created. The responsibilities assigned to it would be so vast as to be substantially more complex than those of any business and beyond human capability—unless the Board's plan were to be stated in such sweeping terms as to add little beyond existing legislation such as the Employment Act of 1946. The danger is, that in spite of their complexity and unavoidable uncertainty, more detailed plans would be outlined setting off a chain of consequences which no one could foresee. National planning, it seems to me, is a prescription for national chaos—or at best, national stagnation.

A good case can be made for the proposition that some of the Nation's most intractable problems in the sectors specified in the bill have been magnified by Government intervention. The serious condition of our railroads, a consequence in no small part of inflexible regulation over an extended period of time, is a tragic and classic case in point. The system has been planned for almost 90 years. Today many railroads are bankrupt and a new generation of planners is faced with unappetizing alternatives.

Mr. Chairman, we must all—individuals and business—plan our futures and implement our plans on the basis of anticipations or forecasts, and we must accept the fact that the future is ever clouded by uncertainty and change. A planning process for the entire economy, moreover, presupposes a capacity to forecast with a dependable degree of accuracy.

Forecasting is, at best, hazardous even when our goals are substantially less ambitious than those outlined in S. 1795. Any forecasting, no matter the quality or volume of data upon which it is based, is inevitably uncertain.

A business must accept uncertainties as inherent risks of enterprise. Increasingly, success depends on flexibility—the capacity to respond quickly to changing external and market trends. This requirement was never greater than it is today—if for no other reason than the growing economic interdependence of all of us on this globe.

The Mideast oil embargo was a dramatic reminder of the fact that the nations on this globe have become increasingly interdependent. Increasingly, we must think in terms of world population growth, world food supplies, world energy requirements, and world raw material needs. This fact adds a major element of complexity, with resultant increased uncertainty, to any forecast we make and any planning we may try to do.

It is to my mind inescapable that the national planning process—however we may conceive it—would add an element of rigidity into the economy at the very time when flexibility and speed of response are more important than ever. That is, the very existence of a plan could impede the process of expeditiously meeting new and unforeseen challenges. This, I feel would have potentially grave consequences for us all.

PLANNING AND THE DEMOCRATIC PROCESS

One of our Nation's most cherished ideals—goals if you will—has been the enlargement of individual freedom.

Over the long term our economy has been remarkably successful in achieving economic goals without impairing economic freedom of choice. We have relied on the hope of profit to generate the capital investment which growth demands. We have encouraged innovation and risk taking. We have created jobs and, in the process, we have achieved an unrivaled standard of material well being. The essence of this process has been its dynamism and its capacity to respond to change. There is little recognition of this philosophy in S. 1795.

Whether people are to remain free to exercise their preferences to the greatest extent reasonably possible, or whether there must be further limits on freedom, is the crux of our discussion about S. 1795.

The Balanced Growth and Economic Planning Act seemingly contemplates grassroots discussions of various economic planning proposals.

- However, it is difficult to believe that national economic planning would really be the product of State and local participation.

The individual American consumer would be far removed from the Economic Planning Board provided for in the bill. The consumer would have, at most, a limited opportunity to voice an opinion—primarily through the election process rather than through purchasing decisions. And even then his particular view would be obscured by the host of other issues generally embodied in the broad platforms on which candidates base their campaigns.

Mr. Chairman, we do have a vital democracy, and its demonstrated record of strength has derived importantly from two convictions.

The first is that there are clear limits to the role of government.

In debating the proper role of Government in a free society, few, if any, would dispute the need for Government to establish the rules of conduct essential to social stability. No one denies the need for laws defining rights and duties where the unrestricted freedom of one person can seriously impinge on the rights of others. But the areas in which one individual's free choice unduly impairs the rights of others are far more limited than advocates of centralized planning generally are willing to admit.

The second conviction that has strengthened our democracy is that competitive markets and free consumer choice could be relied on to set an economic course which would maximize human welfare. The individual citizen has great capacity to modify his consumption patterns through free markets. If he does not like one product, he can choose any of several other possibilities—or none at all. It well may be that what he chooses would not be what a government planner would choose for him.

Each consumer, given his free choice, can purchase those products which he feels must suit his own special needs and resources. Unlike the political system, every person can win in an economic "election."

The genius of the market system is that the exercise of one person's choice does not determine priorities for someone else.

The benefits Americans have derived do not accrue from centralized planning but as a normal response to the market and the incentives of private enterprise. And while we should always set our sights higher, few societies have come as close as we have to eliminating poverty—one of the most enduring goals of all civilized societies.

Yet, criticism still persists. Whatever the reasons for criticism, and whatever the existing economic situation when these criticisms are made, the alternative almost always suggested is the substitution of planning for the alleged “anarchy” of the free market.

It is not necessary, Mr. Chairman, to go beyond the shores of the United States to find examples of the failures of various forms of government economic planning.

Our recently terminated experiment with direct wage and price controls—the first peacetime experiment of this type—demonstrated to C. Jackson Grayson, the chairman of the former price commission, the problems of trying to allocate resources. In his book “Confessions of a Price Controller,” Grayson said: “I have experienced the difficulties of trying to allocate resources by centrally directed price controls. These difficulties have convinced me that it is impossible to improve on the system in which billions of daily market decisions by the public determine our resource allocations.”

This was not the fault of the price commission or its staff. The fault lay in the misguided notion, common to all so-called “income policies,” that you can cure the disease of inflation by treating the symptoms. Equally important, by diverting attention from the real—monetary and fiscal—causes of the inflation, we established the conditions which could lead only to the inflation-recession period through which we have all suffered.

This brings me to the central danger of the proposals in this bill. It carries with it a faulty diagnosis of the problem, and therefore offers the wrong prescription. The faulty diagnosis is that a market economy is unstable and erratic—incapable of satisfactory economic performance without government economic planning. The evidence is clear for all to see, if we will but look, that the true situation is exactly the reverse. It is primarily the erratic management of fiscal, monetary and other public policies that has kept our economic system off balance.

PLANNING FOR FREEDOM

This, then, in our view, suggests the direction that this inquiry into the role of government planning ought to take. What is needed is for Government to do a better job in the management of those policies which relate to responsibilities it now has rather than assuming new responsibilities. While a full answer to this would extend beyond my own abilities, let me suggest some lines of inquiry that, I feel, the committee might profitably pursue.

Monetary and fiscal policies have been a major source of the economy's instability. We have seen inflationary policies pursued when the problem was inflation, and deflationary policies implemented when the economy was already receding. What can be done to make monetary and fiscal policies a less disturbing influence in the economy?

Are the resources and structures for decisions about economic policy in the executive branch adequate? My own impression is that both the Council of Economic Advisers and the Economic Policy Board already have been assigned responsibility for taking into account the longer-run effects of economic policy proposals.

Should more use be made of these existing structures? Can they be used more effectively? These are questions which must be of central importance to members of the Joint Economic Committee.

I would like to endorse, and suggest for your earnest consideration, the President's request for a review of existing Federal regulatory agencies. Certainly at the Federal level the Congressional committee structures already exist to push forward such a review without the added cost of a new bureaucracy.

Here, Mr. Chairman, are elements for an inquiry into the role of planning that would give promise of a more stable economy and one with enlarged scope for personal freedom and more dynamic progress. It is an agenda for improving the performance of our economy on which citizens of widely varying views could agree. It is an agenda which would keep freedom high on our list of national goals.

In closing, let me observe that in a very real sense we already have here in the United States a planned economy. It is an exceptionally sophisticated plan. We plan for free choice through the marketplace. This approach works. It has produced unparalleled economic growth and opportunity for personal development. Our goal should be to build on what we have—on the solid foundation of values which are a part of the heritage of freedom we all cherish so highly.

Again, Mr. Chairman, General Motors appreciates the opportunity to speak to the committee today. Thank you for your attention. I will be happy to attempt to answer any questions.

[The prepared statement of Mr. Murphy follows:]

PREPARED STATEMENT OF THOMAS A. MURPHY

Mr. Chairman, and members of the Joint Economic Committee. I am Thomas A. Murphy, chairman of General Motors Corporation.

General Motors appreciates the opportunity to appear before your Committee today to comment on S. 1795, the "Balanced Growth and Economic Planning Act of 1975." I hope that as a result of these hearings, we will all develop a deeper appreciation for the traditional wisdom, based on the concept of individual responsibility and freedom, which has guided our economy and underlies our record of progress.

GENERAL COMMENTS

In preparation for this meeting today, my colleagues and I have undertaken a very careful assessment of the proposed legislation and our views with respect thereto. We have thoroughly reviewed the thoughts of many others who have analyzed the proposal.

We also have reviewed the brief episodes of what might be called economic planning in U.S. history. For the most part, these have related to national emergencies such as World War II and the Korean War. We also have had some partial experiences with planning during peacetime, such as the National Recovery Administration program during the depression of the 30's and our recent experience with price and wage controls.

Obviously, S. 1795 proposes a different approach from those we have used before, although we should be able to learn from our earlier experiences. Planning abroad is frequently cited—France and Sweden by proponents of planning and Britain and Russia by opponents. Such examples may be of interest as far as the general topic of planning is concerned, but such experiences in no way match S. 1795. In addition, I would not consider any of these foreign ex-

periences as guides for U.S. action. In this connection, I understand that the Chairman has requested a study by the Library of Congress on planning in industrialized countries.

But in summary, as professor Herbert Stein (former Chairman of the President's Council of Economic Advisers) notes, there has been no evidence that economic planning in other countries has avoided the common problems of recession, inflation, shortages, pollution, urban congestion, or other items of the laundry list of social evils.

Dr. Stein further notes that "the present surge of enthusiasm for planning in the United States arises not because of the success of foreign planning but despite its failure." I would submit further that this generalization applies with equal validity through the entire gamut of planning proposals—from the relatively innocent efforts at "indicative planning" to the fully government-managed economies.

The essence of any national economic planning process, if it is to be translated into specific courses of action, presupposes that the course of economic development will be different from the course which consumers would pursue if given free choice. If there was to be no difference, any plan would be unnecessary.

But it does seem clear that a difference is intended when the bill's proponents defend it on the ground that it will permit people to express their choices through means other than their wallets. What they seem to be saying is that the plan would override the composite judgments of individual consumers. There is no reason to expect that the size of anyone's wallet would increase as a consequence of the plan and what would be lost is the right of each individual to use what he has in his wallet as he chooses.

There is no way to impose a national plan on the private sector—no matter how well thought out the plan might be—without substituting control by a central source for those individual decisions made in the marketplace. The experience in other countries, as well as our own limited experience, supports this conclusion.

This is the primary reason for my concern. It is the basic reason why we oppose the bill.

Our opposition is to the concept of additional governmental intervention into the economic lives of the people of our country.

Woodrow Wilson spoke clearly to this point when he said:

"Liberty has never come from the government. Liberty has always come from the subjects of it. The history of liberty is a history of the limitation of governmental power, not the increase of it."

As we view it, the bill carries implications which are a serious threat to the welfare and freedom of our citizens and to the continued dynamic development of our national economy. I have used the word "implications" because the exact nature of some of the provisions of S. 1795 is unclear. Nevertheless, the thrust of the proposal and what appear to us to be the inevitable restraints of the planning process are, in our view, obvious enough.

DESIRABLE PLANNING

Our opposition to this bill is not based on any aversion to "planning" in the sense of having a prudent concern for the future, its opportunities and its risks. Looking ahead, anticipating problems, coordinating policies, operating more efficiently, making decisions on the basis of better information are obviously desirable—desirable for government, for business, for all of us.

I would give my unqualified endorsement to a proposal showing promise of improving the capability of government to manage its affairs more effectively. There are few who would claim that government could not improve its performance of existing functions. If government were to manage these presently assigned responsibilities on a steadier course, many of our basic concerns about the economy—and more particularly the concern I feel about preserving personal freedom—would be largely resolved.

I would enthusiastically support attempts to consolidate government functions, to improve the quality of useful economic data, to remove duplication, to eliminate waste. I fully support the effort President Ford has encouraged to free citizens and businesses from the shackles of red tape and unnecessary, unfair, unclear, and—of particular importance—inconsistent rules and regulations. Reducing the regulatory burden and bringing coordination and order

into the governmental process would be planning of the highest order for a more smoothly functioning free society in the United States.

Accomplishing all of this would, of course, be a difficult and time-consuming job. But it is not one that requires new legislation—particularly legislation such as S. 1795. This bill, as we read it, provides for much more than putting our government house in order and is many times more complex.

S. 1795—A VIABLE ALTERNATIVE?

Recognizing that the word "planning" is ambiguous, S. 1795 seems to point in the direction of centralized control of our country's economic affairs. While I am aware that this has been denied, the proposed new bureaucracy and the mandate to be given it would open up the prospect of government managing our economic life to an even greater extent than at present. It seems unavoidable that the scope of the bill would be well beyond the objective of more effective management of existing governmental functions.

The bill, with its ambiguous and ill-defined goals, contemplates the creation of a national "plan." Actions to implement the plan are clearly and strongly implied, which reinforces our doubt that only voluntary cooperation would be sought. For example, Section 212(a) states "The President, with the assistance of the Board, shall take appropriate actions . . . to encourage state and local governments and the private sector to carry out their programs and activities in such a manner as to further the objectives of the plan." It is a short step indeed from "planning" to "planned."

Thus, in spite of the disarming language of the bill and its seeming appeal to rationality, I submit it must be viewed as still another move toward centralized direction of our economic affairs and away from the free choices of people as consumers and workers. If the bill does not intend this, then it is difficult to know what is contemplated by the language of Section 208 which calls upon the President to submit a plan that would "(1) establish economic objectives . . . (2) identify the resources required for achieving the economic objectives of the plan by forecasting the level of production and investment by major industrial, agricultural and other sectors . . . (3) recommend legislative and administrative actions necessary or desirable to achieve the objectives of the plan . . ."

In particular, the President is to make recommendations on—and I quote: ". . . 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."

Under S. 1795 an Economic Planning Board would be created. The responsibilities assigned to it would be so vast as to be substantially more complex than those of any business and beyond human capability—unless the Board's plan were to be stated in such sweeping terms as to add little beyond existing legislation such as the Employment Act of 1946. The danger is, that in spite of their complexity and unavoidable uncertainty, more detailed plans would be outlined setting off a chain of consequences which no one could foresee. National planning, it seems to me, is a prescription for national chaos—or at best, national stagnation.

Given the inherent dynamics of the world economy, whatever national plan we devised could well be obsolete before the ink had dried.

The bill seems to proceed upon the erroneous assumption that given sufficient economic information and access to public opinion, a central group can decide on appropriate priorities for the entire economy. In reality it is impossible to make such judgments on the optimal employment of society's resources.

Moreover, at any point in time the plan will accord with the broad views of only a part of the population and with the particular views of none except the few planners. Accordingly, we can anticipate that the national plan will fluctuate every few years with shifts in the party in power or in Congressional strength.

A good case can be made for the proposition that some of the nation's most intractable problems in the sectors specified in the bill have been magnified by government intervention. The serious condition of our railroads, a consequence in no small part of inflexible regulation over an extended period of time, is a tragic and classic case in point. The system has been "planned" for almost

90 years. Instead of permitting railroads to expand or contract and tariffs to rise and fall in response to market forces, the planners have imposed their own superseding view of the "public interest" or national goals.

As a result, entire communities which might have gradually adapted their transportation systems to technological and demographic changes without hardship are now unduly dependent on a rail system that cannot serve them without incurring substantial losses. Many railroads are bankrupt and a new generation of "planners" is faced with unappetizing alternatives.

Another example of where government intervention has magnified problems is the effort to subvert a free market for agricultural products. Who could have foreseen even five years ago—when we planned on the basis of output controls—there would be successive years of drought on a world-wide basis and the emergence of a world food shortage? Or that the Soviet Union would be looking to the U.S. to feed the Russian people? This once again illustrates sharply the unreliability of forecasting and its effect on government planning.

We must all—individuals and businesses—plan our futures and implement our plans on the basis of anticipations or forecasts, and we must accept the fact that the future is ever clouded by uncertainty and change. A planning process for the entire economy, moreover, presupposes a capacity to forecast with a dependable degree of accuracy.

The planners will be expected to foresee international politics and changing trade relationships, weather conditions, and any one of a thousand and one events which pop up unexpectedly to change the course of history. The array of difficulty is overwhelming.

Forecasting is, at best, hazardous even when our goals are substantially less ambitious than those outlined in S. 1795. Any forecasting, no matter the quality or volume of data upon which it is based, is inevitably uncertain.

A business must accept these imponderables as inherent risks of enterprise. Increasingly, success depends on flexibility—the capacity to respond quickly to changing external and market trends. This requirement was never greater than it is today.

We cannot overlook the fundamental fact that we live in a truly global society—and increasingly so. Decisions made here in the United States have an impact far beyond our borders, just as decisions made by other countries can affect all of us here in America.

The Mid-East oil embargo was a dramatic reminder of the fact that the nations on this globe have become increasingly interdependent. Increasingly, we must think in terms of world population growth, world food supplies, world energy requirements, and world raw material needs. This fact adds a major element of complexity, with resultant increased uncertainty, to any forecast we make and any planning we may try to do.

A market economy can make the required adjustments to outside forces reasonably promptly. However, a planning apparatus, based on some pre-conception of economic trends, would adjust slowly, if at all.

It is to my mind inescapable that the national planning process—however we may conceive it—would add an element of rigidity into the economy at the very time when flexibility and speed of response are more important than ever. That is, the very existence of a "plan" could impede the process of expeditiously meeting new and unforeseen challenges. This, I feel, would have potentially grave consequences for all.

PLANNING AND THE DEMOCRATIC PROCESS

One of our nation's most cherished ideals—goals if you will—has been the enlargement of individual freedom—through education to expand the range and choice of work; through enterprise to exceed the opportunity for advancement; and through competitive markets which cater to individual needs.

Over the long term our economy has been remarkably successful in achieving economic goals without impairing economic freedom of choice. We have relied on the hope of profit to generate the capital investment which growth demands. We have encouraged innovation and risk taking. We have created jobs and, in the process, we have achieved an unrivaled standard of material well-being. The essence of this process has been its dynamism and its capacity to respond to change. There is little recognition of this philosophy in S. 1795.

Whether people are to remain free to exercise their preferences to the greatest extent reasonably possible, or whether there must be further limits on freedom, is the crux of our discussion about S. 1795.

As former Senator Sam Ervin said November 11 at the Convocation of the Menninger Foundation:

"These freedoms are in peril at the hands of men of good intentions and much zeal, but wanting in understanding of the eternal truths respecting men and government; and men of sincerity who doubt the wisdom of America's commitment to freedom and fear the exercise of freedom by those they dislike."

The Balanced Growth and Economic Planning Act, by calling for "the views and comments of citizens," seemingly contemplates grass roots discussions of various economic planning proposals.

However, given the vastness of our country and the great diversity of interests involved, it is difficult to believe that national economic planning would really be the product of state and local participation.

The individual American consumer would be far removed from the Economic Planning Board provided for in the bill. The consumer would have, at most, a limited opportunity to voice an opinion—primarily through the election process rather than through purchasing decisions. And even then his particular view would be obscured by the host of other issues generally embodied in the broad platforms on which candidates base their campaigns.

We do have a vital democracy and its demonstrated record of strength has derived importantly from two convictions.

The first is that there are clear limits to the role of government.

In debating the proper role of government in a free society few, if any, would dispute the need for government to establish the rules of conduct essential to social stability. No one denies the need for laws defining rights and duties where the unrestricted freedom of one person can seriously impinge on the rights of others. Thus, providing for such factors is a long-recognized function of government.

In our business, for example, standards in areas such as vehicle emissions are necessary to assure the quality of the air. But the areas in which one individual's free choice unduly impairs the rights of others are far more limited than advocates of centralized planning generally are willing to admit.

The second conviction that has strengthened our democracy is that competitive markets and free consumer choices could be relied on to set an economic course which would maximize human welfare. The individual citizen has great capacity to modify his consumption patterns through free markets. If he does not like one product, he can choose any of several other possibilities—or none at all. It well may be that what he chooses would not be what a government planner would choose for him. However, the market result does have the virtue of relying on the composite of many individual choices to identify the resources required.

This sensitive tailoring of productive resources to the complex and diverse preferences of people, expressed through free markets, is a fundamental, though often under-appreciated characteristic of our system. Each consumer, given his free choice, can purchase those products which he feels most suit his own special needs and resources. Unlike the political system, every person can win in an economic "election."

The genius of the market system is that it enables each individual to vote for his preferences with particularity and the exercise of one person's choice does not determine priorities for someone else.

THE PLANNING MYSTIQUE AND REALITY

Some proponents of government economic planning seem to be motivated by two distinct but related notions. First, there is a school of thought that argues that because competitive markets do not function in all cases in the way simplistic, theoretical models of competition postulate, the system does not work at all. I submit this is pure nonsense. Second, there are those who, while not denying that the market works, do not like the choices consumers make. They are quick to apply labels such as "wasteful" or "frivolous" to these choices. This is a position held by those who believe it is only their value systems or their priorities that should determine and identify the proper allocation of society's resources.

As one who has spent a lifetime in a business which must compete every day of the year to satisfy the consumer, I reject both of these notions. Government planning which goes beyond establishing the rules by which civilized people live, or which imposes value judgments on the freely functioning mar-

ket, reduces economic efficiency and restricts personal freedom. Government must establish the rules of the game; it should not take part in the play. It is this extension of the planning syndrome which we believe is implicit in S. 1795 and to which we take vigorous exception.

Fortunately, American consumers still exercise a remarkable freedom of choice in a market economy. Our history shows clearly that this system does work. Levels of material well-being have doubled every generation. Employment has increased well over 10% every decade in the post-war period. The range of product choice available to us is truly extraordinary. Our profit and loss system accounts for the unending stream of new products and services seeking customer favor. These benefits do not accrue from centralized planning but as a normal response to the market and the incentives of private enterprise. And while we should always set our sights higher, few societies have come as close as we have to eliminating poverty—one of the most enduring goals of all civilized societies.

Yet, criticism still persists. In periods of economic prosperity, the marketplace is judged to be overly "materialistic"—almost as though critics consider poverty a blessing. In bad times, the free market system is condemned as an evil throwback to another century—a throwback which supposedly enriches the privileged few at the expense of the oppressed majority.

Whatever the reasons for criticism, and whatever the existing economic situation when these criticisms are made, the alternative almost always suggested is the substitution of planning for the alleged "anarchy" of the free market.

It is not necessary, Mr. Chairman, to go beyond the shores of the United States to find examples of the failures of various forms of government economic planning.

Our recently terminated experiment with direct wage and price controls—the first peacetime experiment of this type—demonstrated to C. Jackson Grayson, the chairman of the former Price Commission, the problems of trying to allocate resources. In his book "Confessions of a Price Controller," Grayson said: "I have experienced the difficulties of trying to allocate resources by centrally directed price controls. These difficulties have convinced me that it is impossible to improve on the system in which billions of daily market decisions by the public determine our resource allocations."

Materials required for domestic production found their way into export markets through the attraction of high world prices. Materials which we relied upon from overseas were increasingly in short supply. Beyond this, differences in the treatment of industries and changes in regulations created serious inequities.

All of this was not the fault of the Price Commission or its staff. The fault lay in the misguided notion, common to all so-called "income policies," that you can cure the disease of inflation by treating the symptoms. Equally important, by diverting attention from the real (monetary and fiscal) causes of the inflation, we established the conditions which could lead only to the inflation-recession period through which we have all suffered.

A debate about whether planning is necessary is taking place in the energy area. Since the motor vehicle is apparently a prime target in this energy debate, I would like to add a further observation about planning in this area. The increase in the price of a gallon of gasoline between September, 1973, and September, 1975, has been over 50%. Even allowing for the impact of the recession, it is clear that this price increase has caused all car owners to use their cars more prudently. It has made fuel efficiency a major consideration in the purchase of every new car—large and small. The market for small cars—those with the highest fuel efficiency—has increased from about 35% of all new cars prior to the embargo to over 50% today.

Both consumers and producers are responding through the marketplace to conserve energy.

I have no doubt this trend would continue if petroleum prices were decontrolled and that the sale—and therefore the production—of new cars would follow a pattern fully consistent with the nation's energy conservation requirements.

This brings me to the central danger of the proposals in this bill. It carries with it a faulty diagnosis of the problem, and therefore offers the wrong prescription. The faulty diagnosis is that a market economy is unstable and erratic—incapable of satisfactory economic performance without government economic planning. The evidence is clear for all to see, if we will but look,

that the true situation is exactly the reverse. It is primarily the erratic management of fiscal, monetary and other public policies that has kept our economic system off balance. Whether we look at the Great Depression—when the money supply was permitted to decline by about 80%, the acceleration of inflation after the strictures of wartime measures were removed in 1945, or the 1974-75 recession, the root causes are to be found in public policies—in areas where government, and only government, has authority to function.

PLANNING FOR FREEDOM

This, then, in our view, suggests the direction that this inquiry into the role of government planning ought to take. What is needed is for government to do a better job in the management of those policies which relate to responsibilities it now has rather than assuming new responsibilities. While a full answer to this would extend beyond my own abilities, let me suggest some lines of inquiry that, I feel, the committee might profitably pursue.

Monetary and fiscal policies have been a major source of the economy's instability. We have seen inflationary policies pursued when the problem was inflation, and deflationary policies implemented when the economy was already receding. We must work to improve their track record. There is no question in my mind that much further progress is possible. The new budget structure in the Congress is promising, but no one would yet say that the budget is now under control. What further can be done to make monetary and fiscal policies a less disturbing influence in the economy?

Are the resources and structures for decisions about economic policy in the Executive Branch adequate? My own impression is that both the Council of Economic Advisers and the Economic Policy Board already have been assigned responsibility for taking into account the longer-run effects of economic policy proposals. Should more use be made of these existing structures? Can they be used more effectively? These are questions which must be of central importance to members of the Joint Economic Committee.

I also would like to endorse, and suggest for your earnest consideration, the President's request for a review of existing federal regulatory agencies. Certainly at the federal level the Congressional committee structures already exist to push forward such a review without the added cost of a new bureaucracy.

Here, Mr. Chairman, are elements for an inquiry into the role of planning that would give promise of a more stable economy and one with enlarged scope for personal freedom and more dynamic progress. It is an agenda for improving the performance of our economy on which citizens of widely varying views could agree. It is an agenda which would keep freedom high on our list of national goals.

In closing, let me observe that in a very real sense we already have a planned economy. It is an exceptionally sophisticated plan. We plan for free choice through the marketplace. This approach works. It has produced unparalleled economic growth and opportunity for personal development. Our goal should be to build on what we have—on the solid foundation of values which are a part of the heritage of freedom we all cherish so highly.

Again, Mr. Chairman, General Motors appreciates the opportunity to speak to the Committee today. Thank you for your attention. I will be happy to attempt to answer any questions.

Chairman HUMPHREY [presiding]. Mr. Murphy, I think I speak for the committee when I say we are very grateful to you for taking your valuable time to come here and to answer our invitation.

I apologize for coming in a bit tardy, but I was required, and it was my privilege to present General Maxwell Taylor with testimony in another committee on a bill that introduced to provide a memorial for the 101st Airborne Division, and I took the time to do so. And Congressman Long and Senator Javits were considerate and generous enough to be here and to get this committee off and going on time.

Mr. MURPHY. We appreciate that.

Chairman HUMPHREY. While I was not here for the first few minutes of the testimony—let me just pick up where I came in—I un-

derstand that Congressman Long has suggested, and properly so, that each of the panel give their statement.

Mr. Diebold, we look forward to hearing from you, and it is good to see you again, John.

STATEMENT OF JOHN DIEBOLD, CHAIRMAN OF THE BOARD, THE JOHN DIEBOLD GROUP, NEW YORK, N.Y.

Mr. DIEBOLD. It is good to be here.

Chairman HUMPHREY. I enjoyed our evening, Sunday.

Mr. DIEBOLD. So did I.

Mr. Chairman and members of the committee, the concern of those who favor this experiment in national economic planning has been aroused by the series of shocks and crises into which our economy and our Government have fallen during the past decade—to go no further back. Of equal concern to me is the ease with which we accept events and conditions that, were we properly informed about their end results, we would not allow to occur, or would seek to change. I believe this lack of early recognition of future difficulties explains the source of many of society's major problems—urban crises; misallocation of resources; possible capital shortages. I believe that better information and planning could be the means for providing some of the missing advance warning and calling attention to future consequences of today's action or lack of action. It is in this sense and with this understanding of planning that I view the sense of the bill constructively.

Let us also recognize that government today is impacting the economy all the time. Government actions are providing incentives and disincentives without a real attempt to relate each major move to the overall situation. A plan does not of itself increase or change these influences; it may make for more careful reflection before they are initiated.

It appears to me that this legislation is controversial not so much because anyone really objects to improved foresight and information useful in setting public and private policy, but because of fear that the mechanism used to provide this information will lead to clearing the air and could lead to modifications in the bill that might more readily lead to its passage. My suggestion stems from my concern about how little we really know of how planning might work in our economy. I would therefore hesitate now to launch a permanent, full-fledged planning bureaucracy that will develop a momentum of its own, perhaps down the wrong road.

As a result, I favor a "dry run", a carefully developed trial plan prepared by a temporary task force. Such a task force should have roughly a 2-year charter to produce a plan, and have sufficient funds and authority to draw on existing agencies of the Government and on private experts. The trial plan should then be subject to public debate and discussion, including hearings before this Commission.

I see a number of advantages from such an approach:

One: After such a trial plan has been developed, proponents and critics alike will have a fuller understanding of the planning concept, its advantages and limitations, and will thus be basing their

views on something concrete, rather than on fears or expectations that may be groundless.

Two: The dry run will enable legislators to understand better how planning can function in our economy with our institutions and structures. Each economy has its own unique characteristics. Before the content, nature, and objectives of a planning system are cast in concrete, a dry run should provide the lawmakers with important guidelines based on U.S. conditions. Our economy differs greatly in structure, size, and operating characteristics from countries often cited as "successful" examples of economic planning. We must learn how to do it our way.

For one thing, I believe the process will show the enormity of the task, and may well encourage more attainable and less all encompassing objectives, and scope in future legislative proposals.

Three: No permanent, self-perpetuating bureaucracy will be created until there is greater consensus on the merits of planning, its nature and objectives, and the real needs, functions and costs of such a bureaucracy.

Four: The dry run will provide further information on some of the organization and operational portions of the bill. For example, I question whether the Board should be within the Office of the President. I believe it would be better as a free-standing agency.

Five: The trial plan will in itself be a useful output. I am convinced that the planning process and the resulting product will provide valuable insights into our economy, our problems, and our opportunities. It will not be a futile exercise, but will be a valuable tool for the private and the public sector.

It will also be a test of whether the planning process can produce something sufficiently accurate and reliable to be useful.

There are two essential preconditions to the acceptability of a dry run concept:

One: There must be built-in defenses against the natural bureaucratic, and human, penchant for perpetuating what has been started. I espouse the dry run as a test, not as a convenient and easy way to take the first step along a preconceived course of action. The legislation should thus specifically build in a 2-year hiatus after the first plan has been developed, so that the temporary task force cannot convert itself into a permanent agency. There are obvious practical and administrative difficulties in properly accomplishing this but they are a small price to pay for the protection against momentum that it will provide.

Two: There must be sufficient time for proper evaluation of the test—enough time for subsequent events to show whether the plan provided constructive guidance or reached conclusions belied by actual developments. Consider for a moment a national economic planning effort undertaken in the economic and political climate of 1972-73. Would it have helped us with today's problems? The need for such an evaluation period reinforces the requirement for a real cessation of activity in this area, so that the eventual reconsideration can be done with real experience to draw on, and without an existing planning agency to contend with.

What kind of a plan should we aspire to in the long run? That should depend on experience, but I am in full agreement with the

previously published statements of Mr. Murphy and Mr. Wriston that it would be very bad to give the power to government to make the decisions which are now made by consumers and to which, as they perceive them, business firms try to respond. I do not interpret the bill as calling for anything like this, and I would trust that any trial, experimental, or first plan that may be framed will not be like this in any respect.

The role of business is to produce goods and services in response to effective demand at a profit. Government can influence the nature and content of effective demand in many ways. The role of planning should primarily be to provide inputs on where such influence is needed, what the appropriate priorities are, what options exist, and the likely consequences of different options.

Thus, the way I see a plan for balanced economic growth is as partly a forecast, with a full presentation of the trends and statistics from which the forecast is drawn; as partly a statement of policy alternatives, including as one alternative, no government action at all, with the calculated costs and benefits of each policy; and partly as a statement of threatening or potential obstacles or dangers, such as shortages of essential materials, with policy alternatives to meet each of these. This is my interpretation of section 208(a) (1) of the bill.

The Government has taken a number of constructive steps recently toward improving the totality of information on which decisions are based; the creation of a congressional Budget office was a move in this direction. It is possible that the outcome of the test will show that the important analytic functions that make me favor some improved mechanisms in this area can be accomplished by extending the functions of existing agencies, such as the Council of Economic Advisers and the Congressional Budget Office.

It is such authoritative counsel which is still lacking in many areas. Congressional action is repeatedly hampered by its absence. There are bills to control inflation or to relieve unemployment, but they are not based on the full picture of the economy which a planning board could give—they are based rather on meeting each emergency as it appears. Cities get into financial binds, and the problem is handed to the Federal Government, but a good plan may have foreseen this potential crisis and permitted development of policy with less haste and with more assurance. There are housing bills, with arguments for and against them, but where is a balanced explanation which fits this problem into the trends of the economy as a whole? In short, Congress—and government as a whole—needs advance planning to take intelligent action: It is as simple as that.

Implicit in the above is the need for priorities. Taken by itself many social and economic goals may be highly desirable. It is only when each desirable goal is considered in light of others and of available resources that intelligent choices can be made. An important function of planning should be to make clear what these trade offs are, so that intelligent and meaningful priorities can be set. And here I am referring not only to fundamental trade offs such as between consumption and investment, but also to program related trade offs, such as housing versus health services.

As in the past, there will be areas where the government determines that direct intervention is appropriate, because in its view the private market is not adequately meeting a particular need. Such programs will continue regardless of planning, and there is some hope that a planning function may improve the decisionmaking process relating to their conception and implementation. At the least, planning will allow a better appreciation of the impact of such programs on the whole economy, including resource requirements on a sector by sector basis.

The question of sector forecasts has also raised controversy. I think it would be a great mistake to have a planning board set output targets on industry-by-industry or sector-by-sector basis. First of all, they would be unrealistic, simply because in a rapidly changing technological and cultural environment products and requirements change too quickly. Second, such target setting would lead to an usurpation of consumer choice. And third, they would tend to stifle innovation at the expense of what currently exists.

But I do feel it to be within the scope of national economic planning to make estimates or forecasts of sector production, with full recognition that such estimates are likely to be quite wrong. Such estimates should consider the effect of public programs on sector activity. It is at the sector level that future problems and opportunities first manifest themselves and thus become subject to response or encouragement. Examples are abundant, ranging from the impact of automobile production on urban and suburban life; the effect of the development of the air transportation and trucking industry on the railroads and so on. But it should be clear to all—planners, legislators, citizens—that such estimates are neutral and predictive rather than goals.

Another significant contribution from a planning agency should be to provide inputs on future changes or “discontinuities” that may affect the economy. These can include major technological change, modified cultural patterns, resource shortages or surpluses, and changing international conditions. Foresight here may help the Nation’s economy, in the public and private sector alike, deal with these changes constructively rather than be buffeted by them without any warning. This is one of the several analytic functions as opposed to prescriptive, that I think characterize a planning function for the United States.

It is also important to note the many differences between planning by private organizations and planning by government, because one can easily fall into the trap of justifying government planning by the fact that private businesses and individuals plan for their own economic well-being. This concept ignores the fundamental difference between microeconomics and macroeconomics, and I believe gives grounds to the concerns of those who equate government planning with government control.

Although congressional legislation should and will be drawn up in the light of economic plans, both the experimental one and later ones if they follow, I am opposed to plan enforcement on the private sector by government compulsion. I am equally opposed to use of public machinery to achieve ends which can be achieved by private action. If plans should highlight social goals, we must learn where

possible to harness private enterprise, with all its strengths of energy, initiative, and flexibility, to their attainment. We can encourage competitive market forms which will not only do the private enterprise job better but take over some of the things which we think of as public functions—and get better results for us than now. There is a whole field of possible tax incentives that we can tap. We have made use of this tool far less than we should have done in the areas of pollution control. Part of any plan will be to make explorations in this area.

Indeed, when I think about specific examples of how better information and foresight could have helped avoid some present problems, it is easier to find them in government related activities than in the private sector. I believe, for example, that sound forecasting, including sector estimates, could have signaled early the demise of much of the U.S. railway system partly as a result of archaic regulations. Pollution control regulations will reportedly cause investment by industry of \$34 billion for the 1975-73 period, at a time when there is major concern in the business community about the country's ability to generate sufficient capital to meet basic capital replacement and modernization needs. I am obviously not opposed to pollution control, but I would feel more comfortable if such regulatory decisions were being made in the context of forecasts of total resource requirements and impact on gross national product.

