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THE 1976 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

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CONGRESS OF THE UNITED STATES

NINETY-FOURTH CONGRESS

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FEBRUARY 6, 19, 20, AND 25, 1976

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THE 1976 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, FEBRUARY 6, 1976

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 Proxmire; and Representatives Hamilton and Long.

Also present: John R. Stark, executive director; William R. Buechner, William A. Cox, Lucy A. Falcone, Robert D. Hamrin, L. Douglas Lee, Loughlin F. McHugh, and Courtenay M. Slater, professional staff members; Michael J. Runde administrative assistant; George D. Krumbhaar, Jr., minority counsel; and M. Catherine Miller, minority economist.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. Today the Joint Economic Committee will hear from Mr. Walter Heller, the former Chairman of the Council of Economic Advisers to the President. We will also hear from Mr. Shiskin, Commissioner, Bureau of Labor Statistics.

I would like to say that in having Mr. Walter Heller of the University of Minnesota before us today, we have an old friend and one of the most prominent economists in our country.

Yesterday we heard from four other distinguished economists on the economic outlook, and I must say their outlook was more pessimistic than that of the administration witnesses who preceded them. They were followed yesterday afternoon by two other Cabinet members who again repeated the administration's position.

The administration's position is basically to let the economy proceed as it is going. As we heard repeatedly, the administration's principal enemy is inflation, and unemployment, while too high at present and for the years immediately ahead, must remain "second fiddle" because faster recovery would lead to another "bust."

I made it clear that I do not believe this is a responsible approach, nor is it adequate. We must get the unemployment down faster than the administration's program predicts or indicates. The unemployment rate, as indicated by the administration, will likely be in the range of 7 or 8 percent in the years ahead.

I would hope today that we will be able to get further information on the outlook for the economy in 1976. Mr. Heller, although it is very difficult to predict anything about the economy, and it surely is more

difficult to have accurate long-term forecasts, we will be very interested in your views as you see the economy looking down the road beyond 1976 and at least the first part of 1977.

With that, we will take no more of your time, just ask you to proceed. So that you will know. I may have to leave at about 10 minutes to 11, but the committee will be chaired by Congressman Long; and we will proceed with the questions. Senator Proxmire will be here and other members will also be present.

STATEMENT OF WALTER W. HELLER, REGENTS' PROFESSOR OF ECONOMICS, UNIVERSITY OF MINNESOTA

Mr. HELLER. Mr. Chairman, with your permission I would like to handle part of my testimony by reference to the article I wrote for yesterday's Wall Street Journal on the economic outlook for 1976–77 and Mr. Ford's budget.

Chairman HUMPHREY. Do you have copies?

Mr. HELLER. It is attached to my prepared statement.

Chairman HUMPHREY. We will, of course, incorporate that in the record.

Mr. HELLER. Thank you.

Let me highlight a few points in that analysis and then go on to consider some desirable policy moves in the 1976 setting before winding up with an expression of concern over what might be called "the misguiding of the American public" on a number of key economic issues and economic facts. As for the 1976 economic scene, one cannot stress too strongly the importance of differentiating between the direction and level of economic activity. Unless that distinction is constantly borne in mind, the signals for economic policy are likely to be read incorrectly.

The upward course of the U.S. economy in 1976 isn't in doubt. Given the lags in the impact of economic policy, I would say that the first 6 months' performance is pretty well foreordained. It is true, however, that the second half could be imperiled if, first of all, the Federal Reserve were to hit the economy in the solar plexus with a sharp shift toward tighter money and rising interest rates; and second, if the White House and the Congress fail to find a mutually acceptable formula for extending the temporary $18 billion tax cut. Also, full acceptance of Ford's budget would hit the economy with a sickening thud later in 1976—mostly after the election.

Now, on the somewhat perilous assumption that these policy mistakes will not be made, George Perry and I project a somewhat more vigorous rise in real GNP—7 percent year over year—than the private consensus forecast, as well as the administration's forecast.

We project a somewhat stronger rise in both consumption and business capital spending than most forecasters—and let me refer you to my statement for the reasoning behind that conclusion—except to mention the dazzling upswing in corporate profits. Corporate profits hit a postwar low, it's true, in 1974 at only 8 percent of corporate product. But the newly revised Commerce figures show that after-tax profits rose from an annual rate of $60 billion in the first quarter of last year to an estimated $88 billion in the fourth quarter; and they will go right on up this year to over $100 billion by the fourth quarter. That's after-tax profits at annual rate.

Chairman HUMPHREY. Now, why do you say $100 billion?

Mr. HELLER. In the fourth quarter of this year, it is my best estimate it would be about $103, $104 billion at an annual rate.

Chairman HUMPHREY. In the fourth quarter of 1976.

Mr. HELLER. In the fourth quarter of 1976.

Chairman HUMPHREY. That's fantastic.

Mr. HELLER. And perhaps an even more meaningful comparison is to take 1974 versus 1976, after correction for inventory evaluation, that is, if you take inventory values at replacement cost, so that you take out these fluctuations. On this basis, 1976 profits as Perry and I see it, would be 50 percent—54 percent to be precise; in our forecast—above 1974. So, bedrock profits, taking out inventory changes, are making a very nice recovery from that 1974 low point. And when we couple those profits with the cash flow from depreciation, and so forth, with the incentive of bigger investment tax credits and better access to capital markets now that the stock market is pepping up again, one can foresee repeated upward revisions of capital spending.

Now, even if the economy, under these favorable policy assumptions—and this is where I get to the level, rather than the direction of the economy—even if it achieves this above-trend pace of expansion that we project, can one really settle for this, let alone accept restrictive White House and Federal Reserve policies for 1977 in light of the present and prospective levels of economic activity?

Now, as 1976 began, the unemployed labor pool equaled well over 9 million workers—and by the way, even with the encouraging news about the unemployment figures today, we are going to find the number hovering around 9 million. But where do I get the 9 million? Well, there are now 7.3 million officially unemployed—plus nearly 1 million discouraged workers—about 900,000; and 3½ million part-time workers who are available for full-time work. That is, 3 million part-time workers who would like to work up to 40 hours a week are averaging 22 hours a week. That adds up to an unemployed labor-pool equivalent of about 9 million.

Second, total output is running at least $150 billion a year below the economy's high-employment potential; and I think that's a very modest number, Mr. Chairman. You know me as an old conservative in these matters. I could say $175, but in order to avoid criticism I put it at $150 billion because there are some that don't feel we can achieve as high a level of employment as some others.

And third, even after a 7-percent gain in output this year, we will end the year with recessionlike levels of unemployment, at 7¼ percent; of capacity utilization rates in manufacturing, at about 80 percent; and of economic slack, with actual output running about $125 billion below potential output, conservatively measured at 5 percent unemployment.

Now, I say "recessionlike" advisedly because, looking at the four previous recessions since 1950, the unemployment rate at the bottom of those recessions, in the trough quarter, averaged 6.2 percent. We will be a full percentage point above the bottom of the preceding four recessions.

Capacity utilization at the trough averaged about 77 percent. In other words, you asked about 1977, we will be entering that year at

unemployment rates and excess capacity levels comparable to those at the bottom of our previous recessions in this generation.

Now, what about the prospects for inflation? High as it is by national standards, inflation will continue to moderate in 1976. Again, to save time, let me skip to the concluding statement on this particular point.

Coupling the abatement of food and fuel inflation with the modest impact of demand pressures and an 8-percent average pay increase that we foresee this year, one can reasonably project a 5¾-percent rise in the GNP deflator, or about 6 percent in the cost of living.

Now, turning to policy. If the President's budget and tax proposals were enacted, the recovery would be dealt a severe blow while the economy is still operating far below target levels. The high employment surplus would rise by $19 billion for the fiscal year 1977, with restrictive pressure becoming particularly sharp during calendar 1977 when the proposed payroll tax increases would go into effect.

Now, that $19 billion a year means a much bigger swing during 1976–77. The special analyses in the President's budget show that there would be a $30 billion jump in fiscal restrictions in 15 months, from the spring of 1976 to the summer of 1977. The Federal budget would be tightening its noose by $30 billion on an economy that is still far from anything resembling full employment. A restrictive swing of that magnitude took a huge toll in jobs and output in 1959–60 and again in 1972–74; and I just hope we don't repeat those disastrous experiences.

Rather than accept the 1977 Ford economy model budget, and an economic policy that resolves all doubts in favor of a go-slow expansion and risk a new recession, the more prudent course would be to follow monetary and fiscal policies that will step up the rate of expansion in 1976 and continue in 1977, until that erosive waste of human and material resources has been brought back within tolerable bounds.

Let me suggest several components of such a policy.

1. Put Mr. Ford's budget on the course of economic, social, and political responsibility. It would be well within that course for Congress to bring budget spending at least up to a maintenance-of-services level of $414 billion. Indeed, Alice Rivlin puts the baseline budget at $425 billion—$31 billion above Ford's fiscal squeeze budget.

From a purely economic point of view, the minimum task of Congress is to prevent the budget from turning restrictive in the face of recessionlike levels of unemployment and unused capacity. Perhaps Congress will want to put more tax cuts and less spending in the economic mix that I might prefer. But, one way or another, it must overcome the $19 billion swing toward economic restriction. Indeed, the $19 billion year over year, or $30 billion if you take it from the spring of 1976 to summer of 1977.

The Ford administration and the Federal Reserve are still fighting the last war against inflation. I don't see why they can't see what it took to give us that double-digit inflation in 1973–74 that, by the way, fooled us all—we all did a poor job of forecasting that. We took a five-ply shellacking: A fivefold jump in oil prices, a 40-percent jump in food prices in 2½ years, a double devaluation of the dollar, decontrol of wages and prices, and a worldwide commodity price boom. Those things simply aren't in the cards for 1976–77.

2. The Congress should do what it can to prevent monetary policy from swinging toward restriction at this stage of the game. I find it, by the way, passing strange that the Federal Reserve, whose Chairman has not been bashful in making known his distaste for monetarist formulas, and the congressional banking committees, whose objectives would be far better served by emphasis on moderate levels of interest rates than by lock-step limits on money supply increases—I find it passing strange that they should have coalesced—and I'm delighted that Senator Proxmire is here to hear this; I want to repeat this.

Senator PROXMIRE. I just came in as you chastised me, I was reading that; that's very unfair, very unfair.

Mr. HELLER. Well, I'm happy to hear it's unfair.

As I say, I find it passing strange that the Federal Reserve and the congressional banking committees have coalesced on monetary policy targets stated exclusively in money supply terms. Interest rates should be brought back into their proper place in setting policy targets—as, indeed, the House Banking Committee has been urging the Federal Reserve to do—but with indifferent success so far.

Arthur Burns showed again, early this week, what damage he can do. Just by manipulating the money supply targets, lowering the floor of his range for technical reasons—which immediately suggests a lower target average for a money supply increase. This quickly boosted short-term rates and took its toll in the stock market.

3. Social security payroll tax increases today—or next January 1—would be the wrong medicine at the wrong place at the wrong time. It seems particularly paradoxical to consider further cuts in the income tax, our best tax, at the same time that we would boost the payroll tax, which bears hard on the poor, raises business costs, and boosts the cost of living. With contingency reserves above $40 billion, the social security system is in no immediate need of added revenues. And when that need materializes, it is high time to supplement the resources of the system with general revenues, rather than cutting income taxes while boosting payroll taxes.

4. On income taxes, an adjustment of the proposed cuts to maintain the credits and tax breaks for the lowest income groups—who are still at the bottom of a very deep job barrel and have been hit hard by the amount of composition of inflation this time around—would be very much in order.

5. Finally, just a word on wage-price policy. Although it now seems beyond the political pale in 1976, the Congress should never forget that a balanced program for full employment must contain some kind of restraint on excessive price increases exacted by concentrated industries and excessive wage increases exacted by overly powerful labor unions. Antitrust can't cope with this problem. A more effective system of flagging down excessive wage and price increases in areas of the economy where competition is not effective as a policeman must be part of a balanced program to overcome intolerable unemployment without incurring intolerable inflation.

Now, there are other policy suggestions I would have made but for the lack of time, something on public service jobs, antirecession grants, getting rid of some of our overregulation and so on. My prepared statement covers these.

But I did want to take just a few minutes to talk about the "misguiding" of the American public on economic issues. I cannot conclude these opening remarks without expressing my growing concern over the distressing tendency in recent years to miseducate and, wittingly or unwittingly, mislead the American people on vital issues of economic policy and fact. This process, calculated or not, is contributing to misunderstanding of basic economic relationships, unnecessary anxiety on many fronts, and a loss of faith in the American economy and its public institutions. Let me just cite a few examples.

The Federal Government is depicted as expanding like some monstrous protoplasmic blob that threatens to snuff out economic freedom and initiative. Yet, the facts will show that the Federal budget as a proportion of GNP held virtually steady at about 20 percent from 1953 to 1973. It is projected to rise to 21 percent in fiscal year 1977—but adjusted to a full-employment basis, the figure will be right back at 20 percent.

The expansion, in other words, of the Federal sector relative to the rest of the economy in 24 years—zero.

Or, take the supposed "crushing burden of Federal debt." A striking chart included in last year's budget documents—but not this—shows that the Federal debt held by the public dropped from 82 percent of annual GNP in 1950 to 26 percent in 1974. Seen in this perspective, the public debt is a far different and more manageable problem than the general impression abroad in the land.

A third area of widespread misapprehension of the real problem centers on the large deficits in the Federal budget. Here, two misimpressions are being fostered:

The $70 to $75 billion deficit is being identified with profligacy in spending and fiscal irresponsibility when, in fact, it is almost entirely a hostage to recession. Your witnesses yesterday went over that, and I simply note that if we had something like full employment, revenues would be $50 to $55 billion higher than they are; unemployment compensation would be about $15 billion lower; and other cyclically responsive outlays would be about $5 billion lower. So, almost all of the deficit is a product of recession. Ironically, the selfsame monetary and fiscal authorities whose disastrously tight policies in 1974 helped aggravate the recession and hence the deficit are the ones who are loudest in decrying the deficit as an example of the loss of fiscal discipline.

A related charge is that Government deficits are the root of all inflationary evil. How is it, then, that inflation is ebbing in the face of the largest deficits in history?

A fourth area of anguished misapprehension relates to the social security system. The impression has been given that it is about to go broke. I need not tell this committee how far this is from the truth. May I add, Mr. Chairman, as I speak around the country on economic matters, that's usually question No. 1 by the audiences afterward, "What is going to happen to our social security? We understand that the system is going bankrupt."

How that impression has been so widely disseminated is not quite clear to me.

Chairman HUMPHREY. Reader's Digest, as you know, carried a number of articles on this, and that is a well-read magaine; there were

also feature articles that appeared in local papers. I recall there was a series of articles in the Minneapolis Star, expressing anguish and concern over the possibility of default of the system.

Mr. HELLER. The financing problems of the social security system can clearly be met.

The fifth example is the mistaken belief that Congress is an instrument of irresponsible and loose spending—an impression that totally ignores the responsible new procedures and spending limits that it is observing. I'm appalled to find out how little understanding there is around the country of what one might call the "sobriety in spending act."

Congress rightly prides itself on its more prudent fiscal posture and procedure. But if the new politics of fiscal responsibility, or austerity, leads to budget parsimony and willy-nilly economic restraints, its benefits will be swamped by its costs. Fiscal responsibility is not synonymous with fiscal restraint.

To hit the economy with a fiscal sledgehammer as Mr. Ford proposes, when economic recovery is still in its adolescence, that's fiscal irresponsibility. I believe we should redefine it to recognize that.

And finally, the continuing barrage of statements and studies, for example, the April release by the Treasury entitled, "U.S. Ranking in Investment and in Real Economic Growth Is Among Lowest of Industrialized Countries, Treasury Study Says," is giving the public a false image of the true strength of the American economy. Only the fine print brings out that:

U.S. productivity is still the best in the world, with even the high-growth countries like France and West Germany having achieved only 80 percent of the U.S. level of productivity.

That the U.S. has been growing steadily more competitive—and these are remarkable numbers which come directly from First National City Bank of New York's monthly bulletin; I always cite impeccably conservative sources when they support my position—but the United States has been growing steadily more competitive with its unit labor costs rising only about 10 percent from 1970 to 1974, with Canada showing the next best performance at 29 percent, Germany at 90 percent, and Japan at 100 percent. That is one reason that we had such a good performance in nonagricultural exports as well as agricultural exports last year. And, as a result the U.S. dollar is still the most sought-after currency in the world.

One hesitates to fix the blame for this retrograde movement in the economic education of the American public. Much of it stems, as it has from time immemorial, from the self-serving efforts of particular groups to "sell" particular policies, positions, preferences, and prejudices. Note how many of these positions serve a bias toward smaller government, cutbacks in Federal spending, tax reductions for business, preferential tax treatment of capital investment, and restrictive fiscal and monetary policies.

Clearly, this is not a suggestion that we should be Pollyannas or put our heads in the sand about persistent and troublesome economic problems. But the misunderstandings that are being fostered threaten to thwart rather than facilitate solutions.

To be candid about economic shortcomings and government problems is a virtue. But to denigrate the U.S. economy, and exaggerate its

problems and misidentify their sources is certainly a vice. The sooner policymakers talk economic sense instead of nonsense to the American people, the better our chances will be of coping with the truly tough problems we face. Thank you.

[The prepared statement and the article entitled "Ford's Budget and the Economy" of Mr. Heller follow:]

PREPARED STATEMENT OF WALTER W. HELLER

Mr. Chairman, members of the committee: With your permission, I should like to handle part of my testimony by reference to the attached article I wrote for yesterday's Wall Street Journal on the economic outlook for 1976–77 and Ford's budget.

Let me highlight a few points in that analysis and then go on to consider some desirable policy moves in the 1976 setting before winding up with an expression of concern over what might be called "the misguiding of the American public" on a number of key economic issues and economic facts. As for the 1976 economic scene, one cannot stress too strongly the importance of differentiating between the direction and level of economic activity. Unless that distinction is constantly borne in mind, the signals for economic policy are likely to be read incorrectly.

The upward course of the U.S. economy in 1976 is not in doubt. Given the lags in the impact of economic policy, the first 6-months' performance is pretty well foreordained. It is true, however, that the pace of recovery in the second half would be imperiled if (*a*) the Federal Reserve were to hit the economy in the solar plexus with a sharp shift toward tighter money and rising interest rates and (*b*) the White House and the Congress fail to find a mutually acceptable formula for extension of the temporary $18 billion tax cut. Also, full acceptance of President Ford's budget proposals would hit the economy with a sickening thud later in 1976—mostly after the election.

On the somewhat perilous assumption that these policy mistakes will not be made, George Perry and I project a somewhat more vigorous rise in real GNP—7 percent, year-over-year—than the consensus forecast (a little below 6 percent) and the administration's forecast (6.2 percent).

We project a somewhat stronger rise in both consumption and business capital spending than most forecasters. Consumer spending will by buoyed by rising real disposable income as payrolls increase faster than inflation, by growing confidence as inflation and layoffs recede, by the "catch-up factor" on delayed durable goods purchases, and by an improved asset and liquidity position resulting from the over $100 billion rise in consumer liquid assets in 1975, lowered levels of installment debt relative to income, and the surge in the stock market.

On business fixed investment, it is true that the Commerce and McGraw-Hill surveys do not yet show a significant upswing in planned spending on plant and equipment. But the explosion of corporate profits and the accompanying rise in internal cash flows should change all that—and the sensitive index of capital goods orders, which has been rising impressively since April, provides some support for this view.

Corporate profits, which hit a postwar low of 8 percent of corporate product in 1974, have been zooming ever since. The newly revised Commerce Department figures show that after-tax profits rose from $60 billion in the first quarter in 1975 to an estimated $88 billion in the fourth (annual rates). We estimate that they will continue to rise to over $100 billion by the fourth quarter of this year.

Comparing 1976 with 1974 profits and allowing for the improvements in "quality" of profits by making the IVA adjustment—that is, allowing for replacement of inventory at current prices—one finds that profits in 1976 will be half again as high as in 1974.

Coupling generous cash flows with the enlarged investment tax credit and better access to capital markets, one can foresee repeated upward revisions of capital spending plans.

But even if the economy, under favorable policy assumptions, achieves the above-trend pace of expansion we project, can one settle for this—let alone, accept restrictive fiscal and monetary policies in 1977—in light of the present and prospective levels of economic activity?

As 1976 began, the unemployed labor pool equalled well over 9 million workers (the 7.8 million "officially" unemployed, plus nearly 1 million "discouraged workers" and 3 million part-time workers available for full-time work).

Total output is running at least $150 billion a year below the economy's high-employment potential.

Even after a 7 percent gain in output during 1976, the year will end with recession-like levels of unemployment, at 7¼ percent; of capacity utilization rates in manufacturing, at about 80 percent; and of economic slack, with actual output still running some $125 billion below the economy's potential (conservatively measured at 5 percent unemployment).

I say "recession-like" advisedly: In the four previous recessions since 1950, the unemployment rate at the bottom (the trough quarter of real GNP) of the four recessions averaged 6.2 percent.

Capacity utilization in manufacturing averaged 77 percent.

In other words, we will be entering 1977 at unemployment rates and excess capacity levels comparable to those at the bottom of our previous recessions in this generation.

What of the prospects for inflation? High as it is by historical standards, inflation will continue to moderate in 1976. With a good 1975 harvest in hand and average crude oil prices coming down moderately, neither food nor fuel should add materially to the rate of inflation this year. And pervasive slack in the U.S. economy, plus the moderate pace of recovery in the rest of the industrial world. should hold in check the pressures of rising demand on raw materials prices and price margins. Thus, for 1976 at least, the inflation outlook boils down largely to the behavior of wage costs.

The outcome of the major wage negotiations involving 4½ million workers this year will be critical in determining price perfromance in 1976 and the later 1970's. There will be some large settlements. But it should be recognized that cost-of-living escalators have given several of the unions involved in the upcoming negotiations recent wage increases outstripping the economy-wide average. A pattern of moderation in these settlements would be a logical way to begin a gradual unwinding of the wage-wage and price-wage spirals. A reasonable expectation—even assuming that the big contracts, front-loaded as usual, will average 10 percent-plus in the first year —is that economy-wide compensation per man-hour will rise about 8 percent this year.

Coupling the abatement of food and fuel inflation with the modest impact of demand pressures and an 8 percent average pay increase, one can reasonably project a 5¾ percent rise in the GNP price deflator this year, or about 6 percent in the cost of living.

POLICY CONSIDERATIONS

If the President's budget and tax proposals were enacted, the recovery would be dealt a severe blow while the economy was still operating far below target levels.

The high-employment surplus would rise by $19 billion for the fiscal year 1977, with restrictive pressure becoming particularly sharp during calendar 1977 when the proposed payroll tax increases would go into effect. Rather than accept a budget and economic policy that resolves all doubts in favor of go-slow expansion, a more prudent course would be to follow monetary and fiscal policies that will step up the rate of expansion in 1976 and continue it in 1977 until the corrosive waste of human and material resources has been brought back within tolerable bounds. Let me suggest several components of such a policy.

1. Put Mr. Ford's budget on the course of economic, social, and political responsibility. It would be well within that course for Congress to bring budget spending at least up to a maintenance-of-services level of $414 billion. From a purely economic point of view, the minimum task of Congress is to prevent the budget—expenditures and taxes—from turning restrictive in the face of recession-like levels of unemployment and unused capacity. Perhaps Congress will want to put more tax cuts and less spending in the economic mix than I might prefer. But, one way or another, it must overcome the $19 billion swing toward economic restriction.

2. The Congress should do what it can to prevent monetary policy from swinging toward restriction long before high employment and full prosperity are within striking distance. I find it passing strange that the Federal Reserve—whose Chairman has not been bashful in making known his distaste for monetarist formulas—and the congressional banking committees—whose objectives would be far better served by emphasis on moderate levels of interest rates than by lock-step limits on money supply increases—should heve coalesced on monetary policy targets stated exclusively in money supply terms. Interest rates should be brought back into their proper place in setting policy targets.

3. Social security payroll tax increases are the wrong medicine at the wrong place and at the wrong time. It seems particularly paradoxical to consider further cuts in the income tax, our best tax, at the same time that we would boost the payroll tax, which bears hard on the poor, raises business costs and boosts the cost of living. With contingency reserves of some $45 billion, the social security system is in no immediate need of added revenues. And when that need materializes, it is high time to supplement the resources of the system with general revenues rather than cutting income taxes while boosting payroll taxes.

4. On income taxes, an adjustment of the proposed cuts to maintain the credits and tax breaks for the lowest income groups—who are still at the bottom of a very deep job barrel and have been hit hard by the amount and composition of inflation this time around—would be very much in order.

5. Finally, just a word on wage-price policy. Although it seems beyond the political pale in 1976, the Congress should never forget that a balanced program for full employment must contain some kind of restraint on excessive price increases exacted by concentrated industries and excessive wage increases exacted by overly powerful labor unions. Antitrust cannot cope with this problem. A more effective system of flagging down excessive wage and price increases in areas of the economy where competition is not an effective policeman must be part of a balanced program to overcome intolerable unemployment without incurring intolerable inflation.

THE MISGUIDING OF THE AMERICAN PUBLIC

I cannot conclude these opening remarks without expressing my growing concern over the distressing tendency in recent years to miseducate and, wittingly or unwittingly, mislead the American people on vital issues of economic policy and fact. This process, calculated or not, is contributing to misunderstanding of basic economic relationships, unnecessary anxiety on many fronts, and a loss of faith in the American economy and its public institutions. Let me cite a few examples.

The Federal Government is depicted as expanding like some monstrous protoplasmic blob that threatens to snuff out economic freedom and initiative. Yet, the facts will show that the Federal budget as a proportion of GNP held virtually steady at about 20 percent from 1953 to 1973. It is projected to rise to 21½ percent in fiscal 1977—but adjusted to a full-employment basis, the figure would be right back at 20 percent.

Or take the supposed "crushing burden of Federal debt." A striking chart included in last year's budget documents (but omitted this year) shows that the Federal debt held by the public dropped from 82 percent of annual GNP in 1950 to 26 percent in 1974. Seen in this perspective, the public debt is quite a different and more manageable problem than the general impression abroad in the land.

A third area of widespread misapprehension of the real problem centers on the large deficits in the Federal budget. Here, two misimpressions are being fostered:

The $70–75 billion deficit is being identified with profligacy in spending and fiscal irresponsibility when, in fact, it is almost entirely a hostage to recession. If we were operating at full employment, tax revenues would be $50–55 billion higher than they are; unemployment compensation would be about $15 billion lower; and other cyclically-responsive outlays like food stamps, medicare and medicaid, and the like, would be about $5 billion lower. So almost all of the deficit is a product of the recession. Ironically, the selfsame monetary and fiscal authorities whose disastrously tight policies in 1974 helped aggravate the recession and hence the deficit are the ones who are loudest in decrying it as an example of the loss of fiscal discipline.

A related charge is that Government deficits are the root of all inflationary evil. How is it, then, that inflation is ebbing in the face of the largest deficits in history?

A fourth area of anguished misapprehension relates to the social security system. The impression has been given that it is about to go broke. I need not tell this committee how far this is from the truth. Again, the recession is partly the culprit in cutting revenues and increasing the flow of benefits. The financing problems of the social security system can clearly be met.

A fifth example is the mistaken belief that Congress is an instrument of irresponsibility and loose spending—an impression that totally ignores the responsible new procedures and spending limits that it is observing.

Finally, a continuing barrage of statements and studies—for example the April 1, 1975 release by the Treasury entitled "U.S. Ranking in Investment and in Real Economic Growth Is Among Lowest of Industrialized Countries. Treasury Study Says"—is giving the public a false image of the true strength of the American economy. Only the fine print brings out that—U.S. productivity is still the best in the world, with even the highgrowth countries like France and West Germany having achieved only 80 percent of the American level of productivity; that the United States has been growing steadily more competitive, with its unit labor costs rising only about 10 percent from 1970–74, with Canada showing the next best performance at 29 percent, Germany at 90 percent, and Japan at 100 percent.

One hesitates to fix the blame for this retrograde movement in the economic education of the American public. Much of it stems, as it has from time immemorial, from the selfserving efforts of particular groups to "sell" particular policies, positions, preferences, and prejudices. Not how many of these positions serve a bias toward smaller government, cutbacks in Federal spending, tax reductions for business, preferential tax treatment of capital investment, and restrictive fiscal and monetary policies.

Clearly, this is not a suggestion that we should be "Pollyannas" or put our heads in the sand about persistent and troublesome economic problems. But the misunderstandings that are being fostered threaten to thwart rather than facilitate solutions.

To be candid about economic shortcomings and government problems is a virtue. But to denigrate the U.S. economy, and exaggerate its problems and misidentify their sources is certainly a vice. The sooner policymakers talk economic sense instead of nonsense to the American people, the better our chances will be of coping with the truly tough problems we face.

[From the Wall Street Journal, Feb. 5, 1976]

FORD'S BUDGET AND THE ECONOMY

(By Walter W. Heller[1])

Policy developments of the past few months have cleared the track for a respectable rate of recovery this year. Interest rates have backed down, the 1975 tax cuts have been extended, gradual rather than abrupt decontrol of oil prices is in prospect and New York City has been pulled back from the brink of bankruptcy.

Rising business and consumer liquidity, ebbing inflation, accelerating retail sales and a surging stock market all contribute to the atmosphere of expansion. All told, it is an encouraging backdrop for reaffirming the bullish forecast of a 7% advance in real GNP in 1978 that George Perry and I first ventured in October.

But President Ford's budget and economic policy messages cast an ominous shadow over late-1976 and 1977 economic prospects. His Economic Report resolves all economic doubts in favor of subdued expansion in 1976 lest we agitate the inflationary beast within us. And his budget sets the fiscal dials to "hard astern" for 1977. If Congress and the Federal Reserve respond with fiscal and monetary restriction this year, recovery could be imperiled next year long before the country reaches anything resembling full prosperity.

So the outcome of the Bicentennial battle of the budget will have profound implications not only for social policy but for economic performance. Where are the battle lines drawn for fiscal 1977? Given increasing budgetary caution and discipline in Congress and a conservative but not Neanderthal President in the White House, one can safely say that the range of outcomes is not bounded by wild election-year spending on one hand and a $90 billion cut on the other. Much

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more likely—giving proper weight to the President's budget cutting initiatives (and veto powers) and the shift toward sobriety-in-spending in Congress, both reinforced by the public's anti-spending mood—is a battle arena bounded at the upper end by a maintenance-of-services or hold-the-line budget of $414 billion and at the lower end by the President's $20-billion-cutback budget of $394 billion.

When the President first proposed his 28-28 program last October, he was operating from a "current services budget" benchmark of $423 billion. But after downward revisions in the light of more accurate information and "congressional increases threatened but not passed," the figure was scaled down to $414 billion. That is the level of spending that would be required in fiscal 1977 (starting Oct. 1, 1976) to maintain services and commitments at fiscal 1976 levels. Mr. Ford would whittle $20 billion off this revised "current-services budget" by holding social programs $10.5 billion below prevailing levels; civilian and military pay, $3.5 billion below; other defense, $1.5 billion: and "all other," $4.5 billion.

A COMPARISON

Another way of looking at the 1977 Ford economy-model budget is to compare it with "normal" budgetary growth. The $21 billion increase over the fiscal 1978 budget is just half the average increase of the three preceding years. (After factoring in the three months' hiatus—with its own "transition quarter" budget—before fiscal 1977 begins, the applicable rate of increase comes to only $17 billion.)

Some $15 billion of the $21 billion increase represents the actual growth in defense and interest costs. This seems to leave only $6 billion for all other programs. But, as recovery continues, an added $5 billion becomes available through the automatic shrinkage of unemployment compensation and other "cyclical" transfer payments. Thus $11 billion is available to finance increases in all other "non-cyclical" civilian programs. Normal growth in these programs consisting of a 6% allowance for inflation and 4% real expansion, would come to $31 billion. By this measure, too, the Ford budget represents a $20 billion scaling back of government programs. So both the overall cutback and its impact on the level of social services are severe by any recent budgetary standards.

On the tax side, the President proposes extending the present $18 billion tax cut, plus another $10 billion cut in personal and corporate taxes effective July 1, 1976—all conditional on appropriate cuts in projected spending. His proposed increases in payroll taxes, effective next Jan. 1, will offset nearly $8 billion (at annual rates) of the additional $10 billion.

The combined tax and spending changes in the Ford budget would add up to a withering fiscal drag on economic expansion during fiscal 1977. The high-employment surplus would rise by $19 billion for the fiscal year, with the restrictive pressure growing sharply and steadily during calendar 1977.

That the Congress will fully accept either the restrictive economic policy or the Spartan social policy implicit in Mr. Ford's budget is highly unlikely. True, no spending spree is in prospect. But a reasonable working assumption is that the pulling and hauling on the budget will bring spending up to about $410 billion for fiscal 1977. And after another noisy struggle, a further extension of the present $18 billion cut seems to be a good bet.

This policy projection implies little fiscal construction until after the election. But even if spending winds up at $410 billion, fiscal policy will tighten in fiscal 1977. The tightening would be very modest if the proposed income and payroll tax changes are not enacted. But if the payroll tax cuts are accepted while the added income tax cuts are rejected, the net result would be an $11 billion restrictive impact on a 1977 economy still operating far below reasonable target levels.

Monetary policy, after a year of puzzles and surprises, is even more difficult to sketch into the mosaic of the 1976 outlook. But a reasonable person, with fingers crossed, could assume that the Federal Reserve would not overreact to a strengthening recovery unless the inflation outlook suddenly darkens. In other words, a monetary policy that produces a mild rather than sharp rise in interest rates is a reasonable projection. This implies that short-term rates, after some further easing, will move up only moderately as the year progresses. Long-term rates are not likely to rise until later in the year. ad then only after giving some further ground in the next few months, especially in the mortgage area.

Given only moderately accommodative fiscal and monetary policy for 1976, where do Perry and I find the expansionary strength to support a forecast of

7% real GNP growth? Primarily in a more upbeat view of consumption and business capital spending (and, in the accompanying year-over-year advance of $25 billion in inventory investment) than most forecasters are projecting.

The sparkling performance of corporate profits will be the chief spur and lubricant for the revival of business fixed investment. Productivity advances and rising sales should generate a one-third rise in after-tax profits in 1976 on top of a striking jump during 1975. From 1975's first quarter to 1976's fourth, they should rise from $60 billion to over $100 billion at annual rates.

In a little longer—and "quality-corrected"—perspective, the profits boom is even more impressive. After inventory valuation adjustment (IVA)—that is, allowing for inventory replacement at current prices—profits in 1976 will be half again as high as in 1974. This will go a long way toward restoring corporate profitability, which had hit a postwar low of 8.1% of corporate product in 1974.

Led by the profit surge, internal cash flow this year will reach historically high levels relative to business fixed investment. Add to this the incentive of a more generous investment credit and the ability to draw on reinvigorated capital markets, and upward revisions of capital spending plans should be the order of the day. They are not yet reflected in plant and equipment surveys and capital appropriations. But the sensitive index of capital goods orders has been rising impressively since April. An "optimistic-realistic" expectation for this year, then, is an 11% rise in business fixed investment. Barring unexpected setbacks in the consumer sector, this advance should accelerate during 1976 and into 1977 and become a primary driving force for expansion.

FOUR PLUSES

The rise in consumer spending that started after the first quarter of 1975, stimulated first by tax reductions and then by rising payrolls, will continue during 1976 in response to (1) a continued rise in real disposable income as employment rises and wage gains outpace the inflation in living costs, (2) an improved consumer buying mood as buying power grows and the threat of layoffs recedes, (3) stock market advances and the rising backlog of demand for durable goods and (4) strengthened consumer liquidity growing out of a $100 billion-plus rise in consumers' liquid assets for 1975, together with only modest increases in installment debt. A rise of 11.5% in overall consumption—with autos and other durables as the star performers—is in the cards.

Housing at 1.5 million starts, a moderately declining net export balance, and a lackluster government sector—especially at the state-local level—round out the 1976 prospects. It all adds up to a 1976 GNP advance of $196 billion, to a total of $1,695 billion (using the new Commerce Department GNP benchmarks). For the first time in four years and only the second time since 1968; more than half of the advance will represent a real gain, less than half, inflation.

Inflation will continue to moredate in 1976. With a good 1975 harvest in hand and average crude oil prices scheduled to come down moderately, neither food nor fuel should add materially to the rate of inflation this year. And although rising demand will generate some added pressures on raw materials prices and on price margins, the moderate pace of recovery in the industrial world in 1976, coupled with pervasive slack in the U.S. economy, should hold these pressures in check this year. Thus the crux of the matter is the behavior of wage costs.

With 4½ million workers involved in major wage negotiations this year, the outcome will be crucial in determining price performance in 1976 and the later '70s. As a result of cost-of-living escalators, several of the unions involved in the forthcoming negotiations have enjoyed wage advances considerably above the economy-wide average. If the government could influence these negotiations to set a pattern of moderation, the national goal of slowing the rate of inflation would be well served. These settlements would be a logical place to begin a gradual unwinding of the wage-wage and price-wage spirals. A reasonable expectation—even assuming that the big contracts, front-loaded as usual, will average 10% in the first year—is that economy-wide compensation per manhour will rise about 8% this year.

Given the abatement of food and fuel inflation, the modest impact of demand pressures, and an 8% average pay increase, the rise in the GNP price deflator this year should ease to about 5¾%, or three points less than last year.

An inflation rate of less than 6%, coupled with a 7% advance in real output, is cause for considerable satisfaction but no complacency. Despite the above-trend

gain in output, the end of the year will still see recession-like levels of unemployment at 7¾%; of capacity utilization rates in manufacturing at about 80%; and of economic slack, with actual output still running nearly $125 billion below the economy's potential (as measured at 5% unemployment).

DEFINING "FISCAL RESPONSIBILITY"

Congress rightly prides itself on its more prudent fiscal posture and procedures. But if the new politics of fiscal responsibility, or austerily, simply leads to budget parsimony and willy-willy economic restraint, its benefits will be swamped by its costs. Congress should vividly bear in mind that massive swings toward fiscal restraint in 1959–60 and 1973–74 exacted a huge toll in lost jobs and output.

To hit the fiscal brakes, as Mr. Ford proposes, when unemployment and economic slack are still legion and inflation is ebbing would be fiscally irresponsible. "Fiscal responsibility" is not synonymous with "fiscal restraint." Rather, it calls for an intelligent fitting of tax and spending positions to the needs of the economy. With its new budget procedures and staff, the Congress is now equipped to do this. Given the will, it can become a major force in effecting a new fiscal policy of responsible net sttimulus in a lagging or sagging economy, and responsible net restraint in a prosperous but inflation-prone economy.

Chairman HUMPHREY. Mr. Heller, there is no adequate way that we can properly express our thanks to you for one of the most formative and thoughtful, and I think sensibly provocative statements that we have had before this committee.

I tend to find myself in agreement with you on your optimistic view of GNP. This has been a matter I have kicked around here two or three times, but you come up with an about 7-percent rate.

Mr. HELLER. That's right.

Chairman HUMPHREY. And the administration, I think, 6 percent. I think the balance of most forecasters is around 6 percent, 6¼ percent figure, or slightly less. There are some intangibles that people don't often measure in these forecasts, and that is the attitude of the public, its willingness to spend—even out of savings, as well as out of income.

There is some indication of that, and as you properly noted, that doesn't get us out of the woods, we still have a long way to go. The emphasis that you put on the corrosive waste of our human resources due to unemployment is very informative. I also think the waste of unused capital, when it lies idle, and the waste of plant capacity are areas which need to be emphasized.

I want to especially thank you for your statement at the conclusion of your economic analysis entitled, "Misguiding of the American Public." If you do nothing else, Mr. Heller, from here on out but to talk sense to the people of America—and I mean the people, not just the big ones, but the ordinary citizens—you will be performing a service beyond the call of duty because it is a fact that there is a deliberate effort, politically motivated by the most conservative people in this country, people having to struggle to get out of the 18th century, to mislead and misinform the American public.

One of the reasons that we have conducted some of the hearings in this committee is to try to perform an educational function, not to deny anyone their chance to express their point of view; to get a wide variety of opinions from the witnesses, and indeed, we have surely a wide variety of attitude among the members. But I really believe if the Joint Economic Committee is worth supporting in Congress it is for the educational function it performs for the public, even more

than the Congress because, quite frankly, the attitudes in the Congress are not very progressive with regard to economic policy. They are about as misguided as some of the misguiders.

When I attend some of our caucuses I wonder which party I'm in at times—and I say that respectfully.

The fear of deficits and the willingness to buy the fact that it is the deficit that caused the inflation, as if it is preordained, is incredible.

And your point that you made here today, when you pointed out in your statement that the inflation rate has been going down despite these incredibly high deficits, is one that I have tried to make, but obviously without the same ability, or sophistication. And I might say, the inflation has been going down as the unemployment rate has been going down. So, on two points the administration policy has proven to be as phony as a Confederate three dollar bill. First, if you have an inflation rate, if you have a deficit, you can't handle the inflation. Second, if you start getting people back to work, that somehow or other is a very serious threat to the possibility of inflation.

We have now, according to their own figures, come down from an 8.9 percent unemployment rate to a 7.8 percent unemployment rate; and in the meantime the inflation rate has been going down because productivity has gone up. Your analysis of the productivity of the American economy, and of the American worker with the tools of industry is one of the most revealing statements that has been made.

If you downgrade the economy, you downgrade the political system and the economic system. For the life of me, I can't understand why these self-appointed capitalists have been putting poison in the wells. We used to say, "Don't spit in the well from which you have to drink." These people are doing just that.

I can't thank you enough for the statement on misguiding the American public, and I commend it for reading of every Member of Congress, and to all the "doubting Thomases" of the administration.

I have a couple of questions I want to ask you, and then I'll turn it over to my colleagues. As I said, Congressman Long, will preside during the testimony with you. Senator Proxmire, would you take over when Mr. Shiskin arrives, at that point?

In your statement, you mentioned investment in capital goods. Do you feel that the McGraw-Hill analysis and the Commerce Department analysis might be slightly on the downside?

Mr. HELLER. Yes, I do. By the way, before I answer that question, let me just as I have in the past, pay tribute to the educational job the Joint Economic Committee has been doing over the years under Senator Proxmire's chairmanship, under yours and others. I think it is really remarkable how steadfast you have been through the years, and it goes back, after all, now some 25 to 30 years. I think the economists of the country are very much in debt to the Joint Economic Committee for the job it's done.

Well, coming to your specific question. It isn't that I regard the McGraw-Hill survey as wrong——

Chairman HUMPHREY. I understand that.

Mr. HELLER [continuing]. But it's the history of previous recoveries that capital spending plans constantly get revised upward in an upswing in the economy and downward in a downswing. When you

take the sensitive index of capital goods orders, that has been rising rather nicely since April. It is the one index that Perry and I could find that tends to support our more optimistic view. A lot of it depends on the nimbleness of American business. I hope they haven't got so ossified and bureaucratic—to use terms that are usually applied to Government—that they can't respond fast enough to opportunity. They are going to have the money in hand, no question about that, they are going to have more internal cash flow relative to capital spending plans than they have for 8 years. So, they are going to have the cash in hand, the economy is going to be expanding, there is going to be better access to the capital markets; and the real question is, how rapidly can they adjust their plans to respond to that.

If they are slow, if it is a viscous process, maybe what we foresee for 1976 won't happen until 1977; but if they are nimble, as American enterprise prides itself on being, we should get a constant upward revision of the McGraw-Hill and Commerce surveys.

Chairman HUMPHREY. One other question on my time.

Secretary Simon has appeared before us, repeatedly bringing to our attention that the financing of the Federal deficit is crowding private capital out of the market. What is your view on that?

Mr. HELLER. One can't deny there were some periods of congestion in 1975, but the overall record shows that there simply wasn't any significant crowding out. It was a matter of the Federal deficit in effect crowding into a vacuum created by an enormous shrinkage of private borrowing. From 1973 to 1975 private borrowing of all types shrank by about $90 billion, that is corporate borrowing, mortgage borrowing, installment borrowing, and so on; and that of course produced a terrible downdraft, or was part of a terrible downdraft in the economy. The Federal Government came in and increased its borrowing by about $80 billion in calender year 1975, and that took the place of it.

But both private and public sources have recognized that there wasn't any crowding out of the private borrowers, it was simply a lack of demand for bank loans, a very weak demand; a weak demand on the housing side; consumers squirreling away $100 billion in liquid assets last year in addition to what they had before, doing very little installment buying. The overall picture is not one of crowding out, but one of substitution of Federal borrowing for the disappeared private borrowing.

Chairman HUMPHREY. One of the points that was made to me just last evening by a prominent member of the business community, who seems to have a rather progressive attitude, was that "If you really want to find out what's going on in the economy, call Mr. Robert Wood of Sears & Roebuck," and I said, "Why?" and he said, "He will give you a pretty good idea because he will tell you what happened in the debt retirement on consumer credit and so forth, and when there is a considerable amount of debt retirement rather than an increase in consumer purchasing or consumer credit, it's bad news." And I said, "Well, do you think this a good measurement, an adequate measurement of what's happening in the economy?" and he said, "At least it's one measurement that we look at." And, may I say, this gentleman represents one of the largest companies in the world. He indicated to

me the surveys they utilize and, interestingly enough, his prediction from these surveys was right at 7 percent for the GNP for the coming year; about the same you came down on.

Likewise, his concern was with the Federal Reserve. What are they going to do when they see the rise in GNP. The concern of the business people I talked to of late is that the Federal Reserve is going to move in just about the time it looks like there is some hope that the garden may blossom, the garden of the American economy, and they will start to impede the growth.

Now, how do you look upon the work of the Federal Reserve in the months ahead?

Mr. HELLER. Well, I'm deeply concerned about precisely the problem you put your finger on, Senator Humphrey. As far as Mr. Ford's budget is concerned, the Congress could do something very directly on that.

Chairman HUMPHREY. Don't depend on it.

Mr. HELLER. But I'm saying you can.

Chairman HUMPHREY. I hope you'll talk to the Budget Committee.

Mr. HELLER. I will.

Chairman HUMPHREY. They need prayer sessions with you.

Mr. HELLER. I'm scheduled there next month, it may be too late.

Chairman HUMPHREY. Evangelism will help, too.

Mr. HELLER. I go along with that ecumenical advice.

But, I really am more deeply concerned about what Arthur Burns and his cohorts do to the economy. Even though money conditions and interest rates have eased in the past few months, the atmosphere they breathe at the Fed is still supercharged with inflation. What they don't realize, it seems to me, is that a lot of this inflation has been generated in the economy by external shocks, has slowly been working its way through and working its way up. Now, no one could be satisfied with a 6-percent rate of inflation; but they are attacking it from the wrong end if they start tightening up again because tightening money isn't going to influence Sheik Yamani and the Shah of Iran on oil prices; it isn't going to stop the drought in southwest Texas or California.

Chairman HUMPHREY. Or southern Minnesota.

Mr. HELLER. Or southern Minnesota. And it's not going to have much influence on the wage bargaining this year. I think the labor experts like Albert Rees and others have said those are going to go pretty much on their own course; and some way or another we do have to find a way of winding down the wage, or price-wage spiral, without holding the whole economy down.

If I may just add to this. The trouble, I think, part of the trouble—and I respect Arthur Burns, I often praised him when others were criticizing him—but the trouble is, I think the Fed tends to identify expansion with inflation, and doesn't recognize that very often economic expansion helps fight inflation; it increases productivity; it enables business and labor to get their kicks, their returns, out of volume instead out of higher margins.

Chairman HUMPHREY. Higher wages.

Mr. HELLER. And higher wages. It generates more savings and investment. We are losing at least $20 billion a year of savings and invest-

ment by running the economy at such a low level. And finally, continued unemployment erodes your human capital; it undercuts the ability and skills of the labor force.

So, I think we have got to get a little bit of that religion across to Arthur and his cohorts. I don't really know how to do it, we have all tried. I hope that he is not going to crank up interest rates soon and choke off this expansion, as he so effectively helped worsen the recession in 1974.

Chairman HUMPHREY. Thank you. My time is up. Congressman Long.

Representative LONG. I want to join the chairman in complimenting you, particularly on that aspect of your statement on misguiding the American public; that is something we have been concerned about for a great length of time, and I well understand it. I'm hesitant to place the blame for this in terms of whether or not it is intentional, or something that just happened.