As everybody focuses on New York's fiscal crisis, we need to be reminded that hardly anything is being done about the long-run trends affecting productivity of urban services and costs.

In the private sector, I am concerned and convinced that current trends in the financial markets are creating a serious "innovation gap" as resources available to small, new businesses are drying up, and the innovative entrepreneur in America is facing ever more severe obstacles, some of them government imposed.

I do not view the role of planning as, for example, prescribing a certain rate of new venture formation or what portion of capital investment should be allocated to pollution abatement. But I do see merit in an official body spotting these trends and identifying the implications for future economic growth and output. It would also be within the scope of a planning agency to examine alternative assumptions and project the effects of such different assumptions. And finally, the planning agency could examine ways in which public policy currently affects these determinants of future economic activity, and how changes in such public policies might change public policy currently affects these determinants of future economic limit of planning.

My appeal has been to proponents of planning to conciliate rather than fight its critics, by settling at this time for a trial plan; and to the critics to accept such a trial, which, if they are right, will prove it. This should not become an election issue. The thorough debate we should have in the end ought to be postponed until we have a plan before us to see what the beast is like. Let us start the trial in the Bicentennial year. But let us have in mind, now and later, not a planning agency which will make our decisions for us, but one which will better inform our decisionmakers—public and private alike.

Mr. Chairman, I have a supplementary statement that I would like permission to submit.

Chairman HUMPHREY. And we especially thank you for your testimony, Mr. Diebold and the supplementary statement, and I will ask that the supplementary statement be included as a part of the record. [The supplementary statement of Mr. Diebold follows:]

SUPPLEMENTARY STATEMENT OF JOHN DIEBOLD

I. CHARACTERISTICS OF ECONOMIC PLANNING APPROPRIATE TO A FREE ENTERPRISE SYSTEM

My own allegiance to the idea of planning is not to a plan which decides what goods and services shall be produced in an economy and then takes measures to see that each industry meets its quota. My view is that it should be a prediction of where we are going, a statement of the known facts and statistics bearing on this, a review of alternative options facing us (including among the best the option of letting things follow their expected trend), a statement of the probable benefits and costs of each option, or in general the best guidelines for the future that an expert body can set down now. The plan should not make decisions; it should give the necessary information to decision-makers, whether they are in the public or the private sector. It should be primarily analytic rather than prescriptive.

Within this framework, the scope, form, and content of planning must vary with the subject of the planning process. The legislation under discussion seems to suggest four targets for planning:

(1) Planning by the Federal government in its role as macro-economic manager.

(2) Planning of the public sector's own activity.

(3) Planning to meet "essential national needs" in some things which it is supposed might otherwise be short (energy, raw materials etc.) in some time period ahead.

(4) Planning to meet future opportunities that might otherwise be missed.

In each of these four fields planning can be useful, but in each of them it will be desirable that certain key attitudes and objectives should be kept in view from the start. It is on these special points that I shall focus, since it is not my intention to offer a treatise on planning.

1. Macro-economic planning

First, the task of the Economic Planning Board should not be to take decisions, but to bring naggingly to the attention of the decision takers the quantitative implications of the decisions they take.

With full recognition that economic forecasting does not have a good record for accuracy and reliability, it still appears desirable to have an official, expert evaluation of the implications of certain basic economic policies—fiscal, monetary, regulatory. Such an evaluation would apply the best economic thinking to informing Congress and the Administration of the trade-offs between different macro-economic goals (inflation vs. unemployment, consumption vs. saving, investment and income distribution), and the assumptions on which those evaluations are based. A plan's existence will have the beneficial effect of provoking comment, criticism and discussion from other people and organizations with different interest and viewpoints. The resulting debate and airing of goals and assumptions can only be healthy.

Another contribution in the macro-economic field is for the Board to monitor on a continuing, and *non-political*, basis the degree to which actual performance of the economy is adhering to the course on which the policy makers have tried to put it.

The Humphrey-Javits bill rightly includes "stable international relations" as one of the objectives to which the Balanced Economic Growth Plan should pay special attention, and we would say that this is the second big concept which the Economic Planning Board should recognize from the start. This close interdependence of domestic and international economics makes it even more important that the Economic Planning Board should not pretend to be a decision-taking body, but should try to keep decision-takers constantly aware of the likely international implications of the policies they are considering.

Just as all countries already look ahead in the likely development of their GNP and other national macroeconomic indicators in quantified terms over various periods ahead, so it is now essential that in this leading economic country of the world there be a mechanism for looking ahead to the likely development of gross world product and other world macroeconomic indicators in quantified terms over various periods ahead, and for the United States thus to have some quantitative grip on what it thinks it is trying to do when playing a leading role in the development of world economic policies. And that is a further important reason for wanting some refurbishment of America's economic planning mechanisms, after the inflation-slump cycle of 1971-75 which has been largely international in character. Such a scope is ambitious and recognizably difficult to achieve. But because it will for a long time be impossible fully to accomplish is no reason not to state the need. Hopefully, recognition of the need will stimulate some steps in the right direction.

There has been some argument whether forward projections for the United States should not merely project the broad macroeconomic possibilities, but should specify (e.g.) how many cars and refrigerators America seems likely to be producing five years from now, or what the activity in any particular sector is likely to be. Our view is that this could be a useful function of the Board, because it is at this level of detail that the future implications of trends become significant and "actionable."

For example, if we had prepared a public sector plan after World War II, would it have included so vast an expansion of this sector as has actually occurred? I think not. To review the figures: in the last four years of the 1940's the government sector averaged 12.7% of gross national product; defense was 5.0% and non-defense purchases of goods and services made up the rest. In 1974 defense had increased to 5.8% and other purchases from 7.7 to 16.5%, or a total of 22.1%. Between 1946-49 and 1974 total taxes (federal, state, and local), which pay for much else besides purchases of goods and services, increased from 23.3% to 32.6% of gross national product.

Sector forecasts are also important inputs in considering options. One way to analyze a policy option is to try to estimate its implications on each sector. In addition, public programs affect private business, and it is probably desirable to have a better appreciation of the impact of public program options on private sector resources, capacities, and demand.

The disadvantages of sector guesses of this kind is that they are likely to be very wrong, much more wrong than estimates of macro-economic potential. The difficulty of sector forecasts is clearly aggravated by the increasingly rapid technological and cultural changes that we are undergoing. Whole new industries, like computers and television, develop from technical developments that, in their early stages, could easily escape the notice of a Planning Board.

But there is a difference between a sector guess and a target. A guess or estimate is a planning tool that helps in forecasting patterns, infrastructure needs, and possible associated negative and positive implications. That is different from setting targets or quotas.

2. Planning of the public sector's own activity

One of the greatest contributions of forward planning in the public sector would be to focus on output, not input.

One problem is that we measure the levels of government activity by the money spent rather than by any such objective measure of output as is used for the various elements of the private sector. Why should we measure the output of government by its input? Between 1966 and 1974, for example, the spending of government for goods and services doubled—but no one thinks its effectiveness increased by anything like this amount. If we allow for price increases on goods and services, we find the so-called "real" product of the government sector increased a mere 15%. But this is not the answer either. We should learn, not what went into government but what came out. The key point is not how much we paid for soldiers, teachers, and policemen; it is not even how many soldiers, teachers, and policemen we had at our service: it is what these public servants accomplished. How good is our national defense, our education, the state of our safety of life and property?

Are we more or less secure against the danger of defeat in war, whether a minor or a major one? Are our children better educated than they were in the past—in 1966, for example—and by how much? Is a person safer walking the city streets than in those days, and by how much? We need to test the services

of government by such questions as these. Let me list a few more: Have our streets become cleaner in proportion to the amount of money spent on this function? How fast does city transit carry me from work place to residence, compared with the former speed? How much better housed are those for whose benefit the government has engaged in its massive housing programs? With some imagination and lots of digging into the facts we can produce some much better measures of government achievement than the deceptive money input measures we have now.

It is quite wrong to suppose that "planning" is limited to estimating for years in advance either "cash inputs" into the public sector (e.g., permitted spending plans on education, transportation and police protection), or even real "input targets" (e.g. numbers of new teachers and educational institutions, miles of highway to be built, number of police on streets). The job of an Economic Planning Board in the public sector should be to deal with measurements by which decision-takers (including voters) can get a quantitative grip on whether public sector output in their area is acceptable, or whether present methods of production in parts of the public sector need to be radically changed.

S. 1795 talks of aiding "the systematic and comprehensive formulation of national economic goals", of providing "a means of open and democratic planning for the future to enable the citizens of the United States to participate fully in the making of policies", and of ensuring that the Economic Planning Board "shall carry out a program to insure the dissemination of economic data, statistics, and information in such form and manner as will provide a basis on which State and local governments, private enterprise, and the Federal government can make informed economic decisions and participate effectively in the planning process carried out under this title."

In our view, these important aims can only be truly fulfilled by considering public sector activity in other terms than expenditure levels. In my view this must apply to State and local as well as Federal government activity.

We turn now to the third broad category of planning considered in the Humphrey-Javits Bill:

3. Planning to meet "essential national needs" in some things which it is supposed might otherwise be short.

It is necessary to enter a note of warning here. Since 1945 a majority of decision-influencing people have at one time or another forecast coming famines in a large number of particular things, services or products. The world has then progressively created unsaleable, unprofitable or unsaleable surpluses in every one of them.

A British economist has said that in macro-economic matters: "the least useful and least credible sort of medium-term economic forecast today is whatever is at any moment the most fashionable one. The reason for this is now quite logical and rather technical. In modern conditions of high elasticity of both production and substitution, we will generally create a temporary but large surplus of whatever the majority of decision-influencing people five or ten years earlier believed was going to be in most desperately short supply. This is because the well-advertised views of the decision-influencers tend to be believed by both profit-seeking private producers and consensus-following governments, and these two then combine to cause excessive production of precisely the things that the decision-influencers had been saying would be most obviously needed."

This does not mean that I question the third planning function recommended by the Humphrey-Javits Bill, and its call in Section 208(1) that the Balanced Economic Growth Plan should be aimed for years ahead at "meeting essential national needs in transportation, energy, agriculture, raw materials, housing, education" etc. But there are two attitudes and objectives which I think are the big needs for the Economic Planning Board in this sector.

The Economic Planning Board should work out consistently what economists call the "elasticity of supply" and "the elasticity of demand" in both regulated industries and free market industries. In other words, it should say that when prices are held down by politically-motivated decisions their supply is likely to be reduced by such-and-such a per cent and demand for them is likely to be increased by such-and-such a per cent over such-and-such a number of periods ahead. When prices are raised artificially (e.g., for oil by OPEC) it should publicize that on past records this is likely to increase supply and decrease demand over such-and-such a period. Definitive answers on such ques-

tions are virtually impossible to obtain, but by giving more attention to such supply and demand forces than in the past, the Planning Board could improve the bases and assumptions on which policy is made.

The Economic Planning Board should also examine investment projects that have been brought into being in a bunch, and report on consequent forward implications for supply and demand. Thus in a few months after September, 1973, OPEC, oil producers suddenly decided (possibly wrongly) that they were going to be some \$100 billion a year richer than they had previously thought. They all rushed out massive development plans in the next few months, saying they were going to invest in tens of billions of dollars worth of very similar sorts of projects. There are shattering implications for the waiting list for the sorts of machinery that go into (e.g.), petrochemical plants, and also (after a time lag) for oversupply of petrochemical products if any significant proportion of these grandiose projects come on stream. There are smaller examples of overdemand and subsequent oversupply of this sort, nationally in the United States and internationally in the world. Japan's Economic Planning Agency is geared to reporting of this kind, and we should learn from it.

4. Planning to meet future opportunities that might otherwise be missed and to deal with shocks and discontinuities that may arise

A planning board could fully justify itself if it succeeded in alerting the government and the public to a very few of the dangers, impasses, contradictions, shortages, and the like into which the course of events, without such foresight, may be leading us.

A few experts who were predicting an energy crisis before the boycott of two years ago awakened much of the public to it. Unfortunately even this awakening was not sufficient. We are still without a national energy policy. If the Planning Board, with the aid of some of those very experts, had sounded the alarm from its position of high prestige, we might now have such a policy.

Energy is only one, even if perhaps the most important, of several such problems. What about our grain sales to the Soviet Union and our grain production in relation to our own and the world's needs? We jump from crisis to crisis, from surplus of grain to shortage to surplus and back to shortage, without the guidance that a strong and respected expert group could have given us and which farmers, traders, and government officials concerned with grain might have gained by drawing upon.

The Board must not only predict where present trends are taking us and advise accordingly, but should call our attention to discontinuities, or unexpected occurrences which break in on the trend. What if an important foreign country sharply changes its trade or financial policy? What if the Eurodollar market undergoes a striking transformation? What if a major industrial innovation suddenly alters the shape of the domestic economy? Any plan or economic activity will be buffeted by such changes, but by thinking about them in advance the reaction may be somewhat improved. Are we prepared for such shocks?

Some shocks may be happy ones. Perhaps we can take giant strides in mechanizing services, bringing their cost down low enough so that more of them can be enjoyed by more of the population. Perhaps some other rapid increase in productivity will spring from unexpected inventions. Perhaps resource availability will suddenly increase, the undeveloped countries make unexpected progress, real and lasting detente occur. Are we prepared to respond? Anyone who does give us advance warning and offer policy choices is doing the work of a Planning Board and might as well represent such a Board and thus achieve the necessary authority. Who knows what the future will bring, but who will not feel safer if a high-level body is keeping its eyes open for whatever it may prove to be?

II. CAVEATS AND LESSONS FROM FOREIGN APPROACHES TO PLANNING

One task of the Planning Board should be to collect from the most qualified scholars, and evaluate for its own purposes, the various attempts at national planning which have been made abroad. This task should include the publication of its results for the Congress and American public opinion, in their turns, to evaluate the Board's own evaluation. Due to pressure of time and the necessity of sticking to first priorities, the Board should not treat the entire operation of these plans, but only those aspects which may be relevant to our own experiment in planning.

The words "economic planning" often bring to mind the Soviet Union and other Eastern European countries. There are, however, other countries that have varying degrees of national economic planning and, at the same time, operate largely as market oriented economies. It is to these countries—Sweden, France, Japan, among others—that many proponents of planning point as examples of what would be done in the United States.

My main caveat is to point out that these countries' economic systems are so different from that of the United States that there is great danger in considering them to be examples we can imitate, even if we wanted to. Our economy is bigger, more varied, and, most important, freer from government control. And I would fervently hope it will remain so. To take one example. The French government controls through ownership the country's major commercial banks. It directly controls major elements of French industry: the largest automobile company, the telecommunications system, the railroads and airlines. It operates directly and frequently in the financing of troubled industrial sectors (automobiles, computers) and in promoting mergers and industrial realignments that most Americans would consider inappropriate to the government. A French planning activity thus has "levers" and power far beyond anything I would hope to see in this country. And thus a French plan and planning function must differ almost totally from one in the U.S.

It is in part because of these differences and the uncharted nature of planning in the U.S. that I believe a dry run is desirable, so that we can find our own way in our own territory.

Having said this, I do believe there are lessons to be learned from other countries' planning efforts, particularly those in market oriented economies.

The kind of planning which has developed in Japan since World War II "may have been one of the most important factors in Japan's high rate of industrial growth" in the opinion of a very recent commentator who, though Japanese, is quite ready to pick faults in the plan. (Ryuotaro Komiya, in *Challenge* magazine, May-June 1975, p. 18) The particular aspect which he finds to have been especially useful is the "system of information collection and dissemination" which has developed from the contacts of government, industrial, and financial people. One aspect of any study of the Japanese plan sponsored by the American Planning Board would be to spot the types of statistics and other information under discussion, and to see whether they are missing and should be collected and disseminated in the United States.

The Japanese plan as a whole is complex and subtle. It includes or seeks an integration of government and business purposes which may be desirable in our economy only to a modest extent. An important part of the plan is the extension of credit by the government to industrial firms which are deemed to require and to be worthy of such assistance. Our own similar if much more limited efforts in this direction have been highly controversial. This problem is illustrative of the fact that the whole society and culture of Japan as well as its economy may be so different from ours that only exceptional parts of its type of planning can be drawn on for use in our setting.

We come much closer to the style of a Western democratic plan in the so-called "indicative" planning of France which has been in process for nearly all the postwar period. Experts have debated as to how much the succession of four and five-year plans has achieved. The plans have depended for their influence on some features of French institutions which are not duplicated here—for example and especially the government's control over the disposition of most of the savings of the people. We do not want so much centralization of power, but we might learn something worthwhile from the regular consultations of the public and private sectors which French planning has included. For instance, one American scholar writes that a "positive element" of the planning has been "that the consulting process allows many interests to be expressed, creating pressure on the government to widen its concern beyond inflation and the crises of the moment." (John Sheahan, in *Challenge* magazine, March-April 1975, p. 17).

The Swedish plans and experiments in planning are another group with considerable appeal. The thrust has been, not to encourage one industry and discourage another, but to stabilize the whole economy and stimulate its growth. For stabilization, companies may pay into a government fund set up for this purpose part of their profits in good years, with no tax payable; then in recession years they may draw part or all of the payments out, again with no tax, for the purpose of expansion—which thus contributes to revival of the economy.

The non-collection of taxes is considered a minor price to pay for the stabilization effect.

With respect to growth, Sweden recognizes the fact that this depends on national saving and investment. We have experimented with liberalized depreciation to stimulate investment; Sweden has gone much further and to good effect. In fact, the depreciation allowed on new equipment, under the income tax, has been approximately twice as great as that allowed by our Internal Revenue Service. Similarly, the reserves of the Swedish social security system are put to work in industrial expansion, whereas in our country they help to balance our federal budget. Under their path both investment and saving are encouraged, by contrast with our neglect.

Sweden is a much smaller country, with a simpler economy and different traditions. No one should jump to the conclusion that what works there will work here. In addition, Sweden has not been exempt from the syndromes of inflation and unemployment that beset the world's economy. All that I urge is that we take the occasion of the setting up of a Planning Board to find out what we can about this and other foreign plans, to avoid any slavish copying, but to seek out whatever lessons and whatever warnings may be relevant to our own situation.

III. COMMENTS ON SOME OBJECTIONS TO PLANNING

While reaching the conclusion I am supporting today—that we should try an experimental plan so as to have something concrete before us, or specifically before Congress, when the final decision is made—I have considered carefully various arguments in opposition to a national economic planning function.

The strongest and commonest objection that is raised appears to be that a plan will remove from individual consumers and producers to the government the choice of goods to be produced. If this is the proposal, if this is what we are likely to have as a result of planning, I am opposed to it. Granted that some of our goods are now determined by government, the goods which the critics have in mind—such as the food, clothing, house furnishings, recreation, and so forth which people now choose for themselves—should continue to be so chosen. I believe this firmly.

I do not want to be misunderstood. If government is to choose what part of our productive resources is to be devoted to clothing production, to automobile production, and the rest, it is thereby determining how many of each item consumers as a whole shall get. Consumers who get to the head of the queue are served, those who fail must take something else. This is the Soviet planning system. It is inconsistent with free enterprise.

The massive bureaucracy which might accompany a full-fledged plan has also drawn fire. If I am right in my feeling that the planning procedure of S. 1795 is more complex than we need to have, it will so appear in a trial plan.

Will planning result in excessive government intervention? Let us see a trial plan and then say something about this unknown. The plan might include suggestions for some deregulation instead of additional regulation. If government action proves to be desirable to effectuate balanced economic growth, business may well find it quite tolerable. Can we resolve the energy problem without government action—or the inflation problem—or mass transit? Let us hold off our condemnation until we see what sort of action is proposed.

One line of criticism is that our economy is more complex than that of either France or Sweden; it is bigger; it is more decentralized; at the same-time our governmental structure is a good deal more decentralized. Hence, it is argued, we cannot produce a successful plan even if these smaller and more centralized countries can do so. I shall not attempt to prove these critics wrong, but rather urge that we give planning a trial. The kinds of plan that I envisage may succeed under American conditions whereas the kind used in one or another country abroad may not. Let us make the experiment, and find out.

Will a macroeconomic plan run into inherent contradictions? The bill before us suggests that there will have to be priorities as between full employment and stable prices, or between economic growth and "equitable" distribution of income. Certainly we cannot have all of everything. What I want to see is a plan which sets out the alternatives, the benefits and costs of each policy. Then we can make a decision as to priorities with our eyes open.

It is said that economists have had poor forecasting records, and that the Planning Board will do as badly. I think it should do better, partly because we

have had more experience, partly because it will have larger resources than private forecasters. But its main attention should not be on forecasting, but on policy alternatives.

Will the planners change their orientation with each national election? They should be shielded from political influences so as to minimize this and related dangers. This is one reason I would urge an independent agency—and one which, after the first successful trial, would consist of members with an assured term of office running for a number of years. The Board of Governors serve for fourteen years; we can get a good deal of political independence with some shorter term than that.

Another objection I have seen is that business firms will be forced into cooperation and thus into violation of the antitrust laws. It is hard for me to visualize a plan which would compel cooperation of the kind that increases profits by means of reducing competitive pricing. I can visualize more easily cooperation in the field of energy or some other area where national policy might call for it, but where no real violation of the antitrust laws would be required. I am far from sure, however, that even such cooperation will be called for or insisted on; if it does come, let us evaluate it according to the circumstances of the time.

A final objection is that many of the basic conflicts of our time arise from political factors and the clash of political goals rather than from economic sources. This may be. Let us at least have the best possible economic analysis placed before us, and then let the political battles occur in an atmosphere of knowledge rather than ignorance.

Senator JAVITS. May I say, Mr. Chairman, as one of the authors of the bill, that I value especially practical and constructive suggestions. And if I may be so bold as to put the same thing to Mr. Murphy, is that you always have to take the precaution that it might happen anyhow, notwithstanding your strong opposition. So, if you did some practical suggestions we would greatly appreciate it. I know I would very much.

Mr. MURPHY. I think you will find some in our testimony and in the prepared statement, Senator.

Senator JAVITS. Thank you. Any other suggestions that you might think of, even the technical redrafting of a section, which is my particular business, I would welcome it very much.

Mr. MURPHY. Thank you.

Chairman HUMPHREY. Mr. Roosa, we welcome you.

**STATEMENT OF ROBERT V. ROOSA, PARTNER, BROWN BROS.
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Mr. ROOSA. Thank you very much.

Chairman HUMPHREY. We feel that we are very fortunate to have such a distinguished panel this morning. We are all going to learn a great deal. Go right ahead.

Mr. ROOSA. Well, I have learned a great deal already this morning, and I think while recognizing the warnings and cautions that Mr. Murphy has indicated, I also took some satisfaction in seeing the role, limited to be sure, that he sees for a version of planning, and I want to say before I get into my brief summary of the fuller statement I have prepared, that it was done without any collusion with Mr. John Diebold. I am grateful for the way that he has presented his, but it is so close in substance that I feel a little embarrassed to be appearing so soon after his statement.

And I would also ask, Mr. Chairman, if the full statement that I have prepared could be inserted for the record. What I have done is to prepare a very brief precis of selected segments and I did eliminate almost entirely the specific suggestions on approach within the formulation of an operational planning program. I think Mr. Diebold has presented that much better than I had in my own prepared statement.

I do think, Mr. Chairman, that the committee is opening an inquiry which can be at least as important in the evolution of the American economy and of our entire society as that which preceded that enactment of the Employment Act of 1946. I will try briefly to explain why I think so, and suggest several reasons why it seems to me it is important to make an affirmative effort to develop some form of long-range economic planning for this country, and then recognizing that the difficulties of implementation are going to take much more effort than even has been expressed by Mr. Diebold up to this point.

I concur with his version of a dry-run approach, a somewhat different formulation, but in principle, the same. It seems to me that the American economy today is approaching a juncture that is as critical as that which we have faced when the Employment Act came into being at the end of World War II. But in terms of the readiness of the economic doctrine or public opinion to confront these new circumstances, and in terms of the nature of the problems themselves, I think today's situation is 180 degrees different than that of 1946. Then we had a world of what we thought were limitless resources, and the real task was to get the right blend between generalized government policies that would influence the framework over all and detailed, private initiatives that would propel a demobilized world economy into sustained growth and optimum manpower development, and orderly price behavior. And give or take a little, that actually happened for a quarter of a century, while the results spread across much of the world. Government, through its budgetary policy and monetary policy, managed aggregate demand, while the private sector was proliferating the effects of an unprecedented wave of post-war technological innovations. Just to mention a few, the jet engine, nuclear power, the computer, television and indeed the entire electronic revolution, and all the ancillary or supporting activities which these evoked. But the consequences of all of this now has been to change some of the underlying assumptions on which that successful experience rested.

Partly as a result, the simple pumping up of demand does not always raise output and employment as much as it raises and distorts prices; while curtailment of demand, within any tolerable limits, may only curb output and employment as prices go on rising. Efforts to break through these dilemmas by applying various forms of income policies, and I have certainly supported them, have been at best of limited usefulness for limited periods in the various countries where they have been tried.

What else then, if anything, might be done? Surely, one approach should lie in further structural change, induced through the marketplace. But institutional rigidities and existing governmental programs of regulations, all deriving from past business or labor ex-

perience, or from some particular aspects of recognized public interest, prevent or impede such an idealized market adjustment.

Where can we turn? Reluctantly, but inescapably, at least as far as I can see, I think Government has a role here, a role in which more can be provided. But, as of now, I do not see that the United States has any systematic means of bringing all of these issues into focus at one place and together, quite apart from having the facility, comprehensive overall way, to appraise them.

I do not think the need in the United States is for a planned economy, which articulates detailed targets, sector by sector. That seems inherently to degenerate into an undemocratic process. What we need instead is an economic planning, not a planned economy. And to me the heart of the planning is looking ahead, taking account of the future implications of what we are contemplating or doing now, searching for the possible future developments that we ought to be taking into account now. Whatever the approach, it should grow out of and be consistent with our own lasting traditions, the mores, the economic mores of the country concerned, and for that reason, though I think the experience of other countries is constructive—and certainly respect Mr. Long's very suggestive comments on Sweden and Norway; I would like to turn to those again later. I see no place here for copying with any marked resemblance the planning of other countries. I do take it as given though, that Government will be a continuing participant and intruder in this Nation's economic life. I do not think there is any way of avoiding that. But I think we have got to develop our own way of handling Government's involvement in the economy to make that more orderly, more consistent and farseeing.

What we need first of all are better data which are more accurate, more comprehensive, more usable.

Second, we need, I think, an early warning system capable of locating some, if not all, of the emerging problems within the structure of the economy, and focussing appropriate attention on them. Government and business, in the most advanced economy of the world, ought to be able to rise above the continuing pattern of crisis responses to the unexpected, of emergency legislation prepared in a hurry, as some long-smouldering problem breaks out into flames. Foresight will never be 20-20, but we ought to have some built-in facility at the highest levels of government for looking ahead and alerting the Congress to evolving changes that signal future problems.

The third need that I see is to trace through the long-range implications of the actions and the rulings of present Government agencies, and to sort out for attention the inconsistencies among these programs. To perform this third planning task will, of course, require in time a detailed familiarity by the planning body with the activities of all Government bodies and the various independent agencies, and a continuous responsibility for looking at the interactions among them, and visualizing their long-range impacts. That does not have to mean getting into the details of what they do day-by-day in the ordinary conduct of their responsibilities.

Fourth, as a counterpart to appraising the long-range implications of current Government programs, I think we have to focus on prob-

able long-range needs for sustained economic growth that just simply are not being met. A planning agency is going to have to, I think, become more familiar with the economic geography, the sources of physical energy, the distribution and availability of resources, and the material components of the major producing sectors of the economy much more so than much of our traditional economic analysis in the past where we have instead been satisfied with computer projections of Government deficits, or full employment surpluses, or the money supply; we have to get out the ingredients of what makes an economy work in real terms. And a planning body should, as I mentioned a minute ago, make all of its findings in this complex area without any power to command conformity with the results in the private sector.

Fifth, and finally a planning body ought to take the lead in formulating long-range goals for the nation; goals that reflect the need that John has talked about, to compromise between concern for the quality of life and the hard economics of real cost. The goals do not have to be set in quantitative terms. They may be, but it is not essential because in some instances an indication of changing direction or of emphasis may be enough to provide guidance for those who really need a clue as to the big picture and how it is evolving before they plan their own individual part in the long-range program.

I do not imply that any form of planning which is suitable for our economy, customs and institutions, can or should avoid these conflicting considerations or trample over what will be inevitable conflicts among differing interests. And I think one of the real problems with plunging too quickly into detailed planning without some testing first, is an implication that many of these issues which are extremely intricate in their involved interrelations, can all be resolved by simple imprimatur. If we have a planning process, too many of them just involve too many conflicting interests, and will have to come back to congressional committees for much further explanation before final action on any of them can be taken. But I think it is the job of the planning body to focus those issues, to put them before Congress in ways that can result in more responsible and effective action than we are yet getting.

I do think that this is where the headaches come in, in the implementing the planning process. And I do think, too, that the gravest risk when we begin is going to be that of abuse. There is a tendency, as I have seen it in the various groups and discussions that I have participated in, in talking about the need for planning, to drift into the rigidities of the sort of corporate state under a banner like that of the old NRA. To avoid that risk, as well as the overkill with too much detail too soon, I do think that the initiation of a deliberate planning effort should be most modest and eclectic. The filling out of the various tasks for planning that I have described, all of them incidentally far short of the planned economy, but much more in terms of planning as such—should proceed gradually, allowing time, some trial and error, to resolve a viable approach. We do have to have some actual testing then of practice.

I go a little further than John in that respect by proposing a body be established immediately, but that it also be instructed to report within 2 years as to what else is needed, and that its initial outline

of duties and objectives be rather limited within the frame that I have just outlined.

It is, of course, clear that the regularity of 2- and 4-year election intervals produces a rather short term bias into the formulation of Government policy and actions. And it is the need for something that will extend over a longer range to the decades ahead that we are most going to have to meet with the effective introduction of a planning agency, in my view. And I think in any case, right from the beginning, the essence of what ought to be done is recognized that the longer run and the considerations of the longer run ought to be structurally built into the staff support that is provided to the decisionmaking apparatus of the executive branch. And I do not mean to exclude the Congress here. I do think in so much of what the executive branch has done, there has consistently been a bias, and it is unavoidable as it evolved. It has been clear in the evolution of the role of the Council of Economic Advisors for example. Although initially we thought of them, I am sure, as having a longrun as well as short-term responsibility, immediate events continually crowded out the longrun. I think we have to build structurally into any new system a commitment that the staff support will take into account the systematic development of the longrun considerations that I have been describing.

I thank you, Mr. Chairman, very much for this opportunity, and I do look forward to further discussions of all of these things with all of the members of your committee and my fellow panelist this morning.

[The prepared statement of Mr. Roosa follows:]

PREPARED STATEMENT OF ROBERT V. ROOSA

National Economic Planning in the United States

Mr. Chairman, this committee has opened an inquiry which can, in my view, be at least as important in the evolution of the American economy, and of our entire society, as that which preceded enactment of the Employment Act of 1946. After briefly explaining why I think so, I will suggest several reasons why an affirmative effort is needed to develop some form of long range economic planning for this country. Then I will probe into the very difficult questions of how to begin to meet those needs—questions ranging from the definition to the implementation of planning—within a framework of political democracy, personal freedom and private enterprise.

THE CHANGING ECONOMIC ENVIRONMENT

The American economy may indeed today be approaching a juncture as critical as that which we faced at the end of World War II, but in terms of the readiness of economic doctrine or of public opinion to confront the new circumstances, and in terms of the nature of the problems themselves, today's situation is 180 degrees away from that of 1946. We do not this time have the guiding benefit of a new installment of all-embracing economic theory; while in 1946 Keynes' path-breaking *General Theory* had already been seasoned by ten years of criticism and experience. Nor is the public, disgruntled though it may now be by the non-Keynesian coincidence of inflation with recession, ready to accept innovation by a suspect Government, in contrast with the public's reliance then on the wisdom and discretion of a victorious postwar Administration. Nor are the needs to be met this time marked out as sharply.

Then, in a world of what seemed to be virtually limitless resources, the task was to evolve a blend between generalized Government policies and detailed private initiatives that would propel a de-mobilized war economy into sustained growth, optimum manpower employment, and orderly price behavior. And, give

or take a little, that actually happened for a quarter century in the United States, while the results spread across much of the world. Government, through its budget and its monetary policy, managed aggregate demand while the private sector was proliferating the effects of an unprecedented wave of post-war technological innovations—the jet engine, nuclear power, the computer, television, indeed the entire electronics revolution and all the ancillary or supporting activities which these evoked. But the consequence of all this now has been to change some of the underlying assumptions on which that successful experience rested.

For we now find, helped by the "oil shock," that there was a grain of truth in the harsh if exaggerated warnings on the limits to growth that came from The Club of Rome several years ago. Some resources are no longer as readily available, now that swollen global demand commands many of them. At the same time, the pace of revolutionary innovation, or the proliferation of its by-products, is slowing down. Partly as a result, the simple pumping up of demand does not always raise output and employment as much as it raises and distorts prices; while curtailment of demand, within any tolerable limits, may only curb output and employment as prices go on rising. Efforts to break through these dilemmas by applying various forms of incomes policies have been at best of limited usefulness for limited periods in the various countries where they have been tried.

What else, then, if anything, might be done? Surely one approach should lie in structural change, induced through the marketplace, to reflect the changing availabilities of resources and the degrees of friction with which output, employment and prices respond to changes in demand in one sector or region as contrasted with others. After all, economics presumably consists in optimizing the use of scarce resources; the nature of the response it would seem, need not be different just because the scarcities are somewhat scarcer. But institutional rigidities, and existing Governmental programs or regulations, all deriving from past business or labor experience, or from some particular aspect of recognized public interest, prevent or impede such an idealized market adjustment. Moreover, the scale of capital requirements for some changes that might well be economic, and which could lead to higher general productivity, has become so large that individual firms often cannot take the risks, and a grouping of firms to do so would be illegal.

Where then can we turn? There is, of course, as yet no clear answer. Few business firms are in a position to appraise the whole array of uncertainties on the road ahead with sufficient grasp, and assurance, to find a viable new role for themselves and proceed. Nor are there private research groups with sufficient competence, data and daring to take on a comprehensive survey of the longer range potentialities which affect the present investment commitments of business firms. Reluctantly but inescapably, at least with my limited vision, I come to the view that Government must do more to help here, as it already does in so many other critical aspects of economic life.

Part of that help, paradoxically, once a competent Governmental body has begun systematically injecting longer run strategic considerations into Government's own affairs, may be to reduce, revise, or remove some of the activities or regulations through which the pursuit of other Government objectives may, unconsciously or inadvertently, be impeding the adjustment which private industry could make to the changing worldwide economic environment. Part may depend as well on massive new programs engineered by Government to provide a more secure energy base for the innovation and productivity gains of the future; or a comprehensive new approach to the diverse elements of the transportation net which services our manufacturing, our trade, and our leisure. But as of now, the United States has no systematic means of bringing all these issues into focus, quite apart from having any facility to appraise them.

THE NEED FOR ECONOMIC PLANNING

The need in the United States is not, of course, for a planned economy. That, as Herbert Stein has so rightly said, articulates detailed targets, sector by sector, and seems inherently to degenerate into an undemocratic process. What we need instead is economic planning, a distinction made emphatically clear by John D. Rockefeller III. To me, planning includes procedures for evaluating longer run potentials and priorities and for bringing such evaluations to bear

on present commitments; or alternatively, projecting the longer run implications of presently contemplated courses of action, and appraising those implications. The heart of planning, as I see it, is looking ahead—taking account of the future implications of what we are contemplating or doing now, and searching for the possible future developments that we ought to be taking into account now. Whatever the procedures, or the substantive implications, they must grow out of, and be consistent with, the lasting traditions, the economic mores, of the country concerned. For that reason, interesting and instructive though their experience may be, I see no place here for copying with any marked resemblance the “indicative planning” of France, nor the “consensus programming” of Japan, nor the directed, mixed economics of some Scandinavian and other countries. I do take it as given, though, that government will be a continuing participant and intruder in any nation’s economic life. To assume otherwise is, I believe, utopian and of little use in developing a realistic strategy for the future. Part of my hope for planning is that it will make that Government involvement in the United States more orderly, consistent and far-seeing.

What we need, first of all, are better data—more accurate, more comprehensive, and more usable. That need is urgent for the present scale of everyday affairs, whether or not a broader planning objective is contemplated. But a planning effort, keyed to the longer range issues affecting future economic capabilities and constraints, could provide an overall orientation for the design of an enlarged and strengthened statistical program within the Government. And by mounting a continuing surveillance in terms of substantive usefulness over what is collected, and made available, a planning agency (whether located inside or alongside the present Council of Economic Advisers) could also reinforce the present efforts of the Office of Budget and Management to simplify and avoid duplication in the data gathering now conducted by scores of Government entities.