You have been a student in this field for a long time, and it just seems to me that for intelligent people to look at this, it is so evidently self-defeating from the standpoint of both the economy and the political system, to continue this over a long period of time, that no intelligent person would want to continue to pursue it.

Could you shed any light on this at all, or what kinds of conclusions have you reached as to why all of this is coming about? Why do people that basically have access to the great mass media that goes out today, particularly in the financial field, why is this the line they have consistently followed over the years, giving them the best intentions?

Mr. HELLER. Well, part of it, I think, is honest misunderstanding on their part; part of it is an honest misperception, belief in up-side-down economics; the extension, as it were, of sort of family economics to the Federal budget, acting as if the budget of a family, of a business, or of a State or local government is the same thing as that ment is a balance wheel in the economy; that the Federal Government is a totally different animal in terms of its responsibilities for maintaining a reasonable amount of stability in the economy, and not recognizing that the debt problem, for example, is a very different one for the Federal Government. The fact that we owe most of it to ourselves doesn't mean it's not a problem, it is a different problem.

So, that part of it you simply have to recognize as a failure, as a misperception of understanding. But I'm afraid——

Representative LONG. May I ask one other thing that should be added to that, I'm inclined to agree with you. I think that perhaps relates to something that has concerned me in the broad changes that have occurred in the fast developing, accelerated society in which we find ourselves, and that is the movement of the mass media toward oversimplification, the kind of generalism that they have to do; and that leads to the rat-ta-tat kind of journalism rather than the enlightened study that is required for something that is different, for something that is affirmative, rather than negative, and for something that is complex, rather than being simple.

Mr. HELLER. Well, Arthur Okun has an extremely good figure of speech—and I don't know whether he used it here yesterday—that illustrates your point very well. You know, it is very simple to explain

to an individual that he should take a throat lozenge for a sore throat; and he also seems to understand that in order to cure a strep throat, you have to bend over and get a shot of penicillin, and he understands that that eventually gets to his throat.

But, when you are dealing with the economy, somehow or other it seems to be difficult to get across that that shot in the backside eventually does cure the economic strep throat; what you do in fiscal policy, or monetary policy may not seem immediately relevant to the jobs problem, yet eventually has an enormous impact on jobs.

So, it is more difficult. Unfortunately, economic phenomena, as I say, are complex. The media, as you say, often oversimplify—and all of us are guilty of that when we use the electronic media in particular because we are trying to give some quick answers.

Part of it, unfortunately, is a matter of people pursuing their own self-interest, either political or economic self-interest; and it is to their self-interest, purposely or not, calculatedly or uncalculatedly, to mislead the public as to the relationship that exists because it serves to facilitate the adoption of policies that line their pockets, either political pockets, as it were, getting votes; or it lines their economic pockets. That is why it is so hard to root out because often the truth doesn't serve selfish ends.

That is why, if you don't have an administration like the Kennedy administration that is trying to talk economic sense to the American people, you in effect underwrite their prejudices that arise out of copybook maxims, and out of projecting their own family economics to the national economy and to the Federal Government.

Representative LONG. Thank you, Mr. Heller.

The crowding out discussion that you had with the chairman followed one that the chairman and I had with Secretary Simon a few days ago before this committee. Secretary Simon was saying that really most of this crowding out of the capital market was going to occur in late 1976 and 1977, he wasn't talking so much about what happened last year and is happening at the present time. He said that this is going to occur at that time.

Do you share his concern about this?

Mr. HELLER. I noticed that report in his testimony. Somehow or other, by the way, that isn't the way I thought I heard it last spring.

Representative LONG. I didn't remember it exactly that way either.

Mr. HELLER. I understood we were going to have terrible problems of crowding out right then and there in 1975—and it's pretty well agreed, we didn't. Now the ground is being shifted to 1976.

Now, it is true, if we pulled out all the stops, if we had a tremendous spending program, tax cutting, easy money program, of course there would begin to be crowding out. It would be a case of the Federal Government using money that in an expanding economy otherwise would be used for homebuilding, for plant and equipment spending, and so forth. What we need is a program that is stimulative enough to help draw enough resources back into use to help finance, as it were, private investment; but not so fast as to crowd them out.

Now, that takes a certain amount of skill, but I think we are way below the point where the shrinking deficit is going to be crowding out capital formation, housing, and so forth. We need to strike the

right policy balance where Federal policies will be stimulating housing and investment and helping make it possible by increasing total income in the economy—that is, overcoming that $20 billion loss that we suffer by running the economy $150 billion below potential—and not overstimulate to the point of actually crowing out—but we are still way below that ideal balance.

I join him in the pure economics of crowding out and in recognizing that possibility, but I don't believe we are yet near the point of too much crowding out. If anything, we have too little crowding in of sensible stimulating.

Representative LONG. Well, I am very appreciative of your views, Mr. Heller. Your enlightened views are refreshing in the very stagnant times of negative situations, we are optimistic in light of your encouraging views.

Mr. HELLER. Well, may I just add, Mr. Long, I'm not always optimistic, although you have to discount a little bit the fact that I suppose my bias is on the optimistic side. But I do like to recall the fact that I appeared before this committee in August of 1974 and said that we were heading for a severe recession; at that time my bias was a pessimistic one.

Representative LONG. Most of the testimony we have had from the administration witness left me with the feeling that if the Nation doesn't die, it's ultimately going to get well; that's about the attitude they have had, from their projections of unemployment down the road. Even willingness to accept this, assuming that they are correct, concerns me, that doesn't appear to me to be the solution to the problem that we have.

I think you have given a much more direct analysis of all the problems, at least one that is much more in line with my thinking as to what the potentials are, Congressman Hamilton.

Representative HAMILTON. Thank you very much.

Mr. Heller, like Congressman Long, I certainly appreciate your appearance. We are going to be told in a few minutes by the Department of Labor that the unemployment rate has declined from a December rate of 8.3 percent to a January rate of 7.8 percent. Now, that is a very sharp drop.

I wonder if you could help the members of this committee and Congress understand the significance of that drop, what it means to you, how much importance we should put upon it.

Mr. HELLER. Well, clearly, you are going to hear from somebody who is much better posted on that a little later this morning. Just looking quickly at the first page of that release, let me say first of all that while the half-percentage-point drop in unemployment is more than I expected for this month, it is awfully hard to forecast month-to-month changes.

It is in line with my generally more optimistic view of economic developments in 1976, that it is with the more pessimistic view of this year. I note that total employment went up by 800,000, seasonally adjusted. I have not had a chance to check out the seasonal adjustment, there have been some recent changes; and whether part of the explanation lies there, I simply don't know.

Representative HAMILTON. Do you read any special significance into the fact that the rate declined so sharply in 1 month's time?

Mr. HELLER. Not particularly. I think it is an index of the fact that the economy is improving, and is improving faster than most people are giving it credit for. But I would not expect this kind of a rate of improvement, given the rate of expansion that we look to, I would not expect this kind of an improvement to continue throughout the year. Our forecast of the year-end unemployment rate is a little over 7 percent, and not inconsistent with that kind of a jump. It is a jerky figure, and it is going to take us 2 or 3 months to see. Obviously, it is delightful that this kind of improvement has occurred. We still, as I pointed out in my staement, have an incredibly large labor pool slack in terms of unemployment, and anything that improves it has to be welcomed by everyone.

Representative HAMILTON. Let me refer to your Wall Street Journal article which you attached as part of your statement today. In discussing the problem of inflation toward the end of the article you have stated that "The crux of the matter is the behavior of wage costs," and a little below that you say, and I'm quoting again:

> If the government could influence these negotiations—we are talking about wage negotiations—to set a pattern of moderation, the national goal of slowing the rate of inflation would be well served.

I would like to ask you how you, first of all, get to the conclusion that it is the wage problem that is the crux of the matter; and second, what you think the Government ought to do to try to inuence the result of that bargaining.

Mr. HELLER. No. 1, this year, as I point out, unless we have some new crop disasters, or unless OPEC unexpectedly jumps the oil price, the food and fuel price explosion that occurred in 1973–74 should be pretty well behind us. Although rising demand in the economy is going to have some upward pull on prices, it should be very moderate, given the ample supplies and ample profit margins. So, this year inflation does, again, boil down to what happens to unit labor costs. And overall we are forecasting that the rise in pay will be about 8 percent in 1976, that is, average hourly compensation will rise by about 8 percent. Subtract from that the trend increases in productivity of about 2½ percent a year and you get back to about 5½ percent inflation. Then, we add another one-half percent for other factors. That is the arithmetic used for our forecast, which is really the first thing we are asking about.

Now, second, how can Government affect the big settlements, those big settlements involving 4½ million workers that are really a strongly organized sector of the economy, which is of course only a small sector, only 25 percent of the economy is strongly organized, and 75 percent is not.

And out of that strongly organized sector only 4½ million are involved in these bargains.

Representative HAMILTON. Is that 25 percent the leader with regard to the 75 percent?

Mr. HELLER. At times yes, and at times, no. Occasionally because of the 3-year cycle of labor settlements, there are periods when organized labor is fairly well locked into the settlement, and unorganized labor suddenly—their wages suddenly mushroom while the others are locked in. Now, that is not going to happen this time around. Organized labor in 1969–70 truly fell behind unorganized labor, and therefore an enormous catchup was needed. By and large that has not happened this time

around. Many union members, especially the automobile unions, for example, have a very good cost-of-living escalator, and their pay exceeded the average pay increase in the economy.

That is not true with the rubber workers, they have fallen behind, they are likely to get a whopping settlement; they are not a pattern setter, and I think that is something we have to expect and not confused by headlines on the rubber workers. But, take the automobile workers, in particular, as an example. They have enjoyed above average wage increases, and one might hope that they can be held to stick to a pattern of moderation. Now, how do you do this? It doesn't come about by magic. You have to have a government that is dedicated to the proposition of restraining somewhat the outsized wage increases and outsized price increases.

You can't go to labor and say:

> Now, you take the brunt of this, and we'll just let prices go without any kind of restraint whatsoever.

Representative HAMILTON. It is the mechanics of restraint that I'm particularly interested in.

Mr. HELLER. So, I would go to the Council on Wage and Price Stability and would suggest—well, actually I would go to the President and say:

> If you want to restrain the wage settlements with a view to slowing down the wage and price spiral, you should first of all show full confidence and give full support to the Council on Wage and Price Stability, headed by Mr. Moskow; use the subpena powers, use the powers of publicity to point the finger, and even use the White House as a bully pulpit. At the same time you have to say to them where there are outsized price increases in the concentrated industries, you should be calling them in, calling them on the carpet, and using the prestige that the White House, that the Presidential Office has, to point the finger.

But I personally prefer more power for the Council.

Representative HAMILTON. What are your thoughts on that?

Mr. HELLER. I would prefer that they have the power of suspension; I would prefer that they have the power to require prenotification of wage and price increases in these concentrated industries.

Representative HAMILTON. How about rollback?

Mr. HELLER. Pardon?

Representative HAMILTON. Should they have the power of rollback?

Mr. HELLER. Yes; I would give them the power of denial and the power of rollback on outsized price and wage increases that qualify as what one might call outrageous rip-offs of the public. But even without that, I think they could be much more active, and I think they are ready, willing, and able if they were given the support of the President. They should be much more active than they have been.

Representative HAMILTON. My time may be up, but may I ask, do you now accept the 5-percent unemployment figure as full employment statistic? I notice you made some reference in your prepared statement.

Mr. HELLER. One has to distinguish between social goals and near-term economic goals. I don't think we can accept 5-percent unemployment as a longer term social goal. But, in order to drive home the point that we have enormous slack in the economy even if we measure it by the more modest goal of 5 percent unemployment, I simply made my calculations on the 5 percent rather than the 4 percent. Here we have an administration, Mr. Hamilton, that is proposing we not cross the

5-percent line until 1980–81. So, I was trying to cast my assessments in terms of that goal.

We obviously have to speed it up. We obviously have to aim for a better unemployment rate over the longer run as a social goal, but if we are trying to do it overnight, we will touch off inflation.

Representative HAMILTON. What do you recommend with respect to a full employment budget this year; the administration budget, I think, you say moves toward constraint, and so forth. I think the figure is $19 billion, that you mentioned in your statement.

Mr. HELLER. $19 billion year-over-year swing, $30 billion swing from——

Representative HAMILTON. What kind of recommendation would you make?

Mr. HELLER. Well, I would think that we ought to make no swing at all; in other words, that we ought to eliminate that swing until the economy is much further along the road to full employment.

Representative LONG. Senator Proxmire.

Senator PROXMIRE. Mr. Heller, I'm delighted to see you, even though you did chastise our committee.

Mr. HELLER. I hope not unfairly.

Senator PROXMIRE. I think unfairly, but I'll come to that in a couple of minutes. Nevertheless, you are undoubtedly one of the most articulate and persuasive and effective advocates we have in the country, and it is certainly a legitimate viewpoint.

I do think, however, that you tend to become a little rhetorical on the other side, and a little unfair, maybe, in the way you attack the administration because of their antispending position. This happens to be my position, too, and I want to point out why I think you may have overstated your position.

You said there has been no increase in Federal spending with respect to the gross national product, as compared to the gross national product. Of course, you can always pick out years to prove your point. Now, what Secretary Simon was talking about, and he was very clear when he came before this committee, was not just Federal spending, it was overall Government spending, and that's the problem that we are faced with because the Federal Government has a profound influence, you would agree, on State and local spending, particularly with our revenue sharing, with our programs that require them to match; programs that entice them into something and then continue with it.

There we have quite a different picture. In 1950 the total amount of Federal, State, and local spending was 21 percent; in 1960, 27 percent; in 1975, 35 percent, with respect to the GNP.

Now, the total amount of Government spending, overall Government spending, increased from 21 percent to 35 percent since 1950. Furthermore, if you go back to the chart that Mr. Simon presented to this committee, you will find that the increase is a very large State and local increase.

So, if you talk about the Federal Government, of course you make your point. that is not the point the administration is making, they say, "overall Government spending" is profoundly influenced by Federal policy, is what they are talking about.

And I get your view—and I don't want to be unfair—that your fundamental description seems to be that we should spend more, that

that's the answer to our problem now, that we need at least $414 billion spending this year; and you state that as the minimum, indicating you probably would prefere more than that.

Mr. HELLER. Let me address myself to your very well taken point in two different ways. No. 1, that number would not arise from 21 to 35, if we take an essentially full employment level. We are starting with a full employment level in your base year, and a lot of what pumps up the percentage in 1975 to 35 percent is the fact that we are operating way below full employment GNP.

Senator PROXMIRE. Let me quote from this chart to indicate my point. He has for every single year from 1948 to 1975 the percentage of GNP, the Federal spending—12.7, 15.3, 13.4, 16.7, 19.7, and so forth, and it ends up with 20.2.

Now, by and large there seems to be a trend of increase, not a very large increase, maybe 2 or 3 or 4 percent over that period.

But then we look at State and local spending, and every year, recession year, prosperous year, whatever, there is a steady relentless increase; in some years more increase, in some years less. But, it goes from 6.8 percent, and then 7 percent, 8 percent, then 9, then 10, then 11, 13, 14 to 14, 14.8 percent now. I don't see that you can possibly deny the fact that there has been this very sharp growth of State and local spending with relationship to GNP.

Mr. HELLER. Senator, I would be the last to deny that. After all, I have been working in the State and local finance field since my humble beginnings as a graduate student at the University of Wisconsin in 1935, and I am one who has appeared before this committee for the past 25 years, asking it to pay more attention to the pressures on State and local governments.

But we must recognize two things. No. 1, the help that the Federal Government gives to the State and local governments is already all in the Federal spending figure; that's No. 1.

No. 2, the pressures on State and local governments are in large part in the education field; the protection of life and property field, in areas that have been expanding State and local employment to 12 million people. The Federal civilian employment is about 2½ million. And that is simply a different animal, that is a different animal in the institutional structure than the Federal Government. And most of the identification in the minds of the public about this terrible expanding government is the Federal Government.

Senator PROXMIRE. That's right, you make a legitimate point here. The fact is, however, that the overall government of the United States has increased——

Mr. HELLER. Sure, I don't deny that.

Senator PROXMIRE [continuing]. Sharply in proportion to the gross national product from about one-fifth to about one-third. The trend has been relentless and steady. Maybe the Budget Reform Act can help us, but in view of the fact that the principal problem, you say, is State and local. I'm not so sure about that. We continue to follow policies of inducing, persuading State and local governments to increase their spending.

Let me go to something else because I think that is more germane to what I have been working on. You talk about monetary policies, and I

couldn't agree with you more that the administration doesn't have the kind of expansionary overall economic policy they ought to have. My prescription is a little different from yours, I would like to see more emphasis on expanding the private sector.

But again, I think that the administration and the Federal Reserve Board has some kind of a case. When Mr. Burns appeared 3 days ago before the House Banking and Currency Committee, he defended his monetary policy and pointed out that people may be looking at the wrong thing. He said that the M–1, the currency and demand deposit, is not the same measure that it was a few months ago. He pointed out there has been a change in the law, specifically, which has enabled partnerships and corporations to open savings accounts in commercial banks. He indicated that $2 billion, just in a couple of months or so, has shifted from demand deposits to time deposits, and therefore moved out of M–1 to M–2.

Now, he said, you look at M–2, and you see that the increase in the money supply by that definition has been substantial, and he would expect that to be between 7½ percent and 10 percent for the rest of the year. It has been in that range rather steadily. So, that is part of the defense.

Another part of the defense, that I think is even more persuasive, is the fact that interest rates have been going down for short-term rates. And another part is that a lot of the economists tend to look at overall figures and do not really get into what is going on in the business world.

Now, the Wall Street Journal reported yesterday, for example that banks have become far more aggressive in trying to get business to borrow money and are shaving their rates, and that this is having an effect, for example, they say that Ampex Corp., Redwood City, Calif., says two banks a week are soliciting business compared to two a month a year ago. "A lot more banks are speaking to us these days, and they are not talking pricing," says Charles Kanoo, vice president of Orange Co. But some banks probably are. A Houston Fruit Co. executive says he has had some indications from regional banks that they are cutting back in balance requirements, to make loans more attractive. ITEL Corp. says it's paying from one-quarter to one-half percent point less in its increment over the prime rate. S. S. Kresge says banks are trying to lend money at less than the prime rate.

Now, the whole point of monetary policy, or, or one big part of monetary policy is to make credit available to business on attractive terms. Apparently that's going on, interest rates are down, banks are pushing it, and that aspect of monetary policy seems to be working to some extent. It's not reflected if you just look at that M–1 mechanism in the figure.

Mr. HELLER. Senator, although I didn't do it in this statement, I acknowledged time and again that in the past 3 months monetary policy has been following the course that a lot of us have been recommending for a long time. And it certainly was off-course by jumping interest rates, by pushing interest rates up in the summer, when we just had the first stirrings of recovery; and interest rates have backtracked.

Now, the Federal Reserve admits rather candidly that it is quite puzzled about the relationship between their attempts to increase

supply of money and the flaccid demand for money, something is going wrong with their equations, and the residuals are misbehaving badly.

So, on should be a little careful, I guess, both in prasing them when interest rates go down, and condemning them too quickly when interest rates go up.

All I'm saying, you know, they have gone along with lower interest rates, and I want them to keep it that way until the economy shows much better signs of regaining the kinds of levels of employment and production that are consistent with prosperity.

Now, I am not arguing that they should wait until we see the "whites of the eyes" of inflation, obviously there are lags in policy, 6 to 9 months. But, meeting with Arthur Burns last June I suggested, "Why don't you just hold interest rates for the next 6 to 9 months, and then see how things are; and then you have plenty of time to turn around."

Senator PROXMIRE. But you see, as far as monetary policy is concerned, it seems to me it is very hard to blame them, perhaps as much as some of us have been, in view oft he fact that you do have this reduction in interest rates, No. 1. You do have, No. 2, aggressiveness on the part of the banks. And No. 3, most important of all, it seems to me, a situation where, for housing particularly, monetary policy is not a very effective instrument. It takes a Federal program of a shallow subsidy, perhaps for housing mortgages, to get that rate down from 9 percent to 7 percent.

Now, that kind of policy, it seems to me, can just do wonders for our economy. If we had a 7-percent mortgage rate available, you would have literally millions more families qualified to buy homes that needed homes. Every home you buy is 2 man-years of work, a million more starts would mean 2 million jobs. Now, that is the kind of program, it seems to me, that would make a lot of sense; monetary policy is not going to accomplish that. You can't blame the Federal Reserve for the fact the President has vetoed the bill at that time that passed the House and Senate.

Mr. HELLER. I don't need to disagree with one word of that to go on to say that past history shows that when monetary policy eased, mortgage rates came down. and money flowed into the thrift institutions, and housing went up. In other words, the general monetary conditions are terribly important to the housing market.

Senator PROXMIRE. Isn't it true that the long-term rate is stickier, and slower, and it's hard to adjust it from a high of 9 percent down, particularly in view of the inflationary expectations?

Mr. HELLER. I would think that it will ease somewhat this year, again, if we don't "blow it," so to speak, by starting to raise interest rates during the year; and let me emphasize, M-1, M-2, M-shmoo, the thing to put the emphasis on is interest rates. If interest rates are held within reasonable bounds, the economy and housing are going to do a much better job than if not.

And one thing that may bring home in a little different perspective the impact of the Federal Reserve and Arthur Burns relates to the housing market. At a meeting with 1,100 mortgage bankers 2 weeks ago, I found that in spite of the money rolling into the savings and loans and mutual savings banks, and other thrift institutions, they are

very reluctant to put that money out for long term. I asked them why in this little seminar meeting, and they said:

We think that mortgage rates are going to jump soon when the Federal Reserve slams on the brakes, and then we would be open to the criticism and open to the weakness that we put out our money at lower mortgage rates when they are soon going to be higher.

There is that constant image in their mind of a Federal Reserve that is suddenly going to tighten money and raise interest rates. And I think that therefore it is of tremendous importance, as Alice Rivlin has emphasized and other witnesses have emphasized, to shift a good bit of our emphasis to the level of interest rates, rather than simply the rate of increase in one type of money supply, or another.

I agree with you entirely, there has been a shift from M–1 to M–2—and we ought to put equal emphasis on the 2—but even greater emphasis on the course of interest rates.

Senator PROXMIRE. Well, I appreciate that. Now, I want to make it clear that I don't disagree with your argument that it's miseducation to argue that the deficit, or excessive spending is causing inflation now; obviously that is nonsense and is not true.

But my concern is that the Government at all levels is getting too big and insentitive because of its size. We haven't been able to solve the problems that we should have been able to solve, we are just throwing money at them. I would prefer to follow a more discriminating and lower cost operation, and see if we can make better progress that way.

Mr. HELLER. I have been known to advocate tax cuts instead of spending increases a few times in my life, just as you are implying. I can't disagree with the fact that we ought to do a better job in delivering public services. We are at the point where we have programs that really don't return must for the dollar, no question about it. But I don't think we should kid ourselves, or kid the American people, particularly about the size of the Federal Government, it is not going to overwhelm us.

I really think that Congress, under these new procedures, is getting control of that spending process. I thought last year was a very impressive demonstration of fiscal responsibility. And I for one would like to be reassured that that new process is taking hold, and that Congress, really for the first time, effectively looks at the total spending, not just individual pieces. If this is the case, I think the country's concern over excessive Government spending should be very considerably allayed. They ought to be very considerably reassured by what's going on in Congress. I would like to think of this as a watershed of change toward fiscal responsibility in Congress.

Senator PROXMIRE. Thank you very much.

Representative LONG. We have another 5 or 10 minutes, if you have any additional questions you would like to pose.

Thank you very much, Mr. Heller, we appreciate your coming.

Mr. Shiskin is here. Senator Proxmire?

Senator PROXMIRE. Mr. Shiskin, we are delighted to have you, and we are especially delighted to have you this morning when the news is so good; it's better than it's been for a long, long time. A drop of five-tenths of 1 percent in unemployment obviously is significant,

it is very good news, just as good news as the fact that employment also increased. Both the hole in the doughtnut got smaller, and the doughnut itself got bigger, so, we'll have a lot more to eat. I think that's happy news.

I understand you have a prepared statement, so, we will have you deliver it, and then we will have some questions.

STATEMENT OF HON. JULIUS SHISKIN, COMMISSIONER, BUREAU OF LABOR STATISTICS, DEPARTMENT OF LABOR

Mr. SHISKIN. Mr. Chairman and members of the committee, I welcome the opportunity to explain to the Joint Economic Committee certain features and implications of the comprehensive and complex body of data released at 10 a.m. this morning in our press release, the employment situation.

The cyclical recovery in the employment situation, which began early in 1975, continued in January. Substantial and widespread declines in unemployment were accompanied by strong gains in employment and aggregate hours, particularly in manufacturing, the cyclically sensitive component of total employment.

At 7.8 percent, the unemployment rate was 0.5 percentage point below December and 0.8 below the level only 3 months ago. The revised seasonally-adjusted unemployment rate shows a pattern roughly similar to that during the recovery of 1971–73 when it hung high for many months before dropping fairly rapidly. The decline in unemployment has been widespread, with substantial declines in the rates for household heads, married men, full-time workers, adult males, black workers, and white workers. The decline in job-loser unemployment, which is highly sensitive to cyclical forces, was substantial for the second consecutive month. Teenage unemployment, however, continues to fluctuate narrowly at a very high level. Despite these sharp declines, the unemployment rate remains very high by historical standards.

Total employment and nonagricultural employment both rose sharply in January. The increase in total civilian employment between December and January was 800,000, one of the largest increases on record. Total employment has now risen by more than 2 million since March 1975, its recession trough. Similarly, the rise in nonagricultural employment in both the household and payroll surveys has been substantial over the last few months. In January, nonagricultural employment, as measured by the household survey, was 2 million higher than at the trough for this series, also March, and 1.7 million higher than in June. As measured by the payroll survey, nonagricultural employment was 1.8 million higher than at the trough for that series, June. That is, if you look at the two comparisons since June, when the trough was reached in the payroll survey, the changes are almost identical.

The diffusion index shows that in January, 68 percent of the 172 industries posted employment increases. This was slightly greater than in October through December, but lower than in a few previous months. The industries showing most improvement were manufacturing and trade.

The employment-population ratio for all civilian workers rose sharply in January, as did this ratio for all three major components—teenagers, adult men, and especially adult women.

Average hours worked continued to rise. While the rise in manufacturing between December and January was small, this followed a substantial rise in the previous month.

As a result of the increases in employment and hours, aggregate hours continued to grow, with another strong rise evident in manufacturing, the cyclically sensitive industry component.

I want also to make next a few observations about the participation rate, where some very major and dramatic changes have been taking place.

The overall labor force participation rate in January was about the same as in December 1975 and also January 1975. This overall stability results from two contrary trends, male labor force participation has continued its historical decline and female participation has continued to increase. The female participation rate reached another new high in January, 46.6 percent of their civilian population, an increase of 0.8 since January a year ago. Male labor force participation, on the other hand, went from 80.4 to 79.5 percent over the year. In 1955, the adult female participation rate was 35.4 percent, while the rate for adult males was 87.6.

Senator PROXMIRE. Are these seasonally adjusted?

Mr. SHISKIN. Yes, sir. Mr. Chairman, I think that a revolution in the pattern of working life in the United States has been taking place, and I would urge all persons concerned with labor-force statistics to study these trends carefully. What is happening, in a nutshell, is that older men are leaving the labor force and many young women, mostly with children, are coming in. These developments have resulted in a dramatic change in the composition of the labor force.

Well, in summary, the employment situation continued to improve in January with widespread reductions in unemployment and substantial gains in employment and aggregate hours. After seven months of recovery, nonfarm payroll employment has made up almost three-fourths of the decline in the recession. While unemployment has also improved; less than 25 percent of the rise has been made up. Thus far, the recovery in employment is stronger than that following the severe recession of 1957–58, but the recovery in unemployment is weaker. Thank you.

I have a few statistical notes on the revised seasonal adjustment method, and also on the measures U-1 to U-7 which were published recently, and which received considerable attention. And finally I note that the release of the Wholesale Price Index figures has been deferred for a week because of the large workload we have had in introducing the new weights based on the 1972 Censuses of Manufacturers and Minerals Industries and the Census of Agriculture. I won't read these notes, but I would like to have them incorporated in the record.

Senator PROXMIRE. Without objection, they will certainly be put in the record.

[The press release, together with the material referred to follow:]

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NEWS

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THE EMPLOYMENT SITUATION: JANUARY 1976

Unemployment declined and employment rose in January, as the Nation's unemployment rate dropped from 8.3 percent in December to 7.8 percent, it was reported today by the Bureau of Labor Statistics of the U. S. Department of Labor. The jobless rate had reached a high of 8.9 percent (as revised) last May; most of the subsequent improvement has occurred between October and January.

Total employment--as measured by the monthly survey of households--increased by 800,000 in January, after adjustment for normal seasonal fluctuations. At 86.2 million, the employment level was 2.1 million above last March's recession low and very close to the pre-recession peak reached in July 1974.

Nonagricultural payroll employment--as measured by the monthly survey of establishments--rose by 360,000 in January, with nearly three-quarters of the gain taking place in manufacturing and trade. The payroll total of 78.1 million jobs was 1.8 million above the June 1975 low but still 700,000 short of the previous September's peak.

As is usual at this time of year, seasonally adjusted data from the household survey have been revised; the current revisions are based upon experience through December 1975. A note on this process and a table depicting the overall unemployment rate as originally reported and as revised appear on page 6.

Unemployment

The number of persons unemployed fell by about 450,000 in January to 7.3 million (seasonally adjusted). Since October, unemployment has declined by 770,000, after having held close to the 8-million mark since April. The unemployment rate fell to 7.8 percent from the 8.3 percent registered in December. For the second consecutive month, the drop in unemployment occurred entirely among those who had lost their last job, the jobless group most sensitive to cyclical fluctuations. (See tables A-1 and A-5.)

The overall decline in joblessness was reflected in improvements among most component labor force groups. The unemployment rate for adult men fell from 6.6 to 5.8 percent, while the rate for adult women moved down from 8.0 to 7.5 percent. Paralleling these declines were sizeable decreases in the unemployment rates for household heads, married men, and full-time workers. On the other hand, the rate for teenagers--19.9 percent--was virtually unchanged in January. (See table A-2.)

Table A. Highlights of the employment situation (seasonally adjusted data)

Selected categories	Quarterly averages					Monthly data		
	1974	1975				Nov. 1975	Dec. 1975	Jan. 1976
	IV	I	II	III	IV			
	(Millions of persons)							
Civilian labor force	91.7	91.8	92.5	93.1	93.2	93.1	93.1	93.5
Total employment	85.5	84.3	84.4	85.1	85.2	85.2	85.4	86.2
Adult men	48.2	47.3	47.3	47.6	47.5	47.5	47.6	47.9
Adult women	30.0	29.9	30.1	30.5	30.7	30.6	30.8	31.1
Teenagers	7.3	7.1	7.0	7.1	7.0	7.0	7.1	7.1
Unemployment	6.1	7.5	8.1	8.0	7.9	7.9	7.7	7.3
	(Percent of labor force)							
Unemployment rates:								
All workers	6.7	8.1	8.7	8.6	8.5	8.5	8.3	7.8
Adult men	4.9	6.2	7.0	7.0	7.0	7.1	6.6	5.8
Adult women	6.5	8.0	8.4	7.9	7.9	7.9	8.0	7.5
Teenagers	17.6	19.8	20.2	20.2	19.5	19.0	19.6	19.9
White	6.0	7.5	8.0	7.9	7.8	7.8	7.6	7.1
Negro and other races	11.7	13.4	14.1	14.1	14.0	13.9	13.8	13.2
Household heads	4.2	5.4	6.0	5.9	5.9	5.8	5.7	5.1
Married men	3.5	4.7	5.5	5.4	5.1	5.1	4.8	4.1
Full-time workers	6.2	7.7	8.4	8.3	8.2	8.3	7.9	7.3
	(Weeks)							
Average duration of unemployment	10.0	11.3	13.8	15.6	16.5	16.9	17.0	16.9
	(Millions of persons)							
Nonfarm payroll employment	78.3	76.9	76.4	77.0	77.6p	77.6	77.8p	78.1p
Goods-producing industries	24.1	22.8	22.3	22.4	22.7p	22.7	22.7p	22.9p
Service-producing industries	54.2	54.1	54.1	54.6	54.9p	54.9	55.0p	55.3p
	(Hours of work)							
Average weekly hours:								
Total private nonfarm	36.3	36.1	35.9	36.1	36.3p	36.3	36.4p	36.6p
Manufacturing	39.6	39.0	39.1	39.6	40.0p	39.9	40.3p	40.4p
Manufacturing overtime	2.9	2.4	2.4	2.7	2.9p	2.8	3.0p	3.0p
	(1967=100)							
Hourly Earnings Index, private nonfarm:								
In current dollars	164.3	167.7	170.7	174.3	177.7p	178.2	178.2p	179.8p
In constant dollars	106.5	106.7	107.1	107.1	107.4p	107.6	107.1p	N.A.

p= preliminary.
N.A.= not available.

White workers showed an improvement in unemployment, as their rate dropped 0.5 percentage point to 7.1 percent in January. The rate for black workers (13.2 percent), though little changed from December, has trended downward from the September peak of 14.4 percent.

Declines in industry unemployment rates were pervasive, while the drop in joblessness by occupational categories was concentrated among blue-collar workers, whose rate fell from 10.7 to 9.4 percent.

The average (mean) duration of unemployment, which usually lags behind movements in total unemployment, remained stable in January at 16.9 weeks, despite a large decrease in the number of persons unemployed 15-26 weeks. However, the number unemployed 5-14 weeks also dropped substantially and the number unemployed 27 weeks or longer--1.6 million--was little changed over the month. (See table A-4.)

In contrast to the downward movement in overall unemployment, the number of persons working part time for economic reasons on nonfarm jobs rose by 240,000 in January to 3.5 million, after having remained at about 3.3 million since last July. (See table A-3.) However, labor force time lost--a measure that combines the involuntary part-time employed with unemployment on a worker-hours basis--declined from 8.9 to 8.4 percent over the month.

Total Employment and Labor Force

Total employment surged upward by 800,000 in January to 86.2 million (seasonally adjusted); employment has risen by 2.1 million since the March recession low. Over-the-month employment increases were concentrated among adult workers in nonagricultural industries. Workers in both white-collar and blue-collar occupations registered large employment gains. (See tables A-1 and A-3.)

The civilian labor force rose by 360,000 in January to 93.5 million persons (seasonally adjusted). All of the increase occurred among adult women and teenagers. The labor force has grown by 1.5 million over the past year, with adult women accounting for 1.1 million of this increase.

Industry Payroll Employment

Total nonagricultural payroll employment increased for the second month, moving

up by 360,000 in January to 78.1 million (seasonally adjusted). As in the previous month, the most substantial gains occurred in manufacturing and trade. The total payroll job count now stands 1.8 million above the June 1975 recession low. (See table B-1.)

Employment increases from December to January occurred in 68 percent of the 172 industries comprising the diffusion index of nonagricultural payroll employment. Three-fourths of all industries have posted job gains over their July levels. (See table B-6.)

Employment in manufacturing advanced by 140,000, as widespread gains took place among both the durable and nondurable goods industries. Within durable goods, the largest increases occurred in electrical equipment, transportation equipment, and fabricated metal products. In nondurables, notable gains were registered in apparel and food processing. In contrast, employment in contract construction remained about unchanged over the month, maintaining the recessionary low level of 3.4 million exhibited for more than half a year.

An expansion in each of the industry divisions in the service-producing sector was led by an increase of 120,000 jobs in wholesale and retail trade. The service industry division continued its steady upward trend, growing by 60,000. An increase of 20,000 in transportation and public utilities resulted from the settlement of airline strikes.

Hours

The average workweek for all production and nonsupervisory workers on private nonfarm payrolls continued to climb, advancing by 0.2 hour in January to 36.6 hours (seasonally adjusted). The manufacturing workweek edged up to 40.4 hours, following a gain of 0.4 hour in the previous month. The factory workweek was 1.6 hours above its recession low but 0.6 hour below the pre-recession high recorded in February 1973. Factory overtime, which in December had recorded its first increase since August, held steady in January at 3.0 hours. (See table B-2.)

The index of aggregate hours of private nonagricultural production or nonsupervisory employees rose by 0.9 percent to 110.3 (1967=100), the seventh consecutive monthly increase. Aggregate factory hours also rose by 0.9 percent over the month to 93.3, continuing the upward movement from last March's low of 86.4. (See table B-5.)

Hourly and Weekly Earnings

Average hourly earnings of production or nonsupervisory workers on private nonagricultural payrolls rose 1.1 percent from the December level (seasonally adjusted) and 7.3 percent over the last 12 months. Average weekly earnings advanced 1.6 percent over the month and have risen 8.4 percent since January 1975.

Before adjustment for seasonality, average hourly earnings rose 4 cents to $4.72. Since January 1975, the increase has been 32 cents. Average weekly earnings were $170.39, down 43 cents from December but $13.31 above January a year ago. (See table B-3.)

The Hourly Earnings Index

The Hourly Earnings Index--earnings adjusted for overtime in manufacturing, seasonality, and the effects of changes in the proportion of workers in high-wage and low-wage industries--was 179.8 (1967=100) in January, 0.9 percent higher than in December. The index was 8.2 percent above January a year ago. During the 12-month period ended in December, the Hourly Earnings Index in dollars of constant purchasing power rose 0.7 percent. (See table B-4.)

This release presents and analyzes statistics from two major surveys. Data on labor force, total employment, and unemployment are derived from the sample survey of households conducted and tabulated by the Bureau of the Census for the Bureau of Labor Statistics. Statistics on payroll employment, hours, and earnings are collected by State agencies from payroll records of employers and are tabulated by the Bureau of Labor Statistics. Unless otherwise indicated, data for both series relate to the week of the specified month containing the 12th day. A description of the two surveys appears in the BLS publication *Employment and Earnings*.

Note on Seasonal Adjustment

At the beginning of each calendar year, the Bureau of Labor Statistics routinely revises the seasonally adjusted labor force series derived from the Current Population Survey (household survey) to take into account data from the previous year. This year, in addition to these routine annual revisions, the Bureau has introduced a modification in the procedure for seasonally adjusting teenage unemployment and those few other series of which teenagers are the exclusive or major part. All other series are adjusted following past procedures.

Largely because of the dramatic rise in unemployment in 1975, the seasonally adjusted figures were revised to a much greater extent than in prior years. For example, as shown in Table B below, the revised overall unemployment rates for 1975 differ from those originally published by 0.3 percentage point in 5 months, 0.2 percentage point in 3 months, 0.1 percentage point in 2 months, and were unchanged in just 2 months. Of course, these revisions do not affect the annual average, which was 8.5 percent in 1975. An explanation of the seasonal adjustment methodology will accompany publication of the new seasonal adjustment factors for the 12 major components of the civilian labor force--as well as revised historical data for nearly 300 series--in the February 1976 issue of *Employment and Earnings*.

Table B. Seasonally adjusted unemployment rates in 1975

Months	As originally published	As revised	Difference
January	8.2	7.9	-0.3
February	8.2	8.0	- .2
March	8.7	8.5	- .2
April	8.9	8.6	- .3
May	9.2	8.9	- .3
June	8.6	8.7	.1
July	8.4	8.7	.3
August	8.4	8.5	.1
September	8.3	8.6	.3
October	8.6	8.6	--
November	8.3	8.5	.2
December	8.3	8.3	--

Table A-1. Employment status of the noninstitutional population

(Numbers in thousands)

Employment status	Not seasonally adjusted			Seasonally adjusted					
	Jan. 1975	Dec. 1975	Jan. 1976	Jan. 1975	Sept. 1975	Oct. 1975	Nov. 1975	Dec. 1975	Jan. 1976
TOTAL									
Total noninstitutional population[1]	152,230	154,700	154,915	152,230	154,052	154,256	154,476	154,700	154,915
Total labor force	93,342	94,888	94,805	94,156	95,298	95,377	95,272	95,286	95,624
Participation rate	61.3	61.3	61.2	61.9	61.9	61.8	61.8	61.6	61.7
Civilian noninstitutional population[1]	150,037	152,543	152,775	150,037	151,882	152,092	152,320	152,543	152,775
Civilian labor force	91,149	92,731	92,665	91,963	93,128	93,213	93,117	93,129	93,484
Participation rate	60.8	60.8	60.7	61.3	61.3	61.3	61.1	61.1	61.2
Employed	82,969	85,536	84,491	84,666	85,158	85,151	85,178	85,394	86,194
Agriculture	2,888	2,856	2,853	3,370	3,512	3,408	3,301	3,236	3,343
Nonagricultural industries	80,082	82,680	81,638	81,296	81,646	81,743	81,877	82,158	82,851
Unemployed	8,180	7,195	8,174	7,297	7,970	8,062	7,939	7,735	7,290
Unemployment rate	9.0	7.8	8.8	7.9	8.6	8.6	8.5	8.3	7.8
Not in labor force	58,888	59,812	60,110	58,074	58,754	58,879	59,203	59,414	59,291
Males, 20 years and over									
Total noninstitutional population[1]	64,552	65,643	65,739	64,552	65,353	65,444	65,542	65,643	65,739
Total labor force	52,153	52,452	52,513	52,226	52,931	52,944	52,888	52,651	52,576
Participation rate	80.8	79.9	79.9	80.9	81.0	80.9	80.7	80.2	80.0
Civilian noninstitutional population[1]	62,824	63,929	64,055	62,824	63,629	63,725	63,830	63,929	64,055
Civilian labor force	50,425	50,739	50,829	50,497	51,208	51,225	51,176	50,937	50,892
Participation rate	80.3	79.4	79.4	80.4	80.5	80.4	80.2	79.7	79.5
Employed	46,753	47,499	47,136	47,538	47,516	47,513	47,521	47,586	47,916
Agriculture	2,226	2,177	2,163	2,419	2,473	2,430	2,386	2,316	2,351
Nonagricultural industries	44,527	45,322	44,973	45,119	45,043	45,083	45,135	45,270	45,565
Unemployed	3,672	3,240	3,693	2,959	3,692	3,712	3,655	3,351	2,976
Unemployment rate	7.3	6.4	7.3	5.9	7.2	7.2	7.1	6.6	5.8
Not in labor force	12,399	13,190	13,226	12,327	12,421	12,500	12,654	12,992	13,163
Females, 20 years and over									
Civilian noninstitutional population[1]	71,061	72,251	72,354	71,061	71,926	72,029	72,139	72,251	72,354
Civilian labor force	32,632	33,627	33,746	32,557	33,121	33,236	33,256	33,415	33,683
Participation rate	45.9	46.5	46.6	45.8	46.0	46.1	46.1	46.2	46.6
Employed	29,856	31,271	31,002	29,984	30,551	30,621	30,619	30,755	31,140
Agriculture	389	385	408	520	536	534	491	483	545
Nonagricultural industries	29,467	30,887	30,595	29,464	30,015	30,087	30,128	30,272	30,595
Unemployed	2,776	2,355	2,744	2,573	2,570	2,615	2,637	2,660	2,543
Unemployment rate	8.5	7.0	8.1	7.9	7.8	7.9	7.9	8.0	7.5
Not in labor force	38,429	38,625	38,608	38,504	38,805	38,793	38,883	38,836	38,671
Both sexes, 16-19 years									
Civilian noninstitutional population[1]	16,152	16,363	16,366	16,152	16,327	16,338	16,352	16,363	16,366
Civilian labor force	8,092	8,366	8,090	8,909	8,799	8,752	8,685	8,777	8,909
Participation rate	50.1	51.1	49.4	55.2	53.9	53.6	53.1	53.6	54.4
Employed	6,361	6,765	6,353	7,144	7,091	7,017	7,038	7,053	7,138
Agriculture	272	294	282	431	503	444	424	437	447
Nonagricultural industries	6,088	6,471	6,071	6,713	6,588	6,573	6,614	6,616	6,691
Unemployed	1,732	1,600	1,737	1,765	1,708	1,735	1,647	1,724	1,771
Unemployment rate	21.4	19.1	21.5	19.8	19.4	19.8	19.0	19.6	19.9
Not in labor force	8,060	7,997	8,276	7,243	7,528	7,586	7,667	7,586	7,457
WHITE									
Civilian noninstitutional population[1]	132,553	134,480	134,668	132,553	133,954	134,121	134,303	134,480	134,668
Civilian labor force	80,933	82,190	82,125	81,563	82,478	82,725	82,517	82,474	82,738
Participation rate	61.1	61.1	61.0	61.5	61.6	61.7	61.4	61.3	61.4
Employed	74,172	76,345	75,439	75,603	76,041	76,077	76,059	76,223	76,839
Unemployed	6,762	5,845	6,686	5,960	6,437	6,648	6,458	6,251	5,899
Unemployment rate	8.4	7.1	8.1	7.3	7.8	8.0	7.8	7.6	7.1
Not in labor force	51,620	52,290	52,543	50,990	51,476	51,396	51,786	52,006	51,930
NEGRO AND OTHER RACES									
Civilian noninstitutional population[1]	17,484	18,063	18,107	17,484	17,929	17,971	18,018	18,063	18,107
Civilian labor force	10,216	10,541	10,540	10,398	10,728	10,668	10,684	10,653	10,731
Participation rate	58.4	58.4	58.2	59.5	59.8	59.4	59.3	59.0	59.3
Employed	8,797	9,190	9,052	9,043	9,180	9,147	9,197	9,188	9,314
Unemployed	1,418	1,351	1,488	1,355	1,548	1,521	1,487	1,465	1,417
Unemployment rate	13.9	12.8	14.1	13.0	14.4	14.3	13.9	13.8	13.2
Not in labor force	7,268	7,522	7,567	7,086	7,201	7,303	7,334	7,410	7,376

[1] Seasonal variations are not present in the population figures, therefore, identical numbers appear in the unadjusted and seasonally adjusted columns.

NOTE: Data relate to the noninstitutional population 16 years of age and over. Total noninstitutional population and total labor force include persons in the Armed Forces.