Second, we need an early warning service, capable of locating some if not all of the emerging problems within the structure of the economy and focusing appropriate attention upon them. Government and business in the most advanced economy of the world should be able to rise above the continuing pattern of crisis responses to the unexpected; of emergency legislation, prepared in a hurry as some long smouldering problem breaks out into flames. Foresight will never be 20–20, but we ought to have some built-in facility, at the highest levels of Government, for looking ahead and alerting the President (and through him, the Congress) to evolving changes that signal future problems. So one major goal of any planning effort should be to substitute, so far as possible, informal contingency planning for the hasty improvising of Government action.

The third need I see is to trace through the long range implications of the actions and rulings of present Government agencies, and to sort out for attention the inconsistencies among those programs. How long ago, for example, if the radar had been in place and were capably manned, would an alert planning staff have signalled the dangerous inconsistency between the Federal Power Commission’s consumer-oriented preference for low prices of natural gas and the virtual cessation at those low rates of new production of natural gas (to replace depleting wells and continue inter-state transmission)—rates which were at the same time encouraging additional consumer conversions to the use of natural gas at then low (but unsustainably low) prices?

To perform this third planning task will, of course, require in time a detailed familiarity with, and ready access to information concerning, the activities of all Government departments and the various independent agencies, and a continuous responsibility for looking at the interactions of existing programs to visualize their long range impact. It will involve consulting with the Defense Department and the General Services Administration, for example, concerning the longer range implications of their programs for primary and secondary suppliers, here or abroad. And it will have to keep searching for patterns of significance in these and other areas, without intruding into the details of contractor relationships or specific current actions. Moreover, a planning body should be expected to render advisory judgments as to the future relation of new measures under consideration to the longer run aspects of existing programs.

Fourth, as a counterpart to appraising the long range implications of current Government programs, we need some focusing on probable long range needs for sustained economic growth that are not being met. A planning agency may

have to become more familiar with economic geography, with sources of physical energy, and with the resource and materials components of major producing sectors of the economy, than with computer projections of Government deficits, or full employment surpluses, or the money supply. It will inevitably gore some oxen, or trespass on some sanctified preserves, as it searches for possible areas of neglect in the economic spectrum—areas that may become critical a decade or two later on. It will not, of course, have knowledge of still unborn inventions or procedures that may change the face of everything when those decades have elapsed. But its task will be to place a spotlight on possible shortfalls in supply, or on risks in undue concentration among sources, or on needs to encourage diversification among products or foreign markets. In part, it should be doing the work of a perpetual Paley commission, the group whose study of this country's materials requirements, 25 years ago, proved so prophetic in some areas (while understandably wide of the eventual mark in others). And a planning body should, as I mention further in a moment, make all of its findings without any power to command conformity with the results.

Fifth, a planning body should take the lead in formulating long range goals for the nation—goals that reflect the need to compromise between concern for the quality of life and the hard economics of real cost. This, as well as most of its other undertakings, would have to be experimental, casting up suggestions for others to accept, reshape or reject—but always in a position to insist that these longer range factors of broad significance be kept in view. Nor need the goals be set in quantitative terms; perhaps an indication of changing direction, or emphasis, will be enough to provide guidance for those who need a clue as to the "big picture" before planning their own individual part of a long range program. So far as the implications for Government policies are concerned, those will be settled in the give and take of specific political decisions.

A planning body might well have foreseen five or ten years ago, for example, the vulnerability of this country's approaching dependence on imported oil for virtually all of its margin of growth in energy utilization, but action would have been delayed by the same processes of weighing and counterweighing all of the conflicting evidence and interests that we have recently been going through. Nor would the automobile, or trucking, or railroad, or airline businesses, nor the oil and other energy firms, have been any readier then than now to agree on where the priorities should be found in responding to this emerging condition, nor on how that response should relate to the pollution issues which had preoccupied them all before the "oil shock" occurred. So I do not imply that any form of "planning" which is suitable for our economy, customs, and institutions can or should avoid these conflicting considerations, or trample over them. I do see some advantage in being alerted to begin appraising the issues before a crisis appears. And I see great advantage in maintaining a basis for focusing public attention, year by year, on the larger goals toward which our society should be moving, and against which the form of each year's new developments can be checked and compared.

IMPLEMENTATION OF A PLANNING PROCESS

As I have already intimated, the real headaches come in attempting to find the procedures and the people to implement the theoretical approach that I have just so briefly and glibly outlined. Nor is that all. For the gravest risk is that of abuse—the tendency to drift into the rigidities of a corporate state under a banner such as that of the old NRA. To avoid that risk, as well as that of overkill with too much detail too soon, I think the initiation of a deliberate planning effort should be modest and eclectic. The filling out of the tasks I have suggested—all of them incidentally far short of the "planned economy" which so many critics confuse with "planning"—should proceed gradually, allowing time for trial and error in evolving a viable approach. It seems to me important to try first to design a useful way of actually testing in practice whether or not a long range planning process can work at all at this level of Government. For the regularity of two-year and four-year election intervals does introduce a rather short-term bias into the formulation of Governmental policies and actions.

Indeed, part of the early tasks of a planning body, once established, should itself be to articulate further the nature of its role, and request additional authority as needed, with the benefit of full public debate over such proposals.

Perhaps the body itself could hold hearings, or consult, or commission studies aimed at further defining what the long run objectives and nature of its planning should be, within the broader framework outlined in initial enabling legislation. But the essence at the start, in my view, is that recognition of the need to take the longer run into account be structurally built into the staff support for the decision-making apparatus of the Executive Branch.

For this reason, although I initially favored a more fully defined approach such as that in the present Humphrey-Javits Bill, and would still urge recognition of all the factors there spelled out in more binding legal form, I would not at this early stage want to establish elaborate organizational arrangements. It should be enough, I suggest, to establish the initial locus of the planning body within the government, to define its overall mission, to set within that context initial or interim parameters on its immediate responsibilities, and to design its organizational form. My own suggestions for such a modest beginning are these:

(1) A Council for National Economic Planning should be established in the Executive Office, coordinate with the Council of Economic Advisers and the Office of Management and Budget but not subordinate to either. In my own experience, any effort to provide for long range planning within immediate action entities of Government is futile; swamped out by the pressure of responding to a succession of immediate events.

(2) The mission of the CNEP—within the broad objective of furthering the public welfare and a prosperous economy centered on private ownership and enterprise—should be to further the recognition of longer range considerations by the private sector, and in the formulation of Government policies, by recommending changes in Government statistical programs; by proposing sectors and approaches for contingency planning; by monitoring Government programs to identify inconsistencies, overlapping, or duplication; by studying resource availabilities and trends to locate and appraise possible future needs that have not been recognized in existing Government or business programs; and by suggesting and continually reviewing long range goals for our American society and economic system.

(3) The interim commitment should be to explore methods of fulfilling that mission over, say, a two-year period, reporting meanwhile to the President and consulting with any other agencies of Government and with the public, with a view to recommending whatever further legislation may appear to be needed to begin full-scale substantive pursuit of the overall mission.

(4) The Council should be patterned after the composition, staff organization and procedures of the Council of Economic Advisers; selection of the three Council members should be by the President; the Council should report to the Joint Economic Committee of the Congress.

These four elements seem to me important. Though far from complete, I would hope they could be incorporated into the more comprehensive planning organization that will emerge from the deliberations of this Committee.

Mr. Chairman, I apologize that my brevity has been so long. I look forward to further discussion of all these matters with you, the members of the Joint Economic Committee and my fellow panelists here this morning.

Chairman HUMPHREY. Well, thank you. It is quite obvious that this morning we have been exposed to a variety of thought here that is very provoking and I think very constructive.

There are differences of points of view, but they are differences of degree. I think maybe it is fair to say that we are all striving pretty much for the same objectives. We are planning our approaches from different perspectives.

I thoroughly agree that the unique nature of our economy must constantly be kept in mind, that, therefore, the planning that has been done in other countries cannot be transposed and transferred to this type of an economy or to our governmental structure. For example, many of the countries where planning has been used with some degree of success, and often with even a greater degree of lack of success, it has been applied into what we call a unitary form of

government. I mean, where there is a central government that goes all the way on down to the localities.

We have a Federal system, so that our own governmental processes are very different. We have a unique role for State and local government as compared with the central Government.

It is my judgment that what Senator Javits and myself and others who are cosponsors of this legislation are seeking to do is not to have a planned economy, but rather to get some planning within the economic structure and within the Governmental structure. I have often wondered if we should not maybe even trim back our efforts just to the planning that might take place within the governmental structure itself as a beginning.

For example, we passed legislation here in the 93rd Congress to amend the Defense Production Act and to establish a National Commission on Supplies and Shortages. That is now public law. Now, one of the amendments that I offered to that legislation was as follows, the establishment of an advisory commission, the commission is authorized to establish such advisory committees as may be necessary and appropriate, and so forth. And I said this. This was my amendment.

That the commission shall establish an Advisory Committee to development recommendations as to the establishment of a policy-making process and structure within the Executive and Legislative branches of the Federal government, and as a means to integrate the study of supplies and shortages of resources and commodities into the total problem of balanced national growth and development, and a system for coordinating these efforts with appropriate multi-state, regional and state governmental institutions.

The point that I emphasize here is that it is my feeling that what we need, above all, is a process for the development of policy, as I see it today in our governmental structure. And when I say 'governmental' I am not just talking about Washington, which tends to be the focus of attention, because governmental structures in America can work at crosspurposes.

For example, we can reduce taxes here to stimulate the economy, and the old Keynesian theory, and right away, they up the taxes at home. So you balance off the stimulus on one hand with a contraction on the other, which if you believe that you ought to have economic stimulus through the reduction of taxes, you find yourself caught up in cross purposes, not because you want it, but because you did not have any control over it in the first place. And there was no meeting of the minds prior to the passage of the Tax Reduction Act in Congress. Nobody met with the Governors or the mayors or anybody else and said, now look, you know, most of the activity that we are talking about takes place out where you live. And some of the most regressive taxes are out where you live, like sales taxes and property taxes.

Now, we are contemplating a tax reduction, what will you do about it? What can we depend on you to do? That was never done, just like the formulation of the Federal budget. There may be a Governor that has been asked sometime what ought to go into the Federal budget, and possibly there is a mayor that has somehow stumbled into the White House at the time the President was looking over the budget, and the President showed it to him and said,

what do you think? And he said, well, I think you have got the wrong page, Mr. President, or something like that. But I know, I know that I helped prepare budgets, and I worked on budgets as the Vice President. And I do not ever recall talking to anybody but people that were in the Federal establishment, as if nobody else existed.

Now, what Hubert Humphrey is searching for is not some kind of magic formula that does it all, because I am opposed to somebody running my life. I do not even like to have my wife tell me what to do, much less to have the Government tell me what to do. In fact, I even resent most kinds of regulations. I am a very independent man, and I would like to translate that pretty well into governmental policy.

But I do know this, that there has got to be some better coordination somewhere along the line. Take, for example, our testimony in New York the other day. We are demanding that the city of New York tighten its budget, which is understandable, obviously. And therefore, they are laying off 35,000 people, and they are going to lay off 8,000 more. ~~While they are doing that~~, as sort of a way to tell the—this is Congress itself telling them, let's not talk about what the President is saying. We are saying in our proposed legislation that you have got to get your house in order. You have got to have a balanced budget. You have got to lay off people and tighten up, and right at the same time we are doing that, we are worried about unemployment. So we are sending New York funds for a program of comprehensive educational training so that they are hiring 16,000, training 16,000 people while they are laying off 43,600.

Now, that may make sense to somebody as a full employment policy, but I have a little trouble there in digesting it. It is sort of like saying, you know, you have got a headache from the last drunk, so what you do is you drink another pint of whiskey while we feed you aspirin. And it just does not seem to make much sense. Now I feel that one of the things that is needed here, above all, is a coordination of the policymaking divisions of the Government. Every department of this Government from my experience, and I am the only man that has been in the Congress that has had a chance to be at the executive level, and at the congressional level, every department of Government runs like it is a separate member of the United Nations. And they come up here and testify, and they talk about their money. I always thought it was the people's money, you know, the taxpayers' money, that the Government of the United States has. But I want to tell you that once a department of Government gets a budget, you have more trouble getting a hold of some of that money, if you are in another part of the Government, than you would if you were going to try to take a piece of land from some other country. The department heads will die for their budgets. And forget about the people out there. So that you have HUD going in one direction, the Labor Department going in another direction, HEW going, God only knows where. Commerce Department is running off over here, and you can talk all you want to about the Council of Economic Advisers, but I think they are just an appendage. I think it is sort of a make-work program, because as was said here, they deal primarily

with contemporary events. And there is very little long-range effort. Now, having given you my little soliloquy here, this is what has been bothering me, and I am the last one to say that the legislation that we propose is what it ought to be.

I am impressed with the idea of the dry run. As a matter of fact, I believe many of the programs that we adopt in Washington ought to have a trial period before they get fastened into this economy. And I have felt that way about welfare reform; I feel that way about many things because it is such a diverse country, so big and so many different areas and problems that they are not the same in different parts of America.

If you take where I live, while we suffer from the recession, it is nothing like Detroit or New York City. We look at the Twin Cities of Minneapolis and St. Paul and see a 6½-percent unemployment. Well, that is lot. We do not like it, but if we go to Detroit, you see 15, 18, or I do not know what the last figure is. New York is 11, 12. The problems are different.

I want to just come back here now, Mr. Murphy. One of the things that I was concerned about in your statement, and I may say that I appreciate your statement, and I am a believer in the free enterprise system. I do not want the Government to run very many things. It can run some things, and it has done it well in some instances, The Tennessee Valley Authority. I think, is well run because it is really like a business, it has a separate identity and does not, is not interfered with too much by the normal run of governmental institutions. But I noticed, and was somewhat concerned, about what you said the Government ought to do. You said we have relied on the hope of profit to generate the capital investment which growth demands. We have encouraged innovation and risk-taking. We have created jobs and, in the process, we have achieved an unrivaled standard of well-being.

That is true for most people, for most people. "The essence of this process has been its dynamism and its capacity to respond to change."

As I listen to you men talk, I just wonder what happened to the railroad system? Now, I know they say, and this bothers me from business people, I cannot understand how the business people, business community can be satisfied with the transportation system that we have, which is inferior to what you have in almost all other parts of the world, including our barge transportation. The Europeans have developed a system of water transportation which is marvelous. They have pollution problems, but they have water transportation. They have an extraordinary system of rail transportation, and they are now developing a very fine system of automobile, truck transportation in the Common Market, even uniform standards as to the size of trucks and the kinds of roads that they ought to have. What is it about the American economy that seems to feel that somehow or another the railroads of America should just deteriorate? Why is that when we are worried about national security, missiles and conventional weapons and the argument over the Department of Defense budget, why is it that no one seems to get uptight about what is happening to the transportation system? I venture to say that our rail transportation system is 100 percent more obsolete now than it

was in World War I, and in World War II, you know, it had a difficult time meeting the demands. How do you expect to move the commerce on this kind of system? You cannot just put trucks on the highways, as much as I want to see General Motors do well. There is a limit on the number of automobiles you can have. There is a limit to everything.

Now, I know, I hear the word that the reason the railroads are in trouble is, they tell me, because of regulations. Now, when we took a look at Penn Central, we found that one of the reasons that it was in trouble was that they took all of their money that they ever made and put it into real estate. Why don't they run railroads? Is there any reason, is there anything bad about that?

One of the things that has happened of late that I want you men to think about, and my time will be up very shortly, is that we have a system that has encouraged merchants, that has built conglomerates and multinationals. Now, let me make clear I do not think that multinationals necessarily are bad at all. As a matter of fact, they do a lot of good. One of the large multinationals is right in my State. There are several of them, big companies there, and it is a new means of economic integration in the world. And I think we have to get a handle on it. But I think it has real purpose.

But when I came to Congress in 1949, if you talked the word multinational, they would have said, well, there goes that Humphrey again with one of those radical ideas.

Now, conglomerates, when that started happening, they got a name for it, but I know we have always had some. But you know, when the CBS bought the New York Yankees, I thought that was it. Now, what in the world was the Columbia Broadcasting System doing buying the New York Yankees? Of course, they found out that they could not, if they were going to buy something, they should have bought the Minnesota Twins. We were not winning anyhow, but they ruined the New York games, they ruined a perfectly good baseball game.

Now, is it not necessary somehow or other for the government to be attuned to what is happening in the economy? That is what I think we are talking about here. This old time religion that somehow or other it used to be this way, there is this good idea of free enterprise, it really doesn't work with me that well anymore because what happens over in Europe is apt to spin us. I tell my people in Minnesota that what happens in the Middle East is much more important than anything that happens in the Middle West as to our future. And that is why I am getting, in this bill, whatever the number of it is—I want to make it clear I do not think the bill is all that it ought to be. As a matter of fact, when I came down to the end of it, and I must tell you, I kept asking myself how big a role did I want the government to have in all of this stuff. I just know that it has to have a better role, and that is what I am getting at. What we have got today makes Rube Goldberg specials look like a highly sophisticated machine. This apparatus we have got over here today for economic policy making, why Mr. Murphy, you would not have that for 5 minutes in General Motors. If you did, you would have to abandon the wheel literally. You could not last for 15 minutes with

this kind of nonsense that we have got around here. There are different departments of government running off at different angles, and it is a wonder that we operate at all. Literally it is a wonder that we operate at all.

We put the Environmental Protection Agency on top of everything else, and we have almost stopped the whole government. By the time you get an environmental impact statement in, you are ready to collect your Social Security, or you are calling up your friendly mortician. I have seen it at home in my State, whole housing projects stopped for years, years. Not months, years, as long as you can find another lawyer. Well, I know somewhere along the line, there has got to be a better system, and that is what I am getting at.

Mr. Murphy, Mr. Diebold, and Mr. Roosa, you are smart men. We are just politicians up here. You represent the excellence, you represent business, you represent economics and finance, and every one of you plan. General Motors plans like fury. You plan. You talk about getting locked in, you got locked into big cars for a long time, and it took some planning to get yourselves out. Now you are making better little cars than the Europeans are, and they are going to sell too. And you planned with the highway system down here.

There are two departments of government which plan, and they get the money. They are the Defense Department, and boy this one, I remember when I was Vice President having the Defense Department come over and talk to me about lead time items. They have got ideas of what they are going to do 20 years from now, and they have got it in the mix, and I said in that campaign of 1968 that the man who gets elected President of the United States next year will be determining, by his decision and the Congress, the thrust of the Defense Department for the next 15 years. These weapons systems that we have put up, you do not build a weapons system overnight. And you commit huge amounts of resources without regard to anybody else, and that is what goes on in this government. Huge amounts.

Look at the Highway Trust Fund. Well, we have that Highway Trust Fund, and it is hellbent to go down and lay out concrete no matter whether anyone needs it or not.

You take the Army Engineers and the Highway Trust Fund and the Defense Department, and you have got a juggernaut, and they are going right on down the road, and if you starve to death, or if you get run over in the meantime or there is nothing left to anybody else, too bad. They planned it.

Now, I got interested in this planning when I saw what the Defense Department could get their hands on, what kind of money they got, and I got interested in planning when I saw what the Army Corps of Engineers could do when they got up here, and they got authorizations. And I got interested in this planning and money when I saw the money go to the Highway Trust Fund, and they are building roads without regard to mass transit and without regard to a lot of things that need to be done in America.

So the burden of proof is upon the captains of industry, not on the politicians. You are in charge of the great economy of this country more than the government, and I think, therefore, you have got to come up with something better than what we have got right now,

because you cannot tell me that we can go and sell all of our wheat as we did one time in 1972 and say, well, you know, that was the Department of Agriculture. The Department of Agriculture, the wheat we sold—by the way, you know, I am responsible here too because Congress had demanded, and I am not picking on Mr. Butz or anybody here, we had it in the law to get rid of the surplus. We convinced ourselves that it was bad and to get rid of the surplus.

One thing about Arthur Burns, he always keeps a reserve. I know about him, and he is pretty steady. But in Agriculture, we said get rid of it. So the Department of Agriculture went hellbent for elections and got rid of the surplus and sold it to the Russians, and one day they woke up and Mr. Nixon said, after having preached to us that there never would, there would never be wage and price controls, never, 1 day he had to put them on. And the only reason he had to put them on was nobody talked to anybody from the Department of Agriculture, and he never talked to them, and the Council of Economic Advisers did not have one single word in any report about the possibility of larger exports of agricultural products and its impact on the American economy, not one.

So I have given my testimony now. My testimony is that you have got to do something better, that if this bill is not good enough, I am like Senator Javits, I want you to tell us what kind of a bill we ought to have, if any, and if not any, what are you going to do to make sure we do not get in these binds again.

Mr. MURPHY. Could I comment, Senator?

Chairman HUMPHREY. Yes, Mr. Murphey, I am done.

Mr. MURPHY. Well, I submit sir, that what we need is less Government, and I think that what you have said illustrates it.

You talked about the railroads, and you talked about what happened to the railroads. They were regulated, they were planned so to speak, and they were planned in a direction so that the service was preserved where service was not economical. If it had been left to the market forces, I think you would have found that the railroad system would have been viable.

Chairman HUMPHREY. Well now, wait a minute. Let me ask you what you think would have happened to my part of the country if that was the case?

Mr. MURPHY. I think they would have been served with transportation that would have been right for that part of the country, and I think it would be today. As it is now, we have forced it into a situation where alternatives seem unacceptable because either you have to pour a lot of money into the thing or you have to continue a subsidy of some sort.

But I think where we have done the planning, where Government has been involved, I think it has moved in the wrong direction.

In the case of agriculture, for years, you know, we in this country induced shortages, we did not plan, we did not grow, and we did not look.

Chairman HUMPHREY. Well, Mr. Murphy, I would stay kind of away from that one. I am pretty expert in that field.

The truth is that while we were trying to slow down the production, the good Lord and the soil and the seed said, boys, the minds of men and all their tricks can't overcome the productivity of Amer-

ican agriculture. We had 65 million acres out of production in set-asides. We paid them not to produce. We could not stop it. It just built on up, thank God. It just came on up, and we had a little surplus, but we need it now.

Mr. MURPHY. The market works, and our system in America works. I do not think we have to be ashamed of what has taken place in America. I am not. I am proud of what we have done in America. I am proud of what we have accomplished. I am not satisfied, and I think we ought to strive to improve it, but I think that we have all of the things that we need in place. I think that we have not managed them well. I think the Government should look at fiscal and monetary policy and other areas that are the responsibility of Government clearly, and do a better job in those areas.

And I think we in business, plan, as you say. We plan for the market. We plan for the customer. We try to anticipate what he is doing.

Chairman HUMPHREY. You also try to teach him what he ought to do.

Mr. MURPHY. But, we are very unsuccessful in that.

Chairman HUMPHREY. Oh, no, you are not.

Mr. MURPHY. We are very unsuccessful.

Chairman HUMPHREY. Listen, I want to tell you there must have been an awful lot of smelly people in America, because there are more deodorants, and I never realized that people were so stinky, and they got everybody spraying themselves with everything except shellac, and they have got some of that going on too.

You know, it is pretty true, everybody knows that advertising educates people to do things.

Mr. MURPHY. I submit, Senator, that if that were true, that if we could tell the American people that this is what you are going to have and educate them to take it, we would not have the problems of constantly trying to shift our product to meet the market that is out there. The market that we have been meeting is the American public's demands, and we have been making the cars that the American public bought.

Today they have a new dimension, and they are looking at things a little differently, and we are shifting with the market. That is what we have been doing right from day one.

I think we have the example of the first Mr. Ford who tried to dictate to the market. He had over 60 percent of the business of this country in passenger cars back in the 1920's, and he had a concept, and it was a good one for the time. He said I will make all of my cars the same, and I will make them all the same color, and the American public is going to have to take it. Nobody could really compete with him as far as price was concerned. But when he tried to dictate to the American public, it created an opportunity for people that were willing to give variety, and as a result of that, he had to shut down for a year while he retooled and tried to meet that market.

I do not think we have ever forgotten that episode in our industry, and we always strive to anticipate. We are not always successful, and at some times, we find that our cars are not selling. And we have found also that the imports came in here because they did have

an opportunity, they had a smaller car that was suited to their needs over there that the American public was not interested in here until they got concerned about energy. And now we here are meeting that market. We always try to meet it, if you look at our record. We always have tried to make products in tune with the times.

For example we brought out the Corvair over 15 years ago, and it was a fine small car, fuel efficient, but it is not being marketed here any longer simply because the American people did not buy it. But we are always striving, and I think if you strive to meet the market and anticipate and do what the people want, I think that is what you in Government should be striving for too, to try to preserve what the American people want. Keep our freedoms in this country. I think that is what has made us what we are. I hope we will always have those freedoms.

Chairman HUMPHREY. I do not basically disagree with that. My time is up, but I think the market does dictate a great deal of the choices that have to be made, and I believe in the market system. I think, therefore, however, there is a special responsibility in Government that sometimes is not met by just the forces of the marketplace. For example, the forces of the marketplace might very well dictate that tuition should be \$2,000 a quarter in college, but you have to have a public policy on whether or not that meets the public need.

Now, Senator Javits.

Senator JAVITS. I shall be very brief, Mr. Chairman as I have to go elsewhere.

Mr. Murphy, I would like to reiterate my request that you furnish us with anything specific that you would have in mind, assuming that we do pass the bill; which is an assumption you should make.

Mr. MURPHY. Yes, sir.

Senator JAVITS. I am sure you agree. I must say I find two statements that I would like you to reconcile. You say, and I followed you very carefully, that there is no way to impose a national plan on the private sector, no matter how well thought out the plan might be, without substituting control by a central source for those individual decisions made in the marketplace. That is the essence of your thinking as you have just explained.

Now then, you say, to look ahead and to anticipate problems, and I would like you to mark those four words, look ahead, anticipate problems—I will skip the rest because it is not relevant—is desirable for Government, for business, for all of us. Now why can't we therefore, construct a piece of machinery in Government to do what you say is desirable for Government, to wit: to look ahead and to anticipate problems?

In other words, what is wrong with it? You yourself say it is right.

Mr. MURPHY. Obviously, Senator, we always should be looking ahead. We should be trying to anticipate problems, and I think we have the mechanisms in Government, and certainly the Joint Economic Committee itself, I think, is concerned about looking ahead and trying to anticipate problems, and in trying to acquaint the Congress and the committees of the Congress, with the economic problems of the country. And the Council of Economic Advisers obviously is looking ahead, and we have the Economic Policy Board. We are always trying to look ahead and anticipate problems.

And if that is all we are talking about, I do not think there would be any need, then, for having a discussion of legislation. I think what concerns me is when you say we are going to have an economic plan, then somebody is going to set up that plan, they are going to have the responsibility and inevitably, it seems to me, they are going to try to impose their will through the force of their personality, or legislation on people to the exclusion of those people's desires, as evidenced by the patterns in the marketplace.

Now, that is my concept, and that is where I feel we are interfering with the marketplace and interfering with individual freedom and attention.

Senator JAVITS. Well, Mr. Murphy, you yourself seem to me to refute that statement when you say that you plan. Of course you plan. How many years ahead does General Motors plan?

Mr. MURPHY. Well, we plan ahead for a 10-year period, but we are in business forever as far as we are concerned, and we are always trying to anticipate. But we are planning and trying to anticipate what individuals are going to want and desire, not what we feel that they want. We are not trying to dictate what they are going to have. We are trying to anticipate and meet that market, wherever it is and whatever it is.

Senator JAVITS. You know, the politician, if anything, is a more exact definition of exactly what you just said than you are. That we are planning to meet the market is supposed to be our biggest fault. I mean, it seems to me, you have defined our role and exactly why we advocate a planning mechanism. If your difference with us is over the piece of machinery to be used, and the concern whether it threatens to dictate to people, why can't we say the same thing about General Motors dictating to the consumer. And yet, you have denied that flatly. You have said that you do not dictate to them at all, and that you are trying to track out as to what the consumer is going to need, how the consumer is going to feel. Well, so are we. And why should we do any less to serve that interest, which is the public interest, than you do to serve the consumer interest with your 10-year plan.

Mr. MURPHY. I think exactly this, that you do and you should, and there are areas where the Government obviously has to do the planning in the fiscal and monetary area, and if the Government does a good job, and I think it can do better than it has, certainly we can do better in our business too in trying to anticipate. But I think that what the Government should concentrate on are areas of what are clearly Government's responsibilities, and not interfere in the areas where the private sector and the free market economy will do a better job of sorting it out.

Senator JAVITS. I certainly think it is our responsibility, Mr. Murphy, if you find that you cannot get gasoline without compromising the whole economic policy of the United States to see that less gasoline is used: whether General Motors can make a profit or not on gas guzzlers, it is our job to see that you don't defy the public interest. That is our job, just as it is your job to try to meet the market. This is a public interest that goes beyond profits for General Motors or any other company.

Mr. MURPHY. I understand your concern, and I think in the case of gasoline that it was a matter of price more than availability, and price is important. It is important to us, it is important to the American consumer. But the price mechanism does work, and I think that you will see, and you have seen the American public shaping the automobile market as a result of that price mechanism. When the price of gasoline went up, they were concerned about that, and they changed their buying patterns, and we have had to change our marketing as a result in order to respond to that.

Senator JAVITS. Well, in the meantime, Mr. Murphy, the world was cast into a great financial crisis from which it has not yet emerged and may, indeed, have a relapse because we were not more foresighted than General Motors. And we should have foreseen this if we had an adequate planning mechanism to do it, rather than you, and we cannot depend on you for that. The experience is just too rough to depend on a private business, and it is not your job. It is our job.

Mr. MURPHY. Well, I submit that in this particular area—and if we are getting off into this specific area, then I am afraid we could go on and on and on—I think one of the problems that we have had in this country is that we were on what I call a cheap energy policy, and we should have been facing the reality that we were becoming increasingly dependent on outside, external sources for our energy. And we were underpricing, and we were not encouraging domestic output here, and I think it is a crime today that, 2 years after the embargo, we are producing less energy at home, and we are importing more than we were before it happened.

Senator JAVITS. Mr. Murphy, you have helped me to make my point. My point is that we should have anticipated this proposition not by 2 years but by 10 years. That was our job, and that it should not have been adjusted by the price mechanism. That is too wasteful. You waste the billions and billions that you are cranking into the cost of cars from now until forever because of your mistake. And we do not blame you, it is not your fault. We were all wrong about it. But in the meantime, it adds to the economic costs of the whole community. I mean, all of this money that was spent for what should have been another product is cranking into the structure sometime, somewhere with somebody. I do not want to bedevil you with general economics, and my time is limited, but I want to thank you very much. I want to tell you something also. It is wonderful to have a witness like you because you are a very authoritative man, you have very profound convictions, and this discussion sharpens us too. And I hope it will sharpen you. You may not have heard these points of view, or put quite as vividly as we feel them.

Mr. MURPHY. I feel very privileged to be here, Senator.

Senator JAVITS. Thank you. We feel the same way about you, sir. We really do.

Mr. MURPHY. I appreciate it.

Senator JAVITS. And I would like to say to Mr. Diebold and Mr. Roosa that they both have a very good idea about the dry run. I like Mr. Roosa's shilital approach idea better, and I will tell you why. Mr. Diebold, forgive me for calling you mister when we know each other well.

The reason is that the dry runs generally are not taken seriously. The budget committee's dry run, for example, you know, was not a very serious proposition, and that is a danger. And so would you be kind enough to apply that great mind of yours for me, and perhaps the Chairman would join me, to Mr. Roosa's idea so that we may have both your evaluations of what I think is an interesting idea in this particular matter. Bear in mind that our political and practical experience is not to consider the dry run as valid and to let it fall by the wayside as a report gathering dust on the shelf. And the only reason the dry run of our budget committee is working is because in the same legislation we went right on to a real run, you see. So if you would be good enough, both of you, to do that for me, and I hope for the committee, we think it would be very valuable.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Yes. Might I just add along with that request for all three of you here, let's assume there might be some type of economic planning. Where ought it to be lodged? You know, this is one that really is a bothersome subject for all of us in the executive office, separate and distinct, et cetera.

Senator JAVITS. I will tell you, Mr. Chairman, if I may interject this information. I participated in a great conference in Houston and I think I would favor very strongly the independent agency concept rather than the executive office concept as we have it now in the bill.

Chairman HUMPHREY. Senator Long. Pardon me, Congressman, we do not want to demote you.

Representative LONG. Well thank you very much, Mr. Chairman. I too would like to congratulate all three of the witnesses and particularly Mr. Diebold and Mr. Roosa for their innovative thinking with respect to this particular problem.

I tell you, Mr. Murphy, that I have heard often this thought with respect to the railroads and their being deregulated, or being regulated into the position where they are today. Frankly, that really does not bother me because if we look at the best railroad systems that are in existence in the world today, they are those that are State owned, and this scares me. Much of the railroad system in the United States was built by private enterprise as a duplication of existing systems, and the very competitive situation that existed during the time the railroads were being built. And they did it partially for the land grants that went with them at the time as they were building these railroads, and private industry did, and as we were discussing awhile ago, they moved into the real estate business to a great extent, as a result of that, 110 or 100 years later.

But the best railroads today are, unfortunately, in those countries where the railroads are owned and run and planned by the central government. Do you have any comment on that?

Mr. MURPHY. And we could have the same system here, and it would cost equally as much. It does not mean that those systems are efficient but that the Government, as you say, operates them, and they do it without concern, and without necessary regard, to the cost of the system. They can afford then to serve communities that maybe would not necessarily have attracted railroad service otherwise.

Now, we are in the railroad business ourselves, and I wanted to make that point. We make locomotives, diesel, and electric locomotives at General Motors for this country and overseas countries, and we recognize that railroads are important, and that the transportation they provide is important. In most of those countries that you talk about, the railroad system does operate, but it is a tremendous drain on the capital and the revenue sources of those countries too.

Now, we can do that here in this country. What we have tried to do is to work through the private sector and then the Government put constrictions around the railroads that kept them from being profitable in the process of trying to meet the needs of the country.

Representative LONG. Of course, if we meet the demands that the railroads are putting forth now, or if we look at the cost of rebuilding the railroads in the United States, a better view might have been to have been paying those costs as we went along in order to have an efficient system, at least the additional advantage of that and what is going to be required now in order to rebuild the railroad structure in America.

Mr. MURPHY. If the mechanism had been made available to the railroads so that they could adjust their tariffs in order to generate the revenues that were required to maintain their roadbeds properly and to drop the services where they were not economically viable, I think we would have a different answer today than we do. But in the meantime, we are confronted with a very difficult alternative as I indicated in my statement.

Representative LONG. Well, of course, we get into the "who shot John" sort of argument because of the fact that the Interstate Commerce Commission in the first instance, if I recall my history correctly, when it was begun was initiated because of the fact that the railroads wanted it to lessen competition one against the other. And we end up with having come full circle in this situation.

Mr. Diebold and Mr. Roosa, I would appreciate your comments with respect to one particular thing. And I have been back over recently as a result of all this coming to the forefront, I guess, the Paley report and read the Paley report, and it really makes you feel sort of sad when you read the Paley report, and it really makes you feel sort of sad when you read the Paley report of what, 24, 25, or 26 years ago, with respect to the critical materials in America in the future. And it pretty well, within 1 year or 2, called it to a "t" as to exactly what was going to happen, and yet, it sat there, and nothing was done. Nobody really gave it any consideration, and I do not guess anybody had really heard of it until about 3 years ago for about 18 or 19 years while we really ought to have been giving it some consideration in determining the direction of policy this country ought to move with respect to those particular things, because they become as important as the infrastructure of the railroads do. They seem to me to be basic things that require planning to the degree of perhaps controlled planning as distinguished from planning where we come into the lives of the human being, but Mr. Roosa, particularly, with respect to the comments in your prepared statement, under the fourth item on that point, you relate to it and refer to the Paley Commission and its report. But you say something in the last sentence under No. 4 that really did concern me. And it is

where you say: "And a planning body should, as I mention further in a moment, make all of its findings without any power to command conformity with the results." And you use the word "any" which bothers me, "without any power to command conformity with the results." That appears to me to be exactly what happened to the Paley Commission report.

Mr. ROOSA. I think there is a step in between. I do not mean to imply that there should not be any conformity, but I think it is necessary that there should be procedures through which findings of this kind are, so to speak, forcibly injected into the process of legislative review and evaluation so that it is not vesting the planning body itself with that kind of power of final decision which I think ought to be subject to further debate and analysis before specific action-oriented results are taken. I did not here spell it out as clearly as I should have. But as I have gone back to look at that Paley report, as you, I have looked also at their projection with respect to various kinds of raw materials and resources. In energy, of course, they were on the button.

Representative LONG. Right on.

Mr. ROOSA. In others, they were quite a ways off, partly because they could not, no one could have anticipated the technological change which obsoleted some and made other resources much more important. So there, Mr. Murphy's point about flexibility of response continues to be relevant.