Table A-2. Major unemployment indicators, seasonally adjusted

Selected categories	Number of unemployed persons (In thousands)		Unemployment rates					
	Jan. 1975	Jan. 1976	Jan. 1975	Sept. 1975	Oct. 1975	Nov. 1975	Dec. 1975	Jan. 1976
Total, 16 years and over	7,297	7,290	[illegible]	[illegible]	8.6	8.5	8.3	7.8
Males, 20 years and over	2,959	2,976	[illegible]	7.2	7.2	7.1	6.6	5.8
Females, 20 years and over	2,573	2,543	7.9	7.8	7.3	7.9	[illegible]	7.5
Both sexes, 16-19 years	1,765	1,771	[illegible]	19.4	19.[illegible]	19.9	19.6	19.9
White, total	5,963	5,899	[illegible]	7.8	8.0	7.8	7.6	7.1
Males, 20 years and over	2,422	2,391	5.3	6.6	6.7	6.5	5.9	5.2
Females, 20 years and over	2,122	2,051	7.5	7.0	7.5	7.5	7.5	7.0
Both sexes, 16-19 years	1,416	1,457	17.7	17.6	17.7	17.1	17.6	18.3
Negro and other races, total	1,355	1,417	13.0	14.4	14.3	13.9	13.8	13.2
Males, 20 years and over	534	588	10.3	12.5	12.2	12.8	12.3	11.2
Females, 20 years and over	454	497	10.6	12.2	11.9	11.0	10.6	11.0
Both sexes, 16-19 years	367	372	[illegible]	36.0	36.7	34.3	35.[illegible]	34.6
Household heads	2,736	2,745	[illegible]	6.0	6.0	5.8	5.7	5.1
Married men, spouse present	1,747	1,721	4.4	5.5	5.3	5.1	4.8	4.1
Full-time workers	5,909	5,839	7.5	8.4	8.5	8.3	7.9	7.3
Part-time workers	1,389	1,442	10.4	9.9	10.4	10.2	10.5	10.5
Unemployed 15 weeks and over [1]	1,572	2,785	[illegible]	3.2	3.0	3.3	3.4	3.0
Labor force time lost [2]	--	--	8.7	9.1	9.4	9.3	8.9	8.4
OCCUPATION [3]								
White-collar workers	1,959	2,094	4.5	4.8	4.8	4.8	4.8	4.7
Professional and technical	364	406	2.[illegible]	3.2	3.2	3.7	3.1	3.0
Managers and administrators, except farm	2[illegible]	274	3.1	3.4	2.9	2.9	3.0	2.9
Sales workers	320	355	5.6	5.8	6.0	6.3	6.3	6.4
Clerical workers	990	1,059	6.1	6.5	6.[illegible]	6.4	6.6	6.4
Blue-collar workers	3,375	3,091	10.6	11.9	11.6	11.3	10.7	9.4
Craft and kindred workers	833	802	7.0	8.8	8.7	8.3	7.2	6.6
Operatives	1,854	[illegible]	12.4	13.2	12.5	12.4	12.2	10.2
Nonfarm laborers	688	683	14.1	15.7	16.4	15.5	14.9	14.1
Service workers	1,025	1,222	8.1	8.8	9.1	8.7	9.2	9.3
Farm workers	106	115	3.5	3.5	3.7	3.8	4.5	3.9
INDUSTRY [1]								
Nonagricultural private wage and salary workers [4]	5,617	5,467	8.5	9.2	9.2	9.2	8.9	8.1
Construction	665	652	15.6	18.7	19.1	17.5	16.6	15.4
Manufacturing	2,140	1,710	10.0	10.8	10.6	10.5	9.6	8.1
Durable goods	1,276	1,022	9.[illegible]	11.5	11.1	10.8	9.9	8.2
Nondurable goods	864	638	10.[illegible]	9.9	9.7	10.0	9.2	8.0
Transportation and public utilities	293	244	5.9	5.0	5.6	4.9	5.1	4.9
Wholesale and retail trade	1,351	1,427	8.[illegible]	8.9	9.1	9.4	9.4	8.7
Finance and service industries	1,129	1,337	6.1	6.5	7.0	7.0	7.0	7.0
Government workers	511	640	3.4	4.1	4.3	4.0	4.4	4.2
Agricultural wage and salary workers	145	157	10.2	10.6	10.7	10.7	12.4	10.8
VETERAN STATUS								
Males, Vietnam-era veterans [5]								
20 to 34 years	510	502	8.6	9.8	9.9	10.2	10.3	8.1
20 to 24 years	200	171	18.5	20.6	22.3	23.1	22.0	18.9
25 to 29 years	227	235	6.8	8.3	8.4	9.0	9.9	7.1
30 to 34 years	83	96	5.4	6.7	5.9	5.6	5.3	4.8
Males, nonveterans								
20 to 34 years	1,198	1,282	8.6	10.6	10.2	10.1	9.2	8.8
20 to 24 years	720	790	11.5	14.3	13.8	13.2	12.6	12.0
25 to 29 years	290	320	7.2	8.5	8.2	7.9	6.8	7.3
30 to 34 years	188	172	5.1	6.3	6.0	7.1	6.0	4.8

[1] Unemployment rate calculated as a percent of civilian labor force.
[2] Aggregate hours lost by the unemployed and persons on part time for economic reasons as a percent of potentially available labor force hours
[3] Unemployment by occupation includes all experienced unemployed persons, whereas that by industry covers only unemployed wage and salary workers.
[4] Includes mining, not shown separately.
[5] Vietnam-era veterans are those who served after August 4, 1964

HOUSEHOLD DATA

Table A-3. Selected employment indicators

[In thousands]

Selected categories	Not seasonally adjusted		Seasonally adjusted					
	Jan. 1975	Jan. 1976	Jan. 1975	Sept. 1975	Oct. 1975	Nov. 1975	Dec. 1975	Jan. 1976
Total employed, 16 years and over	82,969	84,491	84,666	85,158	85,151	85,178	85,394	86,194
Males	50,099	50,474	51,387	51,334	51,300	51,325	51,390	51,761
Females	32,870	34,017	33,279	33,824	33,851	33,853	34,004	34,433
Household heads	49,434	50,020	50,043	50,279	50,258	50,316	50,332	50,628
Married men, spouse present	37,499	37,502	37,997	37,948	37,921	37,858	37,739	37,996
Married women, spouse present	19,369	20,025	19,414	19,758	19,799	19,833	19,859	20,065
OCCUPATION								
White-collar workers	41,967	42,844	41,924	42,540	42,386	42,253	42,326	42,797
Professional and technical	12,539	13,284	12,427	12,814	12,773	12,795	13,026	13,166
Managers and administrators, except farm	8,786	8,990	8,837	9,215	9,027	9,077	8,837	9,044
Sales workers	5,331	5,161	5,396	5,493	5,515	5,269	5,296	5,224
Clerical workers	15,311	15,409	15,264	15,018	15,071	15,112	15,167	15,363
Blue-collar workers	27,047	27,478	28,315	27,936	28,105	28,126	28,408	28,759
Craft and kindred workers	10,603	10,860	10,997	10,907	11,104	11,018	11,265	11,266
Operatives	12,746	12,931	13,114	12,899	12,915	13,010	13,043	13,303
Nonfarm laborers	3,698	3,687	4,204	4,130	4,086	4,098	4,100	4,190
Service workers	11,442	11,725	11,637	11,739	11,759	11,872	11,837	11,926
Farm workers	2,514	2,444	2,954	3,040	2,975	2,838	2,782	2,868
MAJOR INDUSTRY AND CLASS OF WORKER								
Agriculture:								
Wage and salary workers	1,052	1,075	1,273	1,347	1,303	1,262	1,231	1,300
Self-employed workers	1,581	1,552	1,681	1,753	1,710	1,687	1,663	1,649
Unpaid family workers	255	225	375	411	408	349	300	331
Nonagricultural industries:								
Wage and salary workers	74,135	75,607	75,083	75,716	75,760	75,468	76,038	76,568
Private households	1,256	1,219	1,326	1,320	1,349	1,307	1,309	1,287
Government	14,538	14,971	14,351	14,551	14,443	14,628	14,719	14,779
Other	58,341	59,417	59,406	59,845	59,968	59,533	60,010	60,502
Self-employed workers	5,455	5,551	5,595	5,621	5,531	5,991	5,683	5,693
Unpaid family workers	490	481	538	478	478	540	510	528
PERSONS AT WORK [1]								
Nonagricultural industries	76,719	78,400	76,750	76,784	76,822	77,103	77,380	78,506
Full-time schedules	62,233	63,954	62,494	62,838	62,824	63,141	63,730	64,211
Part time for economic reasons	3,597	3,233	3,758	3,291	3,361	3,353	3,243	3,482
Usually work full time	2,123	1,513	1,986	1,409	1,459	1,405	1,332	1,415
Usually work part time	1,474	1,720	1,772	1,882	1,902	1,948	1,911	2,067
Part time for noneconomic reasons	10,889	11,213	10,498	10,655	10,637	10,609	10,407	10,813

[1] Excludes persons "with a job but not at work" during the survey period for such reasons as vacation, illness, or industrial disputes.

Table A-4. Duration of unemployment

[Numbers in thousands]

Weeks of unemployment	Not seasonally adjusted		Seasonally adjusted					
	Jan. 1975	Jan. 1976	Jan. 1975	Sept. 1975	Oct. 1975	Nov. 1975	Dec. 1975	Jan. 1976
Less than 5 weeks	3,641	3,017	3,267	2,820	3,015	2,641	2,648	2,706
5 to 14 weeks	2,985	2,403	2,599	2,444	2,446	2,469	2,244	2,091
15 weeks and over	1,554	2,754	1,572	2,934	2,719	3,004	3,080	2,785
15 to 26 weeks	960	1,221	940	1,352	1,238	1,286	1,413	1,155
27 weeks and over	594	1,532	632	1,582	1,481	1,718	1,667	1,630
Average (mean) duration, in weeks	10.1	15.8	10.8	16.2	15.6	16.9	17.0	16.9
PERCENT DISTRIBUTION								
Total unemployed	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less than 5 weeks	44.5	36.9	43.9	34.4	36.9	32.5	33.2	35.7
5 to 14 weeks	36.5	29.4	34.9	29.8	29.9	30.4	28.1	27.6
15 weeks and over	19.0	33.7	21.1	35.8	33.2	37.0	38.6	36.7
15 to 26 weeks	11.7	14.9	12.6	16.5	15.1	15.8	17.7	15.2
27 weeks and over	7.3	18.7	8.5	19.3	18.1	21.2	20.9	21.5

Table A-5. Reasons for unemployment

[Numbers in thousands]

Reason	Not seasonally adjusted		Seasonally adjusted					
	Jan. 1975	Jan. 1976	Jan. 1975	Sept. 1975	Oct. 1975	Nov. 1975	Dec. 1975	Jan. 1976
NUMBER OF UNEMPLOYED								
Lost last job	4,858	4,588	3,686	4,797	4,531	4,444	3,955	3,481
Left last job	780	863	767	824	829	872	862	849
Reentered labor force	1,905	1,983	1,907	1,808	1,892	1,846	1,975	1,985
Seeking first job	637	740	783	812	844	837	865	886
PERCENT DISTRIBUTION								
Total unemployed	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Job losers	59.4	56.1	51.6	58.2	56.0	55.6	51.7	48.3
Job leavers	9.5	10.6	10.7	10.0	10.2	10.9	11.3	11.8
Reentrants	23.3	24.3	26.7	21.9	23.4	23.1	25.8	27.6
New entrants	7.8	9.1	11.0	9.9	10.4	10.5	11.3	12.3
UNEMPLOYED AS A PERCENT OF THE CIVILIAN LABOR FORCE								
Job losers	5.3	5.0	4.0	5.2	4.9	4.8	4.2	3.7
Job leavers	.9	.9	.8	.9	.9	.9	.9	.9
Reentrants	2.1	2.1	2.1	1.9	2.0	2.0	2.1	2.1
New entrants	.7	.8	.9	.9	.9	.9	.9	.9

Table A-6. Unemployment by sex and age

Sex and age	Not seasonally adjusted			Seasonally adjusted unemployment rates					
	Thousands of persons		Percent looking for full-time work						
	Jan. 1975	Jan. 1976	Jan. 1976	Jan. 1975	Sept. 1975	Oct. 1975	Nov. 1975	Dec. 1975	Jan. 1976
Total, 16 years and over	8,180	8,174	80.2	7.9	8.6	8.6	8.5	8.3	7.8
16 to 19 years	1,732	1,737	53.0	19.8	19.4	19.8	19.0	19.6	19.9
16 to 17 years	746	730	26.3	21.0	22.0	21.9	20.1	20.6	21.2
18 to 19 years	985	1,007	72.4	19.0	18.2	18.2	18.1	18.9	19.0
20 to 24 years	1,829	1,928	86.5	12.3	13.9	14.0	14.2	13.5	12.7
25 years and over	4,619	4,508	88.0	5.6	6.2	6.3	6.1	5.9	5.4
25 to 54 years	3,938	3,769	89.8	5.9	6.5	6.6	6.4	6.2	5.5
55 years and over	681	739	78.6	4.2	4.7	4.9	5.0	5.0	4.5
Males, 16 years and over	4,644	4,690	83.7	7.1	8.2	8.3	8.1	7.6	7.1
16 to 19 years	972	997	52.7	19.7	19.3	19.8	18.8	19.0	20.1
16 to 17 years	439	430	24.9	21.4	22.2	21.6	19.6	19.3	21.5
18 to 19 years	533	567	73.7	18.7	17.9	18.2	18.2	18.7	19.6
20 to 24 years	1,070	1,114	87.8	12.5	15.3	15.1	14.6	13.8	12.8
25 years and over	2,602	2,578	93.9	4.8	5.8	6.0	5.8	5.4	4.7
25 to 54 years	2,189	2,144	96.1	5.0	6.1	6.2	6.0	5.6	4.8
55 years and over	412	435	83.0	3.9	4.6	4.6	4.8	4.7	4.2
Females, 16 years and over	3,535	3,484	75.5	9.3	9.1	9.2	9.1	9.3	8.9
16 to 19 years	759	740	53.5	20.0	19.6	19.9	19.1	20.3	19.6
16 to 17 years	307	300	28.3	20.5	21.7	22.3	20.7	22.2	20.8
18 to 19 years	452	440	70.7	19.3	18.5	18.2	17.9	19.1	18.4
20 to 24 years	759	814	84.8	12.1	12.1	12.7	13.7	13.1	12.7
25 years and over	2,017	1,930	80.1	7.0	6.8	6.8	6.7	6.8	6.4
25 to 54 years	1,750	1,625	81.6	7.4	7.2	7.3	7.0	7.2	6.6
55 years and over	268	305	72.1	4.7	4.7	5.4	5.3	5.4	5.1

Table B-1. Employees on nonagricultural payrolls, by industry

[In thousands]

Industry	Not seasonally adjusted				Seasonally adjusted					
	Jan. 1975	Nov. 1975	Dec. 1975p	Jan. 1976p	Jan. 1975	Sept. 1975	Oct. 1975	Nov. 1975	Dec. 1975p	Jan. 1976p
TOTAL	76,207	78,339	78,515	77,055	77,319	77,310	77,555	77,574	77,782	78,140
GOODS-PRODUCING	22,636	22,920	22,683	22,279	23,270	22,601	22,669	22,657	22,739	22,879
MINING	715	763	764	759	723	752	774	766	770	767
CONTRACT CONSTRUCTION	3,348	3,522	3,328	3,036	3,749	3,432	3,402	3,409	3,396	3,400
MANUFACTURING	18,573	18,635	18,591	18,484	18,798	18,417	18,493	18,482	18,573	18,712
Production workers	13,237	13,370	13,331	13,222	13,437	13,157	13,235	13,222	13,311	13,427
DURABLE GOODS	10,994	10,739	10,744	10,704	11,099	10,650	10,661	10,653	10,725	10,808
Production workers	7,805	7,623	7,628	7,583	7,898	7,527	7,548	7,539	7,605	7,679
Ordnance and accessories	177.2	162.2	164.2	163.2	177	165	164	161	163	163
Lumber and wood products	529.3	574.3	570.7	564.2	551	568	576	576	582	587
Furniture and fixtures	453.6	476.0	476.0	473.9	454	464	467	470	474	474
Stone, clay, and glass products	613.9	619.1	606.5	591.2	635	615	615	616	614	611
Primary metal industries	1,277.4	1,141.7	1,150.4	1,146.9	1,284	1,169	1,149	1,146	1,156	1,153
Fabricated metal products	1,362.8	1,356.4	1,348.3	1,342.9	1,374	1,340	1,344	1,339	1,342	1,354
Machinery, except electrical	2,184.8	2,030.4	2,039.4	2,038.6	2,183	2,035	2,039	2,032	2,031	2,037
Electrical equipment	1,844.8	1,782.0	1,790.7	1,795.2	1,850	1,755	1,767	1,764	1,778	1.801
Transportation equipment	1,655.5	1,678.1	1,694.0	1,692.8	1,674	1,643	1,641	1,648	1,679	1,712
Instruments and related products	503.2	494.6	494.3	496.9	506	486	490	492	493	499
Miscellaneous manufacturing	391.8	423.7	409.6	397.7	411	410	409	409	413	417
NONDURABLE GOODS	7,579	7,896	7,847	7,780	7,699	7,767	7,832	7,829	7,848	7,904
Production workers	5,432	5,747	5,703	5,639	5,539	5,630	5,687	5,683	5,706	5,748
Food and kindred products	1,606.4	1,710.1	1,670.6	1,632.1	1,668	1,693	1,695	1,688	1,684	1,695
Tobacco manufactures	80.3	87.0	84.9	80.3	80	80	79	81	81	80
Textile mill products	867.2	955.2	957.6	957.2	870	938	953	950	955	960
Apparel and other textile products	1,191.0	1,307.8	1,293.6	1,288.7	1,218	1,261	1,287	1,290	1,297	1,318
Paper and allied products	657.5	657.2	660.1	657.4	663	648	652	652	657	663
Printing and publishing	1,100.6	1,075.8	1,080.7	1,071.6	1,101	1,075	1,071	1,072	1,073	1,072
Chemicals and allied products	1,026.1	1,018.8	1,017.3	1,016.4	1,034	1,011	1,019	1,020	1,019	1,025
Petroleum and coal products	189.2	202.4	201.1	198.1	194	200	201	202	202	203
Rubber and plastics products, nec.	607.9	610.4	609.2	607.0	614	599	608	604	609	613
Leather and leather products	253.2	271.0	271.4	270.8	257	262	267	270	271	275
SERVICE-PRODUCING	53,571	55,419	55,832	54,776	54,049	54,709	54,886	54,917	55,043	55,261
TRANSPORTATION AND PUBLIC UTILITIES	4,548	4,509	4,469	4,437	4,603	4,467	4,476	4,496	4,469	4,491
WHOLESALE AND RETAIL TRADE	16,700	17,313	17,745	17,000	16,903	17,045	17,043	17,010	17,088	17,207
WHOLESALE TRADE	4,180	4,207	4,213	4,176	4,205	4,181	4,180	4,174	4,188	4,201
RETAIL TRADE	12,520	13,106	13,532	12,824	12,698	12,864	12,863	12,836	12,900	13,006
FINANCE, INSURANCE, AND REAL ESTATE	4,177	4,235	4,243	4,232	4,219	4,239	4,246	4,248	4,264	4,275
SERVICES	13,608	14,174	14,158	14,030	13,857	14,113	14,157	14,188	14,229	14,287
GOVERNMENT	14,538	15,188	15,217	15,077	14,467	14,845	14,964	14,975	14,993	15,001
FEDERAL	2,711	2,742	2,771	2,732	2,734	2,765	2,767	2,761	2,755	2,754
STATE AND LOCAL	11,827	12,446	12,446	12,345	11,733	12,080	12,197	12,214	12,238	12,247

p=preliminary.

Table B-2. Average weekly hours of production or nonsupervisory workers[1] on private nonagricultural payrolls, by industry

Industry	Not seasonally adjusted				Seasonally adjusted					
	Jan. 1975	Nov. 1975	Dec. 1975p	Jan. 1976p	Jan. 1975	Sept. 1975	Oct. 1975	Nov. 1975	Dec. 1975p	Jan. 1976p
TOTAL PRIVATE	35.7	36.2	36.5	36.1	36.2	36.1	36.2	36.3	36.4	36.6
MINING	42.0	43.0	43.1	42.3	42.5	42.1	42.7	42.9	43.0	42.8
CONTRACT CONSTRUCTION	35.5	36.3	36.9	36.1	37.2	36.7	36.6	36.8	37.5	37.8
MANUFACTURING	38.7	40.1	40.8	39.8	39.2	39.8	39.8	39.9	40.3	40.4
Overtime hours	2.2	2.9	3.1	2.8	2.4	2.8	2.8	2.8	3.0	3.0
DURABLE GOODS	39.5	40.4	41.4	40.2	40.1	40.2	40.0	40.2	40.7	40.8
Overtime hours	2.3	2.8	3.1	2.7	2.5	2.7	2.6	2.7	2.9	2.9
Ordnance and accessories	41.6	41.7	41.7	41.7	41.8	41.7	41.6	41.7	41.1	41.9
Lumber and wood products	37.0	39.2	40.3	39.4	38.1	39.6	39.8	39.4	40.3	40.5
Furniture and fixtures	35.9	39.3	40.1	38.6	36.6	38.9	38.9	39.1	39.5	39.3
Stone, clay, and glass products	39.8	41.0	41.3	40.2	40.9	40.8	40.8	40.9	41.3	41.3
Primary metal industries	40.5	40.0	40.6	39.8	40.6	39.9	39.9	40.2	40.3	39.9
Fabricated metal products	39.8	40.7	41.6	40.4	40.4	40.2	40.4	40.5	41.0	41.0
Machinery, except electrical	41.6	41.1	42.1	41.2	41.8	40.7	40.6	40.9	41.2	41.4
Electrical equipment	39.1	40.0	40.8	39.5	39.5	39.6	39.6	39.6	40.2	39.9
Transportation equipment	38.8	41.0	43.2	40.9	39.6	40.9	40.4	40.8	41.7	41.7
Instruments and related products	39.3	40.3	40.9	40.0	39.6	39.7	39.7	39.9	40.3	40.3
Miscellaneous manufacturing	37.5	39.0	39.5	38.5	38.1	38.7	38.8	38.6	39.3	39.2
NONDURABLE GOODS	37.6	39.7	40.1	39.4	38.1	39.4	39.5	39.5	39.8	39.9
Overtime hours	2.1	3.1	3.2	2.9	2.3	3.0	3.0	3.0	3.2	3.2
Food and kindred products	39.6	40.4	40.9	40.3	40.0	40.9	40.6	40.4	40.5	40.7
Tobacco manufactures	37.0	40.5	38.9	39.7	37.5	38.0	37.5	39.7	37.8	40.2
Textile mill products	35.7	41.2	41.6	40.7	36.2	40.9	41.0	41.0	41.3	41.3
Apparel and other textile products	33.4	36.4	36.4	35.7	34.2	36.0	36.2	36.1	36.5	36.5
Paper and allied products	40.8	42.6	43.2	42.4	41.0	42.2	42.3	42.4	42.8	42.6
Printing and publishing	36.8	37.4	38.1	37.0	37.4	36.9	37.0	37.3	37.6	37.6
Chemicals and allied products	40.5	41.5	42.1	41.3	40.7	41.3	41.4	41.4	41.8	41.5
Petroleum and coal products	41.1	42.3	41.9	42.2	41.9	41.6	41.8	42.0	41.9	43.0
Rubber and plastics products, nec	39.2	40.3	41.1	40.7	39.5	40.1	40.0	40.0	40.7	41.0
Leather and leather products	35.4	38.6	39.0	38.1	35.9	38.4	38.9	38.4	38.6	38.6
TRANSPORTATION AND PUBLIC UTILITIES	39.6	39.6	39.7	39.9	39.9	39.7	39.7	39.6	39.7	40.2
WHOLESALE AND RETAIL TRADE	33.3	33.6	34.2	33.4	33.8	33.6	33.9	33.8	33.9	33.9
WHOLESALE TRADE	38.5	38.7	39.2	38.7	38.7	38.5	38.8	38.7	38.8	38.9
RETAIL TRADE	31.8	32.1	32.8	31.8	32.4	32.2	32.3	32.5	32.5	32.4
FINANCE, INSURANCE, AND REAL ESTATE	36.9	36.6	36.4	36.5	36.9	36.3	36.4	36.7	36.4	36.5
SERVICES	33.7	33.7	33.6	33.7	33.9	33.6	33.7	33.9	33.6	33.9

[1] Data relate to production workers in mining and manufacturing; to construction workers in contract construction; and to nonsupervisory workers in transportation and public utilities; wholesale and retail trade; finance, insurance, and real estate; and services. These groups account for approximately four-fifths of the total employment on private nonagricultural payrolls.

p=preliminary.