But in addition, I found on reflecting that the missing part of this puzzle was that once commissioned and completed and presented to the President, there was nobody, nobody within the Government that would take the responsibility for monitoring and continuing to bring the implications of that in issue form before the executive branch or the Congress for whatever consideration and action was implied. And as recently as 5 years ago, some people with whom I have been associated, on some research reflections—and they probably were theoretical and ineffectual, but coming to the same thing—became aware just simply of the vulnerability question in the United States on oil, and we wanted to try to get access. We did not know where we should try to get access first of all in the Federal Government to get some attention. I am talking now of the executive branch. And in the end, the one approach we made, and I may be wrong in my time because when we did this, we finally got ahold of John Connally. I am Treasury-oriented so I finally got ahold of the Secretary of the Treasury only to find out that he was just on the point of departure, and there was not even any further carry through in the little bit of presentation we tried to make to him about getting injected somewhere into the governmental structure an urgent recognition of the way this problem was likely to evolve.

Now, if we had a planning body whose responsibility it was to keep injecting that into the consideration of the government and before the public, I think that is what we need. I think that is what the lesson of the country's failure to use the Paley report points toward. I do not think that you want to give anybody the power to say that we have got the Paley report now, and bang, this has to be done. But they have to have the power to put it in front of the

executive and the legislative branches to say action is needed. Now, you debate it and decide how it ought to go.

Representative LONG. Perhaps, Mr. Roosa, I am overreacting—
Mr. Roosa. I undoubtedly put this badly.

Representative LONG [continuing]. To the fact that Paley report is such a classic example of the long-range look that turned out, in many respects, to be fairly accurate—

Mr. ROOSA. Yes. Yes.

Representative LONG [continuing]. And was completely disregarded. And I am looking for something that will assure that it is not. And perhaps I am overreacting in that regard. But I certainly agree with you.

Mr. Diebold, what is your comment with respect to that?

Mr. DIEBOLD. I am sorry, I just want to make one comment on the Paley report. I think it also illustrates another point that Mr. Roosa brought out in his statement, and that I comment on in my supplementary statement; namely, the time scale, the need for a long-term view in the planning process, and the need to try to be sure that it gets reasonable insulation. I think that also supports the reason that I came down, Mr. Chairman, for a free standing agency, because it is very important that in the Paley report, the last time you mentioned it, that you had not heard of it for years, the main comments I had heard about it in the intervening years were how far wrong on the energy question it was. when, indeed, it was quite right on the energy question. And I think it is important to be able to take the long-term view and to be able to stand quite firm.

Representative LONG. I do not think that anybody really wanted to admit it, Mr. Diebold. I think one could have stopped at nearly anyplace from the time that it was drawn 20 years ago up until any time 2 years ago when the prices occurred, had they again sat back, or stood back as Mr. Roosa was talking about and again looked at it, update it, they would have again arrived at exactly the same conclusion that they arrived at 10, 15, or 20 years before that time.

Mr. DIEBOLD. Yes. Yes. But I think it is important to have this kind of an activity able to take a position and not to be swayed because of the need for an administration that part of the next year would have a different stance. It is very important that it be reasonably, that it be able to stand, for example, the model of the General Accounting Office where you have long-term appointments of the key people, and you are able to insulate it sufficiently so that they are able to take quite independent stands and support them.

Representative LONG. Good. Thank you, Mr. Chairman.

Chairman HUMPHREY. Congresswoman Heckler.

Representative HECKLER. Thank you, Mr. Chairman.

I have to state that I still have not seen the light on bill 1795. I think it is an interesting proposal, it has a number of supportive arguments that are impressive, and yet, as a result of the testimony today, I am left with as many reservations as I had before I walked into this room. And let me share a few of my concerns with you, and then perhaps I will be able to analyze this bill a little more clearly as a result of our dialog.

I think it is very interesting and helpful that we have had witnesses, Mr. Chairman, who have taken divergent views so clearly so that the contrast is vivid.

Mr. Murphy, in terms of your advocacy of individual freedoms, I certainly am very supportive of that. That is, I think, indeed, one of the most important dimensions of our democracy. But I wonder how we could continue, or at this point in history pursue greater individual rights for business and at the same time accomplish the policy goals of a fair society, of a pure environment, of an end to discrimination against blacks, against women and so forth? How can business continue, and why is it business does not, of its own initiative, pursue public policy questions so as to avoid forcing those of us in government to interfere?

Most of us in Congress would prefer not to become involved in your business. We recognize that you and other industry leaders are far more competent in your own fields. But at the same time, the environment is being ravaged, discrimination and denial of civil rights for minorities and women still occurs to the point that we cannot turn our backs on these questions. How can we allow business to go on without seeing that public policy is addressed? How can we develop business with a conscience so that we can truly say that we do not need all of these regulations?

Mr. MURPHY. Well, I think business has a conscience, but there are areas where, obviously, the Government has a role.

I think in the case of the environment certainly it is up to society to determine the role, determine the proper standards that are going to be applied and then to see that they are applied.

I think in equal employment situations, again, I think there is a role for Government in there. And I think we have to abide by the will of the people as expressed through Government, by the people of the Government.

I think we all deplore discrimination. We have to work hard to be sure that it is removed. I guess everybody, in the final analysis, considers himself or herself to be a minority. He can define the term so he makes himself so.

But I think we in America have been dedicated from the day of its founding that we should have equality, equality of opportunity and that all men and women were created equal and that they should have their fair chance, and they should be, by the pursuits of their striving for excellence and progress, that they should contribute to the national welfare. And I think we have constructed a Government that is set up in this country that was channeled in that direction, and as we encounter social problems, we have to recognize and deal with them as a society. And then business has to respond and operate within those rules. And I think we try to do that. I think, for the most part, businessmen have a conscience, they certainly have to live with themselves, and we do breathe the same air, we do want that to be clean, and we want our waters to be pure. The cost of that has to be borne and society, I think, has to determine it.

Representative HECKLER. I would hope that your endorsement of the concept of equality will be translated into support for the equal rights amendment, but I will not lobby you on that at the moment.

Chairman HUMPHREY. But you got your plug in there.
Representative HECKLER. We will see how effectively.

In our society, when business fails, the situation becomes a public problem, and Government is asked to intervene. I happen to have one city in my district with a 14 percent unemployment rate, so I am particularly concerned with unemployment. While I would prefer to see private industry resolve it, because I think that is in the best interest of society, nonetheless, if industry does not come forward, we in government are asked to rectify the situation, and therefore, we must make a response. I think this prompts us to look at the economy and try to forecast where difficulties will arise so that unemployment will not be concentrated in certain areas at particular times, as that becomes a public policy question for us.

Unemployment in the country today is heightened in certain sections and not in others; we in New England have felt it disproportionately. When the unemployment rate reaches the level that it presently exists at today, we have a public policy question. It has been brought to the Congress. And now, the question is how can we interact with business without setting up some kind of a planning mechanism and to avoid the kinds of stresses that have become so difficult today if we do not pass this bill or something like it? How do we resolve the swings of the business cycle and the problems of the economy and at the same time address the serious unemployment questions?

Mr. MURPHY. Well, obviously we do have problems of the cyclical swings, and I do not know of any planning in any country where they have had complete planning where they have been insulated completely from that. But I do think that in the Government area, in the fiscal and monetary policies and in the areas of Government responsibility, if we had been better and more enlightened and done a better job in those areas, then we would have moderated those swings and would have not had these serious unemployment problems. But we are in the fortunate situation in the United States where I think we have seen over time the necessity for an unemployment compensation that ameliorates, let us say, the human hardship and privation that takes place. It is only temporary, and I think it should be. And I think then there should be a corrective force. Let's say if the individual businesses in the area have not done a good job of planning, and they are not successful, and as a result, there are dislocations, then we have to find ways to retrain and regroup, and maybe transfer those people who are in that area to other areas where employment opportunities do open-up and the unemployment compensation does provide that.

Again, there is always uncertainty about the future. We all do our best, I think, to look forward and try to anticipate so that we do not run into situations where businesses fail. Obviously nobody sets up to fail any more than Government sets out to damage the economy by not pursuing fiscal and monetary policies that are in the interests of a productive and stabilizing influence as far as the economy is concerned. I think we can do better in these areas, and we have to. We cannot afford and nobody can afford to see people unemployed and housed poorly.

Poverty, we ought to try to rub it all out. But I think we can do that best if we focus on keeping our economy strong, pursuing policies in the monetary and fiscal sense that are responsible and responsive to the needs of the country.

Representative HECKLER. Mr. Chairman, if I might ask just one other brief question?

Chairman HUMPHREY. Yes. Please.

Representative HECKLER. Mr. Diebold. I have seen innumerable reports by distinguished blue-ribbon panels, and frankly, I could line the office bookshelves with all of the reports by commissions and the findings of brilliant people whose reports just gather dust after the fact. And I am reminded of the proverb that knowledge is not virtue. The energy crisis should come as a shock to no thinking Member of Congress because we were warned in advance. We have had not only the Paley report, but also constant news articles, statements by academics, et cetera, warning us that our resources are limited, and that we are becoming too dependent on foreign oil and that we are facing a crunch.

When the problem was upon us as a crisis, Congress began looking at it seriously, and today we have not resolved it. So I return to the proverb that knowledge is not virtue. How would a planning agency, which would hopefully, even facing the imponderables of foreign policy, and uncertainties of climatic conditions, even presuming the ability to forecast in some of these difficult areas, change policy, when, in fact, for all of these years, the most brilliant reports have not produced change? It seems to me you have to have something more, that this agency would have to have teeth, and then you would get into a planned economy, and would that not then totally disrupt the economy as it works today? How could this be avoided? How could your planning agency really have an effect where so many commissions have failed over the years?

Mr. DIEBOLD. Well, I think the last part, I think if it did have teeth, if it did try to do the control, that it would fail, and I think that nothing is contemplated, as I read the bill, in that regard at all.

Representative HECKLER. No. Right.

Mr. DIEBOLD. Although it is being attacked on that basis. But I do not think that is what is in the bill.

By one having an organization created which would have the resources to do a thorough job of understanding the implications of the various actions that are being taken, I think that I am a very big believer in the market economy, and I think that one of the things that happens is that there are hundreds or thousands of actions of Government which do affect the market economy. It is not a free market. There are incentives, and there are disincentives, and there are a variety of things.

One of the things a planning agency would do would be to draw a balance, to draw a roadmap of this so that when actions are contemplated in Congress, and this is in part the mission of the new Congressional Budget Office I think, to try to understand the implications of the action, and I think to do this on a wider basis than in terms of the implications of our various policies, so that when public policy is being debated and being formulated, we would have much

more enunciation of the alternatives and of the consequences of the alternatives. I think that is a very important factor.

I think an agency, the agency would be of sufficient prestige and sufficient importance that if it did come out with—one of the problems today is there are hundreds of different statements or shortages or not shortages, and they are contradictory and I think an agency with the resources to do a thorough job of analysis in this area, and with the prestige to be able to put this forward, would carry weight, would carry a lot of weight, and I think it would be very difficult for people to consistently disregard it. I think that one of the most important things to do is consistently say that these are the consequences of what you are doing, and coming out with that. I think that is valuable, and there is no question that it would make mistakes and its forecasts would be wrong. They would hopefully get better as it went along, but you cannot, you cannot. That is one of the reasons that I am dead set against the idea of controls, because in terms of this kind of planning, a planning of the economy with enforcement, that this is how many bathtubs get produced next year, because the forecasts will be wrong, and that is why I think the economies that do that—and the Soviet economy would be a good example—have consistent problems and consistently have great difficulties in their economy. I think the balance is what we look for, and we can learn a fair amount about that kind of balance.

Representative HECKLER. Thank you. Thank you, Mr. Chairman.

Chairman HUMPHREY. Just a few things to try to wind up this session because we want to hear from you, Mayor Alioto, and I know that you have some time restraints.

Mayor ALIOTO. I can do it very concisely, don't you worry about that.

Chairman HUMPHREY. Let me say that there is a great deal of discussion over all of the Nation and worldwide on what we call limits of growth, the club of Rome, and there are many others. Some people are concerned about growth, how fast, how far, what kind, and they are talking about quality as well as quantity, and even more emphasis on quality.

I think then the question is posed, How do we come to grips with it? Can we do it just individually, privately? Do there need to be coordinating mechanisms, and if so, where, what is it like, what shall the structural organization be? The point was made here by, I believe, Mr. Roosa, or by you, Mr. Diebold, that Government is involved in many of the economic decisions that affect us today, and Government will be involved. Just the tax program alone is a major involvement and sometimes it is more so than anything.

The question then is how shall the Government be involved? How much should the Government be involved? How extensive shall the Government be involved, and how far down into the private economy should it reach, if at all? Should it be limited primarily to what was said here, fiscal and monetary, budgetary policy, or does it have other extensions? That is what we are talking about.

Now, the purpose of the bill that was introduced, is, of course, to focus attention on these problems. Unless you do have a specific major you sort of philosophize, and you do not get at the specifics that are

required, and that is why we introduced the bill. I believe in flexibility, I believe you have to be very flexible particularly with the rapidity of the times and the rapidity of change in our time. Each of us in 10 years lives 100 years in terms of real history because of the changes that take place. Possibly each in 5 years lives 100 years as compared to what the past seems to show us. So we have to be, we have to be flexible. The worst thing that could happen is for the government to try to dictate in this type of social, political structure that we have, the specifics with inflexibility, and I believe, Mr. Murphy, that you have raised a very good point when you have reminded us that government agencies, and I think you did this too, Mr. Diebold, once they get established, they tend to have a life of their own. And there is a certain degree of almost inflexibility that comes within that structure.

We are mindful of these things, so I guess what I am trying to say to you is that we are at the embryonic stages here of discussion, and from the point of view of politics, this is not a very good issue, you know. I mean I am a political man. I have been in this business 30 years. And I know the rifle shots that are being pointed at us, the charges that are being made. But I feel it is my duty as a Senator, and at least the excitement that I get out of being in this job is to precipitate some argument. Not confrontation necessarily, but actually discussion and argument.

I want to be a believer in the market forces, but I am a realist. There are no market forces in oil, for example. The cartel sets the price, and had the government not interfered, good only knows what the price would have been and what would have happened to the automobile industry. If you say people react to price, you would have had it worse than you have ever had it, because we put a ceiling on what you could charge for domestic oil, and domestic oil, had it gone up to the world market price, Mr. Murphy, I do not want to make any prediction of what would have happened, but I know the prices would have gone up, and prices are going to go up.

There is not any more cheap fuel, and there is not going to be any cheap food. There is a whole new arithmetic which the country has not adjusted to, and which the world has not adjusted to, and it is even questionable as to whether some parts of the world can really adjust to it, though I am sure that somehow it will happen.

My point that I seek to make here is that business knew that putting acids into the rivers was bad. Business knows that putting filth and debris and toxic products into the streams and the brooks and the rivers is bad, and yet they did it for years, for years, because nobody has told them that they did not have to. And so I am not coming, you know—listen, the farmers know that letting excrete run off from the feed lot into the lakes is bad, and in my State this happens, and it polluted our lakes, so it is not big business. It can be the little farmer out here. But as long as you know, as long as there are not rules and plans, why something is going to go wrong.

A lot of people do not think that they need stoplights. They have got enough insanity, or courage, or guts, or whatever it is just to barge on through. But we have decided that there had to be some kind of planning for the movement of traffic.

Forestry, we blundered our forests. I bring this up because just recently in 1974, this Congress, with an overwhelming vote adopted the National Forest and Rangeland Resources Planning Act, of which I was the author. Do you know who was for it? From the Sierra Club to the Wood Products Association. And we sat down and worked this out around a table just like this in a year's time.

And what does it do? It does not leave forestry up to the private life anymore, just to the willy nilly, do what you want to do aggressive lumber people, because they are for it, the State forestry managers are for it, the Forest Service is for it, the Sierra Club is for it, the Wood Products Association is for it. All of them came down on it, and what did we do? We require first of all that the government make an assessment of the present conditions of our forests, and then we require that the Secretary of Agriculture, in the name of the President, present to the Congress of the United States for the rebuilding of those forests, to renew those renewable resources, and we require that the plan either be adopted or rejected. And once it is adopted, we require that it be fulfilled.

Now, that was voted upon by the most conservative members of Congress as well as the most so-called liberal members, whatever these labels mean these days. But why did we do it? Because we said there had to be a better way of making policy within the government. We were 15 years behind in reforestation, we are behind in forest growth, we are exploiting our resources. And interestingly enough, the private business is the biggest supporter of the bill because they saw that unless something was done, they were going to go out of business.

So it can be done. Now, I just want to make that point.

I would like to add this to this reference too, like planning for new cities. In the past, God Almighty planned for us, because what He did was put rivers, and the cities went on the rivers. That was the means of transportation, and the means of water, the means of wasted disposal. Today, there has got to be some planning. If you are going to build new towns and new cities in America, you have to plan them. You cannot put them out there, because there has to be roads, and there has to be telephone and electricity, and that is not automatically going to happen. It has to be planned.

Now, these are little areas of planning that I want to point out. And also on reports, as Mrs. Heckler was saying about, I have been a crank about this, and I agree with what has been said about these reports. There was a report not long ago here on poverty in America, the Kerner Commission report, and it forecast of what would happen in New York City. It forecast what was happening to black teenage unemployment, and it forecast almost everything that is happening to us here in our urban centers. But nobody followed up on it. There was nothing done at the executive level of government and there was nothing really done except piecemeal at the Congressional level of government. I thought that we ought to have at least one joint committee after each Presidential report to follow up and remind people, just like a burr under the saddle, and say, hey, every day, have you forgotten that report? Now, that is sort of a primitive way of doing it, but it seemed to me that it would be important.

I just wanted to say that this is the way I feel about this whole business. And by the way, I am open-minded about this bill. I am not at all sure that what we have here is what we ought to have. I do not want to, I do not want a planned society. I want a society that learns how to plan. I do not want to have it all be at the Federal level, and I think if you look at the bills, one of the things that happens frequently with critics of measures is that they do not study the legislation, but the bill does propose for more input from out in the countryside, so to speak, than any legislation, any piece of legislation ever presented to the Congress, because a man like myself has been a mayor of a city, and I was damn sick and tired of having someone telling me what to do when I was mayor of that town. But I needed some help from Government, and I needed it as the mayor of that city. It was impossible for me as the mayor of the city of Minneapolis, when I was mayor 30 years ago, to do what was needed for that city without the help of the Federal Government. And frequently, I found that the Federal and State Government were going in one direction, and we were down there going in another direction. And I feel that it is a terrible waste.

Here is what I have been saying to you: Whatever national policy development process is proposed or adopted, and we are really talking about structure here, we are talking about a process, it must be based upon and be consistent with our society's pluralistic, multijurisdictional structure. It is a Federal system, it is an economic system of variety. It must provide for a professional, dedicated effort both within the executive and the legislative branches of our Federal Government with respect to looking ahead and anticipating our future, knowing that that anticipation can be in error.

Also, it must provide for the improvement and coordination of our Nation's private sector, State and local governments. It must be a process to provide for coordination, not conflict. It must be a process that is concerned with the quality as well as the quantity. It must be a process that anticipates and provides orderly change, not crisis management.

Now, gentlemen, we have known for 10 years that the supply of feed grains in the world has been dropping. It was not as if it was just due to the humble current and the lack of anchovies, it wasn't as if it were due to the fact that the Russians had a bad crop. For 10 years, the supply, the world supply of feed grains was dropping, and we went along willy nilly, belonging to the FAO with the most, the greatest information system in the Department of Agriculture of any country in the world, pretending that we did not know about it at all. So we got into crisis management, and that is the problem in America all the time.

I have often said that we have got physiological politics, empty stomach, full head, full stomach, empty head crisis management, and it is always a mess. We work our way out of it, we scramble around at tremendous costs, and this process must be one that recognizes the importance of providing for an acceptable human environment. It must be a process that provides for sustained yield of our renewable resources. And I think this is important. And also the proper concentration and use of our nonrenewable resources along with science

and technology to get new, unknown resources, and it must be a process that recognizes and takes into account that our Nation is an integral part of a world community of nations whose individual futures are inextricably linked together.

Now, those are what I call the guidelines that I would like to lay out, and I am going to send this kind of thing—this is just hastily done, you know. I do not have much time for profound thought. I regret to say that I am a general practitioner.

What I am looking for, Mr. Murphy, and you, Mr. Diebold and Mr. Roosa, you can be so helpful. We are not after different goals. Our goals, I think, are very much alike. I really even believe that our priorities would be very much alike. It is a question of how much do you involve governmental processes and at what level and in what form. I am very much impressed with the fact that we may be out not to put more power in the executive branch over here by putting this system into the executive branch, but I will tell you what I am concerned about. I am concerned about the fact that we have these departments of Government that have such a tremendous influence on our lives, that are operating as if they had no connection between themselves because the Bureau of the Budget or the Office of Management and Budget cannot do this job. The most that it can do is to put on the brakes and occasionally accelerate. But insofar as policy formulation and policy coordination, that has to be done by the President and the Cabinet.

Now, why did we put this economic council in this bill? To get the Cabinet to be fully informed on the data that was gathered by the planning board. The first duty of that planning board was for gathering a solid body of information that is timely. And the problem in this Government, gentlemen, having been in this Government now for 30 years at the local and Federal levels, is that our data is out of date. It is frequently unknown by the people that are working on the problems, and the executive branch and the legislative branch are often times working on different data bases. Now, you say, well, we ought to be able to do better. Well, we are not and we will not do better until it is properly structured. And here we go, we prepare legislation in the committee on Interior that may be in direct contradiction to what we are preparing in the Committee on Agriculture and Forestry. The only thing that our budget office does is to keep us in line and keep us reminded of how much we are going to spend. There is no integration of whether or not the policies that are being adopted are complimentary or contradictory. And I just think we have to do better.

I believe that some kind of planning is the best economy that we can have. I believe that the process that we are pursuing now is the road to bankruptcy. I really do because all we are doing now is covering up our sins with another check. It is pretty much what we have done as a Nation. And we are having to be clever. We are having to be more informed on policy today than we used to be, because we do not have quite as much money to pass around. Before we could kind of cover it up and say, well, we would say we made a \$10 million blooper, so here's a check, never mind about that. Today it has got to be a little different.

Now, today I have not questioned you. I have shared my thoughts with you, and I will tell you why. Because I think that this is the way we are going to have to work it out. We need you. We cannot do anything here unless we have the cooperation and the support of people who have great experience. And I want to join with Senator Javits in thanking you, Mr. Roosa, Mr. Diebold, and Mr. Murphy. I do not care what your views are. I mean I care what your views are, and you must state your views and state them frankly. And Mr. Roosa and Mr. Diebold, I want to say again that I like that idea of having whatever planning mechanism it is to examine itself and what its role ought to be. I am not as negative on the dry run idea, may I say, as my colleague, Senator Javits. But I do not think you were far off. I think the two of you are pretty much together.

My request of you is that you take this bill that we have and if you will, give us an alternative. call in some of your cohorts, give us an alternative, and I am prepared to take the bill and junk it. I mean, it does not mean a thing. I am interested in really educating first ourselves and then the public on the whole question because all this committee can do is discuss. We have no legislative authority. But there is going to be legislative action at the Committee on Government Operations where Senator Ribicoff is chairman. I believe Senator Glenn is chairman of an ad hoc subcommittee looking into this, and we are trying, we are trying to fish out, so to speak, the information we need.

Gentlemen, thank you very, very much, and you have been very patient and kind, and you have listened, and I thank you very much for your helpfulness.

Mr. DIEBOLD. Thank you very much for giving us the opportunity.

Mr. ROOSA. Thank you.

Mr. MURPHY. Thank you.

Chairman HUMPHREY. Thank you. I hope you will do what I have asked you to do here, as a special favor to us.

Mr. MURPHY. Thank you.

Chairman HUMPHREY. Thank you very much.

Mayor Alioto.

STATEMENT OF HON. JOSEPH ALIOTO, MAYOR, SAN FRANCISCO, CALIF.

Mayor ALIOTO. It is a pleasure to be here, and I thank you for the opportunity.

What I have to say I can say rather concisely, and some of the views will be a little bit different from those expressed by these gentlemen.

Chairman HUMPHREY. I hope that some of our associates here will be willing to stay and hear what you have to say, if you can.

Mayor ALIOTO. I am looking at it from the perspective of the cities. I am here representing the Conference of Mayors. In addition to that, I happen to operate an independent law office which represents most of the agricultural producers of this country, the wheat growers, and rice growers, and corn growers, and the producers of beef.

And I am here to support your bill, Senator. I am also here to say that I not only think there ought to be substantial government

planning, but that that planning ought to have the means for implementation, that there ought to be some substantial means by which we can achieve conformity with the plan. Every time we start talking about planning, a lot of specters get raised that have to be set aside, almost right from the beginning. I do not think, and I do not think any of these gentlemen at this table, think that there is any inconsistency between a centralized Government planning, any inconsistency between that and the free enterprise system.

I mean to qualify it in this sense of nobody in this country really believes that we have a completely laissez form system of economics. Nobody in this country and nobody at this table believes that there ought to be a complete absence of Government involvement in the economy because what we lobby for in the Congress of the United States more often than not involves Government involvement on a very large scale in the economy which directly affects that.

So what I think we can have here, and what I think your bill will produce, is a kind of partnership between Government action, which necessarily must involve planning and the free enterprise system. And I can use one very dramatic example. The highway program could not have been achieved by a completely free enterprise system. There was no way of doing that. The automobile makers, and the steel makers and the oil companies came to the Congress of the United States, and they said, in effect, that our free enterprise operations depend on your building a great highway system, and there were certain judgments that had to be made there, and some of these judgments were bad for the cities, very bad for the cities, but they were made nevertheless. And there was no anybody who came here and said I object to the planning on the highway system, or we do not want any implementation of the planning that the Government does. Nobody said that at all. They came and they said we want user tax money, tax money, but user money, nevertheless, we want to take the user tax money, and we want to have a centralized planning on highways in this country, and then we want the power to implement that Government planning, and we want to put Government subsidies behind it to the tune of \$15 billion. And nobody objected to that. And there really was not any other way of doing it.

The automobile continued to operate on presumably the free enterprise system, and I think competitive capitalism is a much better word. It operated under that. There was a notable lack, as some of us observed it, and some of us noted the economic behavior. There was a notable lack of price competition and a notable lack of competition on car size so far as the American manufacturers were concerned. And it took a group of creative Europeans and Japanese to bring them up short on the business of having designed obsolescence on an annual basis. And it took a lot, it took a competitive market force to bring that about.

Chairman HUMPHREY. I wish that Mr. Murphy were here to listen to you.

Mayor ALIOTO. But I want to make this point. I think that our Government planning is not only desirable, but I think in the existing atmosphere of the world, it is indispensable, not desirable, I

think it is indispensable, and we need it for another reason. All you are saying, in effect, Senator Humphrey is that we want to gather the American people to project a vision of what America can do economically in terms of their economics, what we can do and then some mechanism, some means of saying that we will go ahead and do it.

Now, there is a very pernicious philosophy making the rounds these days, and there are all kinds of false prophets who are announcing doctrines that are influencing particularly our young people, and one of the worst is that we have reached the outer limits of our economic expansion, that we have been forced to those outer limits by ecological considerations, and that the job for Government planning right now is not in economic expansion, and this is the exact language, but how to distribute the jobs that we now have, how to share the jobs that we now have.

You know, it is as though it is some kind of Christmas pie and we are going to cut just smaller portions for everybody, and they are even talking in terms of those of you who work 40 hours a week will now have to work 20 hours a week and let the unemployed work the rest of the 20 hours.

Now, an economic planning by a central planning agency in Government can put that nonsense to rest and put it to rest in a hurry. And it really cannot be done by the market principal unaided by Government planning. It is Government planning spurring the market principle, spurring competitive capitalism, trying desperately to keep it competitive, and it is a partnership, not dealing with irreconcilables here, your bill and free enterprise are not irreconcilables, and I think they can give us a partnership. I think there is lots of room for substantial dovetailing. And, of course, I say one of the classic ones is that highway program that I talked about previously.

Now, this vision that we desperately need of what we can do economically has some very practical components, and they are components that private industry and private enterprise and the market principle simply cannot handle. And I will tell you why it cannot handle it.

Right now, there ought to be a central government planning on energy with power to implement the plans and to force conformity with those plans. There ought to be that. You cannot leave it to the market principle.

The sources that we have to fight a monopoly pricing cartel are basically natural gas, oil, uranium, geothermal, steam and coal. Those sources are controlled by the same people. You have an interlocking control of ownership. Now, those sources of ownership are not only what we have to fight an oil cartel, those sources ought to be competitive among themselves.

You see, the principle of the free enterprise ought to be extended not just to competition between owners but competition between commodities. In other words, the same people—the same people who manufacture equipment for highways really ought not to be manufacturing equipment for public transit, because they do not have the incentive to push on the economic merits. They have in-

centive to push on the basis of which they have the better position in. Those who control oil may feel that it is better for them to push on oil rather than develop uranium oxide. Or to push hard on coal, to push hard on geothermal steam, and so you desperately need a central government planning agency to decide what we are going to do to get these materials to compete on the merits and to give us the kind of independence from that Arab pricing cartel that we desperately need. And you know, it is intolerable, and private industries cannot do anything about it; it is intolerable that the great industry of this country and western Europe and the Japanese can be influenced radically and influenced by a spigot that is in the hands of a handful of sheiks.

Now, those sheiks learned their lesson, and they did not learn by the process of osmosis. They learned it from us, the oil companies taught them the doctrine of price stability by production control and going to your lowest source. They were taught by us, and we taught them very well. And so we ignored everything else we were doing.

Now, this is why you need a central planning agency on something as important as energy that will then spur the private enterprise system. Indeed, the private enterprise system may come to an abrupt halt unless some Government planning in this area takes place, and the kind of an agency you are talking about. And the kind of central planning you are talking about with input from everywhere, including local officials, is the type of thing that we think, Senator, we think can do it.

Let me give you another example. We spent out in San Francisco \$1.5 billion or \$1.6 billion on a public transit system.

Chairman HUMPHREY. How much was that? \$1.6 million?

Mayor ALIOTO. \$1.6 billion, and we made the commitment Senator before there was that much offered from the Federal Government and State government, we made the commitment before we knew that we were going to have any offer, we just pledged our property taxes to build that system. Now, that was governmentally planned. But the impact on private enterprise, in spurring private enterprise, has been absolutely tremendous, absolutely tremendous.

There are those who would say that we have reached the outer limit of our economic growth and expansion. But just building public transit systems alone in this country where they are desperately needed will not only give us the desirable economic expansion and jobs and create new jobs and get away from the nonsense about the outer limits, will not only give us that, but also helps to fight congestion and helps to fight pollution.

Now, I happen to believe, in case there is any question about it, that the competitive capitalism is the greatest system ever invented for producing the most goods for the most people, the best quality, and at the lowest price. It far beats any of those planned systems that do not have a competitive or incentive system of economics. It beats them all. It beats them very, very badly.

But there are certain areas where competitive capitalism breaks down traditionally, and there are two very conspicuous areas where it breaks down, and I would be the first to acknowledge it. One is in

the area of building housing for the poor. The market principle simply cannot achieve that, and the market and the captains of industry are perfectly willing to admit it now, that it simply cannot do it.

Now, housing, the building of housing, has an economic aspect as well as a humanitarian aspect, and the building of housing for the poor, you need a centralized planning agency to dovetail where that housing component fits into the general picture.

I want to give you another one. It is that San Francisco is recognized as the most Asian of the American cities, and we have perhaps tuned in our antennas more sensitively and become more attuned to certain things again which belie the notion that we have reached the outer limits, and it is good, central government planning that can help us to achieve now this very very desirable expansion. Good government planning followed by implementation and the forced conforming thereto could open up the channels of trade between the People's Republic of China and the United States, something that our businessmen have been advocating for 20 years, at a time when it was very unpopular. The enormous economic influences that could result from that alone, you know, removing the problems of Taiwan, the problems of frozen assets and trade imbalance, removing those problems, and the Shanghai communications, we started to do some of those things, but a central planning agency working on that alone could open up untold economic expansion in this country.

Now, it also serves that there is more détente in the volume or a bill of lading than there is in the treaties of friendship, more volume in a bill of lading running both ways than in the volumes of words that we try to put in treaties of friendship. But we need a centralized planning agency in this Government to see that that will be done, and then to set aside programs that will accomplish it.

So now these are just some examples that I am using. Now, you need another thing, more important may be than all of the others. You know, there are few cities that have spent as much money on the claims of ecology, and San Francisco has done as much. Now, I start out, I think, with pretty good credentials on the environment and on ecology, and I would say that because it might affect what I have to say in a moment. On that environment, as I say, we built the \$1.6 billion transit system to fight congestion and pollution and then we took 23,000 acres of our watershed property, beautiful lakes and meadows and rolling hills adjacent to a dramatic beach, and we blocked the attempts to build a freeway right along that lake. You would not have believed that freeway route. It was at the time when Lyndon Johnson was President, and you were Vice President and very helpful in accomplishing that. We turned around and dedicated that whole 23,000 acres where we could have made \$250 million on the sale, we dedicated it in perpetuity to open space and recreation, and now that is just some of the things. And we have spent \$25 billion to beautify just one boulevard, Market Street. Now, that is a prelude to what I have to say.

I think that you need a central government and a planning agency to put the pseudo ecologists in their place. You cannot depend on

businessmen to do it. Nor politicians, basically, because they have frightened both the businessmen and the politicians, and to a certain extent, even the labor leaders. The pseudo ecologist guys have stopped us, we lost control, for example, on the waterfront where we have a State agency, and we had a plan, but the Court made some spurious findings that we could not relocate 1,200 people, and we lost \$1 billion of construction in that city alone, \$1 billion, now, not only of construction, but with beautiful landscaping, beautiful design, with plazas and miniparks and waterfalls and fountains and redwood trees growing, and all that because of a group of ecologists who equated growth or development with a four-letter word. It proved that they could not spell, among other things, but this is the way they talk. This is the way they talked about it. Now, a central planning agency that would put in focus the claims of the environment against the claims and the necessity of economic development is something that desperately is needed because the free enterprise system is not going to do it. And as I say, the captains of industry have been pretty much frightened, and so have most of the politicians about it. And you know, you can distinguish the pseudo ecologists from the real ones.

Now, I will tell you about a fellow, I will tell you this story which is perfectly true of the fellow who came into the mayor and says, you know, we have to save the beaches. And I said, that's right. And he said we have to save the redwoods. And I said, that's right. And he said, we have to save the Florida everglades. We have to save the Florida everglades. And I was about to say, that's right, and then I looked down and so help me, he was wearing alligator shoes. So, there are people like that. There are people like the pseudo ecologists who simply have adopted a cause, but it is amazing how they have frightened the captains of industry and most of the politicians, and they have been able to stop economic growth that would have added great, stunning beauty to an urban city for example, and a central planning council can put those folks into perspective.

I just want to say in conclusion that you are really on to a tremendous thing here, something desperately needed, and the free enterprise system is not going to solve the problem. I talked about the main one which is energy. They are not going to solve it. You need Government planning and Government implementation and enforcing conformity to what has to be done on a national basis.

So on behalf of the Conference of Mayors, we are here to tell you that we support your bill.

[The prepared statement of Mayor Alioto, with an attachment, follows:]

PREPARED STATEMENT OF HON. JOSEPH ALIOTO

Mr. Chairman, Members of the Committee. I am Joseph Alioto, Mayor of San Francisco, California. I am here today representing not only the City of San Francisco but, also, the United States Conference of Mayors, an organization of which I have been pleased to serve as President last year. The Conference of Mayors is the national spokesman for virtually all cities in this nation having population of 30,000 or more. I am here, therefore, as a representative of Urban America—a place that is obviously not held in esteem by the current Administration. There is a war being waged in this country at the present time which makes little sense and places the future

of the nation in great jeopardy. The opposition of the President, and other members of his administration as well as by some members of the Congress to immediate federal assistance to our premier city—New York City—is but just a reflection of a deeper, more pervasive antiurban bias which appears to be dictating many of this nation's policies and programs.

Reality dictates a much different approach. Today, the nation's people live in the metropolis, not in the countryside. The suburbs and the cities in recognized metropolitan districts make up more than 70 percent of the national population. There must therefore, be a strong commitment to the resolution of, and not a denial of, the problems that beset urban America. New York City is not unique. Many cities, both large and small, face similar problems albeit not of the same proportion as New York. And, many of these problems are the direct result of national policies. The future of this nation is in jeopardy unless the federal government begins to manage its domestic affairs realistically and comprehensively. I believe that the Chairman's Balanced Growth and Economic Planning proposed legislation provides the foundation for just such management.

This country does not presently have such a foundation because it has no rational, intentional economic policy. We at the local level know this because we are forced to do combat with the adverse conditions such a lack of policy creates. That is why the U.S. Conference of Mayors has been speaking out on this issue for some time before Congressional committees, Presidents and their administrations, and federal agencies. But, apparently our message has not been clearly received. Of necessity, therefore, the voices of Mayors, as well as other local elected officials, are becoming much more strident because the chronic urban crisis continues to worsen significantly.

Because Mayors across the country realize that many of their local problems, be they economic or social, are due to a lack of effective federal planning, the U.S. Conference of Mayors has, for the past two years, passed policy resolutions for a national economic policy. I am attaching to my written statement a copy of the resolution passed in July, 1975.

We Mayors realize that what we do have in this country today are sets of uncoordinated policies and programs which are oblivious to the economic problems of cities. For example:

Gentle stimulation of the economy by tax rebates and business tax investment credits while the costs of fighting the recession are shifted to urban communities through higher unemployment, budget cuts, layoffs, service reductions, increased welfare costs, and tax increases.

An acceptance of an "unreasonably high unemployment", disproportionately concentrated in cities, for the next several years in an attempt to prevent a resurgence of inflation.

Stimulation of the economy by the traditional "trickle-down" fashion by reducing corporate taxes, increasing corporate tax investment credit, and running a large federal deficit. Certainly, these measures do not target benefits of increased economic activity in cities. The financing of new suburban plant and equipment is the likely result. The price of the recession, therefore, will be paid by the cities while the benefits of renewed economic activity will be felt through the marketplace.

Temporary measures such as extension of unemployment compensation and expanded public service employment programs are being enacted while programs which improve the long-term well being of local economies and create permanent private sector jobs such as anti-recessionary public works and economic development programs are being resisted.

And, what are the consequences of these uncoordinated policies and programs? Intolerable levels of urban economic ills. To cite just a few:

Levels of unemployment in our central cities are well above the national average with much higher rates among minority and poverty groups and the young and the old—all of whom reside in great numbers in cities.

Due to extremely high rates of inflation in the public sector, the fiscal capacity of city budgets is declining while at the same time greater and greater demands are being placed on essential public services. One consequence has been higher city tax rates which has the adverse effect of widening the fiscal disparity between city and suburb and decreasing the attractiveness for private investment in cities.

Local governments are making substantial adjustments to their budgets. It is estimated that cities will enact approximately \$1.5 billion in new taxes and will reduce expenditures by approximately \$1.5 billion this year.

The worsening fiscal situation of municipalities has accelerated financial borrowing, the costs of which have increased significantly. Average yields of municipal bonds for October, 1975 were at their highest level in many years.

A recent study examining the impact of impending default by New York City on municipal bond markets across the country shows that borrowing costs have risen for all governments since July. The long-term impact of higher interest rates, outside of New York, is estimated to be between \$800 million and \$1.5 billion.

In addition, it is significant that since May of this year, over \$1.2 billion in state and local long-term borrowing has been cancelled or postponed.

These *current* sets of policies and programs and their adverse consequences are feeding upon the massive *disinvestment policies of the past*—some inadvertent, some deliberate, but all of which were uncoordinated—which have caused severe economic distress typified by high unemployment, poverty, shrinking economic bases needed for jobs and revenues, and physical deterioration. Local elected officials have recognized for some time that the nation does have a collection of federal policies, enacted in a piecemeal and, at times, haphazard, fashion which, when combined, result in an inadvertent or de facto national economic policy. The consequences of these very active, but yet uncoordinated, policy elements can be seen throughout the nation. There is a growing understanding on the part of local officials of the impact these policies are having on the shape and quality of their cities. But, yet, no matter their expertise and the available resources, these officials are severely limited in what they can do to control or to influence the efforts of this set of federal policies.

For those critics of economic planning who argue that planning by the federal government would interfere with or destroy the free market system, I would like to point out that the pattern of deterioration, abandonment, and sprawl found in urban areas is not a consequence of the normal operations of the private economy. The *private market has not* and does not operate "normally." Rather, it responds to a series of federal government interventions such as:

Tax policies which induce investment in real estate and development activities like capital gains tax, excess depreciation on buildings, deduction of interest and property taxes on owner-occupied housing and investment credit;

Mortgage insurance policy which stresses new construction by subsidizing certain income classes through housing mortgages guaranteed for single-family dwellings. Conversely, little concern has been demonstrated to conserve existing housing stock;

Federal highway system which pulled people and industry away from the already-established areas. Conversely, there has been almost a total absence of federal subsidization of existing urban transit systems; and

Numerous other federal actions such as construction, location of federal installations, procurement of goods and services, and regulatory activities.

These conditions of high unemployment, poverty, shrinking economic base and deterioration which have typified many of our cities for several decades plus the additional "fall-out" from the current recessionary period are, in large part, due to the lack of effective, long-term federal economic planning.

The conditions detailed above—the outcomes of established federal as well as state policies—cannot be reversed solely by more money, greater local expertise, or decentralizing political authority. Instead, a coordinate, intended and explicit set of national policies operating within the overall framework of *rehabilitation* and *conservation* rather than misuse and over-consumption must be developed. Monies now being allocated to localities by explicit federal programs to treat specific urban conditions such as physical renewal, housing, and economic development, and the recent decentralization of political authority will do little to improve deterioration, abandonment, unemployment and loss of economic base without such a national policy.

The U.S. Conference of Mayors is encouraged by the Chairman's economic planning legislation for it takes into account its concern of priority-setting within specified time periods and the resources as well as the legislative and administrative actions necessary to achieve them.

All of us—at the federal, state and local levels—must play a part in reversing policies of the past and in establishing the needed coordinated national policy. I have heard too many times that it is up to the local govern-

ments to deal with these issues—or that we at the local level have not done enough. I could cite many, many examples of successful local initiatives in dealing with adverse conditions—from metropolitan tax base sharing systems, tax increment financing, increased local coordination between community development and economic development to local housing programs involving low interest loans and grants for rehabilitation, and home-ownership programs. But, national policy must be more than a summing up of local initiatives. Local officials cannot effectively govern the nation.

The federal government *must* establish a comprehensive long-term economic plan upon which to base consistent action. It *must* assume its natural role as manager of the national economy. This nation must begin to think ahead to plan for the future.

Short-term thinking and economic planning exists throughout the inter-governmental system and is usually focused on specific issues rather than the economy as a whole or major sections of it. The Congressional Budget Reform Act of 1974 provides the first step toward economic planning by granting the Congress of the United States its legitimate place as a full partner in the management of the nation's economy. For the first time, the Congress will have an overview of spending levels, revenue levels and priorities instead of the piecemeal approach of the past. But, the view provided by the Budget Reform Act is relatively short-term—no more than five years. Keeping with the spirit of that Act, Congress should adopt the Balanced Growth and Economic Planning Act of 1975 so that long-term, coordinated government approaches to economic problems can be developed. Only by the creation of such planning can this nation hope to compete in the resource-scarce world which we face.

Finally, the sponsors of this extremely important piece of legislation must be complimented for their foresight in basing the planning process on the involvement and cooperation of state and local officials as well as the private citizen. When deliberations begin on the bill, the U.S. Conference of Mayors would be most happy to offer its assistance on how local involvement in the process could be most effectively secured.

The U.S. Conference of Mayors supports a strong federal system. But, the strength of such a system requires that each of the partners be strong and that each of the partners have a voice in determining the functions and responsibilities of each level of government within the system. We recently testified before both the Senate and House Banking Committees in support of federal guarantees on taxable bonds of states and municipalities facing financial disaster. In both instances, we stated that as soon as that immediate emergency situation was solved, we—Congress, the Administration, Governors and Mayors—must begin to develop long-term responses to prevent the recurrence of any similar fiscal emergency. The Balanced Growth and Economic Planning Act of 1975 provides the kind of vehicle to do this.

There is a need for a basic rethinking of the functions and responsibilities of each level of government within our system and the manner in which financial resources to meet these responsibilities are to be collected and disbursed. The cities of this nation have the expenditure in our system. However, the resources necessary to meet their expenditures are found elsewhere within the system. Until resources and demands become more balanced throughout the system, cities will continue to be less-than-a full participant in the federal system.

Cities are presently in the position of implementing and paying for federal mandates and court decisions without federal concern for where the money is coming from. Cities have had minimum wage bills, safety standards, social security increases and more, handed down from the federal level without the necessary resources to implement them. We have been mandated by various legislative acts of the federal government and various judicial decrees to upgrade certain services, to improve facilities, and to do a multitude of other things with no concern for where the money is coming from nor any concern being expressed for involvement of local officials in the decision-making process. The question at issue is not whether these court orders and federal mandates are fair or whether they are unjust. The fact of the matter is they are being enforced, in all cases without prior consultation with local officials and in many instances having disastrous fiscal consequences for the local government.

This is just one example of many which could be cited to demonstrate the lack of planning which exists in the country. The U.S. Conference of Mayors is indeed heartened that legislation which addresses the need for effective long-term economic planning has been introduced. Mr. Chairman, we realize that the Joint Economic Committee cannot act on legislation. But, this Committee's recommendations have significant influence in shaping the content of actual legislation. We urge the appropriate legislative committees in both the Senate and the House of Representatives to immediately begin deliberations on the Balanced Growth and Economic Planning Act of 1975. The United States Conference of Mayors is prepared to assist them in any way during their discussions. Thank you for the time you have given us today.

Attachment.

U.S. CONFERENCE OF MAYORS, WASHINGTON, D.C.

NATIONAL ECONOMIC POLICY RESOLUTION ADOPTED JULY 1975

Whereas, the nation is experiencing the most severe shortage of natural resources in its history; and

Whereas, the current national unemployment rate is the highest since the Depression in the 1930's; and

Whereas, the nation's "real" economic production has registered a critical 11 percent decline, the largest in more than a quarter of a century; and

Whereas, the current rates of inflation are at intolerable levels; and

Whereas, these indicators of economic decline have their most serious consequences for the nation's urban residents; and

Whereas, the nation's Mayors most directly represent this constituency; and

Whereas, fragmented and contradictory federal economic policies prevent local government from providing essential services and other corrective measures for our constituents, Now, therefore, be it

Resolved, That the U.S. Conference of Mayors calls upon the Congress and the President to fulfill their responsibility for managing the nation's economy; and be it further

Resolved, That such economic management should be the responsibility of the Council of Economic Advisors, as intended to the Employment Act of 1946, and the Congressional Budget Office, as intended in the Congressional Budget and Impoundment Control Act of 1974; and be it further

Resolved, That both Congress and the President fully reflect the agreed upon economic objectives that result from such a process in terms of the federal budget and federal regulatory powers.

Chairman HUMPHREY. Has the conference gone on record in support of the major measure?

Mayor ALIOTO. The conference has sent me here to state that they support this. It is in conformity with the resolutions that we have adopted year after year. We adopted another one here in Boston at the convention which you addressed, and we had a very great reception there. We have adopted that. We are for this bill, and we want to have a part in implementing some of the details that you have talked about. And as you have invited these gentlemen to send you suggestions, we would like to do that with the Conference of Mayors.

Chairman HUMPHREY. Yes, fine.

Mayor ALIOTO. And we would want to take a very active part.

Chairman HUMPHREY. We appreciate it very much, Mayor Alioto. And you always make a marvelous presentation, and I stand in amazement at your fund of knowledge and detailed information. It is very helpful to us.

I want to convey our thanks to the Conference of Mayors, and we are going to look forward to your suggestions.

The point that I want to leave with you is the necessity of having an input in any kind of planning structure organization from the local level because it is there where the things happen. And we have got to have that.

Thank you very much.

Mayor ALIOTO. Thank you for the opportunity.

Chairman HUMPHREY. It is always a pleasure, and thank you.

Tomorrow, we will start at 10 a.m., and we will have Governor Byrne of New Jersey; Governor Shapp of Pennsylvania; Mr. William Fitzgerald, the Senate Majority Leader of the Michigan State Legislature; the Commissioner of Finance of the State of Minnesota, Mr. Christenson; and Mr. Mel Mister, Director of the Urban Economic Policy and Financial Standards, U.S. Conference of Mayors.

Thank you.

[Whereupon, at 12:43 p.m., the committee recessed, to reconvene at 10 a.m., Friday, November 14, 1975.]

NATIONAL ECONOMIC PLANNING, BALANCED GROWTH, AND FULL EMPLOYMENT

FRIDAY, NOVEMBER 14, 1975

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

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

Present: Senators Humphrey and Sparkman; and Representative Moorhead.

Also present: John R. Stark, executive director; Richard F. Kaufman, general counsel; Robert D. Hamrin, professional staff member; Michael J. Runde, administrative assistant; George D. Krumbhaar, Jr., minority counsel; and M. Catherine Miller, minority economist.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. All right we will open the meeting of the Joint Economic Committee to take a look at our proposals on balanced national growth and economic planning. As has gone almost unnoticed at least in Washington, but virtually everyone of the 50 States have adopted statewide economic planning procedures. Most of the States have established planning offices directly under the office of the Governor or as an adjunct to him headed by planning directors. In this respect the States are ahead of the Federal Government, while here in Washington we still agonize over whether or not to adopt economic procedure, the States, which are our partners in federalism, have already adopted such procedures and such organization. The States are moving forward to develop modern tools and management capabilities and growth planning strategies. The Federal Government in contrast still operates almost on a medieval basis.

I might add that all of these Federal agencies that handle large amounts of Federal grants-in-aid insist that every State have a plan. If you go over to HUD or HEW, they are always asking what is your plan. And most of the appropriations that we make in Congress are held up by these agencies demanding a plan.

The Federal Government insists that everybody else have plans except the Federal Government. Some time I might suggest to my friends that are witnesses that you ought to ask the Government agencies what their plans are. That will scare them out of the woods for about 1 month and they won't be around.

It literally takes a war for many of the parts of the Federal establishment to work together as a unit. It is not coincidental that only during World War II and during the Korean war did we adopt procedures that resembled national planning process. I want to underscore this again, the only time this Government has acted as if it knew what it was doing on a coordinated basis has been during wartime.

Who knows but perhaps the examples of the States will shame the Federal Government into adopting 20th-century principles in economic planning and policymaking. We are extremely fortunate to have with us this morning two of our most outstanding State Governors. We have the Honorable Brendan T. Byrne of New Jersey and the Honorable Milton J. Shapp of Pennsylvania following this oral statement. And the question and answer period we will receive additional testimony from witnesses who I will introduce later on during the hearing.

Governor Byrne, we will ask you to go ahead. We will go in alphabetical order. After we hear from you, then we will listen to Governor Shapp. I want to say quickly that some months ago, in fact a little over 1 year ago, I had quite a long talk with Governor Shapp about the matter of economic planning. I want to publicly commend the Governor for his leadership and for the remarkable planning proposals that have been adopted in the State of Pennsylvania. Governor Byrne, we are looking forward to your testimony. But, before you begin, Governor Byrne, I have an opening statement submitted for the record by Senator Taft; it will be placed in the hearing at this point.

[The opening statement of Senator Taft follows:]

OPENING STATEMENT OF HON. ROBERT TAFT, JR.
NATIONAL PLANNING

National planning is an outstanding title for a hearing. I commend the committee for the choice of words.

The title indicates that we are looking toward the whole nation's well-being, not to special interest groups, but to the country, in all its complexity and breadth.

The title indicates that foresight is one of our aims. I am sure that its sponsors wish us to plan *ahead*, to avoid trouble, and that they are not referring to planning how merely to live with past mistakes. Planning for the future is a noble idea, but let's see how we are going about it.

First, as proof that we are planning for the future, we have called nine witnesses. In a nation of 215 million consumers buying several trillion kinds of goods and services from 11 million firms and 40 million service personnel, we shall this week hear nine witnesses.

Well, it's a start.

It's a start with quite a future. This committee will be in business a long time at this rate, if we are to poll the Nation.

I submit that we may be approaching the problem in the wrong way. I think it is a macro, not a micro, problem. We must seek evidence in the large, instead of in the small. But we have not been able to do that since the Government began suppressing the evidence! That evidence is "price".

Let us start by asking a very simple question. What is a price? By that I mean, what is the purpose, the function of a price? Let me describe that function by quoting a passage from *University Economics* by Armen Alchian and William Allen.

" . . . American economic activity is *not* directed, planned, or controlled by any economic czar . . . no particular person has been appointed to ensure that adequate food reaches every city each day and is allocated among competing

claimants—and yet the people eat. No “Big Brother” oversees the multitudinous and infinitely varied operations of the economy and ensures that the essential functions are performed . . . Moreover, this mysterious system allows individuals and businesses to be essentially autonomous . . . and, at the same time, yields a viable and enviable degree of economic efficiency.

“The individual person, far from wrestling with grandiose problems of the universe, must decide how much of his own wealth and income to expend for this or that . . . No farmer adds up the total demands for food in a city, comparing the total with the amount being shipped to the city, to make sure (because of his compassion) that adequate supplies will be available. Instead, with his individual interest and perspective, he asks, ‘would I be personally richer or poorer if I shipped more or less?’ ”

Gentlemen, the function of price is to make these plans possible. Prices communicate information. They are evidence. They signal producers when demand goes up or down. They inform consumers of the ease or difficulty of production. They eliminate the need for all of us to carry production statistics, population figures, and technical journals around in our heads.

It is true that some of our people are handicapped in this great auction by lack of cash. Very well, let us support their income. But let us do it in a way that does not cast aside our primary source of economic information and efficiency. Let us not confuse redistribution of income with the destruction of the price mechanism. Because that is what we are doing. Alchian and Allen are a bit dated. We *are* looking for a “Big Brother”. It is called “Big Government”.

What sort of planning has big government done up to now?

Let's see. We have been planning the natural gas industry, I believe. We set the price in the early fifties, informing producers that demand for gas was low, and informing consumers that gas was plentiful and easy to produce. We planned a textbook-perfect case of shortage, with its resulting fights over who gets the merchandise. We planned that, too. The home owner gets it, instead of the factory, because it is better to leave people unemployed than frozen stiff. How easy it is to remedy one plan with yet another!

We have planned our oil shortage, with our import and price policies. Half empty airplanes were planned by the C.A.B. Half empty trucks were planned by the I.C.C. Half empty factories were planned by the F.P.C. and an empty treasury was planned by the government of New York City.

There is not one single area of shortage in the American economy that was not planned by some part of the Government. Not deliberately, of course. Everyone meant well. But in each case, the information given by the price mechanism was ignored. We worked against it, instead of with it.

It is possible to work *with* the price mechanism. We could give the poor money instead of food stamps. We could tax large cars and subsidize small ones, instead of writing mileage formulas. We could let trucking firms and airlines compete. And if we do not, no amount of national planning is going to straighten out the mess.

All right then. Let us learn a lesson from experience, and work with the marketplace, using it as our most valuable tool.

Do we need energy independence? Then let us allow the price to rise, to inform producers that we want production, and to inform consumers that we want conservation. And we can plan. We can subsidize research into more advanced forms of energy production, through private firms, with a simple tax credit for research, and without a new layer of bureaucracy. We can plan for cleaner air, by fining polluters, informing them and their customers of the *full* cost of the product, and letting the market do the rest. We can plan to lower unemployment, by ending tax loopholes and lowering marginal tax rates, to encourage savings, to promote home building, to stimulate investment in the new equipment we need to provide jobs for more workers, and to make it worth the workers' while to work, by leaving them something after taxes.

I hope that this is the sort of healthy and restorative planning that the committee has in mind.

Let us plan for the future in this fashion, instead of the same old discredited way. Let us not set the Government up in a tea shop as an economic swami with a crystal ball, or we shall soon all be visiting the little shop with three balls hanging outside not much farther down the road.

I sincerely hope that we never pawn our economic heritage.

Senator Humphrey has mentioned that the U.S. has only planned national economic matters during World War II and Korea, and it's about time we started in again. Well, our problem in wartime was to divert an enormous share of GNP to Government use, and away from consumers. We sold bonds and started inflations to lower consumer purchasing power and took our national output for Government use. If that is what planning means, I'm against it.

I commend Governor Shapp for his recognition, on page 5 of his press release, of the role of planning in private industry, and of the need not to supplant it. I'm sorry I could not be here to commend him in person. However, Governor Shapp has protested high interest rates and tight money.

Tight money raises interest rates *only briefly*. Tight money lowers inflation. Inflation is built into interest rates. *Tight money lowers interest rates.*

Look at Germany and Switzerland. Sound currencies, tight money, low interest rates.

Look at Latin America. Weak currencies, easy money, high interest rates.

Governor Shapp would not get high marks in economics 101.

The problem is that the Federal Reserve keeps swinging from tight to easy and back again. That is what hurts. That is how we can get the double whammy of tight money on top of inflation, which strangles investment in general, and home-building in particular.

Planning does not help the Federal Reserve. It plans too much, too many changes, too much disruption.

STATEMENT OF HON. BRENDAN T. BYRNE, GOVERNOR, STATE OF NEW JERSEY, TRENTON, N.J.

Governor BYRNE. Thank you very much, Senator. Watch out about saying such nice things about Governor Shapp or he may draft you for Vice President.

Chairman HUMPHREY. Well I may be looking for a job and ought not to close out any possibilities or options. Go right ahead.

Governor BYRNE. Thank you. I also understand, and I said this to Milton, Senator, that I had been given the opportunity to talk first because of the alphabetical priorities and me being "B" and he being "S", but neither of us came here to be "B.S.ing" anybody this morning.

[Laughter.]

Chairman HUMPHREY. Oh, Governor, you are doing right well this morning. But in case you planned on it, this is as good a place as anywhere.

[Laughter.]

Governor BYRNE. I have submitted a prepared statement to the committee and I don't think you want me to read that statement. If you will mark it into the record—

Chairman HUMPHREY. We will incorporate the statement in its full text in the record.

Governor BYRNE. Fine. I think what you are interested in, really, Senator, is what our experience has been in the various States and whether that experience has any applicability to the Federal Government. As you said in your opening statement, most States have engaged in overall planning in various respects. In New Jersey we have done it in land use management to some extent anyway in the coastal protection bill. We have in place an economic council in New Jersey which gives us the impact on a long-range basis of proposals before the legislature and before the executive. And that impact is for a long-range basis.

We have just recently put into place another recommendation of a commission to study the capital needs of New Jersey. We have just put into place a capital planning commission, Senator. And incidentally the leadership of the committee which recommended that type of structure for New Jersey consisted of, as chairman, the chairman of the board of the Prudential Life Insurance Co. It had on it such distinguished business leaders as John Connor, Ned Jesser, and so forth. I point this out because it was done at the behest mainly of businessmen of the State because I understand you had at least one businessman suggesting some doubt as to your bill. So that we do have that.

We have looked into the area of standards and goals in a number of areas. And incidentally I Chair now the Federal effort at the establishment of standards and goals in the criminal justice area. That is an area where everybody I think at the national level and the State level has recognized the need for long-range planning, that is, establishing standards and goals and attempting at the Federal and State levels to evaluate programs in terms of an overall standards, and goals procedure. So we have that.

And I have given you in my prepared statement several examples of where we in our State particularly feel the need. I point out that today and such days which we face in the future of limited resources especially limited energy resources, that it makes sense to know where we are going. We have industry looking to jump from State to State and back again because they do not know the long-range solutions to what are now short-range problems.

I gave you a parochial example in my testimony of the fact that in New Jersey we engaged a decade ago in a broad college construction program and yet we had no long-range overview of what to do with those students after we educated them in the State. So we are now faced today with a 13-plus percent unemployment rate and nothing we have done in that college effort has really helped very much to alleviate that problem. We have a huge surplus of school teachers in New Jersey.

So that I think that the prepared remarks which I have submitted indicates what we have done on a state level which proves out the need for the type of balanced growth in economic planning. And I have not heard anyone with a very persuasive distinction to make between what a State needs and what two States need or what 50 States need and what the Federal Government needs. Therefore I submit this statement in support of your bill based on the empirical experience of one state. And I submit facts contained in that statement justify my support and the support of the Congress for that legislation.

[The prepared statement of Governor Byrne follows:]

PREPARED STATEMENT OF HON. BRENDAN T. BYRNE

Mr. Chairman, members of the committee, ladies and gentlemen. I thank you for the opportunity this morning to testify on S-1795, the balanced growth and economic planning act of 1975.

In New Jersey we are now confronted with an unemployment rate of over 13%. Furthermore, our State government, which normally would hope to provide the type of needed services to alleviate conditions arising out of such

an unemployment problem, is faced with a fiscal deficit that seems to be growing with every passing day.

The President tells us that an economic recovery is within reach and that our conditions will soon begin to improve. Yet, even if we could believe these statements in New Jersey, such statements by themselves are not reassuring. For in New Jersey we have seen that when parts of the Nation move ahead a period of economic recovery, other States like my own catch up at a much slower pace. In fact, we have never completely recovered from the slowdown that occurred at the end of the last decade.

As Governor, I hear from many concerned citizens—workers, labor leaders, corporate executives, and public officials—who claim that they know the source of our economic problems. Some point to our unemployment compensation benefit system, others point to our workers' compensation program, and still others blame new environmental regulations. Additional areas cited as causes of our problems include a deteriorating transportation system and decay in our urban centers. I submit to you that most of these are not causes but effects of our present economic situation. Moreover, I will never apologize for a workers' compensation system that attempts to provide adequate compensation to a deserving and injured worker or for reasonable environmental standards which seek to protect the quality of life around us. I do recognize that these programs can in fact be improved and my administration has supported programs for speed up of environmental review and for reforms in workers' compensation and unemployment compensation.

The economic problems of New Jersey and in fact of the whole Nation, however, result from a far broader problem. We—both the public and the private sector—are suffering from an uncertainty as to the goals of our Federal Government. We continually see important issues addressed on an ad hoc basis with very little concern as to the impact of their resolution on other areas. Unfortunately, in the past, we—both the private and public sector below the Federal level—have followed the same practice. During a period of unlimited resources, we could survive although not function effectively. However, as we now move into an age of limited resources and need a more comprehensive review of our growth patterns, we can no longer tolerate the continuation of such uncertainty. We must have a coordinated program of goals and guidelines from our governments.

Permit me to cite two examples of such uncertain goals and inconsistent programs. And in order to be fair, these examples will document the problem at the State as well as the Federal level.

First, Federal energy policies have had an especially devastating impact on a few sections of our Nation. At the same time, little, if any, analysis appears to have been done in regard to identifying the imbalances that actually occurred and the compensating programs that might have been needed to soften the impact. Since this course of conduct has continued, many of our industries appear to have accepted the premise that this imbalance will remain embedded in our national policies and therefore have shifted their base of operations to other sections of the Nation. Those States which are reaping the benefits of these actions should not be content with the existing situation. For, New Jersey's problems of today can rapidly become their problems of tomorrow. We must have programs and goals that consider at one time all parts of this Nation and which do not give rise to a pendulum of gloom and hardship which rapidly swings back and forth between different areas of our Nation.

A second example is the inability of many college graduates, who were educated at taxpayer's expense in our State, to find jobs that allow them to use their skills. Then years ago the State of New Jersey rapidly began to expand its higher education base. Today we have a comprehensive system of State colleges and community colleges that graduate a large number of students. Despite the fact that the need to find work for these additional students was known ten years ago, our State did not develop a diversified and expanded economic base to meet that need. As a result, our students are not only unable to find work but are now even further hampered because of the outstanding debts which they must pay as a result of loans given them to finance their education.

We can no longer tolerate such an approach. Our governments must begin to pledge themselves to a process whereby they can effectively consider the interaction of programs from both a short-term and long-term perspective. Furthermore, our governments must have in mind goals against which we can measure

our programs. These goals certainly must be flexible, but at the same time provide guidelines to all those who might be affected in order that they too can make the necessary adjustments.

Mr. Chairman, the bill, which has now been introduced by you and Senator Javits, clearly is a bold attempt to address this problem and I salute you for that.

In recent years the Federal Government has made some dramatic steps to increase its ability, on a short-term basis, to develop goals against which to measure programs and to carefully evaluate whether in fact certain programs are consistent with others in achieving such goals. I point specifically to the Congressional Budget Office and also to the Office of Management and Budget, notwithstanding the differences which we might have had with it in the past. However, I must again emphasize that these achievements are most appropriate for dealing with short-term issues and still leave our long-term problems unresolved. In order to fill the remaining gap, your committee must insure that S-1795 does in fact concentrate on long-term as well as short-term goals and the programs necessary to achieve such goals.

At the same time, as a chief executive of a large State, I commend you for recognizing the need to improve the capability of the President to gain control of executive branch policy. There are far too many significant inter-departmental issues which are beyond the scope of one particular Federal agency to address in a vacuum. It is imperative that there be improved direction and review from the chief executive and this bill moves in that direction.

S-1795 also recognizes that economic planning is far too significant to be conducted by one branch of government acting on its own. Congressional input and review is imperative and is recognized in the bill. However, of even greater importance, is the need for review and input from outside this Capital. In a democratic system such as ours, all citizens must be given an opportunity to participate actively in the formulation of a nation's goals and therefore the bill's emphasis on State and local participation is long overdue.

State and local participation will only be effective if you provide the tools which will allow for meaningful input. First, any plan submitted by the President to Congress for review should contain a detailed analysis of the anticipated impact which it might have on various "regions" of the Nation. The term "regions" should be recognized as having a far broader meaning than just a few States which border one another. Instead, the plan should also consider regions in terms of industrial similarity, income levels, and population density. Such an approach would allow all concerned to quickly identify any imbalances that might result as of the plan and to suggest such programs as countercyclical assistance which might alleviate the imbalance and still be consistent with the overall goals of the plan. Secondly, there is a definite need for additional and more standardized data that would permit meaningful review and input into the plan. At the present, we seem to have a system whereby various parties are examining the same programs by using different data. If this situation does not change, it will be impossible to have a responsible planning process.

I will be the first to admit that the States have been remiss in their planning responsibilities and must become more responsible in articulating their goals upon which Federal programs should be based. My administration is taking steps to correct the situation. First, I have appointed a capital budgeting and planning commission, which is chaired by my predecessor and which is vested by statute with broad responsibility to coordinate and continually update the State's capital planning and spending program. Secondly, we are now using Federal monies to develop a centralized economic planning process operation in my office. In order that we have broad input from all areas of State government and from the local level as well, I have appointed a group of cabinet members to oversee the program and I have mandated that local officials be brought into the various sub-committee groups. Finally, I have announced my support of a development review act that would allow certain development decisions, which are now made at the local level but which have a broad impact on larger parts of the State, to be reviewed at the State level. Such an approach is essential if we in New Jersey are to have coordinated and responsible development.

The above programs allow me to pledge that New Jersey governmental institutions will be in a position to work responsibly with their Federal counter-

parts in identifying goals and in developing programs that are consistent with these goals. Your bill will be a great success if it likewise places the Federal Government in a position to make the same pledge to State and local governments.

I am aware of those critics who contend that S. 1795 will place the country in an economic "straight jacket". I can only respond by stating that the concepts embodied in this bill, at long last, will represent a meaningful first step toward taking this nation out of the straight jacket of economic uncertainty. Whether or not this bill ever becomes law, governmental decisions affecting the economy will continue to be made. Some will view these decisions as embodying too much regulation and others will view them as embodying far too little regulation. What this bill does stand for, however, is that, before these decisions are made, there will be an opportunity for more meaningful review, since there will be a clearer idea of those goals against which programs should be evaluated. In addition, the traditional interest groups which have for so long exerted great influence on the decisions ultimately made will now be joined by another group that has had far too little to say—the people of this country and their duly elected representatives at the State and local level.

I would like to close on one last cautionary note. This bill is multi-purposed. In the past, similar bills have been presented as the cure-all for assorted ills. I know this is not the intent of the sponsor. But in the days ahead, as more and more people become aware of S-1795, it would behoove all of us who support it to heed Al Smith's sound advice, "don't promise what you can't deliver."

The American people are uncertain about their future. They are anxious, perplexed, and unfortunately not very optimistic. Despite this, if the bill is not "oversold" and our people understand its intent and limitations, I am sure that it will also represent a meaningful step toward restoring the credibility of governmental institutions and their processes.

I thank you for your time and would be happy to answer any questions.

Chairman HUMPHREY. We thank you very much, Governor Byrne.

What we will do is hear from both of you Governors first and then we will have some questioning of the panel.

Governor Shapp.

STATEMENT OF HON. MILTON J. SHAPP, GOVERNOR, STATE OF PENNSYLVANIA, HARRISBURG, PA., ACCOMPANIED BY A. EDWARD SIMON, DIRECTOR OF THE OFFICE OF STATE PLANNING AND DEVELOPMENT

Governor SHAPP. Senator Humphrey, I appreciate the opportunity to appear before you. I will not read much of my statement because on the way down here I rewrote it. But first I would like to comment regarding your remark earlier about the Federal agencies requiring the States to come up with plans. One of the unfortunate problems that we face—

Chairman HUMPHREY. Could you pull your microphone in closer?

Governor SHAPP. One of the unfortunate problems we face is each Federal agency requires a separate and different plan. So there is no coordination and that causes us to do a lot of work that is unnecessary. There should be one coordinated plan at least by these agencies.

I welcome this opportunity, Mr. Chairman, and members of the committee, I welcome this opportunity to appear before you today.

I have come to discuss plans and programs to rebuild our economy and put America back to work.

It can be done. The basic ideas are not new.

I applaud the efforts of this committee for focusing the spotlight on the need for coordinating efforts of all Federal and financial agencies and for recognizing the need for public sector planning to stimulate the national economy. It is indeed time that the United States forget its phobia against doing any public sector planning and that we start to coordinate the activities of the many agencies of Government that have decisionmaking responsibility in economic matters. "Planning is the process that enables executives to make better decisions."

This is the theme of seminars I conducted for businessmen in the early and mid-1960's at the American Management Association in New York.

Unfortunately though for years, in the United States, planning was looked upon as a dirty word, closely identified with Soviet efforts to achieve a completely planned society.

In our efforts to show public scorn of what they were doing in Moscow, we swung the pendulum full scale in the 1950's and 1960's and rejected the concept of doing any economic or social planning in the operation of our Government.

It's time we realize that a public policy of doing no planning is just as bad for the United States as would be a policy for government to do complete planning of an economy. S. 1795 recognizes this principle. It recognizes that public sector planning is essential but that our Government should not attempt to plan the details of the private sector.

We need a new approach to economic recovery which mobilizes the tremendous resources of the public sector to stimulate the even larger resources of the private sector and reinforce the actions of government.

We cannot meet today's challenges successfully with the shopworn strategies of yesterday. The formula of one part 19th century predatory monopoly and one part 20th century Herbert Hooverism won't work.

We must recognize the enormous potential of public sector investments in stimulating private sector economic growth and thus providing full employment and full production in all sectors of the economy.

More than a century ago Government investments spurred development of our great cities and opened the West to development. These investments in canals and railroads, in water systems and natural resources, and in public education for all Americans fueled the industrial revolution and age of industrialization in America.

Today, public sector investments can power a full-scale revitalization of the economy, generating millions of new jobs, increasing income and wealth, and improving quality of life for all Americans.

It can be done. America has great wealth, an enormous variety and quantity of essential resources and a huge reservoir of human talent. With proper planning and forceful execution of logical plans our Government today can stimulate the national economy to accomplish this goal.

Let me put it in reverse. If we fail to do so—if we continue to wallow about without coming to grips with our basic economic prob-

lems—then I fear this Nation may indeed soon pass its peak and, like many other great nations before it in history, abdicate its role of world leadership and become a second or third rate power.

So, this is not a time to fear the implementation of essential programs based upon realistic public sector planning to get America moving ahead.

First and foremost the Federal Government must change its out-moded system of budgeting and adopt the capital budgeting principles that are used by almost every major business enterprise in the world.

The goal of business is to budget its resources so as to maximize growth and profits.

The goal of our Federal Government should be to use its financial and physical resources to take care of legitimate, essential needs of the American people. This includes providing for the safety of the Nation and giving maximum stimulation to the economy to increase the production of goods and services needed by our people, and this in turn would increase the size of the job market. We cannot do this today with the proliferation of Federal officials and agencies each having a hand at the wheel and often turning it in opposite directions. The Office of Management and Budget, the Federal Reserve Board, the President's economic advisers and the Treasury more often than not have different ideas of what should be done at any one time and they operate unilaterally often at cross purposes. Our economy thus gyrates up and down and around like a yoyo. We need unified direction and S. 1795 moves toward that goal.

Public sector investments, if properly selected, will trigger \$2.50 in follow-on investment by private industry for each public dollar invested. The combined \$3.50 will result in \$8-\$10 worth of increased Gross National Product.

Unfortunately, our Federal budget is not designed to accomplish this goal. It is nothing more than a cash flowsheet that measures "dollars out" versus "dollars in" during any given year. If A.T. & T. used our Federal budgetary system, we'd still be using crank telephones in the United States.

We must adopt business principles and make long-term public sector investments that will generate sufficient future yield in the form of increased tax receipts, user fees or rents, and also that result in future annual savings in the operation of Government such as reduced payments for welfare, for crime prevention, and other costs of maladjusted society. These investments, for which income or savings could be projected over a calculated period of years, should be separated in the annual budget presentation from the identified operating costs of government which would then include annual amortization and interest charges against these investments.