Table B-3. Average hourly and weekly earnings of production or nonsupervisory workers[1] on private nonagricultural payrolls, by industry

Industry	Average hourly earnings				Average weekly earnings			
	Jan. 1975	Nov. 1975	Dec. 1975p	Jan. 1976p	Jan. 1975	Nov. 1975	Dec. 1975p	Jan. 1976p
TOTAL PRIVATE	$4.40	$4.68	$4.68	$4.72	$157.08	$169.42	$170.82	$170.39
Seasonally adjusted	4.41	4.68	4.68	4.73	159.64	169.88	170.35	173.12
MINING	5.69	6.11	6.15	6.22	238.98	262.73	265.07	263.11
CONTRACT CONSTRUCTION	7.07	7.45	7.46	7.55	250.99	270.44	275.27	272.56
MANUFACTURING	4.67	4.93	5.00	5.01	180.73	197.69	204.00	199.40
DURABLE GOODS	4.95	5.29	5.38	5.36	195.53	213.72	222.73	215.47
Ordnance and accessories	4.98	5.44	5.54	5.52	207.17	226.85	231.02	230.18
Lumber and wood products	4.05	4.41	4.43	4.39	149.85	172.87	178.53	172.97
Furniture and fixtures	3.64	3.82	3.86	3.83	130.68	150.13	154.79	147.84
Stone, clay, and glass products	4.67	5.06	5.07	5.06	185.87	207.46	209.39	203.41
Primary metal industries	5.93	6.43	6.47	6.44	240.17	257.20	262.68	256.31
Fabricated metal products	4.78	5.22	5.30	5.30	190.24	212.45	220.48	214.12
Machinery, except electrical	5.17	5.54	5.61	5.60	215.07	227.69	236.18	230.72
Electrical equipment	4.43	4.70	4.76	4.76	175.21	188.00	194.21	188.02
Transportation equipment	5.77	6.25	6.40	6.33	223.88	256.25	276.48	258.90
Instruments and related products	4.42	4.64	4.75	4.78	173.71	186.99	194.28	191.20
Miscellaneous manufacturing	3.73	3.87	3.93	3.99	139.88	150.93	155.24	153.62
NONDURABLE GOODS	4.23	4.45	4.48	4.53	159.05	176.67	179.65	178.48
Food and kindred products	4.42	4.70	4.75	4.79	175.03	189.88	194.28	193.04
Tobacco manufactures	4.34	4.40	4.52	4.79	160.58	178.20	175.83	190.16
Textile mill products	3.29	3.53	3.55	3.56	117.45	145.44	147.68	144.89
Apparel and other textile products	3.14	3.25	3.26	3.31	104.88	118.30	118.66	118.17
Paper and allied products	4.75	5.21	5.22	5.25	193.80	221.95	225.50	222.60
Printing and publishing	5.16	5.47	5.51	5.58	189.89	204.58	209.93	206.46
Chemicals and allied products	5.15	5.56	5.58	5.65	208.58	230.74	234.92	233.35
Petroleum and coal products	5.88	6.66	6.68	7.00	241.67	281.72	279.89	295.40
Rubber and plastics products, nec	4.23	4.44	4.51	4.53	165.82	178.93	185.36	184.37
Leather and leather products	3.15	3.28	3.30	3.36	111.51	126.61	128.70	128.02
TRANSPORTATION AND PUBLIC UTILITIES	5.67	6.19	6.19	6.24	224.53	245.12	245.74	248.98
WHOLESALE AND RETAIL TRADE	3.65	3.83	3.82	3.90	121.55	128.69	130.64	130.26
WHOLESALE TRADE	4.74	5.02	5.04	5.07	182.49	194.27	197.57	196.21
RETAIL TRADE	3.24	3.41	3.40	3.47	103.03	109.46	111.52	110.35
FINANCE, INSURANCE, AND REAL ESTATE	3.99	4.24	4.23	4.29	147.23	155.18	153.97	156.59
SERVICES	3.94	4.22	4.24	4.28	132.79	142.21	142.46	144.24

[1] See footnote 1, table B-2.
p=preliminary.

Table B-4. Hourly earnings index for production or nonsupervisory workers[1] on private nonagricultural payrolls, by industry division, seasonally adjusted

[1967=100]

Industry	Jan. 1975	Aug. 1975	Sept. 1975	Oct. 1975	Nov. 1975	Dec. p 1975	Jan. p 1976	Percent change from Jan. 1975- Jan. 1976	Percent change from Dec. 1975- Jan. 1976
TOTAL PRIVATE NONFARM:									
Current dollars	166.3	174.6	175.2	176.7	178.2	178.2	179.8	8.2	0.9
Constant (1967) dollars	106.3	107.4	107.2	107.5	107.6	107.1	N.A.	(2)	(3)
MINING	174.9	186.2	187.2	188.9	189.4	190.2	192.4	10.0	1.1
CONTRACT CONSTRUCTION	170.4	176.7	177.3	177.7	179.2	178.5	181.7	6.6	1.8
MANUFACTURING	164.8	173.3	174.5	176.0	176.9	177.4	178.4	8.2	.5
TRANSPORTATION AND PUBLIC UTILITIES	174.3	186.2	186.3	188.8	190.7	189.3	192.2	10.3	1.6
WHOLESALE AND RETAIL TRADE	162.6	170.5	170.5	171.9	172.9	173.0	174.4	7.3	.8
FINANCE, INSURANCE, AND REAL ESTATE	154.9	163.0	162.6	163.8	167.1	165.0	167.0	7.8	1.2
SERVICES	170.4	177.1	177.8	179.4	182.2	181.8	184.7	8.4	1.6

[1] See footnote 1, table B-2.

[2] Percent change was 0.7 from December 1974 to December 1975, the latest month available.

[3] Percent change was -0.5 from November 1975 to December 1975, the latest month available.

N.A. = not available.

p=preliminary.

NOTE: All series are in current dollars except where indicated. The index excludes effects of two types of changes that are unrelated to underlying wage-rate developments: Fluctuations in overtime premiums in manufacturing (the only sector for which overtime data are available) and the effects of changes in the proportion of workers in high-wage and low-wage industries.

Table B-5. Indexes of aggregate weekly hours of production or nonsupervisory workers[1] on private nonagricultural payrolls, by industry, seasonally adjusted

[1967 = 100]

Industry division and group	1975 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. p	1976 Jan. p
TOTAL	108.9	107.0	105.9	106.0	106.3	106.0	c106.2	c107.4	c107.9	c108.4	108.8	109.3	110.3
GOODS-PRODUCING	94.5	90.7	88.4	89.2	89.4	88.9	89.3	91.2	92.4	92.7	92.9	94.4	95.1
MINING	117.4	116.7	115.9	113.7	119.4	118.4	118.8	118.6	119.9	125.0	124.7	126.5	124.2
CONTRACT CONSTRUCTION	111.0	104.1	94.5	99.0	99.3	94.9	96.2	98.3	98.6	97.3	97.7	99.1	99.6
MANUFACTURING	90.8	87.4	86.4	86.6	86.6	86.8	87.1	89.0	90.3	90.8	90.9	92.5	93.3
DURABLE GOODS	91.8	87.9	86.6	86.5	85.4	85.2	84.9	86.7	87.7	87.8	88.1	90.0	90.7
Ordnance and accessories	48.3	48.3	47.7	47.7	47.5	46.9	44.7	43.7	43.0	42.9	40.8	41.3	42.1
Lumber and wood products	83.8	82.3	81.6	82.5	84.4	85.8	86.7	88.8	90.1	92.1	90.8	93.8	95.1
Furniture and fixtures	88.0	85.1	83.9	85.8	87.7	87.2	88.7	92.6	97.4	97.9	99.2	101.0	100.5
Stone, clay, and glass products	98.5	94.1	91.2	92.6	92.6	92.4	93.1	94.5	95.7	95.7	96.2	96.9	96.7
Primary metal industries	94.8	90.6	87.3	84.1	82.1	80.8	80.0	81.7	83.5	81.9	82.3	83.3	82.4
Fabricated metal products	94.9	92.1	90.2	90.1	89.0	88.5	86.7	90.9	92.0	92.8	92.7	94.2	95.2
Machinery, except electrical	104.0	100.8	98.3	96.6	93.1	91.3	90.4	91.0	91.8	91.9	92.0	92.7	93.5
Electrical equipment and supplies	90.2	85.3	84.3	83.3	81.9	81.8	81.6	84.3	84.9	85.8	85.5	88.1	89.1
Transportation equipment	81.1	75.1	77.3	80.4	80.2	81.4	82.0	82.9	82.2	81.5	83.1	86.7	88.6
Instruments and related products	105.0	100.7	98.3	98.2	97.1	97.0	98.1	97.2	99.4	100.8	101.7	103.0	104.4
Miscellaneous manufacturing, Ind	89.4	87.3	85.6	86.0	86.5	87.0	87.7	89.0	91.4	91.3	90.8	93.1	94.0
NONDURABLE GOODS	89.3	86.7	86.0	86.7	88.2	89.1	90.2	92.4	94.1	95.1	95.0	96.1	97.0
Food and kindred products	92.8	92.5	92.6	92.4	92.9	93.1	93.4	96.1	96.9	96.5	95.1	95.1	96.7
Tobacco manufactures	88.2	86.9	86.7	83.4	80.3	86.7	80.8	85.8	88.1	85.6	93.4	88.9	94.6
Textile mill products	78.0	75.8	77.2	80.8	85.7	87.0	88.5	93.0	96.4	98.1	98.0	99.3	99.5
Apparel and other textile products	80.1	76.9	76.5	78.5	79.8	82.4	84.6	85.3	87.8	90.0	90.1	91.8	93.1
Paper and allied products	91.0	87.4	85.3	84.5	85.7	86.4	87.6	89.6	91.3	92.0	92.6	94.5	94.4
Printing and publishing	96.7	94.9	93.9	92.6	92.0	91.2	90.9	92.4	91.9	91.8	92.4	93.3	93.2
Chemicals and allied products	96.6	95.0	92.4	91.4	92.7	92.6	93.0	94.5	96.1	97.4	97.6	98.5	98.6
Petroleum and coal products	102.8	100.2	104.0	101.4	104.4	105.3	107.2	107.3	108.9	110.2	111.6	111.4	114.3
Rubber and plastics products, nec	113.8	104.2	100.4	102.1	105.1	105.1	106.9	110.6	113.0	114.7	113.5	116.7	118.3
Leather and leather products	67.8	64.4	63.0	65.8	66.8	69.6	71.4	72.1	74.9	77.2	77.2	77.9	78.9
SERVICE-PRODUCING	118.9	118.4	118.1	117.6	118.0	117.8	c118.0	c118.7	c118.7	c119.3	119.8	119.7	120.8
TRANSPORTATION AND PUBLIC UTILITIES	105.0	103.5	102.1	102.3	100.3	100.6	100.3	100.5	101.1	101.2	101.5	100.9	102.8
WHOLESALE AND RETAIL TRADE	114.3	113.7	113.9	113.4	113.9	113.7	c114.0	c114.6	c114.6	c115.1	115.2	115.8	116.4
WHOLESALE TRADE	113.0	112.1	111.6	111.5	111.4	110.3	110.8	111.0	111.3	112.0	111.5	112.3	113.1
RETAIL TRADE	114.7	114.2	114.8	114.0	114.8	115.0	c115.2	c115.9	c115.8	c116.2	116.6	117.1	117.7
FINANCE, INSURANCE, AND REAL ESTATE	125.2	124.5	123.6	122.1	122.9	123.2	122.3	122.9	123.5	123.7	25.1	124.4	125.4
SERVICES	129.9	129.9	129.6	129.3	130.3	129.9	130.4	131.4	131.1	132.0	133.1	132.3	133.9

[1] See footnote 1, table B-2.

p=preliminary.

c=corrected.

Table B-6. Indexes of diffusion: Percent of industries in which employment[1] increased

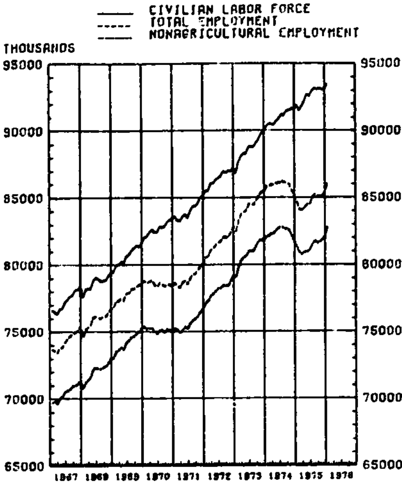
Year and month	Over 1-month span	Over 3-month span	Over 6-month span	Over 12 month span
1973				
January	76.7	84.0	81.7	81.1
February	75.0	83.7	79.4	80.8
March	73.8	76.2	79.4	82.6
April	62.5	71.5	74.7	81.4
May	59.9	70.3	72.1	79.7
June	68.0	63.1	66.6	78.5
July	55.8	66.9	72.1	75.6
August	63.1	64.8	72.7	73.5
September	61.6	74.7	73.0	69.2
October	72.7	75.9	75.6	66.0
November	75.0	76.5	70.3	66.6
December	66.6	70.1	66.0	64.2
1974				
January	59.3	62.8	60.8	63.4
February	52.6	53.8	55.2	59.6
March	46.5	48.0	49.7	55.2
April	47.1	48.3	48.5	50.3
May	55.2	51.7	49.7	40.1
June	53.2	52.6	45.6	28.2
July	52.3	45.1	37.2	27.0
August	45.9	39.2	31.1	22.4
September	36.0	40.4	23.3	20.9
October	37.8	28.8	17.7	18.6
November	20.1	21.5	17.2	16.6
December	18.6	13.4	13.1	14.0
1975				
January	18.6	12.5	13.4	16.6
February	16.6	13.7	13.1	17.4
March	25.0	19.2	16.3	17.4
April	40.4	35.8	27.9	20.9
May	53.8	40.4	40.1	25.9
June	40.4	48.5	[illegible]	41.3p
July	55.2	55.8	[illegible]	47.1p
August	73.5	70.2	[illegible]	
September	81.7	81.4	75.9p	
October	[illegible]	70.3	75.9p	
November	74.7	67.7p		
December	[illegible]	67.2p		
1976				
January	[illegible]			
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				

[1] Number of employees, seasonally adjusted, on payrolls of 172 private nonagricultural industries.

p preliminary.

LABOR FORCE, EMPLOYMENT, UNEMPLOYMENT
HOUSEHOLD DATA - SEASONALLY ADJUSTED

1. LABOR FORCE AND EMPLOYMENT



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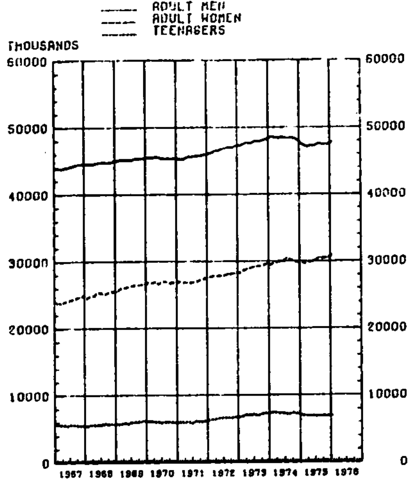

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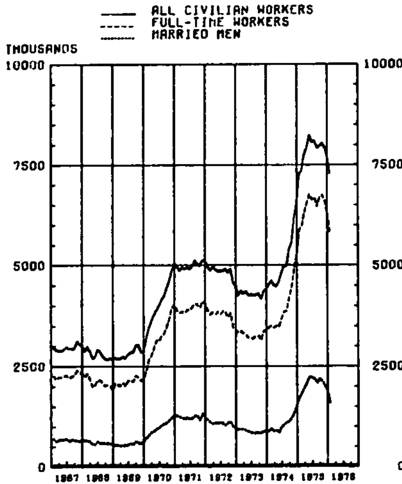

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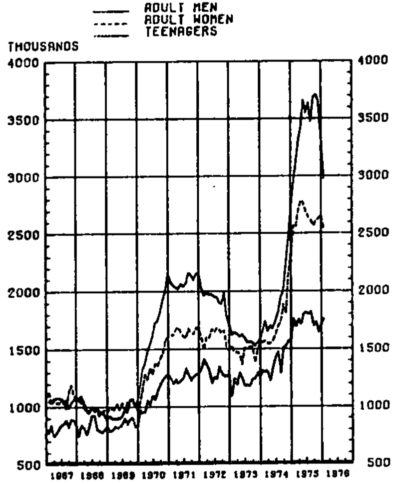

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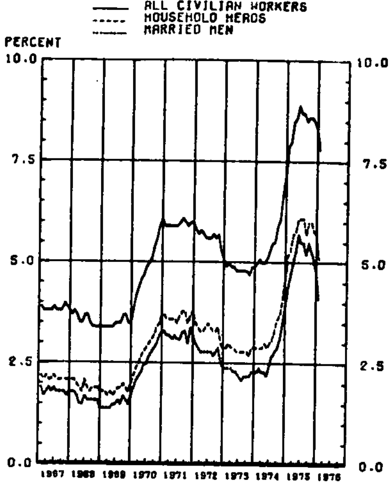
UNEMPLOYMENT RATES
HOUSEHOLD DATA - SEASONALLY ADJUSTED

5. UNEMPLOYMENT RATES



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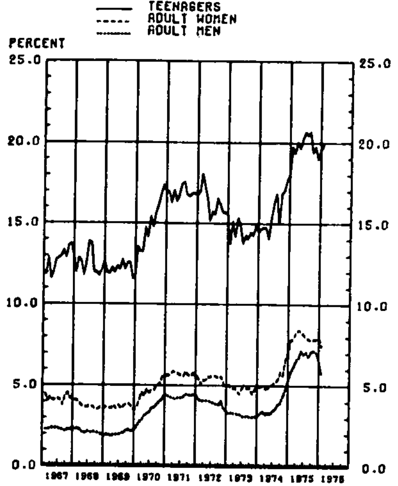
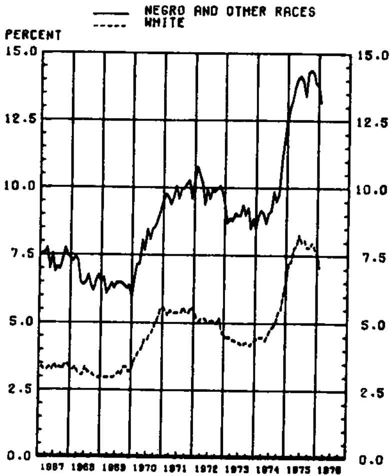
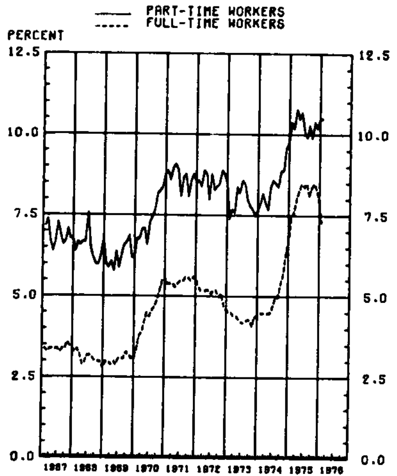


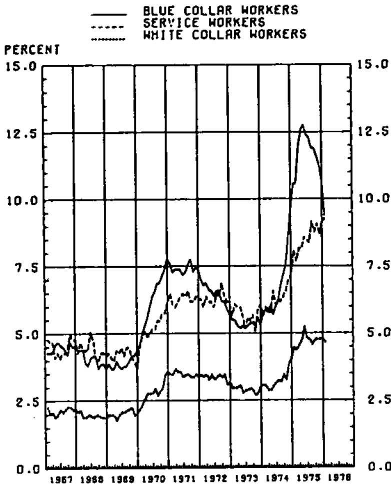
7. UNEMPLOYMENT RATES

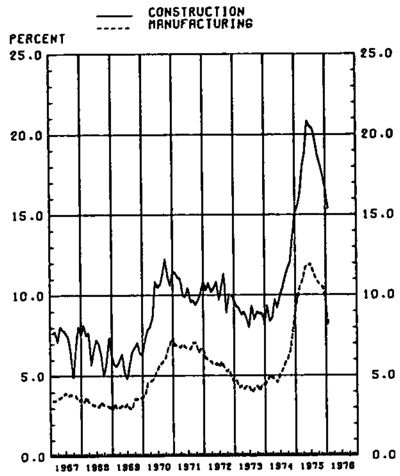


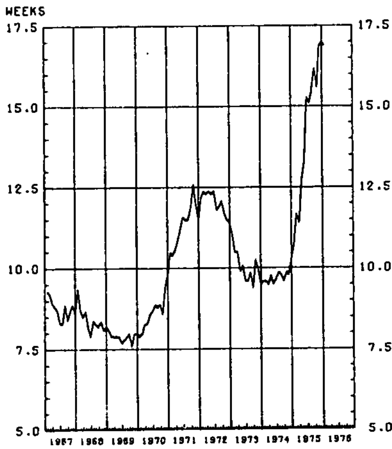
8. UNEMPLOYMENT RATES

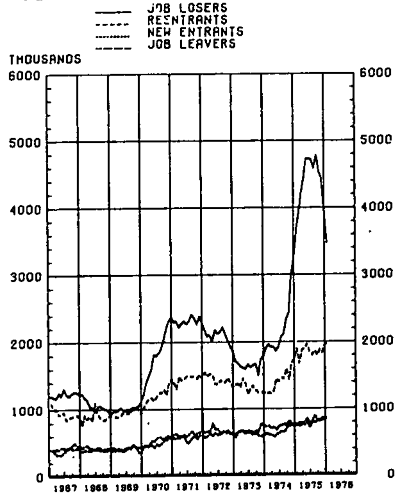


UNEMPLOYMENT
HOUSEHOLD DATA - SEASONALLY ADJUSTED

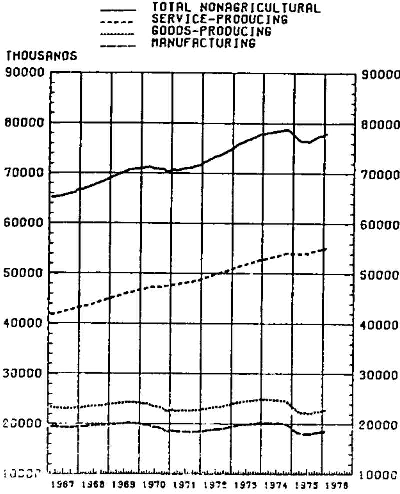


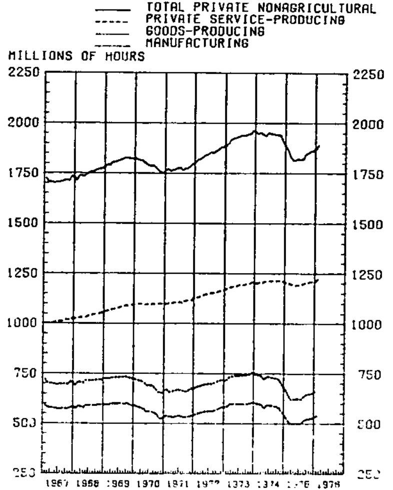




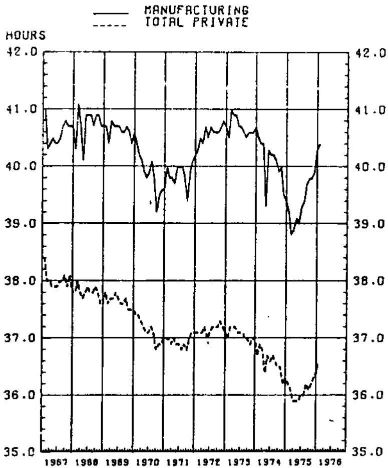


NONAGRICULTURAL EMPLOYMENT AND HOURS
ESTABLISHMENT DATA - SEASONALLY ADJUSTED

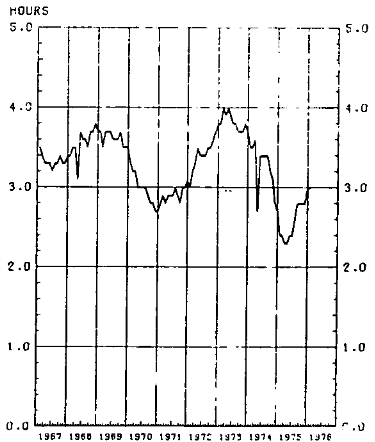




15. AVERAGE WEEKLY HOURS



16. AVERAGE WEEKLY OVERTIME HOURS IN MANUFACTURING



NOTE Charts 14 and 15 relate to production or nonsupervisory workers, chart 16 relates to production workers; data for the 2 most recent months are preliminary in charts 13-16.

Statistical Notes on the Unemployment Rate by Revised Seasonal Adjustment Methods

1. In January, we have routinely updated the seasonal factors by taking into account the data for 1975. In addition, we have modified the seasonal adjustment method in view of the difficulties of adjusting teenage unemployment in May and June 1975. The new method makes an additive adjustment of teenage unemployment, while continuing the multiplicative adjustments for adult unemployment. If we had used the previous method without this modification, the total unemployment rate for January would have been the same—7.8 percent. However, the teenage rate would have been slightly different, 20.1 percent, rather than 19.9, as published. As in the past, I am attaching a table (table 1) which shows the results of various methods of seasonal adjustment.

2. In December, I made a new presentation of various unemployment indicators ranging on a scale from a very narrow to a very broad definition. I have identified these as U–1 to U–7. This paper appears to have aroused considerable interest, and we have received many demands for updated data according to this grouping. For the convenience of members of this committee, I have attached such information (table 2).

3. The January Wholesale Price Index figures will be released Friday, February 13, one week later than usual. The index for January to be released then will use 1972 shipment weights, primarily from the Census of Manufactures, rather than the 1963 shipment weights in use since January 1967. This change represents a periodic updating of the weights to conform to the most recent information from the economic censuses and other sources. Previously published indexes will not be affected by this change of weights.

Because of the workload involved in updating the index weights, we have had to delay the introduction of new seasonal factors and the change in our method of seasonally adjusting WPI data. The objective of the change in the seasonal adjustment methodology is to avoid the inconsistencies between the changes in the seasonally-adjusted all commodities FPI and its major components that appeared last year. The revised seasonally-adjusted data are now scheduled for the release of March data in April.

4. I am also attaching a table (table 3) showing measures of progress toward the previous cyclical peak level during the current economic recovery. The table shows (1) the decline during the 1973–75 recession for each specific series, (2) the percent of the recession decline made up so far, (3) the percent of the previous peak level, and (4) the percent change from the trough. These various measures provide different perspectives on the strength of the current recovery thus far.

TABLE 1.—UNEMPLOYMENT RATE BY ALTERNATE SEASONAL ADJUSTMENT METHODS

Month	Unadjusted rate	Official adjusted rate	Alternative age-sex procedures		Other aggregations (all multiplicative)					Direct adjustments			Composite No. 1	Composite No. 2	Range (col. 2–14)
			All unemployment multiplicative	All unemployment additive	Duration	Full-time/part-time	Reasons	Occupation	Industry	Rate	Level	Residual			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1975:															
January	9.0	7.9	8.0	8.3	8.1	7.9	7.8	7.9	7.8	8.1	8.1	8.4	8.0	8.0	0.6
February	9.1	8.0	8.1	8.4	7.9	8.0	7.8	7.8	8.0	8.0	8.1	8.4	8.0	8.0	.6
March	9.1	8.5	8.5	8.7	8.4	8.4	8.3	8.4	8.4	8.5	8.5	8.7	8.5	8.4	.4
April	8.6	8.6	8.7	8.6	8.5	8.6	8.6	8.7	8.7	8.8	8.8	8.7	8.6	8.6	.3
May	8.3	8.9	9.0	8.7	8.8	8.8	9.0	9.1	9.0	9.3	9.2	8.7	8.9	8.9	.6
June	9.1	8.7	8.6	8.7	8.6	8.7	8.7	8.6	8.7	8.2	8.2	8.5	8.6	8.6	.5
July	8.7	8.7	8.6	8.6	8.6	8.7	8.8	8.6	8.6	8.5	8.4	8.5	8.7	8.6	.4
August	8.2	8.5	8.5	8.4	8.7	8.5	8.7	8.7	8.6	8.5	8.5	8.4	8.6	8.6	.3
September	8.1	8.6	8.6	8.4	8.8	8.6	8.8	8.6	8.5	8.5	8.5	8.4	8.6	8.6	.4
October	7.8	8.6	8.7	8.4	8.8	8.7	8.7	8.5	8.6	8.5	8.6	8.4	8.6	8.6	.4
November	7.8	8.5	8.5	8.2	8.7	8.6	8.6	8.4	8.5	8.5	8.5	8.3	8.5	8.5	.3
December	7.8	8.3	8.4	8.2	8.5	8.3	8.2	8.3	8.4	8.5	8.4	8.2	8.3	8.3	.3
1976:															
January	8.8	7.8	7.8	8.2	8.1	7.8	7.7	7.8	7.8	7.9	7.9	8.2	7.9	7.9	.5
February															
March															

April
May
June
July
August
September
October
November
December

Note.—An explanation of columns 1-14 appears below:

(1) Unemployment rate not seasonally adjusted.

(2) Official rate. This is the published seasonally adjusted rate. Each of four unemployed age-sex components—males and female, 16 to 19 and 20 years of age and over—is independently adjusted. The teenage unemployment components are adjusted using the additive procedure of the X-11 method, while adults are adjusted using the X-11 multiplicative option. The rate is calculated by aggregating the 4 and dividing them by 12 summed labor force components—these 4 plus 8 employment components, which are the 4 age-sex groups in agriculture and nonagricultural industries. This employment total is also used in the calculation of the labor force base in columns (3)-(9).

The current "implicit" factors for the total unemployment rate are as follows:

Month	Factor	Month	Factor
January	113.1	July	99.5
February	113.7	August	96.0
March	108.1	September	94.7
April	99.4	October	89.8
May	93.4	November	91.4
June	104.5	December	93.4

(3) Multiplicative rate. The 4 basic unemployed age-sex groups—males and females, 16 to 19 and 20 years and over—are adjusted by the X-11 multiplicative procedure.

(4) Additive rate. The 4 basic unemployed age-sex groups—male and females, 16 to 19 and 20 years and over—are adjusted by the X-11 additive procedure.

(5) Duration. Unemployment total is aggregated from 3 independently adjusted unemployment by duration groups (0-4, 5-14, 15+).

(6) Full-time and part-time. Unemployment total is aggregated from 6 independently seasonally adjusted unemployment groups, by whether the unemployed are seeking full-time or part-time work and men 20+, women 20+ and teenagers.

(7) Reasons. Unemployment total is aggregated from 4 independently seasonally adjusted unemployment levels by reasons for unemployment—job losers, job leavers, new entrants, and reentrants.

(8) Occupation. Unemployment total is aggregated from independently seasonally adjusted unemployment by the occupation of the last job held. There are 13 unemployed components—12 major occupations plus new entrants to the labor force (no previous work experience).

(9) Industry. Unemployment total is aggregated from 12 independently adjusted industry and class-of-worker categories, plus new entrants to the labor force.

(10) Unemployment rate adjusted directly.

(11) Unemployment and labor force levels adjusted directly.

(12) Labor force and employment levels adjusted directly, unemployment as a residual and rate then calculated.

(13) Average of (2), (5), (6), (7), and (12).

(14) Average of (2), (5), (6), (7), (8), (9), and (12).

Note.—The X-11 method, developed by Julius Shiskin at the Bureau of the Census over the period 1955-65, was used in computing all the seasonally adjusted series described above.

TABLE 2.—RANGE OF UNEMPLOYMENT INDICATORS REFLECTING VALUE JUDGMENTS ABOUT SIGNIFICANCE OF UNEMPLOYMENT

[Percent]

U-1 through U-7	Annual averages 1974	Annual averages 1975	October 1973 (cyclical low month)	May 1975 (cyclical high month)	Quarterly averages, 1975 I	II	III	IV	January 1976
U-1—Persons unemployed 15 weeks or longer as a percent of total civilian labor force	1.0	2.7	0.9	2.7	2.0	2.7	3.1	3.1	3.0
U-2—Job losers as a percent of civilian labor force	2.4	4.7	1.7	5.1	4.3	5.0	5.0	4.6	3.7
U-3—Unemployed household heads as a percent of the household head labor force	3.3	5.8	2.7	6.1	5.4	6.0	5.9	5.9	5.1
U-4—Unemployed full-time job seekers as a percent of the full-time labor force (including those employed part time for economic reasons]	5.1	8.1	4.1	8.5	7.7	8.4	8.3	8.2	7.3
U-5—Total unemployed as a percent of civilian labor force (official measure)	5.6	8.5	4.7	8.9	8.1	8.7	8.6	8.5	7.8
U-6—Total full-time job seekers plus half part time for economic reasons as a percent of civilian labor force less part-time labor force	6.9	10.3	5.9	10.9	10.1	10.7	10.4	10.3	9.6
U-7—Total full-time job seekers plus half part-time job seekers plus half total on part time for economic reasons plus discouraged workers as a percent of civilian labor force plus discouraged workers less half of part-time labor force	7.7	11.5	6.6	12.0	11.2	11.9	11.6	11.3	(1)

[1] Not available.

Note.—Reflects recent revisions of basic data.

TABLE 3.—MEASURES OF PROGRESS TOWARD PREVIOUS CYCLICAL PEAK LEVEL DURING CURRENT ECONOMIC RECOVERY

Series (with latest month available) (1)	Percent decline during 1973–75 recession (2)	Percent of recession decline recovered, trough to date (3)	Percent of previous peak level (4)	Percent change from trough (5)
Leading index, trend adjusted (December)	−22.4	59.7	91.0	+17.2
Nonagricultural payroll employment (January)	−3.2	72.2	99.1	+2.4
Unemployment level (January) [1]	+98.3	23.5	175.2	−11.6
GNP, 1972 $ (4th quarter 1975)	−6.6	71.4	98.1	+5.1
Industrial production (December)	−13.8	48.9	92.9	+7.8
Retail sales, 1967 $ (December) [2]	−10.0	62.6	96.3	+7.0

[1] The unemployment series tends to move counter to movements in general business activity; that is, the unemployment level tends to rise during recessions and decline during expansions.
[2] Three-month averages have been used for the calculations for this series; for example, the averages of the specific trough month, the previous and following months were compared with the average for the latest 3 months available to obtain the entries in cols. (3)–(5). For other series, single months have been used.

Mr. SHISKIN. Now I will be very happy to answer questions.

Senator PROXMIRE. Well, the first obvious question that comes to mind in view of this very good news is, is there any kind of a possible error, or temporary development here that could explain this very sharp drop in unemployment, particularly the very extraordinary

increase in employment—it rose 800,000, according to the household survey. Is that correct?

Mr. SHISKIN. That is one of the largest. There were only three rises in the past larger than that.

Senator PROXMIRE. Only three times?

Mr. SHISKIN. Only three times have we had rises that were larger than this.

Senator PROXMIRE. Is there any chance that your new seasonal adjustment factors might exaggerate the growth of employment? Mr. Heller is extremely astute, as you know, and he said something about that. He didn't question it, but he said that was a fact that he would like to look into, think about it. Sometimes in the past we have had rather disturbing developments on that score. Could that be possible?

Mr. SHISKIN. Well, let me try to answer the question this way. Naturally, we were concerned ourselves that there might be some error in the figures, some kind of processing error that affects all the figures the same way. That is possible. There is a possibility of seasonal adjustment deficiency; and we spent a few very nervous days checking for errors. Well, we couldn't find any.

Senator PROXMIRE. You have this contrast between the payroll survey that indicates an increase of 360,000, and the household survey shows 800,000; there is a very, very sharp contrast.

Mr. SHISKIN. There is indeed a contrast between December and January, and for that reason we went back to June or to March, and found that the difference in the trends since then has been very small. For example, I cited a figure that showed the trough of the recession as measured by the payroll survey was in June. The rise since June in the payroll survey was 1.8 million; the rise since June in nonagricultural employment according to the household survey was 1.7; now, that's very, very close.

Senator PROXMIRE. That's what we have to discuss.

Mr. SHISKIN. I know. You should look at the latest month's change, but you should also look at it in a longer perspective. You have to look at the latest figures, but you also take a look at it in the perspective of recent developments. I don't say there is no possibility of error; sure, there is always such a possibility. I just say we couldn't find one. We thought there might be an error, too, and made a very thorough search. We had the Census people review the part of the work for which they are responsible; my staff was also very busy when they got the figures searching for errors, but we couldn't find any.

Senator PROXMIRE. Of course, economic forecasts are notoriously uncertain. And yet, this seems to be suggesting, a month is a very short time. Still, this progress seems to be far better than the witnesses who have testified before this committee thought it might be, including Mr. Heller, who is perhaps the most optimistic. It is certainly better than the administration anticipated, or other outside experts, economic and academic experts, expected.

Mr. SHISKIN. Well, first of all, I'll be happier—let me try it another way. I am going to reserve my celebration for another month or so, until I see the figures for February and March.

However, you know, there is some historical experience that supports the view that unemployment rates stay high for quite a while

after a recovery gets underway, and then they drop. I have been saying month after month here that unemployment lags, and I think that is what has happened. With the revised seasonal factors, adding the experience of 1975, I think you get a picture that looks more like those of the past. The unemployment rate was 8.9 percent in May and then it dropped slightly to 8.7 and 8.6 percent. But since October it has shrunk almost a full point. That is the kind of pattern that took place in the past.

There are very few business cycle students left, and I have chided some of my friends, like the recently departed Secretary of Labor, for abolishing business cycle courses in our top universities. I think that many of our analysts are overlooking historical business cycle experience. One of our great experts in business cycle analysis is Arthur F. Burns. And I believe it's true that he is estimating a lower unemployment rate at the end of this year than any of the other top people.

Senator PROXMIRE. It is very hard from me to see where this trend is coming from, it really is. We have a kind of flat projection for investment; housing hasn't picked up very much; automobiles perhaps a little, they have had fairly good weeks the last couple of weeks, but they haven't improved that much. And then we have this remarkable improvement here.

Now, you did say that this was a weaker recovery in employment than we had in 1958.

Mr. SHISKIN. No. The recovery in unemployment is weaker.

Senator PROXMIRE. I beg your pardon.

Mr. SHISKIN. Stronger employment.

Senator PROXMIRE. I meant to say unemployment. A weaker improvement in unemployment than we had in 1958.

Mr. SHISKIN. Yes; but the recovery is stronger in employment.

Senator PROXMIRE. Stronger in employment.

Mr. SHISKIN. I can give you the figures.

Senator PROXMIRE. So, on the basis of just mechanistic cyclical comparison, it doesn't look too impressive.

Mr. SHISKIN. It's not a weak recovery. It seems to me it's a good, solid recovery, the kind of recovery that is typical of the past. I think many of the columnists have been writing about a sluggish recovery, but they are wrong; it is not sluggish.

Senator PROXMIRE. Mr. Shiskin, can you give us figures on overall dispersion of unemployment? You indicated that in about two-thirds of the manufacturing firms they increased employment, or decreased unemployment.

Mr. SHISKIN. They increased employment.

Senator PROXMIRE. Increased employment. Can you tell us where this trend is coming from?

Mr. SHISKIN. It is coming largely in the cyclically sensitive industry, manufacturing, and also from trade.

Senator PROXMIRE. What are your leaders, can you give us three or four?

Mr. SHISKIN. Fortunately there is a table in our release where we have those figures. I think the best place to look, sir, is in table B-5 on man-hours.

Senator PROXMIRE. All right.

Mr. SHISKIN. Table B-5 combines hours and employment, resulting in the most comprehensive measure we have. There is a very nice rise in manufacturing. In durable goods, lumber rose significantly, along with fabricated metals, machinery, and electrical equipment. Transportation equipment rose sharply—from 86.7 to 88.6, or more than 2 percent. You know, one of the most significant things—and I'm not talking about December and January as much as I am about developments since October—is how widespread these improvements are.

Senator PROXMIRE. What?

Mr. SHISKIN. How widespread these improvements are. They pervade all the demographic groups, and they pervade all the industries and occupations. It is a very widespread improvement. Senator Proxmire, may I, on the basis of my studies of business cycles, try to answer the question, from where is this strength coming? I heard that question in 1958 when I was working for the Council of EconomicAdvisers; I heard it in 1961; I heard it in 1970. People would come to me and ask, "Where is this trend coming from," and nobody ever quite knew.

But, it comes, and there is an expression which is vague, but I think it describes the situation: It comes from the cumulative forces of expansion—the cumulative forces of recovery. You recall how uncertain everybody was 4 or 5 months ago about whether we were really coming out of the recession.

Senator PROXMIRE. What I am getting at, you see, we've got a reduction in unemployment that was rather sharp last spring and early last summer, and I thought that was partly from the Federal tax cut, and the Federal fiscal policy in general.

Is there any indication here that the Federal policies, Federal Government policies have a favorable effect here?

Mr. SHISKIN. Well, I have great faith in the private sector. Let me add that these figures were available to us at the top level several days ago, and I have two assistants who went over them very carefully with me; they both thought these figures were wrong.

Senator PROXMIRE. They were wrong?

Mr. SHISKIN. Yes. They couldn't believe them.

Senator PROXMIRE. I wouldn't have been surprised if it came in half a percent higher.

Mr. SHISKIN. Sir, the strength comes from the cumulative forces of expansion, you can't put your finger on it. What happens, I believe—you are asking me for my opinion, and I'm giving it to you—you know, in the early days of recovery everybody is uncertain and uneasy, and this influences not only the analysts like us, but also the people who make policy, and perhaps most important, the businessmen, But, as the expansion grows people begin to realize, "We are really in an expansion," and they begin to act as though they are in an expansion. I think that's what's been happening recently.

Look at the stock market rise, look at the bond market improvements; people are also hiring more employees. What may be happening in the next few months is that people may be hiring employees just to hold them, the way they did in the past. That has happened in previous expansions and may well happen.

My experience in studying recoveries of the past has indicated that after a while when the public, the business community, the policy officials, the Congressmen realize that there is a true expansion under way, there is a cumulative surge, there is a push, and I think that is what we are beginning to see. It doesn't last very long because usually expansions taper off. But I think that's the stage we are in now.

Senator PROXMIRE. Now, the composition of unemployment is shifting, I notice, the very long-term unemployed, unemployed for 27 weeks or more, now make up 22 percent of the unemployed, compared to only 9 percent last January. And these people perhaps suffer in many cases more than others.

What information do you have on that group, are they job losers, or are they new entrants; are they family heads; what are their prospects for finding jobs?

Mr. SHISKIN. Well, I will make a general statement. Bob, you might think of something supplementary.

You know, that is one of the lagging indicators, that is one of the slowest reacting groups, and we should expect to see that sort of movement at this time.

Senator PROXMIRE. Long-term unemployment?

Mr. SHISKIN. Long-term unemployment. I remember in an early meeting I classified that group as one of the "laggers". As this expansion improves, that will begin to go down, too. I don't know about the composition, but you may, Bob.

Senator PROXMIRE. Would you state your name for the record?

Mr. STEIN. Robert Stein, Assistant Commissioner for Employment Analysis.

The long-term unemployed do tend to be concentrated among males in the central age groups, of which a disproportionately large number are family heads. They are job losers more likely than new entrants. We have seen a pretty sharp drop, actually, in the last few months in the proportion of job losers, but some of these people are just not getting back to work.

Senator PROXMIRE. These are family heads who are job losers, so it is likely to be a very significant and often tragic situation.

Mr. STEIN. Disproportionately, I wouldn't want to say that they are all family heads.

Senator PROXMIRE. But it is disproportionate.

Mr. SHISKIN. Senator Proxmire, I said I would say something to give you an indication of one aspect of these improved employment and unemployment statistics.

You recall how unhappy we all were about a year ago when things seemed to be going to pieces. Now, at that time the unemployment rate in the automobile industry was about 20 percent, higher in some months.

Senator PROXMIRE. Yes.

Mr. SHISKIN. Our revised figures show, for example, that in January 1975—just a year ago—the unemployment rate in the automobile industry was 19.3 percent. The figure for January 1976, is 6.4 percent.

Senator PROXMIRE. That's marvelous. Give me just one other statistic, what is it in construction? Compare the two periods.

Mr. SHISKIN. That's on table A-2. Let's take a look at that.
Mr. STEIN. 15.4 percent for January.
Mr. SHISKIN. That has not improved as much as has automobile unemployment.
Senator PROXMIRE. Now, the auto unemployment figure is part of the answer to the question I asked earlier, 19 percent down to 6.
Mr. SHISKIN. I remember only a year ago we were all writing the domestic automobile industry off; now they are making a dramatic recovery, good profits and increasing employment.
Senator PROXMIRE. And undoubtedly they are affecting other industries that feed the automobile industry. One job in five, or one job in six is automobile dependent.
Mr. SHISKIN. I remember when you were making that point on the way down, it is equally true on the way up.
Now, Senator, I would like to be on record saying that the 7.8 percent unemployment figure for the month may not hold up. Next month it may be 7.9, or 8. But I think it's in the ballpark.
Chairman HUMPHREY. Well, Mr. Shiskin, it's always good to have good news. I repeat here what I have said on other occasions, that I have continued to be slightly more optimistic about the rate of recovery in some areas than some of the forecasters. But, there is still a very substantial body of unemployed, but the rate of employment has been going up. There are a substantial number of new workers that are being hired that is absorbing into the market for new employable workers. There is still a very high rate of unemployment, and it is very sticky, despite the fact that it is down to 7.8 percent.
The auto industry is very encouraging on the figures there, but isn't it a fact that in the month of January there was a very large hiring of auto workers and extension of time?
I met with the auto workers here some time ago, and they said they were going back to work as much as 60 hours a week, and this was due to getting inventory built, the big models. This is the last year of the big models. They are trying to build inventory and to do so before the increases in wage rates that are coming up in this year's bargaining.
So, there are some factors involved here which I think indicate why the 19 percent dropped to 6 percent, for which we are all grateful. But I want to say, I think that is cyclical there, and the economic reason for that is trying to build a stock and get the production of the bigger cars at the wage rates that are presently operative, rather than after the new bargaining that is going to take place this summer. That's good news.
The one thing that bothers me in any of these reports is the continued high rate of unemployment among the minorities, particularly blacks, I notice an unemployment rate of over 13 percent; that is almost as high as a year ago and still above the level of 1974. So, the recovery, as far as that group is concerned, is minimal, if any at all.
And the other group is the young people. What is it among teenagers, 19 percent, or 20 percent?
Mr. SHISKIN. That's correct.
Chairman HUMPHREY. That is still a very high rate of unemployment. I think that may tell us something. First of all, among teenagers,

most of them have not been employed at any time, and have few if any work skills.

I want to tell my colleague, Senator Proxmire, of the importance of the CETA program. I met with some people recently of industry, who told them of this work in CETA, their observations of it. This has had a very good impact on the rate of hiring. CETA runs at about 67 to 70 percent, which is a remarkable rate. I think that tells us of the importance of concentrating a good deal on that kind of program that trains workers, places workers, upgrades workers, gives them skills that are suitable to the employment opportunities in their communities.

One thing that I noted is, there was a big story in one of the leading publications that said there were 1 million jobs open and nobody to fill them. It was a substantiated story; I forgot whether it was Harper's or some other publication; it was well documented. It said there were job openings, but there were no people trained for job openings; and all those job openings were in areas where people didn't come to fill the jobs. There is less labor mobility today; that is a sociological factor. People want to stay rooted in their communities, they don't want to pick up and go, as it was in World War II, with construction jobs all over the place. They are looking for jobs in their own area.

That is why these training programs that are related to the industrial, manufacturing, and service positions in the hometowns—well, not hometowns, but immediate vicinity, are so very, very important.

I wonder, you have done a lot of work on the business cycle, and I guess we will call you an expert in that field, at least you have a fine background.

Now, if we were running a $20 billion full employment surplus, and the monetary expansion rate was no more than 5 percent a year from now, what kind of a recovery would you expect us to be undergoing at that time?

Mr. SHISKIN. I really can't answer that question from the top of my head, Senator Humphrey.

Chairman HUMPHREY. Well, what does it tell you? I don't mean for you to put down percentages.

Mr. SHISKIN. Well, we know that surpluses tend to be associated with depressed economies. I have no comment on the monetary figure. I must say, and I have said this before, I have studied for years under Arthur Burns. I was lucky enough to be his assistant when we were both young men.

Chairman HUMPHREY. Well, don't let that tarnish your judgment. [Laughter.]

We think a great deal of Arthur Burns.

Mr. SHISKIN. I also see him occasionally now and I have great confidence in his ability to run the Federal Reserve and to do the right thing.

Chairman HUMPHREY. Were you here when Mr. Heller testified?

Mr. SHISKIN. Unfortunately I was a little late this morning, I didn't have my statement quite ready for the opening of this session.

Chairman HUMPHREY. I want you to take with you a copy of his testimony.

Mr. SHISKIN. I'll be happy to.

Chairman HUMPHREY. I mean that very sincerely because while Mr. Heller is on the upbeat in terms of GNP and I agree with his estimates, I think it is very well for the people in the administration and the Department of Labor that have responsibility in this area—I don't say you are a policymaker, but you are an interpreter, and a respected one—I think it is important that you look at some of the facts and some of the observations that Mr. Heller makes. I hope that you will do so.

Well, I don't have much more to ask you. I wanted to ask you about the women's employment, I note that it is up; is that correct?

Mr. SHISKIN. It is up sharply. It is a continuation of the trend that we have seen for many, many years now, rising female participation and rising female employment. Now, of course, employment doesn't rise every month, but it did this month.

I might say also, I took a look again at a measure we have discussed in earlier months, the employment population ratio; which showed a very sharp rise for all civilian employment, for teenagers, for men, and especially for women.

Let me make this comment about teenagers. Teenage unemployment rose, but so did teenage employment and the employment-population ratio. The percentage of teenagers employed in January rose sharply. So, what is happening is, we are getting more teenagers in the labor market, and more women in the labor market. More are getting jobs, but there are also more of them unemployed. You have to take a look at both sides of the question—employment and unemployment. If you do that you will see that more teenagers are working.