This is the way business budgets its resources. This is the business-like way for the Federal Government to operate.

With such a capital budget in operation, we could then establish a national investment plan that would give maximum stimulation to the American economy, encouraging private industry to expand in order to produce greater quantities of goods and services, thereby generating the jobs that are so essential in our Nation.

The return on public investment is so great that the only limitation should be the ability timewise to gear the productive capacity of this Nation to meet the demands for services and products that would be generated.

Over-stimulation supplied too quickly could increase inflation. But with proper public sector planning, inflation could be minimized or avoided.

With a money supply growth rate in the 7 percent to 7.5 percent range—the objective of the Federal Reserve Board—the program I recommend could be instituted without necessitating any excessive Federal borrowing which might be inflationary. Further, if such borrowing should become necessary, then a decision could be made at that time whether to accelerate or dampen the public investment programs based upon money market conditions at that time.

Thus the program I advocate will not by itself increase the rate of inflation. It should do the reverse.

A major cause of inflation today is that productivity in America has dropped to about 66 percent. This means that 100 percent of our national plan overhead is carried by two-third's production.

Another major cause of inflation is that when the cost of money goes up, business is forced to raise prices for its goods and services, the same as it would if there was any other cost rise. The Federal Reserve Board does not seem to understand the simple business principle I stated here, and its policies of tight money during the past decade have increased inflation each time the screws have been turned.

To reduce the inflationary impact on our economy we must raise the productivity rate hopefully to at least 85 percent. This will only come about under present circumstances by public-sector stimulation of the economy that will cause America's private sector to expand and modernize facilities.

And as I said, we must stop the arbitrary increase in interest rates so often imposed by the Federal Reserve policies in recent years.

Money should be used by government as it is by business as a tool to increase wealth. If we apply national capital budgeting techniques, the only limitation to our country's growth would be the response time of the private sector to produce and meet the increased demand for goods and services.

I support the concept of investment planning for the public sector based in part on our experience in Pennsylvania. Since I became Governor in 1971 we have come to rely heavily on the work of a revitalized State planning operation.

Through the Office of State Planning and Development, which I established, the Commonwealth began assessing the long-term needs of our economy and of our people and we began revising our programs to meet these needs.

These efforts have been successful, but they also brought home to us the limits of economic planning by any one State.

The simple fact is this: No State is an economic entity in and of itself, and economic programs at the State level can have only partial effects without the benefit of coherent national efforts.

It is often not possible for States individually, or even collectively, to achieve needed programs, however well identified, conceived or planned, independent of Federal involvement.

What States can do, however—and are doing—is to begin the process, identify the problems, initiate the process of education and help develop the models for such a program.

States must be full and active partners with the Federal establishment if we are to achieve a genuinely national program.

Their role must not be limited to just review. States must participate fully and from the outset, working within a uniform system of data and analysis procedures in order to insure our ability to coordinate planning and programs at regional and national levels.

All States should be geared from the beginning into the Federal planning process and have uniform methods of planning, analyzing, and reporting.

I would strongly urge therefore that there be no delay in establishing a technical framework now to provide the tools for a national system and involve the States more directly and effectively. States should be quickly funded to begin this process of public sector economic planning. Such funding would provide the essential basis for the national system and immediately up-grade the quality of public sector planning and problem solving at the local levels.

I might add, it is not just for Pennsylvania that I make this request. Other States which have followed innovative approaches to the problem of long-range development have also been frustrated by the lack of action and direction from Washington. Recently representatives of 29 States came together in Harrisburg to discuss their experience and to evaluate proposals for national planning under the sponsorship of the Commonwealth of Pennsylvania and the Council of State Governments. The group decided to remain a continuing body with Pennsylvania as the lead State. I think the proceedings of that conference, which we shall be pleased to submit to this committee, indicate the support with which States view the role of the Federal Government in economic planning. Although better government planning would be necessary under the capital budget, it will not be necessary for the government to plan the private sector.

No outside planning would be needed by General Electric, U.S. Steel, Alcoa, Johns Manville, and other great American enterprises to calculate how much steel, aluminum and electrical or construction products would have to be manufactured or how many people would have to be hired by these individual companies to furnish the materials to rebuild our railroads or construct 10,000; 20,000 or 100,000 new units of housing or respond to public sector investments in other areas.

The private sector would be better able doing its own calculating of the markets, demand and production requirements.

There would have to be some planning of future job skills that these companies would need, but here again the educational and training needs can be identified in advance and training facilities expanded. We did this during World War II and we did this during

the Korean war. In the meanwhile, the millions of unemployed workers who have the required skills would be absorbed into the newly created job markets. As I said before, for each \$2 of public sector investment, the private corporations would find it desirable to make an investment of \$2.50 in new plant and equipment to meet the demands of expanded use of their product and together the \$3.50 worth of public and private sector investment would generate a growth of gross national product of \$10.

Yes, we can put America back to work if we start with basics—that is, if we start with the budgetary process in Washington, change it to conform to business principles and adopt a national investment plan.

More than a decade ago, President John Kennedy spoke of the limits of the Federal budgetary process which did not allow Government policymakers to discern clearly public sector investments.

In a commencement address at Yale University of June 11, 1962, Kennedy said:

The administrative budget has sound administrative uses. But for wider purposes it is less helpful. It omits our special trust funds and the effects that they have on the economy; it neglects changes in assets and inventories. It cannot tell a loan from a straight expenditure—and worst of all it cannot distinguish between operating expenditures and long-term investments.

This budget, in relation to the great problems of Federal fiscal policy which are basic to our economy—is not simply irrelevant; it can be actively misleading.

At that time I was special consultant for economic development to Luther Hodges, who was Secretary in the Department of Commerce and I was serving as part of a group working to reform the budget and adopt public investment programs along the lines Kennedy described.

Today, I think that task is more urgent than ever.

We have almost 12 million unemployed or underemployed and no one knows exactly how many millions, who have dropped out of the labor market.

Welfare and crime prevention costs have soared to all-time highs.

Our people have become disillusioned with Government and with Government officials at all levels.

It's time for a change for the better. It's time to stop tinkering with an outmoded motor and put in a brand new engine with sufficient power to get America moving forward.

Yes; it's time that we change our outmoded Federal budgetary principles in Washington and devise a program of public sector investments to maximize the stimulation of the private sector and put America back to work.

It can be done. Let's do it.

Mr. Chairman and Senator Sparkman, that concludes my formal statement.

[The prepared statement of Governor Shapp follows:]

PREPARED STATEMENT OF HON. MILTON J. SHAPP

Mr. Chairman, members of the Committee, I welcome this opportunity to appear before you today.

I have come to discuss plans and programs to rebuild our economy and put America back to work.

It can be done. The basic ideas are not new.

I applaud the efforts of this Committee for focusing the spotlight on the need for public sector planning to stimulate the national economy.

"Planning is the process that enables executives to make better decisions."

This is the theme of seminars I conducted for businessmen in the early and mid 1960's at the American Management Association in New York.

For years, in the United States, planning was looked upon as a dirty word, closely identified with Soviet efforts to achieve a completely planned society.

In our efforts to show public scorn of what they were doing in Moscow, we swung the pendulum full scale in the 1950's and 60's and rejected the concept of doing any economic or social planning in the operation of our government.

It's time we realize that a public policy of doing no planning is just as bad for the United States as would be a policy for government to do complete planning of an economy.

We need a new approach to economic recovery which mobilizes the tremendous resources of the public sector to stimulate the even larger resources of the private sector and reinforce the actions of government.

We cannot meet today's challenges successfully with the shop-worn strategies of yesterday. The formula of one part 19th century predatory monopoly and one part 20th century Herbert Hooverism won't work.

We must recognize the enormous potential of public sector investments in stimulating economic growth and providing full employment and full production in all sectors of the economy.

More than a century ago government investments spurred development of our great cities and opened the West to development. These investments in canals, and railroads, in water systems and natural resources, and in public education for all Americans fueled the Industrial Revolution and Age of Industrialization in America.

Today, public sector investments can power a full scale revitalization of the economy, generating millions of new jobs, and increasing income and wealth for all Americans.

It can be done. America has great wealth, an enormous variety and quantity of essential resources and a huge reservoir of human talent. With proper planning and forceful execution of logical plans our government today can stimulate the national economy to accomplish this goal.

Let me put it in reverse. If we fail to do so—if we continue to allow about without coming to grips with our basic economic problems then I fear this nation may indeed pass its peak and, like many other great nations before it in history, abdicate its role of world leadership and become a second or third rate power.

So, this is not a time to fear the implementation of essential programs based upon realistic public sector planning to get America moving ahead.

The federal government must change its outmoded system of budgeting and adopt the capital budgeting principles that are used by almost every major business enterprise in the world.

The goal of business is to budget its resources so as to maximize growth and profits.

The goal of our federal government should be to use its financial and physical resources to take care of legitimate, essential needs of the American people. This includes providing for the safety of the nation and giving maximum stimulation to the economy to increase the production of needed goods and services and thus stimulate the growth of the job market.

Public sector investments, if properly selected, will trigger \$2.50 in follow-on investment by private industry for each public dollar invested. The combined \$3.50 will result in \$8-10 worth of increased Gross National Product.

Unfortunately, our present federal budget is not designed to accomplish this goal. It is nothing more than a cash flow sheet that measures "dollars out" versus "dollars in" during any given fiscal year. If AT&T used our federal budgetary system, we'd still be using crank telephones in the United States.

The worst example of putting the cart before the horse that shows the lack of understanding of the business principle involved in proper budgetary is the President's recent demand to limit federal spending for next year to \$395 billion.

I am all in favor of limiting spending to the lowest level possible, but there are two sides to the budgetary equation—revenue income and expenditures.

I was chief executive of The Jerrold Corporation in Philadelphia from its

beginning in 1948 until I sold my interest in 1966. During that time we grew from two employees to over 2200, and from a \$500 investment to a company doing over \$50 million a year.

In 17 of the 18 years that I was chief executive officer, we showed profits. But we never started our budgetary process by limiting spending. We first projected our expected sales and income then made sure our expenses were under that amount.

If we found we had sale for 7,000 units instead of 5,000 units originally projected, we hired more people and brought more raw materials and thus increased expenditures and also our profits.

The President, in making his demand for spending limitation, ignores this principle, and in doing so jeopardizes the financing of essential public programs that could either reduce expenditures or increase revenues or both.

Let me give you a very practical example of how public sector investments in human development can help people and also lower the operating costs of government.

One recent study estimated that there are more than a million American infants or young people who have suffered brain damage because of malnutrition of their mothers during pregnancy.

The costs of maintaining these people through their lives are enormous. In cases where they must be institutionalized it may cost \$500,000 to \$750,000 over a typical lifetime. On the other hand, it may cost about \$1,500 to give a woman adequate health care and nutrition through her pregnancy.

The simple economic fact is that a one-time investment of \$1,500 will save a total of up to three-quarters of a million dollars—and also improve the quality of life in America.

We must adopt business principles and make long-term public sector investments that will generate sufficient future yield in the form of increased tax receipts, user fees or rents, or result in future annual savings in the operation of government. These investments, for which income or savings could be projected over a calculated period of years, should be separated in the annual budget presentation from the identified operating costs of government which would then include annual amortization and interest charges against these investments.

This is the way business budgets its resources. This is the businesslike way for the federal government to operate.

With such a budget in operation, we could then establish a National Investment Plan that would give maximum stimulation to the American economy, encouraging private industry to expand in order to produce greater quantities of goods and services, thereby generating the jobs that are so essential in our Nation.

The return on public investment is so great that the only limitation should be the ability timewise to gear the productive capacity of this Nation to meet the demands for services and products that would be generated.

Over-stimulation supplied too quickly could increase inflation. But with proper public sector planning, this could be minimized or avoided.

With a money supply growth rate in the 7% to 7.5% range—the objective of the Federal Reserve Board—the program I recommend could be instituted without necessitating any excessive federal borrowing which might be inflationary. Further, if such borrowing should become necessary, then a decision could be made at that time whether to accelerate or dampen the public investment programs based upon money market conditions at that time.

The program I advocate will not by itself increase the rate of inflation. It should do the reverse.

A major cause of inflation today is that productivity in America has dropped to about 66%. This means that 100% of our national plant overhead is carried by two-third's productivity.

To reduce the inflationary impact on our economy we must raise the productivity rate—hopefully to at least 86%. This will only come about under present circumstances by public sector stimulation of the economy that will cause America's private sector to expand and modernize facilities.

Money should be used by government as it is by business as a tool to increase wealth.

The only practical limitation to the application of federal capital budgeting and the economic stimulation it would create is the ability of this nation to produce.

I support the concept of investment planning for the public sector based in part on our experience in Pennsylvania. Since I became Governor in 1971 we have come to rely heavily on the work of a revitalized state planning operation.

Through the Office of State Planning and Development, which I established, the Commonwealth began assessing the long-term needs of our economy and of our people and we began revising our programs to meet these needs.

These efforts have been successful, but they also brought home to us the limits of economic planning by any one state.

No state is an economic entity in and of itself, and economic programs at the state level can have only partial effects without the benefit of coherent national efforts.

It is often not possible for states individually, or even collectively, to achieve needed programs (however well identified, conceived or planned) independent of federal involvement.

Not only does the federal outlay for goods and services represent nearly 40 percent of all government expenditures (including state and local), but by tying eligibility for federal funds to predicated program areas, it has become a very large tail wagging a barely larger dog.

What states can do, however—and are doing—is to begin the process, identify the problems, initiate the process of education and help develop the models for such a program.

States must be full and active partners with the federal establishment if we are to achieve a genuinely national program.

Their role must not be limited to review—even at state levels of government this process is unwieldy and uneven in quality.

States must participate fully and form the outset, working within a uniform system of data and analysis procedures in order to insure our ability to coordinate planning and programs at regional and national levels.

Other states, which have followed innovative approaches to the problem of long range development have also been frustrated by the lack of action and lack of direction here in Washington.

Representatives of 29 states recently came together to discuss their experience and to evaluate proposals for national planning under the sponsorship of the Commonwealth of Pennsylvania and the Council of State Governments.

I think the proceedings of that conference, which we shall be pleased to submit to the Committee, indicate the importance with which the states view the role of the Federal government in economic planning.

Although better government planning would be necessary under capital budgeting, it will not be necessary for government to plan the private sector.

No outside planning would be needed by General Electric, U.S. Steel, Alcoa, Johns Manville, and other great American enterprises to calculate how much steel, aluminum, electrical or construction products would have to be manufactured or how many people would have to be hired by these individual companies to furnish the materials to rebuild our railroads or construct 10,000; 20,000 or 100,000 new units of housing or respond to public sector investments in other areas.

The private sector would be better able doing its own calculating of the markets, demands and production requirements.

There would have to be some planning of future job skills that these companies would need, but here again the educational and training needs can be identified and training facilities expanded. In the meanwhile, the millions of unemployed workers who have the required skills would be absorbed into the newly created job markets.

Yes, we can put America back to work if we start with basics—that is, if we start with the budgetary process in Washington, change it to conform to business principles and adopt a National Investment Plan.

More than a decade ago, President John Kennedy spoke of the limits of the Federal budgetary process which did not allow government policy makers to discern clearly public sector investments.

In a commencement address at Yale University on June 11, 1962, Kennedy said:

“The administrative budget has sound administrative uses. But for wider purposes it is less helpful. It omits our special trust funds and the effect that they have on the economy; it neglects changes in assets and inventories.

It cannot tell a loan from a straight expenditure—and worst of all it cannot distinguish between operating expenditures and long term investments.

"This budget, in relation to the great problems of Federal fiscal policy which are basic to our economy . . . is not simply irrelevant; it can be actively misleading."

At the time I was consultant to Luther Hodges in the Department of Commerce and part of a group working to reform the budget and adopt public investment programs along the lines Kennedy described.

Today, I think that task is more urgent than ever.

We have almost 12 million unemployed or underemployed and no one knows exactly how many million who have dropped out of the labor market.

Welfare and crime prevention costs have soared to all time highs.

Our people have become disillusioned with government and with government officials at all levels.

It's time for a change for the better. It's time to stop tinkering with an outmoded motor and put in a brand new engine with sufficient power to get America moving forward.

Yes, it's time that we change our outmoded Federal budgetary principles in Washington and devise a program of public sector investments to maximize the stimulation of the private sector and put America back to work.

It can be done. Let's do it!

Governor SHAPP. I have a few other remarks to make and then I will be glad to answer any questions. First I would like to show you a series of books that I left off at your office some time ago.

Chairman HUMPHREY. Yes; I am familiar with those and have shared those with the committee.

Governor SHAPP. These show the way we are trying to adopt an investment plan region by region and industry by industry in Pennsylvania.

Chairman HUMPHREY. Could you take a moment and read the titles of some of those studies that you made and those plans?

Governor SHAPP. First is comprehensive investment plan for Pennsylvania; next we have Pennsylvania economic program for balanced growth; then we have manufacturing, employment, output, and investment; then we have a general one on Pennsylvania's economy; next we have a study of our Pennsylvania Industrial Development Authority operation; then we have population trends and targets; then we have one on housing programs; then we have one on personal income and investment; then we have one on land requirements; then we have one on energy and transportation; then we have one on health services; also on education; then we have one on training; and then we have one on welfare, personal safety, and correction facilities because we look upon trying to take the people in our correction facilities and train them so they will become useful citizens outside of prison; next we have environmental problems, which goes into how we can protect the environment and still develop growth; then we have a summary of State government expenses, capital outlays, and revenues, which we tried to use to project the income that the State could develop by making the proper capital investments.

There are three other books that I would like to call your attention to also. One is "United States Rail Trust Fund" that I wrote about 1 year ago, Senator, on a program to rebuild the railroads of the United States for a total cost of around \$13 billion. For that cost we could put down new track, electrify the mainlines and so forth. The whole works could be done for that price and we would

have a modern system in this country. With another \$2½ billion it would take care of all rolling stock and modernize it. So for about \$15½ billion in a 6-year period America would not have to be ashamed of its decrepit railroad system. We could have a system that would be more productive and take less time for shipment and therefore help reduce inflationary costs. This would be paid for in a number of ways out of the income taxes of the 350,000 to 400,000 new jobs it would create, or out of a small fee if you want, but it could be all paid off and the Government would benefit from it.

Another book I have here is a solution to our educational problems and it is on how to finance education in the United States and would do so by establishing a national education trust fund. It would have the fund replace real estate taxes in all of our local cities, which would be a big help in preventing the decay and decline of our cities. It would transfer the payments for education to the people who are the recipients of the education by placing a small surcharge on their income tax starting after they leave the educational facilities and enter the job market. The data on this is so sensational I blink every time I look at it. But for each dollar we would invest in developing a real educational system, Senator, over the lifetime of these educated people you would get back about \$17.

The yield on such an investment on people is so great we shouldn't stint at all. By the way one of the statistics in this regard showed that the GI bill of rights at the end of World War II afforded the opportunity for every returning veteran to carry on with his or her education. By 1960 there was \$19 billion invested at that time in the GI bill. By 1969 the Federal Government had gotten back \$68 billion in added personal income tax from the recipients of that education. So over 20 years we have already received over a 3-to-1 return on our investment. I would take that return in business anytime. And these educated people are still out in the field earning money. We are trying to up-date that to 1974.

The last of what I would like to present and leave with the committee also is a book that I wrote with an economist by the name of Ernest Jurkat who is now chief economist for Pennsylvania and it is called "New Growth and New Jobs for Pennsylvania" in which we analyze the trends of industry in Pennsylvania going back to the beginning of the century and then project the types of industry that should be sought and established in Pennsylvania to maximize our growth based upon our resources, our capital structure, and our labor market.

There is an industry map here that you might be interested in. It is in the center of this book. It is called, figure 21 and it is entitled "Economic Entities of the United States." I would like to pass this up to you so you can take a look at it because there is no single State in the United States that is an economic entity of its own. The city of Pittsburgh for example serves as a center of an economic entity that covers eastern Ohio, most of western Virginia, down into Ohio even as far as Tennessee and western Pennsylvania. Atlanta is an economic center of an area that takes in part of Tennessee, Alabama, part of Florida, all of Georgia, and takes in South Carolina and North Carolina.

So that as we talk about economic planning in the United States, we must recognize that there should be a role and must be a role for the States but that no one State is an economic entity in and of itself. Therefore, we must devise a Federal plan to work with those States and the States must know just what should be done to maximize the economic activity in their own respective areas.

Chairman HUMPHREY. Thank you, Governor, for sending to us the documents that you have noted. We were very happy to receive them. Would you please introduce the gentleman that is with you for our record?

Governor SHAPP. With me is Governor Byrne.

Chairman HUMPHREY. Yes, I understand.

Governor SHAPP. And Mr. Ed Simon, who is an economist and is director of our office of State planning and development.

Chairman HUMPHREY. The office of State planning and development?

Governor SHAPP. Yes.

Chairman HUMPHREY. All right, gentlemen, we have some questions. Governor Byrne, I notice that you indicated, and I will just quote from your statement, you said: "I will be the first to admit that the States have been remiss in their planning responsibilities and must become more responsible in articulating their goals upon which Federal programs should be based." I gather by that statement what you are telling us is that for Federal programs to really be usable, to be adaptable to the respective areas of the country, that it is necessary to have the preliminary planning or at least the initial undertaking as to the needs at the State or regional level. Is that correct?

Governor BYRNE. Whether it is preliminary or not, it has to mesh in. And I think New Jersey may be typical in the failure over the years to have long-range planning in several areas such as land use, educational needs, capital needs, et cetera. I think we are paying more attention to that now. Certainly it makes sense in looking to where Federal programs and State programs mesh, Senator, so that we both know where we are going.

Chairman HUMPHREY. Have you ever been consulted by anybody from the Office of Management and Budget of the U.S. Government as to what the needs were of your State?

Governor BYRNE. Not personally.

Chairman HUMPHREY. Do you feel that there is an adequate system of communication between the State of New Jersey, its governmental institutions, its local and State government, and agencies of the Federal Government?

Governor BYRNE. Well there is no one man or no one agency that exists in the Federal Government we can go to and say: "Hey, here is where we are going as a State." We are before UMPTA, for instance, for help in our mass-transit programs in New Jersey—

Chairman HUMPHREY. What is UMPTA?

Governor BYRNE. The mass-transit authority in the Department of Transportation.

Chairman HUMPHREY. Yes, I just wanted to get that into the record.

Governor BYRNE. OK. And then they don't know, when we ask them, where we are going as far as how we want to develop in New Jersey and what our population problems and trends are and what we really want to have for our purposes other than getting people in and out of New York City or Philadelphia on a business day. So they really don't understand the whole overall picture. I use that just as an illustration.

We go to one agency that can only see what its particular problems are and cannot see any overall program either for the State or for the Federal Government. So UMPTA doesn't understand where the Department of Environmental Protection is going either. I don't think UMPTA talks to Russell Train. Maybe nobody does down here.

Chairman HUMPHREY. Well that could be. Governors I would like to ask whether you perceive a lack of coordination of programs and coordination of policies on the Federal level and whether this lack of coordination is causing problems in your States' attempt to manage or affect the economy in your respective areas? Governor Shapp.

Governor SHAPP. The answer to that is yes, quite widespread. I could show numerous cases like the one Governor Byrne was talking about. In mass transit there is no coordination between any planning of transit or anything else. When the grain deal went through for example with the Soviet Union in 1972, Penn Central did not have any cars so our farmers could not get fertilizer and our industry could not get shipments, and there were many incidents of this sort. So one agency of government took a step that had severe economic repercussions in the farm areas and the coal fields of Pennsylvania because we didn't have the cars for shipping the coal either.

We get this all the time in programs for health and welfare and education where there is just absolutely no coordination and yet the programs are interdependent. HUD comes in with one proposal and it doesn't apply to Pennsylvania for instance. I could cite perhaps the greatest problem we had was with flood relief—

Chairman HUMPHREY. With what?

Governor SHAPP. Flood relief with Hurricane Agnes. And there was just nothing going on at the Federal Government. We had to fight for everything to get it through. And somehow there seems to be the feeling that Washington runs one country and we are a completely different country at the State level. I know many mayors feel the same way about the people who live in their cities. At the present time there is an awful feeling down here against the people. Programs are developed, it seems to me, against the people and title 20 application for day care and senior citizens and legal aid proposals, well that is a good example. But you can just go right across the board and look at the way the programs are administered here. And it just seems to me that Washington is apart from but not a part of the United States any more. And trying to deal with this maze down here is very bad.

Chairman HUMPHREY. Governor Byrne, I gathered earlier you indicated that the lack of coordination at the Federal level does precipitate some difficulties for you in your State planning?

Governor BYRNE. Well not only that. I think an ever more dramatic example, Senator, is the fact that the headlines in the paper last week indicated that the FBI had to back down on a program for sharing with the States their criminal information system. I really don't think the FBI backed down on any law enforcement concept. I think what happened is that that had to be stopped because there was not enough planning in it. You were asking a number of States to go into a type of expenditure that they were not at all prepared for. But we in New Jersey were prepared for it because we had been working along those lines. But I didn't hear one Governor who objected, and there were Governors who did object but I didn't hear one Governor who did object to it because of any law enforcement aspect of the problem really. They objected to it because of financial and practical aspects. And as a result of that lack of long-range evaluation of the problem, I think the FBI got some type criticism which it was not entitled to.

Chairman HUMPHREY. Senator Sparkman, I want to yield to you.

Senator SPARKMAN. Well, Mr. Chairman, you know we have a cloture vote right now. I was just about to spring up and go to the floor for that vote. But I want to ask Governor Shapp a question. I'm very much interested in this publication that he furnished us. I look forward to reading it in detail. I'm sure that there will be many things in there that will show up. But on your map here that you gave us, I am intrigued by the different colors. What are they? Take these red sections, for instance, is that planning system or what?

Governor SHAPP. The colors are just randomly separating the regions but where you have a red or a blue or whatever the color may be, that is what we call an economic entity. Take Pittsburgh for example, you will find that what we did was we took the records on wholesale purchases in Pittsburgh and where the customers came from; we took the records on banks and where the banks were and where the people came into an area for banks; and we took the areas where people came into the area for accountants or attorneys; and we have a line for each region. Each region is really where 51 percent went somewhere else and 49 percent went in the other direction. So you will find that the Pittsburgh area reaches down into West Virginia, eastern Ohio, and clear into Tennessee. Here you had a lot of stores coming up to Pittsburgh to buy their wholesale products and you had business firms, unions, and attorneys. So that Pittsburgh really is the economic center. And the State line, Senator, means nothing as far as where the people actually do their shopping and their buying and get their services.

Now we can do everything possible within the Commonwealth of Pennsylvania to stimulate the economy. We got our industrial development programs and we got a lot of things going. But if the economy of eastern Ohio is bad or western Virginia is bad, then the economy of Pittsburgh is going to suffer because a lot of its business activities will suffer. So this map really shows that we have to coordinate programs to all the States to stimulate the economy otherwise any one State can be hit hard. And therefore

what a State can do to develop its economy is somewhat limited to whatever the States around it can do.

By the way we didn't put in Alaska and Hawaii on that map. But again if we have a shipping strike, Alaska depends on California for a lot of its economic activity. If you have a shipping strike or whatever it may be, Alaska gets hurt badly. So each of our States are interdependent with the other States. There are a lot of things we can do but there are many things that only the Federal Government can do in relation to our overall national problems and it must do in coordination with the States.

Senator SPARKMAN. Well thank you very much. I know down in my State we have the department of industrial relations headed by a very competent man. I know he has done a great job in carrying out and making plans and executing the plans. I just want to commend both of you Governors for what I consider tremendous statements that you have given to us this morning. There is another vote over at the Senate and I must go.

Chairman HUMPHREY. You just go ahead and I will come right along. Before I leave and if Congressman Moorhead will permit, let me ask another question. Congressman, you can carry on until Senator Sparkman and I get back. There is a specific piece of legislation that we have before us and that is the Humphrey-Javits bill which provides a process for a long-term economic policy making and coordination of policies and programs. I don't know whether our staff made available to you an analysis of that bill or not but we will want to make sure you do have it.

Let me just say that it establishes a board of three with a director at the top and then a deputy director and of course other professional personnel. This is a mechanism for the development of policy and the coordination of policy. It consists, as I say, of a planning board which will work in conjunction with the cabinet and the cabinet will be converted into an economic council. It will have in the cabinet the Chairman of the Federal Reserve Board; the Director of the Office of Management and the Budget; the Chairman of the Council of Economic Advisers; and there would be I believe one or two other officials. That planning board in conjunction with that cabinet and the other offices I have mentioned would develop an overall draft, a tentative economic plan which would be finalized by the action of the cabinet and then sent onto the Congress, which in turn would bring it before a committee such as the Joint Economic Committee for ventilation, for airing, for discussion, for examination. Simultaneously the President would also send that draft plan to the States to each Governor. The Governor would then be called upon to hold his type of hearings or hold the State's type of review of that draft plan and make its own recommendations and make its own modifications, et cetera, and then send it back to the Joint Economic Committee and into the planning board. I am not sure that our mechanism is all as good as it ought to be under the bill, but I do understand, Governors, that you feel that whatever kind of planning there is to be done at the Federal level, whatever its degree or diminution, that there must be simultaneously, coordination with the local and State governments so that there is a

mechanism that provides an interchange of ideas and an interchange of proposals? Would you like to comment on that, Governor Byrne?

Governor BYRNE. Just briefly. I think the concept is good. I think both Governor Shapp and I in our prepared remarks have avoided any comment on the technical structure of the bill. And in avoiding that, I don't mean to avoid endorsing that concept of the bill that says you ought to have the input from governors. I think the basic concept is good; the coordination and the seeking of input I think is good. But exactly how it is done, I have—

Chairman HUMPHREY. You have equipped your State now as I understand from your testimony so that you do have a State capital planning program and you have a capital budgeting and planning commission, et cetera.

Governor BYRNE. Yes.

Chairman HUMPHREY. So that any referral that came out to your State, Governor, you would be able to at least institutionally and structurally handle it quite well now. Is that correct?

Governor BYRNE. Yes, not as well as we would be able to handle it by the time your bill passes, but we could handle it today.

Chairman HUMPHREY. But you at least have set into motion those kinds of structures?

Governor BYRNE. Yes.

Chairman HUMPHREY. Governor Shapp.

Governor SHAPP. I think the process must start at both ends. I think it must start at the top with some idea of what you are doing but also from the bottom up. The State is really in the middle here. We have, as you see from the books I passed up before, we have 10 regions already set up in Pennsylvania. And each region is doing some of its own economic planning. For example, what is needed in Southwestern Pennsylvania, which is a coal area, is not the same as what is needed in Erie or what is needed in Harrisburg. So each region has its own indigenous needs. In some cases it may be roads but in other cases it may be transportation and in other cases it may be both. But the planning starts at that level. And the States should be in the position of coordinating the planning for its various local regions and then tying that into or having input into the Federal plan in this respect. So that I think that all States have to be a part of the planning process for the Federal plan.

I think mostly what New Jersey and Pennsylvania want would be somewhat the same but I think we would have a great deal of difference as to what Arizona may want. But your Federal plan would have to take care of the Arizona needs and the South Carolina needs and the Pennsylvania needs and the New Jersey needs. So it can't be done as though all States were the same because there are many things in common but there are differences in variations of where the emphasis should be. That should be fed back to the Federal Government.

One other thing that interests me, that is, please Senator, whatever system is finally adopted, please make certain that each Federal agency has a standard requirement for planning and study. We don't want to have to deal with one type of program that HUD wants and something else that EPA wants and so forth. This should

be worked out so the information furnished is useful to all the various agencies of the Federal Government.

Chairman HUMPHREY. And both of you emphasized the importance of data that is accurate and timely so that there is a commonality of information across the board. Is that correct?

Governor SHAPP. That is correct.

Chairman HUMPHREY. Congressman Moorhead, I want to ask you to take over here. I will make my track record over to the floor and come back. And if you are through with the two Governors by the time I get back, why you just introduce the other witnesses and bring them to the stand.

And before I leave I want to thank you both very much just in case I miss you. You have been very helpful and we are indebted to you for taking this time out to come here to the committee. I appreciate it. Congressman Moorhead will question you a little bit on whether or not you think planning is the kind of collectivism that is going to destroy us as we hear from time to time.

Governor SHAPP. It will destroy us if we don't plan.

Representative MOORHEAD [presiding]. I want to welcome the witnesses. Governor Byrne, I want to welcome you and also Governor Shapp. And Ed Simon. ~~Maybe I will~~ get into this point the chairman made, but first let me ask you this. Governor Shapp, you were a very successful businessman in Pennsylvania in your business. Now did you engage in long-rang planning in your business?

Governor SHAPP. We had to because we had to study our markets and what our customers thought would be necessary not just today but what their needs might be a year or two or three or four in advance and start our engineering and design of new products in advance so that we would be ready for the markets when the market was ready for our products. And if a business doesn't do planning, then it gets into deep trouble. We had to plan every step of the way from the design of our product to the field of engineering the product and training personnel. We made an amplifier for example that was going to be used out in the field in my business and if we didn't train the field engineers how to service that amplifier or how they could train the customers to service it, we would run into all sorts of problems that would result in all sorts of high costs and maybe losses. So a company has to indeed plan. Above all it has to plan its finances. They go in and out of banks saying: "I need this or that" and the banks ask for their projections. They have them right at their fingertips and say "my financial needs for 1, 2, 3, and 4 years in advance will be such and such" and this is based upon the way the company is going. And if I didn't have a sales forecast and a projection of our costs and our profitability, I couldn't get my financing.

So in business you just have to plan every step of the way otherwise you wind up at the bottom of the heap and are swept out in many cases by successful competitors.

Representative MOORHEAD. I think any successful business does do planning. If they don't, they are not a very successful business. But yet in our various sectors of our economy we do have, as you say, this phobia against Government planning particularly when

you talk about the Federal Government. Most people think you are using a dirty word.

Now why is this true particularly in the business community that itself engages in planning? Why does it have this attitude toward Government planning?

Governor SHAPP. I think it is a misunderstanding of the relationship between Government and the private enterprise segment of our economy, of our population, of our country. Industry has always expanded and the country kept developing ever-westward and ever-southward and now up into Alaska and there has always been expansion. So industry developed on its own with a very little need for planning during the early years. But now we are pretty well covering the whole territory of the United States and we have tremendous new relationships. In the early days also there was no need for educated or trained people. Most of the labor was uneducated, untrained or trained on the job. Well today industry is much more sophisticated and we do have need for engineers and for computer operators and for many other skilled types of jobs. Industry depends upon a steady flow of these types of skills in order for them to be successful. So this means more planning at the educational levels in our country otherwise industry doesn't get these skilled people and they are in trouble.

In transportation you have the same thing. We grew up helter-skelter building our transportation system. Many industries, in the early part of the century located along the railroads, became obsolete because we didn't maintain the railroads, that is why a lot of industries moved off from along the railroads and located around the interstate highways in recent years. So the transportation needs of the country have really never been met by having a good railroad system and a good highway system simultaneously.

So the need for planning has never really been met in the eyes of the big industries. But we have reached a point in time where if we don't plan, we are just going to have a lot of shockwaves in our system. We don't have the right type of training for people and the right type of transportation and things of that sort if you don't plan. I think we have to do our projections and do our planning ahead. I think we have to keep our heads up above water. I think we can plan more realistically and rationally in the public sector. But as I indicated in my statement, I think to try to plan at the Federal level or even at the State level with the operation of our businesses and industries would be wrong. I think that private industry knows how to do its own planning. Once it knows the ball park it must operate in. And I don't think there is any problem there at all.

I think if we set a goal that we were going to build so many homes this year or so many homes over the next few years or that we were going to rebuild the railroads and modernize them or we were going to do a lot of the other things that are needed with this capital budgeting process, then I think industry is ready and able to take over from there. It will react very quickly to what the market situation is for its products and services and the corporations and services can easily adjust and build to take care of the upcoming

market. So I think we don't have to be planning for them. They will do their own planning and their own expansion.

But I think we do need more planning at the governmental level but not a planning that will control industry.

Representative MOORHEAD. I will direct this first to Governor Byrne and then to you. I have a feeling that a great many people have felt that Government control goes along with Government planning. I would like to ask you, sir, in your State have you been able to separate Government planning and not have Government control?

Governor BYRNE. Yes; except maybe in the field of education and zoning where people still have that kind of fear. But I think as experience grows those fears will dissipate.

Governor SHAPP. By the way, perhaps a little more planning would have avoided some of New York City's problems.

Representative MOORHEAD. Well I know you took over Pennsylvania at a very dire financial time and you brought it to where all Pennsylvanians should be grateful and all America should look to it as a model of fine handling of governmental finances.

Governor BYRNE, I understand that you have to leave so let me follow up on a point you made on the last page of your statement to the effect that the kind of national economic planning provided for in the Humphrey-Javits bill would allow State and local elected representatives to compete with traditional interest groups which now exert great influences on Federal economic policymaking. By the traditional interest groups do you mean the holders of private economic powers such as large corporations and banks? And could you elaborate on that?

Governor BYRNE. I don't mean in saying that, Congressman, to indicate that everyone should not have an input in long-range programming. Long-range programming, however, avoids the crisis concept whereby somebody or some group runs in and indicates that this is a crisis problem. Then because this group is particularly interested, then we got to push everybody else's interests to one side. I do think that with long-range planning and evaluation we would have a better opportunity to evaluate everybody's best interests in arriving at that plan.

Representative MOORHEAD. Governor Byrne, you mentioned one example was the education program in New Jersey. With the benefit of hindsight how would you have started the planning 10 years ago when you apparently in New Jersey made the decision to expand your educational facility?

Governor BYRNE. Well we have a different problem in New Jersey. We have a problem of how much State-wide financing of local education there would be and whether State law financing would involve setting of standards that would result in State dictation of educational policies. And as I said, we have had to do this in a relatively short time. And there are those fears that you mentioned in your question, Congressman, that maybe State planning means a State takeover. And I think we are in the process of convincing people that it does not and will not and should not. How much more time and how better we could have done it. Well, I'm not sure.

Representative MOORHEAD. I think that is the basis for what I call the unreasoning opposition to this legislation. I think you have made a great contribution here today in making statements to allay that fear. Thank you very much, Governor.

Governor BYRNE. Thank you very much. I appreciate it.

Representative MOORHEAD. Governor Shapp, I have a few more questions for the record. Recently President Ford made a proposal to limit spending to \$395 billion. What is your opinion on that proposal?

Governor SHAPP. Well I am all in favor of limiting spending to the lowest level possible but there are two sides to this budgetary equation: it includes income on one side and expenditures on the other. I think President Ford's request for a limitation on spending is dealing with one side of the equation, but I think it is putting the cart before the horse. It shows a rather poor understanding on his part on the principles involved in proper budgeting. I might say about my own business experience, I started the Jerrold Corporation in Philadelphia with \$500 and two employees and by the time I sold out in 1966 we had 2,200 employees and were doing \$50 million business. Every year expenditures of the company went up and went up quite dramatically but we didn't worry about that at all because our sales went up and therefore our income went up. And for 17 of those 18 years we had more income than expenditures.

So the President suggesting to limit expenditures, this just violates the basic cardinal rule of establishing a budget. You start with your income side in business and make the projections and then you figure your costs based upon whatever sales volume you are planning to achieve and make certain that your expenditures to achieve that particular sales volume are under the revenues you are going to bring in. Then as you go along and after you have set that budget, if for example, you figure on producing 2,000 units of a product and got 1,500 people working in your project, and if you get orders for 2,500 or 3,000 new units and you therefore need another 300 or 400 to produce, you don't say: "Why, we can't do this because we set our spending limits." You go ahead and hire the people and buy the raw materials because you are pushing your sales up. And so to artificially establish a limit in advance of expenditures without the income side and how the public funds can be used to stimulate greater income for the Federal Government, well, I think that is the wrong way to go and puts very severe limitations on the Nation and could really result in disastrous conditions in this country.

I would like to see, as I said before, a breakdown of our budget into two components: one being the investment side which would be segregated and identified. I like to see us project the income that would be produced from these investments and use this as a criterion then for setting the expenditure side of the budget. Once we have done this, we can make the investments in developing our people, our resources, our transportation system, rebuilding our cities, putting millions of people back to work, et cetera. And then of course we always recoup this money through taxes of these people being put back to work. We would have greater revenues and new

rental fees. So you would have greater income and furthermore you could cut down on the tremendous cost of welfare and on crime and a lot of other side effects. So business would not pull a figure out of a hat and say this is going to be the spending limit regardless of consequences of the business doing this. And if you put more money from the Federal Government into the public sector into stimulating the economy, of course you shoot your revenues way up.

But as I say, under the President's plan, you just are bound to have what we call a deficit in the cash flow. Under what I propose you could turn that deficit around and have a surplus.

Representative MOORHEAD. I liked your example of American Telephone & Telegraph Co., that if they had not done a lot of borrowing, for example, borrowing for capital, they would still be using the crank phone.

Governor SHAPP. A few weeks ago, Congressman, I had an opportunity to meet with 65 of the top executives at AT&T. I raised the point as to whether they were worried about the \$500 billion national debt and they expressed the fact that they were worried about it and it was a large debt. I then took out the 1974 financial statement of AT&T and showed them that they had almost \$30 billion worth of debt at AT&T. This represents more than 5 percent of the total national debt. But they weren't worried about that, Congressman, for the simple reason that on their balance sheet they showed \$74 billion worth of fixed assets and \$74-\$30 billion ratio is not too bad and they were using the \$74 billion worth of fixed assets, that is the plant, to generate enough income so that each year they were able to amortise the debts, pay the interest on the debt and also earn a profit and pay the stockholders off.

Now one of the problems in the United States is that we never have made a balance sheet. We have trillions and trillions of dollars worth of assets in this country and yet we are worried about our \$550 billion cash debt. Well if we utilize the assets that we have and made a balance sheet and utilized our assets wisely, then we would earn enough money each year to more than amortise and pay off the increments of debts that we have and also pay the interest on it and show a profit to the stockholders of the United States, which are of course taxpayers by really having increments of profit or surpluses in the United States.

And I think if we adopt the AT&T budget rather than AT&T adopting the federal budget, we could make great progress in the United States.

Representative MOORHEAD. If we adopted the capital budget that you are expressing and which I greatly support that idea, would we be able to separate the job producing or income producing expenditures from ordinary operating expenses?

Governor SHAPP. That is the first task, that is, to list various items that are really capital in nature and identify them and separate them from the operating costs from the Government that we have. And the answer is yes. In that booklet "New Growth and New Jobs" we make a stab at it and we have identified 14 different types of items that are really investments in nature, Congressman, and other things are operating costs. For example if you train a

person, education should be considered an investment and our most precious asset. So if you train a person, he or she then has a skill and can get a job and support a family and also pay income taxes. Therefore you are far better off than having that person unskilled, uneducated, and on welfare. The person on welfare becomes a drain on the economic system and we have to support that person. So if we budget properly, if we make investments in people, resources, and in the transportation system of this country, we can stimulate the private sector and create the millions of jobs that America needs to put it back to work and reduce a lot of costs we have now for crime and welfare and other social maladjustments in our society.

Representative MOORHEAD. Do you believe that it is possible to extricate ourselves from the deep recession that we are now in without fueling inflation?

Governor SHARR. Yes, I think the cost of inflation, by the way, can be traced to the improper way we have been managing our financial resources. As I indicated earlier, by underutilizing the productive capability of this Nation by underutilizing it and only having 66 percent of productivity today, we have to charge off 100 percent of our costs but yet we have 66 percent productivity. And if I were working in a factory at only 66 percent production and if I still had 100 percent of my overhead, I would have to take one-third of our overhead that wasn't covered by production and I would have to add that to my cost of goods in order to break even. If you get up to 85, 90, or 100 percent of production, I wouldn't have that cost to add onto my goods and I could sell a lot cheaper. This is one of hidden costs of inflation and the major reason for increased inflation in this country.

Another thing I might talk about is transportation. When it takes 6 days for a boxcar to come from Kansas City to Chicago or Philadelphia because of our decrepit railroad system, you see the wholesaler or manufacturer waiting for those goods has to go to a bank and borrow. He doesn't have the inventory to sell but he still has to borrow money. This raises the cost of the goods. See, you have an inefficient transportation system in this country because of our poor railroads and this is costing us more for our goods, and as a result that has to be cranked into the selling price of the goods and services and into our prices. So all these items that relate to productivity are extremely important in holding down inflation.

Representative MOORHEAD. And in the case of the deficit I have been told that for each percentage point of unemployment, the loss of revenue and added expenditures to the Federal Government amount to about \$16 billion or about \$14 billion in lost revenue and \$2 billion in additional unemployment compensation and welfare costs, et cetera. So if we could get our productivity up and unemployment down, the deficit would disappear.

Governor SHARR. That is correct. But there is even a worse effect than what you have mentioned and that is that our people are losing confidence in their Government. And I'm sure you see it in your district, Congressman, and I know I see it throughout Pennsylvania and other places I travel where the people are losing confidence in the Government and unless the Government does something

to restore that confidence by having logical and realistic programs to develop our economy and give our people the opportunity to work instead of being on welfare, I think you are going to find a real serious erosion of many of the things that we call important in the United States.

Representative MOORHEAD. One final question, Governor. In your prepared statement you said that no outside planning would be needed by General Electric, Alcoa, and so forth. In other words what you are saying, sir, is that Federal Government planning couldn't interfere with General Electric's planning or Alcoa's planning? As a matter of fact, would it not be the case that if we had a publicly set-out Federal economic plan, and if that didn't interfere with General Electric, but if we had that, actually General Electric could do a better planning job?

Governor SHARP. That is absolutely correct because if they know there is going to be a public sector investment program that is going to develop so many units in housing and so much maintenance or modernization of the railroad system, they could calculate over the next 5 to 10 years their share of the market and therefore put \$250,000 or \$500,000 or \$1 million into plant expansion to modernize and take care of the new business they would anticipate. So you wouldn't have to tell Johns Mansfield that we are going to rebuild our cities and clean up the slums et cetera, so he must do such and such. You wouldn't have to tell them to plan for it. They know how to read market projections and they know what share of their market they are likely to get. They would expand and hire the people. So they can do a lot better job than anybody else.

When I was running the Jerrold Corp., I did my planning and projections on what our products would be and how many we would make. And we saw a market in educational television and saw there was some funding for various programs in educational television, and we marched right in there and developed a system and spent our own money to develop a system for educational television. So we got our plans together and our people and our projected sales, and we were ready and got a corner of that market. We had a very nice business there.

But you don't have to tell the private sector what to do when you finally have a governmental plan. They can see that it is going to be a \$3 billion market or a \$6 billion market and they will know what their share of the market is and they will struggle to get more of their share than they presently have. And I think that is fine because that will cause competition and better products to ensue. But you don't have to go in there and say: "Look, you have to hire 15 people." What you got to do in the public sector is work with independent industry to make sure the schools are educating and training people for the jobs of the future and that the transportation system is working, and so forth. But that is what the public sector should be planning for anyway.

Representative MOORHEAD. So Federal planning would not only interfere with private industry but it would also permit private enterprise to do a better job on its own?

Governor SHAPP. It will absolutely do that and take the ups and downs out of business. And I think we would have a much more stable economy, Congressman, in this country and a better economy in the private sector if we were to have that.

Representative MOORHEAD. Well thank you very much, Governor.

Chairman HUMPHREY [presiding]. Thank you very much. I'm sorry I had to miss a little of your testimony but I have had an opportunity of visiting with you on this matter. I'm very grateful to you for being here. Thank you.

Our next three witnesses will be William Fitzgerald, Senate Majority Leader, Michigan State Legislature, Lansing, Mich.; Jerry Christenson, commissioner of finance, St. Paul, Minn.; Mel Mister, director of the Urban Economic Policy and Financial Standards, U.S. Conference of Mayors, Washington, D.C. Come forward, gentlemen. We welcome all of you and thank you very much for taking your time to come here and fill out this record for us that we are developing on the subject of balanced growth and economic planning. I am going to follow the same system I followed previously and call the witnesses alphabetically. We will start with Mr. Christenson first. Mr. Fitzgerald and Mr. Mister will follow.

Mr. Fitzgerald, I understand you have a plane to catch. I don't think there will be a problem though.

Mr. FITZGERALD. There will be no problem with the plane or no problem with the testimony?

Chairman HUMPHREY. Well no problem either way. It will all fit in very nicely.

Mr. Christenson, as I recollect you were chairman of the Minnesota State Planning Agency as well. I have some other recollections of you as well and they are very fine. We are very pleased to have you with us. So why don't you just proceed in your own way and we will go down the line as we have before with statements and then we will have some cross examination.

Mr. Mister, is the gentleman next to you an aide to you?

Mr. FITZGERALD. He is an aide in my office, Senator Humphrey.

Chairman HUMPHREY. In the State legislature?

Mr. FITZGERALD. Yes.

Chairman HUMPHREY. What is your name, sir?

Mr. BOYD. Gregory Boyd.

Chairman HUMPHREY. Thank you.

Thank you very much. Mr. Christenson, you may proceed.

STATEMENT OF GERALD W. CHRISTENSON, COMMISSIONER OF FINANCE, STATE OF MINNESOTA, ST. PAUL, MINN.

Mr. CHRISTENSON. Mr. Chairman, as you indicated, I served as State planning director of Minnesota from 1971 to 1975. Since June I have been serving as the commissioner of finance of the State of Minnesota. I have a prepared statement. I won't read it. But I would just like to summarize that statement.

Chairman HUMPHREY. By the way I would like to have you tell how your planning agency works in the State of Minnesota so that we will have for the record what its structure is, its relationship

to other areas of Government, and so forth. I would like you to indicate also, if you could, as to how the State planning agency could tie into the Federal Establishment and planning.

Your prepared statement, of course, will be placed in the record.

Mr. CHRISTENSON. Minnesota along with many other States, Senator, has vastly strengthened its planning capabilities in recent years. Under the Governor and the legislature, a strong State planning agency was established. As long ago as 1967, the legislature created a metropolitan council for the Twin-Cities area. That council, which is charged with coordinating the planning for a seven-county region is, I think, recognized as a national model throughout the country. In addition, we have established from border to border regional development commissions for the State of Minnesota so that would be 13 if you count the Twin Cities area. As an indication of the kind of support, the last legislature voted \$2 million in State funds as the State's share of support for those regional commissions outside the Twin Cities area.

We established by the legislature in 1973 a "Commission on Minnesota's Future" which incidentally is chaired by the president of the Ninth Federal Reserve Bank. That commission is charged with reporting to the legislature in 1977 with a long-range growth and development strategy working closely with the State planning agency in developing that program.

We had a unique situation last January. The State planning agency, working with the legislature and the commission on the future had a 3-day seminar for legislators devoted to long-range planning. Virtually every legislator was in attendance for the full 3 days and via public radio and public television we were able to expand that program so that people throughout the State could participate.

We have a strong environmental quality council charged with coordinating the environmental affairs of the State. We have taken some pioneering steps in Minnesota to integrate our human services. The legislature created an office of State demographer.

Chairman HUMPHREY. An office of what?

Mr. CHRISTENSON. Demographer, that would be for population matters.

Chairman HUMPHREY. Yes.

Mr. CHRISTENSON. We are strengthening on a continuing basis our Department of Finance and our capability to manage State financial matters and to protect long-range revenue and expenditures. We have integrated in Minnesota to a large degree our State and local finance matters.

I could go on. But the point is that I think that States like Minnesota are making a very substantial effort to improve their planning capability. But I want to stress that the success of our efforts depends largely on what happens at the Federal level.

We are grateful for some of the help we have received to do some comprehensive planning. For example, we have had \$75 million to \$100 million a year provided in HUD's comprehensive 701 planning program. That has been invaluable in improving our capability at the State and local level.

But the fact is that the Federal Government provides three-quarters of \$9 billion in some 112 separate planning programs. Almost all of it is allocated on a functional basis. In other words the Federal Government is doing a good job of requiring planning in health and transportation and agriculture and the like, but the money is going off into functional experts and is not going to the mayors and the Governors who have to integrate the various functional concerns.

We are heavily influenced at the State and local levels by what the Federal Government does. But let me just give you a couple of examples. The Federal budget: Well, over 20 percent of State and local revenues from the Federal Government in the form of grants. A total of \$44 billion in fiscal year 1974. An example of the kind of difficulty we get into involves Federal revenue sharing, Chairman Humphrey. Our legislature adopted a biennial budget this past May. But if the Federal Government fails to extend revenue sharing, we are going to be \$33 million short in funds for our State and local units of government. That will create serious problems for us. And we don't know at this stage whether that is going to be provided or not.

Another example is energy. We, as many States, have established an energy agency to deal with this serious problem. But the President by a stroke of a pen can eliminate virtually all the work we have done.

Another issue that you are familiar with, Senator, is summer jobs. The legislature of Minnesota, at the urging of the Governor, has established a substantial summer job program for young people. We put into that millions of dollars in recent years. The local governments also have a program. But except for a couple of years in the late 1960's, we continue to read in the paper year after year, in late May or early June, that the Federal Government has finally decided on its level of support for summer job programs. Senator, there is no way that we can do a good a job at the State and local level of providing valid job experiences for young people with that lack of leadtime. That is just bad planning for kids, for the State and for the Federal Government.

Chairman HUMPHREY. By the time you get your money, half of the summer is gone.

Mr. CHRISTENSON. And it is a bad experience for everybody. People say it does not work. And young people don't get a good experience and the money is wasted.

Another example relates to our regional development committees, which as I said we have established from border to border. We established these largely at the urging of the Federal Government. They said:

You've got those scores of regional boundaries out there and they are established on a functional basis with one for transportation and another for the Farmers Home Administration and another for health care and so on.

So to avoid overlap and duplication, Chairman Humphrey, they said: "Why don't you create consistent regional boundaries?" We thought that made sense, so we did that. But now what do we find? We find the various Federal agencies concerned about various functional interests, coming to us and saying: "We don't want to

use your regions." The last example occurred just this last summer with the Department of Health, Education, and Welfare on health plans. They said: "We don't accept your regions. We need different kinds of boundaries now." They didn't want to accept the recommendations of the elected officials, of the Governor, and of the mayors, and the county commissioners.

Another example is rural development. The Governor established in 1973 in Minnesota a Rural Development Council made up of local elected officials from the regions and various State officials representing the departments and agencies. This is a very useful device for improving communication throughout the State and promoting rural development. We are having trouble, Senator, getting the Farmers Home Administration to cooperate with us in this effort. If we could, we could expand that State and local partnership to a much more useful Federal, State and local partnership and we could start putting that thing together.

Chairman HUMPHREY. Have you brought that to the attention of our office out there in Minnesota?

Mr. CHRISTENSON. We have, but perhaps not seriously enough.

Chairman HUMPHREY. Well let's get at that. I have been the author of the National Rural Development Act. I find that the Department of Agriculture would like to pretend that it was not there, but we think maybe that we should remind them forcefully sometimes.

Mr. CHRISTENSON. We will do that, Senator.

Another area is housing. Housing is terribly important in Minnesota. Again at the urging of the Federal Government we established a Housing Finance Agency in 1971 and provided it with a bonding capacity of about \$600 million, which was a very substantial State effort. Since then the Federal Government has frankly fouled us up in a number of ways. For example, back in 1973-74 the Treasury Department and the Office of Management and Budget, both threatened the capacity of States like Minnesota to issue tax exempt bonds. They wanted to revise what they called circular A-70. That would have instructed the various Federal departments to withhold guarantees, insurance, or subsidy for activities being financed through the issuance of tax exempt bonds.

We fought them. But we were unable to resolve that issue until the Congress finally passed the Housing and Community Development Act of 1974 and put in the appropriate language prohibiting the Treasury doing it. We had other housing problems with HUD. But, I won't go into that in detail.

I have provided these examples of uncoordinated Federal policies just to demonstrate to you the impact on State and local government. We need at the Federal level strong, coordinated Federal planning. We need consistent policies. It would be our hope in Minnesota that proposed economic planning would be more Federal and less national.

We join with the Advisory Commission on Intergovernmental Relations in calling for an integrated Federal-State-local attack on economic problems.

Let me remind you that the Federal, State, and local governments are the basis for the delivery of most of our services in this country.

If you include the Federal grant money that comes to State and local governments, we spend more at the State and local level than does the Federal Government. And of course if you exclude defense spending and international relations, the gap is even wider.

We want to commend Senator Humphrey and Senator Javits for sponsoring this very important legislation. We think it can help stimulate coordinated planning among various functions in government. We think it can provide mechanisms for resolving conflicting policy issues. We think it can result in a much-improved data base. We think it can better integrate planning between the executive and legislative branches. We think it can provide for active participation of State and local officials in the planning process.

Keeping in mind the need for a strong Federal system, the provisions of S. 1795 can be strengthened in the following ways:

We would urge that you appoint at least one Governor and one local official to the Advisory Committee on Economic Planning.

We would urge that if regional or industry subcommittees are to be established, they be created only after consultation with the Governors.

We would urge that the mandate to the Division of Economic Information be so worded that the data developed assists States in developing their own policies and programs.

Our experience at the State level has demonstrated to us that it is exceedingly difficult to develop a comprehensive plan that will not be outdated by the time it is printed. We would urge, based on our experience, that you concentrate instead on developing a planning process. The difficulty in developing a comprehensive plan is that you get diverse points of view, have ever-changing national and international conditions and you have a great diffusion of power in a democratic society. So rather than trying to get that voluminous document put together and trying to get everybody to agree to it, we would suggest that you concentrate on the development of goals, guidelines, and priorities. We think that the process developed should link the planners and the political decision makers. We found, Mr. Chairman, in Minnesota that that is an essential ingredient in our success. We have had a close working relationship between the Governor's office, the legislative leadership, and the planning agency. You don't want to put the planners over in a corner by themselves. They need the constant attention of the political decisionmakers.

We think the process should guarantee wide participation by State and local officials. We think it should provide a sound data base from which to operate. We think it should, as I mentioned, stress the establishment of goals, guidelines and priorities. We think it should permit the needed mechanisms to be developed which would permit us to manage change. And as I indicated, I think we ought to avoid the production of voluminous comprehensive plans.

In summary, economic planning can be a substantial help to States like Minnesota. Our agricultural production, our energy supplies, our urban renewal programs, our housing construction,

our employment levels, our rural development programs, and our budgets are all linked to Federal economic planning.

States like Minnesota have substantially strengthened their planning capabilities and welcome the opportunity to join the Federal Government in this effort. We encourage your support for the planning partnership of the Federal, State, and local officials envisioned in the Humphrey-Javits bill.

Let me just summarize in a moment. One, States like Minnesota that have strengthened their planning capability welcome the opportunity to join the Federal Government in this kind of effort.

Two, the success of State and local government programs depends largely on Federal action or inaction.

Three, Federal actions today are often uncoordinated and cause us grief in areas like housing, budgets, energy, summer jobs, rural development and health.

Four, there is a need for a strong, coordinated Federal planning effort.

Five, that planning effort should be a partnership with State and local governments and should better integrate the executive and legislative branches at the national level. The concentration should be on the development of a planning process. And, finally, should better link the political decisionmakers and the planners. Thank you very much.

[The prepared statement of Mr. Christenson follows:]

PREPARED STATEMENT OF GERALD W. CHRISTENSON

Thank you for providing me the opportunity to testify on the Balanced Growth and Economic Planning Bill. I served as State Planning Director in Minnesota from 1971 to 1975 and since June 1 have been serving as the State Commissioner of Finance. Because of that background, I would like to focus my remarks on the importance to state and local units of government of sound federal planning.

Minnesota, along with many other states, has attempted in recent years to greatly strengthen its planning system. Under the Governor and the Legislature, we have established a strong State Planning Agency. The Metropolitan Council was created by the Legislature in 1967 to coordinate planning in the seven-county Twin Cities area. It is now widely recognized as a national model. Regional planning commissions are now operating in every area of the state. The 1975 Legislature appropriated over \$2 million to provide support for these commissions over the next two years. The 1978 Legislature created a Commission on Minnesota's Future. The Commission, made up of private citizens, legislators and representatives of Regional Development Commissions, is furnished staff by the State Planning Agency. It is charged with reporting to the 1977 Legislature on recommendations for the long-range growth and development of our state. In January, the Commission joined with the State Planning Agency in providing a three-day seminar on long-range planning issues for the Legislature and, via public radio and television, for the entire state.

The Legislature has established a state Environmental Quality Council to coordinate our various environmental programs. We have taken some pioneering steps in Minnesota to integrate our human services. The Legislature has improved our data base by the creation of the office of State Demographer. Our Department of Finance is increasing its capability to manage state financial matters and to estimate long-range revenue and expenditure trends. We have integrated our state and local finance systems.

I could go on. However, the point is that the State of Minnesota is making a substantial effort to plan and to coordinate. But the success of our efforts depends heavily on action or inaction at the federal level.

Let me say that we are grateful for the limited steps that the federal government has taken to foster comprehensive planning. For example, the

planning assistance funds provided under the HUD 701 Planning Program have been invaluable in stimulating coordinated planning at the state and local levels. But measured against the need, federal efforts at coordinated planning are inadequate.

State and local governments are heavily influenced, if not dominated, by federal actions in a variety of areas. The federal budget is an obvious example. In fiscal year 1974, state and local units received over \$44 billion in federal grants-in-aid. This represented over 20% of total state and local government revenues. The timing and nature of these grants have often created major planning dilemmas for state and local units. To illustrate, the Governor and the Legislature in Minnesota adopted a biennial budget last May which is predicated on the assumption that the federal government will continue the general revenue sharing program. But a failure to extend revenue sharing would mean no federal payments in the last quarter of fiscal year 1977 and would leave state and local governments in Minnesota with a shortage of \$33 million.

Consider the impact of federal actions in the energy field. Minnesota, along with several other states, has created an Energy Agency to plan ahead in this vital area. But most of the work of that agency can be rendered ineffective simply by the stroke of a pen by the President.

Take another example, summer jobs for young people. At the urging of the Governor, the Minnesota Legislature has appropriated millions of dollars in recent years to open up additional opportunities so that young men and women can stay in school or help meet family expenses. Many local governments have also had summer job programs. But to provide meaningful work experience for thousands of youth, it is essential to have adequate lead time and sound planning. We could multiply the effectiveness of our state and local programs if we could integrate them with the summer job program of the federal government. But year-after-year we pick up our newspapers in late May or June to read that the federal government has finally decided on the magnitude of its summer job effort. That kind of planning is bad for kids who want and need a valid job experience.

Another planning problem we have had with the federal government relates to the establishment in Minnesota of Regional Development Commissions. These Commissions are made up largely of local elected officials. They now exist from border-to-border in Minnesota and are charged with the responsibility for coordinating the planning in each region of the state. These Commissions were established in good part because of the federal government. Federal officials were critical of the overlap and duplication that resulted from scores of different sets of regional boundaries to meet a variety of functional needs. They urged us to establish Commissions with consistent regional boundaries that could serve as umbrella planning agencies to integrate the multitude of federal, state and local programs. We thought that made sense and twelve regions were created which, added to the seven-county metropolitan area served by the Metropolitan Council, meant that the entire state was covered. But now we find that several federal agencies want to disregard our regional structure and insist on forming their own regional planning boundaries along narrow functional lines. The latest example of this was the insistence by officials in the Department of Health, Education and Welfare that the recommendations of our Governor and our Regional Commissions should not be followed in establishing health planning boundaries.

We have also experienced difficulty in integrating our rural development planning in Minnesota with the efforts of the Farmers Home Administration. The Governor, in early 1973, established a Rural Development Council made up of representatives from each of the Regional Development Commissions and several key state department heads. This Council has proved to be a valuable communication link in developing a state-local partnership to work on rural development. But the effort has been hampered by the reluctance of the Farmers Home Administration to share their plans so that the effort can be expanded to a much more useful federal-state-local partnership.

The vital area of housing has been a major problem. In 1971, partly because of prodding from the federal government, the Minnesota Legislature created a State Housing Finance Agency. The Legislature provided the Agency with a \$600 million bonding capacity. The Agency established excellent working relationships with Regional Development Commissions, local units of government and the housing industry. But we ran into a problem with the

federal government. The Office of Management and Budget and the Treasury Department threatened the capacity of states to issue tax exempt bonds for housing purposes. This was done through the proposed declaration of administration policy (by revisions to OMB Circular A-70) which would have instructed the federal departments to withhold guarantees, insurance or subsidy for activities being financed through the issuance of tax exempt bonds. Attempts to resolve the issue between the states and Treasury and OMB were unsuccessful. The matter was not finally resolved until the adoption of the Housing and Community Development Act of 1974 which contained language providing that such a policy could not be implemented without prior Congressional approval.

We have also had a problem with the Department of Housing and Urban Development. HUD has failed to implement important provisions of the Housing Act of 1974. These provisions were designed to broaden the access of housing finance agencies to the capital markets by enhancing the security being offered and by allowing for the option of selling taxable bonds with the direct federal subsidies of the resulting interest rates. To this date, HUD has not moved to implement the capacity to provide co-insurance of mortgages made by state housing agencies for new apartment developments. It has also not provided Congress with the analysis of the federal guarantee of housing agency bonds which was promised to the Appropriations Committee in 1974 and which resulted in the Appropriation Committee not providing funds for the implementation of that program.

Failure to move on these matters is resulting in many housing finance agencies facing the need to suspend the processing of additional apartment development mortgage loan applications. Withdrawal of the states from financing apartment developments will result in a further depression of the housing industry. The inability to utilize the housing subsidy assistance programs oriented to state housing agencies and the possible default of many housing agencies on bond anticipation notes outstanding for previously financed developments represent serious problems to states.

I have provided these examples of problems that are created by an uncoordinated system of federal planning to demonstrate the impact on state and local units of government. We simply can't do our jobs effectively if various units of the federal government are heading in different directions.

Strong, coordinated federal planning is needed. We would hope that such planning would be "more federal less national." State and local government, acting through their elected officials, should have the opportunity to help shape proposed goals, policies and plans. The Advisory Commission on Intergovernmental Relations (ACIR), in its 1976 report, *The Tension of Interdependence*, cites the need for "an integrated federal-state-local attack on economic problems." We share that view for numerous reasons. A basic factor is that state and local governments provide the delivery system for most government services. Statistics furnished by the U.S. Department of Commerce show that total state and local government spending (when federal grants to those units are included) exceeds that of the federal government. The difference is even more pronounced if national defense and international relations expenditures are excluded. Any policy which uses the level or mix of federal grants-in-aid to influence economic activity will have obvious effects on state and local government. The failure to reduce unemployment or to achieve price stability will result in the concomitant need to expand state and local programs, thus creating additional burdens for state and local officials.

Senator Humphrey and Senator Javits are to be commended for sponsoring the Balanced Growth and Economic Planning Bill. With some modifications, we think the proposed legislation can help to stimulate coordinated planning among the various functions in government; can provide mechanisms for resolving conflicting policy issues; can result in a much improved data base; can better integrate planning between the executive and legislative branches of the federal government; and can provide for the active participation of state and local, as well as federal officials, in the planning process.

Keeping in mind the need for a strong federal system, the provisions of S. 1795 can be strengthened in the following ways:

At least one Governor and one local official should be appointed to the Advisory Committee on Economic Planning.

If regional or industry subcommittees are to be established, they should be created only after consultation with Governors.

The mandate to the Division of Economic Information relative to providing data to states and local governments, should be so worded as to insure that the data developed not only facilitates a federal planning process, but assists states in developing their own policies and programs. (Only to the extent that the states develop effective and consistent policies and programs, will a federal economic planning process be successful.)

Our experience at the state level in attempting to develop comprehensive plans has demonstrated to us that this is an exceedingly difficult undertaking. Diverse points of view, ever-changing international and national conditions and the diffusion of power in a democratic society all make it virtually impossible to obtain agreement on a comprehensive plan that will not be outdated by the time it is printed. We recommend that you concentrate on developing a planning process. That process should insure wide participation, should provide the participants with a sound data base from which to operate, should stress the establishment of goals, guidelines and priorities as opposed to the preparation of voluminous comprehensive plans, and should provide needed mechanisms so that we can successfully manage change.

Improved economic planning at the federal level can provide significant help to Minnesota and other states in a number of vital areas. Our agricultural production, our energy supplies, our urban renewal programs, our employment levels, our housing construction, our rural development programs and our budgets are all linked to federal economic policies. States that, like Minnesota, have substantially strengthened their planning capabilities would welcome the opportunity to participate in joint economic planning. We encourage your support for the planning partnership of federal, state and local officials that is envisaged in the Humphrey-Javits Balanced Growth and Economic Development Act.

Chairman HUMPHREY. Thank you, Mr. Christenson.

Listen I must go to vote and Mr. Fitzgerald has to testify. When does your plane get in? Is it one?

Mr. FITZGERALD. No, I have a 12:15 plane and we have a \$300 million deficit. I apologize but I will just have to leave; but for 2 minutes I could give you some of my feelings. I have submitted my testimony in full.

Chairman HUMPHREY. Well I have to apologize to you. I was told you had a 1:00 o'clock plane. I am terribly sorry. I really apologize to you I must go down and vote. You just speak to the staff director here, if you will, and your statement will be entered in its full text into the record. And if you don't mind, why we will even give you some commentary room in your text and ask you to reply to us later on. Thank you very much.

Mr. STARK. Will you continue then?

Chairman HUMPHREY. Do you have a car outside? Are you all set?

Mr. FITZGERALD. Yes.

Mr. STARK. Just speak for as long as you can.

STATEMENT OF HON. WILLIAM B. FITZGERALD, SENATE MAJORITY LEADER, MICHIGAN STATE LEGISLATURE, LANSING, MICH., ACCOMPANIED BY GREGORY BOYD, AIDE

Mr. FITZGERALD. I will summarize the summary.

I have already submitted a prepared statement to the chairman and the members. Without going into all the amenities of how pleased I am to be here, let me tell you I support S. 1795 and

endorse the concept of economic planning. However, I think it must be tempered with the fact that the key is foreseeability—what can governmental influence do to improve the private sector or the free enterprise system's ability to foresee problems and pitfalls so that they can stabilize the economy?

I come from the State of Michigan where we are in the middle of a severe budget problem. We are in the middle of the highest unemployment levels in the United States.

Yesterday the chairman of the board of General Motors Corp. testified before you. We in Michigan, in an attempt to address economic planning issues, appointed the Michigan Economic Action Council by legislative resolution. On that panel, which can clearly be considered a blended panel, we have leaders from business, labor, the academic community, government, and the media. Mr. Murphy, himself, and Henry Ford are members of that board as are other very distinguished people. They have made some very significant recommendations for legislative action, both in Lansing and here in Washington. But as I see the whole issue of economic planning developing on the State level—and I think it might be somewhat the same on the Federal level—the key is: "What power do you give this animal? Do you give this animal wide regulatory power or do you make it simply advisory? Well, I'm simply against making it advisory. I think if you are giving giant regulatory power you create another mess that does affect the free enterprise system.

Our Economic Action Council of Michigan has some power over and above being advisory by the very nature of the people that serve on it. They bring with them some political presence and clout. And in a State like Michigan where you have Leonard Woodcock and Henry Ford and Tom Murphy all agreeing on two or three significant points, there is a good chance that you are going to get some legislative action because of the other pressures they bring to the system. I endorse economic planning. I think that working together you can have Government influence and Government monitoring to assist the free enterprise system to foresee pitfalls so that they can plan to take some of the peaks and valleys out of our economy.

I want to make one point before I leave, and that is that States like Michigan that are classified as industrial States have a very definite problem in Federal assistance moneys. The whole question of counter-cyclical formula and funding is now before the Congress. The Muskie bill that addresses counter-cyclical revenue sharing will do a disservice to the State of Michigan with the Talmadge-Nunn amendment.

I have suggested, in meeting with the Michigan delegation, an approach to bring the counter-cyclical funding formula in line with medicaid and AFDC payments. So with the national unemployment average as a base, for example, if it is 6 or 7 or 8 percent, then that is the base for the formula. To the degree that each individual State is over and above the national unemployment rate, over and above that national level, then it would qualify for an additional percentage point in its Federal assistance.

For instance, Michigan is a 50-50 matching State. We have 14 to 15 percent unemployed. The national average is 8.5 percent. So if we were 50-50 we could then, for each percentage point above 8, be at 49, at 48, at 47 or whatever. So we wouldn't have to match those Federal dollars. So what it would boil down to is that we would be receiving increased Federal assistance at a time when the Michigan taxpayer and the Michigan unemployed person needs it the most. And then when our economy began to improve, we wouldn't need as much Federal assistance and we could revert to the basic formula.

Those are some of the things that I don't think would disturb the existing way that Federal funds are being doled out to the State now. Senator Sparkman, I know some of the Southern States, as we see it, could take advantage of that situation. My proposal for counter-cyclical funding in the ADC payment area and in the medicaid payment area which are tied to unemployment figures would benefit all States that suffer from high unemployment in very difficult times, which would include not only the Northern, highly-industrialized States, but those Southern States that suffer from great unemployment in their own right. I think this would be a benefit to everybody and everyone would recognize that there are unequal benefit levels and that States that are the hardest hit during high unemployment times are forced to raise their own taxes, and tax their people further while they are sending this giant pot of money to Washington. We feel that some adjustment in the formula can be made to show some fairness to States with jeopardizing the central, or basic, formula to which the giant bulk of the money is applied. Everybody could take advantage of this adjustment.

I don't want to take up too much of the time. The other thing with which I would like to close is that although economic planning raises a giant confrontation between governmental influence and free enterprise, I think there is room for it. I think the whole key as to what the Congress is going to do is how much regulatory power they give the planning board and whether it works as a benefit to the free enterprise system or whether it works as a restraint to it. And I would like to see the emphasis somewhere inbetween a giant regulatory power and simply a mere advisory board that just submits volumes to gather dust. I think the answer lies somewhere inbetween. But free enterprise and governmental influence to the extent it helps to see economic pitfalls and monitor resources, I think, is in the public interest. I think that counter-cyclical programs, such as I suggested in its basic form to the committee, keyed into unemployed figures would be a definite benefit to the people in the State of Michigan that I represent. And I thank you for allowing me the courtesy of giving you a rapid fire summary. The summary obviously was not prepared. It pretty much reflected the way I felt. You have my prepared statement. I thank you for the courtesy of hearing me. We have a \$3 million deficit in my State, Senator, which is the worst fiscal crisis that we have ever had. And if I don't make the plane at 12:15, I am going to be part of the problem rather than part of the solution.

Senator SPARKMAN. You had better get going. I would welcome the opportunity to address some questions to you. I want to say I have read your statement. It seems to me to be quite helpful. It will be printed in the record.

[The prepared statement of Mr. Fitzgerald follows:]

PREPARED STATEMENT OF HON. WILLIAM B. FITZGERALD

Chairman Humphrey, Vice-chairman Patman, committee members, Mr. Kaufman and staff. I appreciate the opportunity to address this distinguished committee on behalf of the Michigan Legislature. My concern over the circumstances by which this committee is meeting is shared by Representative Crim, Speaker of the Michigan House of Representatives, and Governor William G. Milliken.

The debate over economic planning rests with its ambiguities, its uncertainties, its meaning. The Balanced Growth and Economic Planning Act, introduced by Senators Humphrey and Javits, seems to have generated a classic confrontation between private enterprise and governmental influence. But contrary to these contentions, I believe the concept of economic planning has much more in common than in opposition to the theory of the free enterprise system. The growth of the automobile industry itself, typical of many large industries, is based on its ability to feel the marketing pulse of the buying public months and even years in advance. Because of the extremely close interrelationships of key factors influencing the entire economy, the logical extension of corporate planning is "governmental economic planning." Economic planning, when properly followed through on a long-term basis, protects the concept of a highly competitive capitalistic system.

There is strong evidence for the need for economic planning as encompassed by Senate Bill 1705. Highway and rail networks, air and water shipping facilities, the location of service businesses, and even the formation of entire cities, were determined, for better or worse, by the profit and loss sheet—the hallmark of free enterprise. Not just residences, but social and cultural patterns of millions of American citizens, were influenced by product manufacturing and marketing considerations. At the same time, the entire spectrum of non-manufacturing industries responded to population needs.

It is now time for government to begin to retool its economic thinking and begin 1976 with an economic model year changeover. The public sector should now follow the lead of business and make the necessary adjustments to the economy based on short and long-term forecasting and planning.

If we are to accomplish this, then we must begin to forecast our needs, inventory our resources, and then be prepared to invest in our labor force and the long-range programs to meet our predetermined goals.

Remarkably, the Resources for Freedom Commission, appointed in 1951 by President Truman, was almost psychic in assessing the economic makeup of the U.S. 24 years hence. The Commission predicted heavy demand in many of the very same areas in which we now face shortages and high prices. Unfortunately at that time, no planning board existed to see that this information was disseminated, debated, and presented to Congress in the form of policy proposals.

Had long-term planning been the policy of the day even several years ago, pressures on the auto industry to design a heavier car may not have been inadvertently timed so closely with the Arab oil embargo. Many might have thought twice and taken a long look at cost-benefit analysis and economic planning before enacting structures on the auto industry that contributed to increasing inflation, high unemployment, especially in Michigan, and burdensome gasoline bills.

So I can assure you that Federal economic planning for the long run would be embraced in Michigan as a concept that is truly visionary.

An example of one of the toughest problems Michigan and other industrial states face today centers on the industrial piracy among rival states during the past decade. It is generally known that Michigan has been suffering for some years now because of its sympathetic unemployment compensation laws. Our Legislature recognizes the incredible economic burden faced by the unemployed, and articulates this sympathy by virtue of the democratic process. But

America's labor force has now become the pawn in this vicious inter-state industrial rivalry. Businesses and labor-intensive industries that provide jobs are lured by competing states offering temporary tax incentives, miserly compensation for the unemployed, and callous worker compensation laws that are restrictive to the disabled. To address this economic fact of life, a concurrent resolution was passed in both Houses of the Michigan Legislature asking you, the Congress, to Federalize laws standardizing unemployment and worker's compensation on a nationwide basis. A proposal like this would obviously come within the scope of long-term national planning.

A brief overview of the Michigan economy would underscore the fact that this state can serve as an ideal prototype for promotion of the economic planning concept.

Michigan is one of the most heavily industrialized states in the country, yet agriculture and tourism also represent significantly large portions of the state economy, an economy that generates a five billion dollar annual state budget.

Heavy emphasis on capital intensive manufacturing, especially in the auto and related industries, have been the backbone of sustained prosperity in the state.

While Michigan accounts for 4.3 percent of the total U.S. labor force, it also accounts for 5.8 percent of the total manufacturing jobs in the U.S., and 6.8 percent of the total value-added in the nation by manufacture.

It is important to note that despite its heavy emphasis on auto manufacturing, Michigan bears a closer relationship to the national economy than almost any other state. This state ranks first of fifty states in manufacturing exports. In 1972, Michigan exported \$3.2 billion in manufactured goods, which represented 9 percent of the U.S. total. Over 140,000 jobs in the state are directly dependent on foreign exports of Michigan goods.

As irrelevant as these statistics may seem, I am laying the groundwork for our need for economic planning on a national scale. Michigan's dependence on the sale of durable goods is devastating during times of national inflation and low productivity. In the first three months of 1975, we have averaged almost 15 percent unemployment, compared to a U.S. rate of 8.4 percent. Even on the long term, over the last two decades, the Michigan rate has been 6.6 percent while the U.S. averaged just 5 percent.

Our burden today is four times as heavy as the national charge. We have almost twice the national unemployment rate, and it takes almost twice the amount of capital investment in Michigan to create one job. This figure today stands at \$73,000 per production worker.

These facts and others underscore a need for passage of the Economic Planning Act to answer both short-term and long-term needs of the State of Michigan. In an effort to help meet those needs, Speaker Crim and I have called for a Michigan Economic Action Council composed of a wide range of top leaders in virtually every major industry within the State of Michigan. A resolution that was recently passed by the Legislature provides for this Council and charges it with making policy recommendations and initiatives to the Legislature and the Governor to correct the inherent flaws in the basic structure of our economy.

That is what Michigan's Economic Action Council is all about. Not mandatory production levels or any form of a regimented economy, but expert advice as to what our needs and resources are, what the trends seem to be, and what our goals in Michigan ought to be. Since we have arrived at a short-term consensus in a Committee of business, labor, agriculture and other representatives from a dozen fields, it means that we have also arrived at an operable consensus for the State.

One of the specific recommendations addresses itself to a crippling problem faced by many highly industrialized states with high unemployment. The extent to which the Federal government shares with high unemployment states in the cost of welfare and medical believes the heavier burden faced by these states. The formula used for this share is seriously anachronistic and misdirected. Consequently, Michigan and many other states with the nation's highest unemployment pay the greatest share of welfare costs. And these two factors are directly and positively related. Because of an M.E.A.C. recommendation to work for a change in the formula, we are now in the process of

developing a coalition of grass-roots support with at least seven donor states, New York included.

Had there existed a national economic planning act as considered by this committee, none of this may have been necessary.

Also, the Division of Economic Information would fill a vital need because of the tremendous impact of Federal spending programs on states like Michigan. This impact requires that any state developing a realistic planning program for its economy must have the benefit of advance notice as to the intentions of the Federal Government. We need to be able to rely on some basic plan of action.

Leonard Woodcock, an M.E.A.C. Council member, has suggested that national economic planning would provide Michigan and other states with information with which to help coordinate the national direction and anticipate that emphasis with legislation and actions of its own.

The chairman of the Council, Michael Blumenthal, President of Bendix Corporation, endorses the concept of planning, as does Henry Ford, also one of the Michigan Economic Action Council members.

We need new capital investment and the projections that this bill would provide to help focus investment in the areas required by the greater good. The importance of research and development in maintaining the vitality of an economy implies a need for enlightened suggestions on where that R and D can best be invested for maximum benefit to society.

In addition to the establishment of the Council, the Michigan Legislature is working on what I consider to be a landmark proposal that would establish a State Job Development Authority designed to participate with lending institutions in loaning money to industry for the creation of new jobs and the diversification of the Michigan economy.

To quote Senator Humphrey. "The Balanced Growth and Economic Planning legislation . . . is a major step in providing the modern tools we need to improve the performance of the economy. A major piece of complimentary legislation is the Equal Opportunity and Full Employment Act of 1975, which would focus federal planning and policy on providing full employment."

These two policy proposals are identical in purpose to the Michigan Economic Council and the Michigan Job Development Authority Bill.

Another area where Federal planning in economic development would have an immense appeal:

That area lies in developing coordinated policy at agency and departmental level.

The Federal liaison in Economic Development to the State of Michigan tells us that there is very little rhyme or reason to the overall Federal Assistance Program.

Funds available to states and other qualified sponsors for Federal Assistance Programs can, and do, even work at cross purposes. There is simply no overall system of priorities.

The most glaring example of this at the Federal level is the rigorous enforcement of the EPA pollution standards on the one hand, and the country's all-out effort to increase automobile mileage and conserve energy.

Without addressing the pros or cons of either program, the fact is that the lack of coordination and planning in this area makes the effort ill-conceived, wasteful, and doomed to failure from the start.

I might add parenthetically that it is here, in federal regulation, that the most benefit can come to those in business and to those who have been so vocal in their condemnation of the planning concept.

For it is not so much the regulation of business per se that is so objectionable to small or large businessmen, as it is the "over regulation," the endless forms from multiple agencies requiring compliance with the hundreds of regulations of each of those agencies and their duplication of those efforts. Because of the bureaucracy, the Federal Government becomes, in reality, 50 governments; the Government of the State of Michigan, really 20.

The problem with Government then becomes not that there is too much of it, as it is that there are too many of them, and each seems to operate with autonomy of an entity of its own.

I would submit that with any planning at all, business would find it not more difficult, but rather easier to function, to analyze its potential markets to estimate its capital availability, and to secure its own future.

Hopefully, the examples I've provided relating the problems we in Michigan face and our responses to those examples will help to encourage you to pursue economic planning on a nationwide scale.

Thank you.

Senator SPARKMAN. Melvin A. Mister is next.

STATEMENT OF MELVIN A. MISTER, DIRECTOR, URBAN ECONOMIC POLICY AND FINANCIAL STANDARDS, U.S. CONFERENCE OF MAYORS, WASHINGTON, D.C.

Mr. MISTER. Thank you very much, Senator.

Senator SPARKMAN. You are Mr. Mister?

Mr. MISTER. Yes.

Senator SPARKMAN. You can always be given a double title.

Mr. MISTER. Yes, sir. That is correct.

You can just call me Mister.

Mr. Chairman and members of the committee, I am Melvin A. Mister of the U.S. Conference of Mayors staff.

Yesterday, Mayor Alioto of San Francisco testified to the Conference of Mayors in support of the Balanced Growth and Economic Planning Act of 1975, S. 1795. I would like to make some suggestions for your consideration which I believe will strengthen the proposed legislation. These suggestions are based on my 6 years as director of the urban renewal program in the District of Columbia. The D.C. Redevelopment Land Agency—RLA—was the urban renewal agency for the Nation's Capital. It was a Federal agency financed entirely by Federal grants to carry out locally approved plans. A major responsibility of RLA was to carry out plans for the rebuilding of the areas damaged by the riots in 1968. As director, I was often caught between a rock and a hard place as the inadvertent national urban policy frustrated the implementation of locally approved plans.

I strongly support the need for an open long-term national economic goals setting process. It is apparent that we need a coherent, consistent, consciously arrived at set of balanced national economic policies and goals. The riot corridor rebuilding program in the District of Columbia was consistently frustrated by the absence of the Balanced Economic Growth Plan provided for in the proposed legislation.

In 1969, a few days after taking office, President Nixon established a goal of rebuilding those parts of Washington, D.C., damaged by the riots following Martin Luther King's assassination. He visited the riot corridors. He stated that it is not enough to simply patch up what now exists. He wanted the areas to be truly rebuilt. Before the end of 1969, the first new housing was under construction in the riot corridors. However, it was years before the next building was constructed. No new housing construction has occurred in some areas affected by the 1968 riots. Though more has been accomplished in Washington, D.C., than anywhere else, no one is satisfied with the pace of progress.

The goal of rebuilding the riot damaged neighborhoods was clearly established. Millions of dollars were made available to RLA through

the urban renewal process which was used to purchase land, demolish buildings, identify developers. With local tax dollars, the city government constructed new schools, fire stations, and parks all in accordance with plans which had been approved by the local and Federal Government.

It should have been possible by this time, to achieve redevelopment and rehabilitation valued at nearly \$1½ billion in these neighborhoods. The total to date is only \$135 million and of this amount \$100 million represents public improvements paid for with local tax dollars.

The housing and commercial facilities planned for the riot corridor areas depend on private investment. In view of the special risks involved, the government, both Federal and local, through subsidies, insurance programs, and public investment attempted to reduce risks and make it possible for redevelopment to take place with private dollars. Conflicting Federal policies and goals and lack of timely funding of subsidy programs have made it impossible to obtain the flow of private investment funds to achieve goals which had the active support of the President of the United States.

In 1972, a formal agreement was signed by the Mayor of Washington, the Secretary of HUD, and the president of the Federal City Council, a leading Washington businessmen's group, and the National Corporation for Housing Partnership. The objective was to produce 1,000 units of housing a year for 4 years in the riot corridors. Nothing was accomplished the first year. A new agreement was signed. To this date, the only result has been the start of rehabilitation of about 200 units of housing.

My principal concern about the proposed legislation is whether it will make a difference to people living in areas such as those visited by President Nixon 6 years ago. Rebuilding of those neighborhoods has been stymied by an ever changing kaleidoscopic set of conflicting Federal economic policies. There have been housing moratoriums, impoundments, changes in official borrowing rates, energy shortages, changes in Federal regulations which have frustrated efforts to accomplish clearly enunciated goals of rebuilding portions of the Nation's capital. Specific housing or commercial development projects have been delayed or have not been started because of shifts and conflicts in Federal economic policies. It was impossible to achieve a set of consistent policies and predictable flow of the subsidies needed through the various programs. Projects had to constantly be recycled while costs were rising, and the conditions upon which basic planning work was completed were changing.

A health center in the 14th Street corridor was delayed for years because of the conflicting policies of several Government agencies. We referred to the issue as the "alphabet soup problem." FDA, OEO, HUD, FHA, RLA, with their various policies could not in a timely way recognize that their common objective was to produce a health center on 14th Street and shift policies and procedures and arrange funding to accomplish that goal. The health center has now been built and will open soon. It represents the first and only new construction in one of the riot corridor neighborhoods. It is impossible to explain to the public, especially the citizens who worked on this

project for years, why these Federal agencies could not get together quickly.

Mayors are on the firing line and must be results-oriented. From their standpoint, national economic goals are important only as a means to an end. The proposed legislation will only be helpful if it leads to coherent policies which make a difference in the lives of citizens which they can see, touch and feel. A balanced economic growth plan with clear objectives is a necessary but not a sufficient condition.

With respect to the proposed legislation, I suggest that you consider establishing performance goals with reasonable specificity for regions, States and local government. Many Federal programs require this now.

For example, the Housing and Community Development Act of 1974 has resulted in hundreds of cities approving long- and short-term community development objectives which are consistent with areawide development planning and national urban growth objectives. A companion housing assistance plan sets annual goals for subsidized housing. Locally adopted goals such as these should be the basis for establishing national goals for housing and community development. These national goals should have a reasonable degree of specificity so that local elected officials can determine the impact of the balanced economic growth plan on their jurisdictions. Mayors and other local officials need the information about Federal policies and dollars of all types affecting their cities. This information is essential for their effective participation in national economic growth discussions and in order for them to have a realistic basis for incorporating Federal Government policies and actions into local government goals and budget processes.

I also suggest that the committee consider a much stronger integration of the new congressional budget process with the proposed balanced economic growth plan process. Experience with the riot corridor rebuilding program amply demonstrates the need to insure that the money with the proper policies is there when needed. The joint resolutions which are approved for the economic growth plan and the budget by the Congress should be completely consistent with one another. For example, section 301 of the Congressional Budget and Impoundment Control Act of 1974 requires that the report accompanying the budget resolution include the economic assumptions and objectives which underlie each of the matters covered by the resolution and alternatives which were considered. Assumptions for the plan and the budget should be consistent. In meeting its responsibilities under this same section of the Budget Act, the Joint Economic Committee should broaden its recommendations to the Budget Committee to include submission of the plan resolution. The JEC should also play a role in relating the 5-year budget projections called for in section 301 to goals and policies in the plan.

The Budget Act and the proposed Economic Planning Act give specific attention to the problems of state and local government. The Budget Act requirements for reporting on proposed changes in levels of funding and making information about Federal fiscal impact on local government available will be of value to cities. The

requirements in the proposed balanced growth and economic plan for State and local participation in planning will also be of great value to cities. It is my hope that through these processes, major advances can be made in improving intergovernmental fiscal relations. It makes no sense for the Federal Government to be reducing taxes and extending unemployment benefits to solve a national economic problem of high unemployment, while local governments are increasing taxes and laying off people to solve a local government financial problem.

My final suggestion is that the committee give careful consideration to simplifying the administrative arrangement for carrying out this important and urgent program. It is light years from the White House to 14th Street and Park Road. Translating goals and policy and funds through a complex bureaucratic system down to the point of delivery is difficult. I suggest that the legislation give priority to setting forth what is to be accomplished with clarity not to creating new structures and organizational arrangements. Clearly action is required, but it is not clear that five new organizations must be legislatively mandated. Special committees, task forces, and high level staff in the White House, OMB and HUD were created to assist in the effort to accelerate the Riot Corridor Rebuilding Program. It was not, however, an organizational problem. Consideration should be given to limiting the attention given by the legislation to organization. What is important is the creation of new functions and a new process. As far as State and local government participation is concerned, the 701 planning program as a funding source is not appropriate in my judgment. These funds have been oversubscribed and are now being used for other purposes. The importance and priority of this new effort is sufficient to justify a special program for this purpose.

The Conference of Mayors is committed to improving economic and financial policies and practices at both the national and local level. The proposed legislation is a step in the right direction. It is my hope that this committee will do everything within its power to act in accordance with the principles contained in this proposed legislation, now.

An indication of the commitment of the conference is the recent creation of an Urban Economic Policy and Financial Standards Group, along with the National League of Cities. I joined the U.S. Conference of Mayors staff 3 weeks ago, and my major responsibility is to direct this joint project. A major objective of the new unit will be to strengthen local government's economic and financial analysis capability. A panel of economic and financial experts will be named as advisers. They will create a long-range program of economic analysis, technical advice and information programs for cities.

The new project will focus on four basic urban economic issues. It will be organized around, 1, the local impact of Federal Government actions; 2, local urban economic analysis and data gathering requirements; 3, the impact of the national economy on cities; and 4, financial management standards for use by cities. By concentrating

on these issues, this new project will strengthen the capacity of cities to shape public and private sector policies affecting cities.

Thank you very much, Mr. Chairman.

Senator SPARKMAN. Thank you very much.

Chairman HUMPHREY. Thank you, Mr. Mister. I appreciate your being here on behalf of the U.S. Conference of Mayors. I want to commend the conference and you for your unit on Urban Economic Policy and Financial Standards. There is not any doubt but what the Federal Government has a tremendous impact on what happens in the cities or what does not happen. Of course you gave us some examples here of what can go wrong. I was in New York on Monday of this week. We had a hearing out there. We found out the city of New York is going to be laying off 35,000 people and I found out last night in the next 18 months it will be over 70,000 that will be laid off. In the meantime those people are out of a job and will undoubtedly will have to apply for unemployment compensation. They will most likely have to apply for food stamp assistance and their incomes will be cut down. Now, comes along the Federal Government and establishes what we call the Comprehensive Education Training Act. They are training 16,000 people under that program. It is a costly training program and they are being trained to fill some of the jobs that were just vacated under the terms of the economy measures that the city of New York is being compelled to undertake. Sometimes I wonder who is talking to whom. It is double entry so to speak, you know, like a daily double at the horse races only they are both losers.

But on the one hand you are laying off people in order to balance the city budget and in the process you are increasing the Federal deficit because of the loss of revenue of the depleted incomes of those individuals that have been displaced and increasing the cost of Government expenditures in unemployment compensation, food stamps, possibly some welfare. So you are literally tearing these families apart and then the Federal Government comes along and says: "well now we will pick up 16,000 people along the line and we will train them under the Comprehensive Education Training Act". That act in itself is another expenditure on the part of the Federal Government. Hopefully those 16,000 will go back and replace some of the jobs that were just vacated. This is what you call nonplanning. It is the sort of thing that we are hearing too much about to allow it to continue any longer.

Mr. Christenson, I think your specific examples of problems with the Federal Government with regard to state programs again indicate a lack of real coordination. There were several other examples I'm sure you could have given. But I recall very vividly the argument between the Department of Health, Education and Welfare and the State of Minnesota about your health care regions or whatever you call them.

Mr. CHRISTENSON. Yes, sir.

Chairman HUMPHREY. And I recall the insistence on the part of the Federal Government that they knew best how each region ought to be designated. I often wonder who these people are and when did they get so acquainted with our State. I have had a few runins with

some of these people myself. I remember one time we had an HEW inspector out looking at a nursing home where my mother was staying—and perhaps I told this before—but I was so furious with him I would like to tell it again. And he had rules and regulations concerning that nursing home that might apply very well in Philadelphia some place or possibly New York or Cleveland or Minneapolis, but he said they had to have two doctors on location at all times. He said those were the standards. He just didn't realize that the doctor that was there, lived there, and knew more about the town than the whole Federal Government put together. So he came down to our drug store. I gave him a little piece of my mind there and that is maybe why I don't have much left. [Laughter.]

And he told me the standards and I told him that we would take care of the situation and that he should pack up his bags and go back to Washington as quickly as he could while he was still in good health. And it worked out very well. I told him that if that place was good enough for my mother, I thought it was most likely good enough for HEW. And we got along fine.

You have looked over the bill, Mr. Mister, haven't you?

Mr. MISTER. Yes, sir.

Chairman HUMPHREY. Can you make any specific recommendations in reference to that bill or did you just look at it in its generalities?

Mr. MISTER. I had in my testimony a comment on three areas, Mr. Chairman. One is the degree of specificity of the goals that might be included in the plan which would be prepared if the legislation were enacted and the method by which those goals which are to be established. As I pointed out in the testimony, there are many locally approved goals. Some are established as a result of Federal legislation. I made specific reference to a bill I know Senator Sparkman worked very hard on over the years and that was the Housing and Community Development Act of 1974. And as a result of that legislation, communities around the country now have locally approved 3-year goals for housing and community development, both short term and long term, that are consistent with areawide policies as well as national growth policies. Many of those plans will only be successful if we have a coherent conscious national urban economic policy rather than the inadvertent policy we have now. So that during the goal-setting process, I would hope that the Economic Planning Board would take into account those kinds of locally approved plans that have been required as a result of Federal legislation. That may not be a matter for inclusion specifically in the legislation, but I certainly think that is an important point because right now we have the conflicts between the plans of one Federal department and another. At the same time many of the local officials get politically committed by approving these plans, the citizens are looking to them to carry them out. When they are not carried out, it may not be because of a local failure; it may be because of a conflict between Federal policies or competition between Federal agencies that creates the problem.

So I hope in creating the national economic planning process that we get specific enough so that a mayor can know whether or not the

sets of plans he has approved locally are consistent with national goals that are included in a balanced economic growth plan.

There is a proviso in the legislation for States and local governments getting some help and asking the Federal Government if a particular plan of theirs is consistent with the national plan, Mr. Chairman. But I would hope during the process of creating the plan careful consideration would be given to trying to resolve as many of those conflicts among federally supported programs carried out by the local governments as possible. That is to say, I would hope that would be done during the planning process.

The second area of suggestions I had were related to the relationship between the plan and the budget process.

Chairman HUMPHREY. I think those two are very important.

Mr. MISTER. But I really feel strongly, Mr. Chairman, after looking at the budget process itself and the importance of that process, that the emphasis on long-range planning included in this proposed legislation should remain. But as Mr. Keynes said, in the long run we are all dead. So somehow we have to have a strong tie between the long-range planning and what we are doing each year. And the Budget Act requires a 5-year forecast and requires certain economic assumptions about the future. To some extent those economic assumptions are based more on forecasting what will happen, rather than determining what ought to happen. It seems to me that this legislation that you have proposed puts the emphasis on trying to sort out what we want to accomplish, and then trying to define a budget process on that basis rather than trying to say: "well what is going to happen is what we have to live with."

So I think the closer the linkage between the budget process and the processes set out in establishing those goals, the better off we will be.

The last issue that I raised in my testimony is one where unfortunately, Mr. Chairman, I really don't have any specific suggestions. But I was somewhat concerned about legislatively mandating five organizations. They all have important functions. The functions that are defined for those five need to be performed. I'm just not sure that five new entities legislatively mandated is the way to do it. I really feel a little hesitant about even raising this issue because I don't have something specific to advocate. But with the experience we have had with the riot corridor rebuilding program, while I don't know how many organizational entities we had to deal with, we had a real problem. The administration, at least at the White House level, was committed to rebuilding in Washington, but they could never get the structures they created in the White House and OMB down through the bureaucracy, down through the central offices, the regional offices, the area offices, together during that process. The clearly established policy never made a difference out here on the street. So I guess what I am saying is that I would hope that the committee will give some consideration to putting the emphasis in the legislation on the results that we want rather than on the structure because I wouldn't want anybody to turn around later on and say: "Well, the reason the program failed was that we were required to organize it a certain way." Getting this process

established is so important that when we come around to the second year to review what has been accomplished, I would want it to be clear what was supposed to be accomplished and not have anybody how out saying the program failed because the structure was legislatively mandated by the Congress.

I think the responsibility ought to be clear on what ought to be accomplished. We want an open, democratic, long-term, economic planning process. There may be ways of indicating to the administration the way in which that might be accomplished, but I think to legislatively mandate the organizational structure is something the committee ought to give some more consideration.

Finally, the 701 program, which has been a very valuable one for all of us in State and local government, is one which I am not so sure is the vehicle for providing the financial support for States and localities unless more money is going to be made available. During the last year there was a very major issue in Congress about the 701 program and whether it should be continued and what the level of funding should be and the priorities for its funding. It has a long history and is used for a variety of things right now. Again I feel so strongly about getting this process started, that if that device is going to be used, I think it ought to be set up clearly as a separate item specifically for this purpose so that it does not have to lose out in the competition with a variety of other uses.

Those were the specific suggestions I had for further study by the committee.

Chairman HUMPHREY. Well thank you very much. I was much impressed with what you had to say about the riot sections and the utter confusion that existed in the agencies that deal with these areas of the city. And I think this is a national disgrace to see this still existing. In fact the condition is worse today than it was 2 months after the burning of the areas.

Mr. MISTER. Well, Mr. Chairman on the riot corridors, it is funny—well, it is not funny but it is an unusual situation to try to evaluate. More has been accomplished in Washington than anywhere else. 700 units of new housing has been built. A lot of parks and public facilities have been built within those neighborhoods. One of the things that has happened, however, is that the objectives that were set forth 6 years ago are getting lost in the shuffle. We are now seeing a return to these neighborhoods of a lot of private restoration because of the housing shortage. The economics of the city of Washington are such that there is a terrific housing shortage and many people are moving back into those riot corridor neighborhoods and buying houses and fixing them up and displacing those people who are now living in them, who I might say have limited income, and who have worked 5 or 6 years in this planning process hoping something would be worked out for them. What has happened to the national economy the past few years really prevented the city from getting the kind of private investment in those neighborhoods that was necessary. So this balance between public commitment and private investment which this bill that you propose represents, would help us, and would be useful and important to all the cities of the country including the District of Columbia.

Senator SPARKMAN. I followed your statement with a great deal of interest as I have all of this testimony that has been given relating to planning. I have recently seen some comment by columnists or editors in opposition to a planning program. I fail to understand just how they justify it. We have always to a certain extent been planning ahead, haven't we?

You refer to some of the housing legislation. In 1968 we passed a landmark housing bill. This was not the first one by any means, but this was a very good one in that we planned a very definite number of housing starts particularly in the subsidized areas and for low- and middle-income people. I had no objection to that at that time. And we have referred to that frequently, to figures that were set then. I believe we set four 10 years after that 26 million units, that is single-family units to be built with a certain number definitely to be for the lower income people. We have kept that as a target ever since. We refer to it now that we are supposed to be building 26,000,000 units a year in order to meet the housing needs and the new homes that are needed.

So that was planning wasn't it?

Mr. MISTER. Yes, sir, it was and many of us, who were directly involved and worked on that legislation thought it was a landmark piece of legislation and a good piece of legislation. We urged the Congress and the administration over the years to pay careful attention to the annual report on housing required by it. But in 1973, Senator, when we had a moratorium on housing, it was always my view it was not because the housing programs didn't work; but it was an economic decision that was made because we had to do something about inflation, and housing was the way to do it or so it was thought. Well, no attention at that time was given to the fact that there was a legislative mandate to build this 2.6 million units a year, and 600,000 each year were to be for low- and moderate-income people. So we always had that planning, but we haven't had the kind of effective device to link it to a budget, which I'm hoping this legislation will help us do.

Also the conflict between that goal of producing the housing and the judgment on the part of the administration that we couldn't afford to do that because of the effect on the inflation and that we would have higher interest rates, et cetera, had an effect. The argument was that we couldn't get the housing because we had to cut back on spending, and that cutting the subsidy was the way of doing it. Well, somebody decided that was a higher objective, and perhaps it was the administration, and therefore we inadvertently changed one of the goals that was established.

The complaint that the Conference of Mayors and those in the League of Cities have is above this inadvertent policy that is really a series of actions not coordinated. So you see you have to figure out what is the result of all of these actions. You can see the results at 14th and Park Road in Washington where it took 4 or 5 years of a lot of citizens working very hard to get a health center built. A lot more was supposed to be done there but that is the only new construction we have. And you know in physics if you had to do a force diagram and measure all of these forces, you would get a result and

sometimes that result would be zero. You would be right back where you started from. That is the problem we have now. We have on the books a lot of policies and a lot of goals both Federal and local, but if you get right down to the hard crunch of what is to be done and how there are no consistent policies or goals, and that is the thing that is a terrible issue for us.

And we don't make those judgments at this stage of the game. We don't say this is what we want to accomplish in the future. What we are doing now in the budget process is essentially saying that this is the amount of money we think we can get and this is what we think we can do with it and not what we ought to do, and not what we ought to accomplish. And I'm hoping that is what will come out of this legislation.

Senator SPARKMAN. I want to bring up just one other example and then I won't prolong this any longer. But in 1974, in the 1974 Housing Act we wrote, what I think was a very fine program with reference to community development in which we gave the initiative to the individual communities but required it to fit in with the State's program and also with the national program. And in that same act we mandated, I could say, the resumption of the 235 program, which had been knocked out with President Nixon's decree in January 1973. Now it hasn't actually been implemented since that time although the Secretary of HUD has announced that beginning January 1 the 235 program will be reactivated. But in the original legislation we authorized, and that was a homeownership program and the help from the Federal Government was based upon interest reduction, well we made it possible for the interest rate to be reduced to as low as 1 percent. Now when the new program is reimplemented in January, I understand that interest rate is going to be 5 or 5½ or so. In other words it would not be lower than that. So it is not always a mandated program that Congress passes that the administration puts into effect.

Mr. MISTER. Yes, sir, and we are very mindful of that in the housing area. The other part of that Housing and Community Development Act of 1974 that is so important to us is the linkage for the first time of housing and community development. Unfortunately in the housing area; where economic policy is so critical, we have the section 8 program for subsidized housing. That hasn't gotten off the ground. Its financing is uncertain and that is being optimistic about it.

The Housing Act included some provisions that would help State finance agencies by guaranteeing their bonds and by giving them an interest rate subsidy if they use taxable bond financing. That hasn't been implemented. So we have 30 States housing finance agencies around the country, and we have community development programs that require housing to be built, and the Congress has authorized \$1 billion for the section 8 programming, but somehow we can't seem to get it off the ground. So what I am saying, Mr. Chairman and Senator Sparkman, is that maybe the 235 program will start up again. We are looking at the regulations now to see whether or not it is really workable or not. For a city with a housing and community development program that has approved locally a comprehensive

plan with short-term and long-term goals for a 3-year period for both housing and community development, we have to get going now with some housing production.

So the problem we have now in the housing area, which is so closely tied to the national economic policy, is having the housing come along with the rest of the plan. And right now we are very anxious because we don't see that happening. So we are looking very carefully at the new Budget Act to see what is in there and see if there isn't some way we can get going with the only subsidized housing program we have, which is the section 8 program. And even in the nonsubsidized field, the problem of mortgage credit, the problem of getting money at a reasonable rate to produce housing that people can afford, still remains with us.

So the housing legislation on the books now and particularly this new law passed last year is a good piece of legislation. He worked on it for 4 years with you and the other members of the committee to try to get it enacted. It is on the books right now. But as we look over the next four to five years, hopefully in areas like these riot corridors we will have some new housing. It has been 7 years since the riots and we have 700 new housing units. That is more than in most places but we hope in the next 7 years, where we do have plans on the books, that we will have a conscious, coherent, consistent national economic policy with some teeth in it so it will get delivered down from the Federal Government and have some impact in the cities, so people can touch and feel this new housing and community development program.

Senator SPARKMAN. And you speak for the U.S. Conference of Mayors?

Mr. MISTER. That is right.

Senator SPARKMAN. Well I should say that you have given us a very fine presentation. I am very grateful to you.

Chairman HUMPHREY. Yes; we are both very grateful to you and to Mr. Christenson for giving us a good example of what can happen at the State level. I'm going to ask Mr. Kaufman of this staff to take a copy of your testimony, Mr. Mister, and send it over to OMB and tell that crowd to get on the stick and find out why something isn't happening. It is ridiculous, absolutely ridiculous to have this kind of snail's pace. It is no wonder the country gets discouraged and disgusted with governmental agencies. You know, I know something about this because when I was Vice-President, I had in my office Mr. Neil Peterson—and Mr. Christenson remembers this—and we handled over 2,500 cases with the mayors of the cities and the county officials in which we were able to break the bottle-necks that were lousing up the operation. And I remember one specific example. I remember when I was Chairman of the Space Council, I went down to Cocoa Beach in Florida.

Senator SPARKMAN. That is a nice place to go down to.

Chairman HUMPHREY. Yes, sir, not bad. And I went to Cape Kennedy where the big launches take place. There are some 20,000 people down there and they have one little two-lane bridge going across a particular segment of water connecting the mainland to sort of an island on which the launches were taking place. The Government

was losing literally hundreds of thousands of dollars every day of labor because these people would start to work in the morning and to get over to their jobs it was almost impossible. It was so inconvenient to the people, it was ridiculous. It was inconvenient to the people and it was inconvenient to the Government. I said: "well, why don't we build a bridge? You know you are launching millions of dollars worth of equipment and spending billions and billions of dollars here. Every time one of those missiles goes off, it costs you a great deal—and I don't know how many millions of dollars but it costs millions just for the fuel." And they said: "well we can't get anybody to agree." So the question was, Who was going to build the bridge? Was the State highway department? Was it the county? Was it the Air Force? Was it to come out of highway funds? Was it to be built by the Department of Defense? Who was going to build the bridge? And nobody knew.

And I went down there and got in one of those traffic jams and that was enough for me. I came back and went over to see the President and said: "Would you mind if I just took a hand in this and see if we can't use this hammer of Government and get some action?" And I'm happy to tell you that the first thing I did was to meet with the State and county people. They said they were ready to go if we could get some help from the appropriate agencies of the Federal Government so there would be some sharing. Well, you would be surprised. The Air Force wasn't about to send any money to get people over to work for an Air Force installation that was on Cape Kennedy. NASA, which was in charge of Cape Kennedy wasn't about to spend any money. I guess they felt little elves were going to launch those rockets over there.—The highway trust fund wasn't sure that the moneys that were there could be allocated for that purpose. So finally, I just rapped my gavel and said: "Let's get this thing together." And we got them all in one room and banged some heads together. Well, there is a bridge down there known as the Humphrey Bridge. In fact there are two of them. We got two of them because they needed it. But for 5 years they horsed around with one bridge with just two lanes. And you have this tremendous great waste of fuel and energy and motion. There was enough energy and enough fury in the drivers of those cars being held up on those traffic jams to launch 50 satellites.

Well it is getting late. The committee will stand adjourned, subject to the call of the Chair.

[Whereupon, at 12:35 p.m., the committee adjourned, subject to the call of the Chair.]