Chairman HUMPHREY. We have to expect there are going to be more, there are more people.

Mr. SHISKIN. But a greater percentage of the teenage population is working.

Chairman HUMPHREY. Yes.

Mr. SHISKIN. Mr. Chairman, in terms of the percentage of the teenage population, employment increased.

Chairman HUMPHREY. But there are still 20-percent unemployed.

Mr. SHISKIN. Right, and I don't want to say anything to understate the seriousness of that situation. We are all very greatly concerned about unemployment, including teenage unemployment. Unemployment has a devastating effect on the long-term development for these youngsters. I certainly have not changed my mind on that.

However, I think it is worthwhile to know that there are also more teenagers employed, not only in the absolute sense, but in terms of a percentage of the population.

Chairman HUMPHREY. Well, that's somewhat encouraging, but I don't want us to get into the habit of any official of this Government underestimating the incredible loss of human resources, productivity and income of high-level unemployment.

Mr. SHISKIN. Sir, may I say, since I am an official of the Government—I'm not sure you were here when I read this statement—and

I would like to just read this one sentence again. I say, "Despite these sharp declines, the unemployment rate remains very high."

Chairman HUMPHREY. Yes; I realize that.

Mr. SHISKIN. I'm fully aware of it.

Chairman HUMPHREY. While you are not in the policy-forming relation area, I had people before this committee just last week that told us we couldn't do much about it. I don't like that. I intend to bear down on it from here on out. The Council of Economic Advisers came in here with an analysis of the problems of our economy as if it was a kind of terminal illness for certain groups of people, and I don't like it. I don't intend to let them off until they come up with better ideas.

I want to ask another question, how many people have dropped out of the employment market. When you have figures of 7.8 percent unemployed, do you have any way of knowing how many people no longer even register for employment because they gave up?

Mr. SHISKIN. The discouraged workers? Well, let me make two comments in response to your question. First of all, the labor force rose substantially, we had a larger labor force last month than we had the month before. So, more people were in the job market in January than were the month before.

As far as discouraged workers are concerned, and we are familiar with all the problems of defining discouraged workers—hopefully we will get into that on another occasion. But, staying with our present definition, I can report that there has been a decline in the number of discouraged workers. We have these data on a quarterly basis only. In the fourth quarter of 1975, the number of discouraged workers dropped below a million. So, the number of discouraged workers has declined, along with the decline in unemployment.

Chairman HUMPHREY. So, you feel that your analysis of 7.8 is pretty good, a hard figure? I realize there are always deviations in figures.

Mr. SHISKIN. If it turned out to be 7.9 percent, I wouldn't be surprised. By the way, I appended an alternative seasonal adjustments table to my statement. You have my testimony at the table.

Chairman HUMPHREY. Yes.

Mr. SHISKIN. We have revised our method of seasonal adjustment.

Chairman HUMPHREY. Now, does that have anything to do with giving a more favorable picture?

Mr. SHISKIN. I don't think so. Now, one of the questions that I immediately asked my staff—and believe me, I was very nervous until I got the answer—was what would the unemployment rate have been if we had stayed with the previous method of seasonal adjustment; and it turned out to be 7.8 percent.

Chairman HUMPHREY. The same thing.

Mr. SHISKIN. The same thing. However, there are other measures that give higher figures. If you take all our methods and you average them, you get 7.9. It's in that area.

Chairman HUMPHREY. Senator Proxmire, do you have some questions?

Senator PROXMIRE. Yes, I do.

In view of the fact that the number of discouraged workers, you say, is down, and the number of people on the work force is up, this

is one statistic that really bothers me. The number of persons forced to work only part-time for economical reasons rose 240,000 in January. Now, that is inconsistent with everything else we have here.

Mr. SHISKIN. Yes.

Senator PROXMIRE. Do you have an explanation for that?

Mr. SHISKIN. No. Again, I want to wait a month or two to see if that holds up. These figures are inconsistent, and we noted that. By and large we have a very favorable picture here but there are some unfavorable signs—that is one of them.

Senator PROXMIRE. Now, you told us before that you planned a special survey of the unemployed in April designed to yield additional information, source of income, family status, and so forth. Is it planned that that survey is going forward?

Mr. SHISKIN. Yes, sir.

Senator PROXMIRE. Will it be done in April?

Mr. SHISKIN. It will be done in May. I would like to talk a little bit about that, let me make a few comments on that.

We had a hearing yesterday with our House Appropriations Committee, following the hearing with the Senate Appropriations Committee, which you chaired. This question came up then.

We told them a number of things. One is that because of the delay in the 1976 appropriations, that survey would be taken in May instead of April. Also, we have decided that we want to expand the survey in the following way. We had planned to ask questions only about intensity of job search in this special survey. It will be a one-time shot; it's not going to be part of the permanent survey; we are just trying to understand more about the job-searching activities of the unemployed. So, we now plan to do that in May. The results will not be available until early in 1977.

In addition, we will be asking questions to give use a better understanding of who the discouraged workers are. I have made the observations that some of the discouraged workers may have unrealistic ideas about the types of jobs and salaries they can get; and when we put practical questions to them, it may turn out that some of them do not really want jobs. On the other hand, no doubt there are many people in one-industry towns, or areas that are very seriously depressed, who know it is useless to look for jobs.

So, we intend to include a series of questions to get at the nature of the discouragement. We plan to do that in May. It came up yesterday, as I said, in our discussions with Chairman Flood and some of the other members of that committee. We told them that we would use some of the money appropriated last year for improving our employment and unemployment statistics for that purpose.

Senator PROXMIRE. I would like to follow up on a question of the chairman a little bit. As I understand it, you have changed the seasonal procedures in two ways. You changed it from multiplicative, that's a tough one to say—to additive for teenagers only.

Mr. SHISKIN. That's correct.

Senator PROXMIRE. And in the second place, you incorporated the 1975 experience in the seasonal adjustment formula.

Mr. SHISKIN. May I just say this?

Senator PROXMIRE. Yes.

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Mr. SHISKIN. The second point, incorporative the additional year's experience is a completely routine event; we do it every year for almost all our measures. So, that would have gone forward, no matter what. But also in light of the very bad experience last year, you recall, in May and June with seasonal adjustment of the data for teenagers, we thought it would be absolutely odious if we didn't try to do something about that. We made a series of very extensive studies of the relationship between trends in a series and seasonal factors; and we decided the only group that warranted a change was the teenage group.

Senator PROXMIRE. I understand that led to a considerable revision in the 1975 multiunemployment rate, it went way down the line.

Mr. SHISKIN. Yes, sir.

Senator PROXMIRE. The pattern changed, unemployment peaked at a lower level, but then came down more slowly in the second half of the year.

Mr. SHISKIN. No, it came down rapidly.

Senator PROXMIRE. It came down more rapidly?

Mr. SHISKIN. It came down more rapidly since October.

Senator PROXMIRE. Since October, but for the second half of the year as a whole——

Mr. SHISKIN. Well, the year as a whole is always unchanged, seasonal factors don't count when the whole year is taken into account.

Senator PROXMIRE. But the second half of the year?

Mr. SHISKIN. It showed more clearly the kind of thing we had in 1961, and again in 1971–72, where unemployment stayed high for months and months, and then it dropped sharply. That seems to be happening now.

Senator PROXMIRE. Now, staff tells me that some experts who have been in touch with the committee have questioned the value of these changes. They argue that 1975 was a very unusual year, and the statistical program used for computing seasonal factors treats some of the impacts of the recession in unemployment rate as if it were seasonal. They are afraid the revised data is misleading for 1975 and is completely misleading for 1976.

Now, you told us what the unemployment rate was in January and you thought that the seasonal adjustment would have been one-for-one, one-tenth of a percent higher; it would have been 7.9 percent?

Mr. SHISKIN. No, I said if we had stayed with our old method, it would have been identical.

Senator PROXMIRE. It would have been identical.

Mr. SHISKIN. If you averaged all the methods out, it would have been 7.9 percent.

Senator PROXMIRE. Well, can you supply us each month this year with the seasonally adjusted unemployment rate, what it would have been if you had not added the 1975 experience in the adjustment?

Mr. SHISKIN. Yes, we certainly could, but I really don't think it is worthwhile. What we plan to do each month is to provide you with the kind of table I gave you today which shows the results of many different methods.

Senator PROXMIRE. What weight do you give 1975, can you tell us that?

Mr. SHISKIN. It's substantial, but the method also takes into account the 3 previous years.

Senator PROXMIRE. Does it have the same weight as each of the 3 previous years, or does it have a bigger weight?

Mr. SHISKIN. I think it has a greater weight. The weights are as follows: 1975, 28.3; 1974, 28.3; 1973, 28.3; and 1972, 15.0.

Senator PROXMIRE. It has a greater weight.

Mr. SHISKIN. Senator Proxmire, let me say this, we reached the conclusion that we should make this change after what really was a fiasco in the seasonal adjustments last spring—we just had to do something.

Senator PROXMIRE. I'm not saying you should not have done it, I just want to understand what the effect is so we can be in a better position to evaluate it.

Mr. SHISKIN. Let me respond to that. Now, what we then did was to take a look at impacts, adding 1975, and then the impact of the change in the method. Now, the greater effect was adding 1975. But, that is a very routine procedure. We do that for every series.

Now, what we promptly did, after we made these studies ourselves, was to send copies of our analyses to many groups. We met with a Government committee, the Subcommittee on Economic Statistics, that is a technical group, mostly civil servants. We went to our Labor Research Advisory Council; we sent the analysis to our Business Research Advisory Council; and we sent it to the chief of the JEC staff, who advised me he would send it to every member of the committee. We sent him 25 copies. So, we gave it very widespread distribution, considering the technical nature of the report.

And in light of the comments we received, it was clear that the best course was to go ahead. I'm very happy to show you the results of all these different methods of work. I'm a little less enthusiastic about showing what would happen with 1975 left out. Suppose I began leaving years out here and there, as I thought best, some people would come——

Senator PROXMIRE. I realize that, I'm not questioning that. We want to know if 1975 was an unusual year. You know far better than anybody else how this could modify the statistics. We would like to understand that.

Mr. SHISKIN. I will certainly do that.

Senator PROXMIRE. Could you let us know for the record how much of a weight you give 1975 seasonal adjustment?

Mr. SHISKIN. Sir, I will be glad to make these calculations for you. The answer is 28.3 percent.

You know, it's really a remarkable thing that yesterday at 3 o'clock we were still reviewing the data in this release, and here we have this document of so many pages, plus the statement I prepared with the supplementary tables—all in less than 24 hours.

By the way, I have had another kind of suggestion—and I think this is a very reasonable suggestion. We will be coming out with the revised seasonal factors for the Consumer Price Index later this month; and for the Wholesale Price Index later, and that is a big workload. But one of the suggestions I get is to leave out the years where we had price controls in making the seasonal adjustments of the CPI and the WPI.

Senator PROXMIRE. When you have price controls?

Mr. SHISKIN. Yes, and that is a very reasonable suggestion. But the problem is that, as a Government official, if I start selecting the years to leave out, no one will trust us; and I wouldn't blame them. On the other hand, your questions are prefectly reasonable questions, what is the impact of 1975?

If last year's factors had been used to calculate the unemployment rate, that is, if the 1975 experience had not been incorporated into our seasonal adjustment procedures, the unemployment rate for January 1976 would have been 8.

Chairman HUMPHREY. We thank you very much. Mr. Shiskin, and your associates, colleagues; you have come well prepared; that is good, solid material. We are very grateful, and we are also grateful for good news. Any other time you can come, even if it's in the middle of the month, we will be glad to receive it.

Mr. SHISKIN. As a matter of fact, that is the best report I have delivered since I became Commissioner of Labor Statistics, in terms of improvement of the economy.

Chairman HUMPHREY. Yes. Thanks a lot.

[Whereupon, at 12:20 p.m., the committee recessed, to reconvene at 10 a.m., Thursday, February 19, 1976.]

THE 1976 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 19, 1976

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

The committee met, pursuant to recess, at 10:37 a.m., in room 318, Russell Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Sparkman, Proxmire, and Javits; and Representatives Reuss, Moorhead, Long, and Heckler.

Also present: John R. Stark, executive director; Lucy A. Falcone, Robert D. Hamrin, John R. Karlik, L. Douglas Lee, Ralph L. Schlosstein, and Courtenay M. Slater, professional staff members; Michael J. Runde, administrative assistant; George D. Krumbhaar, Jr., minority counsel; and M. Catherine Miller, minority economist.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. This morning, as the Joint Economic Committee resumes its hearings on the President's Economic Report, we are here to welcome Mr. Arthur Burns. You have appeared four times before the Banking Committees during the past year to enunciate the Federal Reserve's monetary policy. I see we have the Chairmen of those respective committees present today.

In preparation for this morning's hearing, I have had the staff prepare a table summarizing the targets announced on these occasions and comparing those with the actual rate of change in the monetary aggregates so far.

The conclusion which emerges from this exercise is that the targets for M_1 (the money supply) and M_2 (money supply plus time deposits at commercial banks) are not being met. With respect to M_3, which includes deposits at thrift institutions, the track record is somewhat better. The general impression, however, is that growth of the monetary aggregates is falling short of the various targets which have been set.

Measured from March 1975 (the base for the first targets set) to January 1976 (the latest month), the money supply has been growing at a rate of 4.8 percent or below the 5 to 7½ range which was sought.

Measured from the third quarter of 1975 the base for the targets set in November, the money supply has been growing only at a 2.5 percent rate—still farther below the target range.

I recognize, of course, that the relevant time period has barely even begun and that things could look different when the year is up.

Mr. Burns, I am not necessarily implying criticism here of Federal Reserve policy. I do not attach any slavish importance to these targets. I certainly feel that the Federal Reserve should be free to adjust their targets as circumstances may make necessary. Obviously, if the targets are adjusted, you are not to be criticized for not attaining the original targets.

However, the pattern of money supply growth over the past year certainly raises some puzzling questions, which I want to explore with you this morning. Last spring, most observers were concerned that the money supply would exceed the top of the target range. Few would have guessed that the real problem would be money growth so slow that it fell below the lower end of the target range.

Does this mean that Federal Reserve policy has been tighter than intended? Does it mean that the demand for bank loans has been and continues to be extraordinarily weak? Does this mean simply that increases in monetary velocity have exceeded expectations and that all is well?

Are the statistics and the seasonal adjustments so poor that all meaning is lost?

What is implied of the future? Will the money supply suddenly begin to grow very rapidly to make up for lost time? Or will the puzzling pattern of slow growth of money and rapid growth of money and rapid growth of GNP continue?

Was the bottom of the M_1 target revised down to 4.25 percent recently because that is an appropriate target or because of lack of success in meeting the 5 percent target?

Because of its slow growth in the last few months, the money supply could now grow at a rate exceeeding 9 percent during the first three quarters of 1976 and still be within the target range measured from third quarter 1975 to third quarter 1976. Would such a development be regarded by the Federal Reserve as inappropriate? Would you take steps to see that the money supply did not grow that rapidly over a three-quarter period? What weight should be given to interest rates as opposed to money supply targets?

All those questions are on our minds, Mr. Burns, as we try to understand what has recently been happening in financial markets and to formulate our views on an appropriate monetary policy for this year.

Please proceed with your statement and then we will go at the questions.

STATEMENT OF HON. ARTHUR F. BURNS, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. Burns. I am pleased to meet once again with the Joint Economic Committee to present the views of the Federal Reserve Board on the condition of the national economy.

A year ago, when I appeared at your hearings on the Economic Report of the President, our economy was already in the final stages of the most severe recession of the postwar period. Corrective forces—some internal to the economy, others emanating from governmental policies—were at work, and an upturn in business activity soon got underway.

Since last spring, we have experienced a substantial economic recovery. According to present indications, the physical volume of our Nation's total production rose at an annual rate of 9 percent during the second half of 1975.

The rebound of the industrial sector of our economy has been even stronger. Since last April, the combined output of factories, mines, and power plants has increased at an annual rate of 11½ percent. The advance was initially most prominent in the textile, leather, paper, and chemical industries; but the scope of the recovery broadened in the fall and winter months and now includes a wide range of durable as well as nondurable goods.

As production rose, the demand for labor strengthened. Within last month's sizable gain, total employment across the Nation has risen over 2 million from its low point last March. This gain has been accompanied by a significant lengthening of the average workweek, particularly in manufacturing and mining.

Meanwhile, the unemployment rate has come down from about 9 percent to 7¾ percent. The number of individuals out of work still remains deplorably high; but the new entrants or reentrants into the labor force now account for a larger part of the unemployed total than 6 or 9 months ago, while job losers account for a substantially smaller part.

The rate of utilization of our industrial plant has also risen. In the major materials industries, only 70 percent of available plant capacity was effectively used during the first quarter of 1975. By the final quarter, utilization of capacity in these industries had climbed to 81 percent, and it is now well above that average figure in industries such as textiles where the recovery of production has been especially rapid.

As we look back, it is clear that the consumer led the way out of recession and into recovery. Early in 1975, when price concessions became fairly common, consumer purchases began to pick up. Consumer buying was further buttressed during the spring and summer months by tax rebates and supplementary social security checks.

Sustained demand for our exports also helped to pave the way for economic recovery. Of late, our foreign trade has increased substantially, and export markets nowadays absorb about one-eighth of our total output of goods. The strong competitive position achieved by the United States in world markets during the past 2 or 3 years played an important role in cushioning the recent decline of our economy.

Thus, with sales to both foreigners and American consumers well maintained, business firms were able to make good progress last year in clearing their shelves of excess inventories. By early summer, stocks had come into reasonable balance with sales in most consumer lines, and many firms engaged in retail and wholesale trade therefore began to rebuild inventories. At the same time, the pace of inventory liquidation showed considerably in the manufacturing sector. For all nonfarm businesses, liquidation of inventories receded from an annual rate of about $30 billion in the second quarter to a rate of $6 billion in the third and fourth quarters of last year. This readjustment in business inventories has been a major recovery of our Nation's production of goods and services.

Last fall, the rate of advance in economic activity slowed for a very brief period. But the pace quickened toward yearend, and the economy entered 1976 on a strong upward trend. In December, industrial output rose almost 1 percent and another increase of 0.7 percent occurred last month—with gains widely distributed among consumer goods, business equipment, and other major sectors. The market for jobs also extended its improvement. In fact, the number of man-hours worked in private nonfarm industries increased at an annual rate of more than 8 percent in December and January.

With employment and incomes rising swiftly, consumers began buying more liberally, as is evident from the recent surge in retail sales. In December, retail sales rose almost 3 percent on a seasonally adjusted basis, and they have continued at a high level since then. Sales of domestic automobiles last month reached the highest level since August 1974.

This upsurge of consumer spending has resulted in further reduction of business inventories, so that the ratio of inventories to sales is now unusually low at most retail outlets, and also at manufacturing establishments producing nondurable goods. Businessmen are still reluctant to reorder in volume until they are more confident that recovery is taking hold. But with sales continuing to increase, they will soon need to rebuild inventories to levels consistent with the improved pace of consumer buying. It should not be surprising if orders and production advance rather briskly in the months just ahead. Indeed, accumulation of needed inventories may act as a significant stimulus to recovery throughout most of this year.

Prospects for residential construction also have improved. Prices of new homes remain exceedingly high and this is bound to limit the recovery in homebuilding. Of late, however, builders have begun to place more emphasis on smaller—or semifinished—homes, and thereby have broadened their markets. The inventory of unsold units—especially in the single-family sector—has declined, and the vacancy rate for rental units fell sharply during the final quarter of last year. Furthermore, lenders are amply supplied with funds and mortgage credit is now readily available. Over the course of 1976, housing starts are therefore likely to extend significantly the gains already made during 1975.

Exports, too, will probably register further improvement this year. Economic recovery is finally underway in Japan and other industrial countries, and as it gathers momentum the demand for our exports should intensify. However, the foreign trade balance is likely to narrow this year, because our own economic expansion will lead to an enlarged demand for imports—including products, such as petroleum and industrial supplies, that fell off sharply during the recession.

Business capital spending can also be expected to contribute to economic expansion in the year ahead. Recent developments in this sector have been mixed. Production of business equipment has risen in each of the past 3 months—as sales of farm implements, mining and oil field equipment, and some other kinds of industrial machinery have advanced. Investment in new structures by public utilities has also risen. Nevertheless, some indicators of business capital spending remain rather weak. New orders for nondefense capital goods have risen

only modestly since last spring, and contract awards for commercial and industrial buildings have yet to show any improvement.

Business fixed investment, however, often lags behind other major categories of demand during the early stages of a recovery. With rates of capacity utilization increasing, corporate profits moving up strongly, the stock and bond markets improving, and business confidence gaining, we can reasonably expect considerable strengthening this year of business plans for buying new equipment and building new facilities—as normally happens in the course of a business-cycle expansion.

The precise magnitude of the recovery in business investment outlays will depend to a large degree on the vigor of consumer markets. Businessmen across our land are still making plans for the future with great caution. While the recent improvement in consumer buying has been encouraging, the present more optimistic mood of consumers could be destroyed by a new burst of inflation. Any resurgence in the pace of inflation this year would pose a threat to consumer and business confidence, and thus to the further recovery of economic activity that is so urgently needed.

Our Nation made notable progress last year in reducing the rate of inflation. The rise in consumer prices came down to 7 percent, about half the rate recorded in 1974. The rise in wholesale prices slowed down even more. Some of this improvement stemmed from the absence of powerful special factors—such as the quadrupling in prices of imported oil, short supplies of agricultural commodities, and the termination of wage and price controls, all of which drove up prices in 1974. However, the slowdown in the rate of price advance last year—particularly during the first half—also reflected slack demand in product markets and increased competitive pressures.

The progress made in 1975 on the price front still left us a long way from our national goal of general price stability. Moreover, some worsening seems to have taken place in recent months in the rate of inflation. Since the middle of 1975, wholesale prices of industrial commodities have increased on the average at an annual rate of over 8 percent, compared with 3½ percent in the first half of last year. The advance of consumer prices has quickened only a little—from an annual rate of 6.6 percent in the first half of 1975 to 7.5 percent in the final 6 months. Even so, the apparent reversal of the trend toward lower price increases is a troublesome sign.

The trend of wage increases, while understandable, is also disturbing. Last year, wage rates rose on the average by 8 percent—far above the long-term rate of growth in productivity. This year, major collective bargaining agreements covering almost twice as many workers as in 1975 will need to be negotiated. If wage settlements in major industries exceed those of 1975—when wage and benefit increases for the first year already averaged around 11 percent—a new explosion of wages, costs, and prices may be touched off.

Some stepup in the rate of inflation was perhaps unavoidable in view of the vigor of economic recovery. As the recovery proceeds, however, it is clearly the responsibility of government to manage economic policies so that a new wave of inflation is avoided.

Our country is now confronted with a serious dilemma. Over 7 million people are still unemployed. Many of them have been seeking

work for an extended period; the average duration of unemployment is nearly 17 weeks. The hardship created by unemployment has increased for those who unemployment benefits have been exhausted. More jobs are clearly needed—not only for workers who are now unemployed, but also for those who will soon be entering the labor force.

In the current inflationary environment, the conventional tools of stabilization policy cannot be counted on to restore full employment. Recent experience both in our own and other industrial countries suggests that once inflation has become ingrained in the thinking of a nation's businessmen and consumers, highly expansionist monetary and fiscal policies do not have their intended effect. In particular, instead of fostering larger consumer spending, they may lead to larger precautionary savings and sluggish consumer buying. The only sound fiscal and monetary policy today is a policy of prudence and moderation.

One of the urgent tasks facing our Nation is to end the persistent Federal deficits that have been a major source of our inflationary problem. Since 1960, the Federal budget has been in deficit in every year but one. The cumulative deficit in the unified budget over the past 10 years, including the official estimate for the current fiscal year, comes to $217 billion. If the spending of off-budget agencies and Government-sponsored enterprises is taken into account, the aggregate deficit for the 10 years amounts to almost $300 billion.

This sorry record of deficit financing means, of course, that we as a people have been unwilling to tax ourselves sufficiently to finance the recent sharp increases of governmental spending. In this bicentennial anniversary of our Nation's independence, we would do well to reflect on the fact that it took all of 186 years for the annual total of Federal expenditures to reach the $100 billion mark. This occurred in fiscal year 1962. Only 9 years later, in fiscal 1971, expenditures already exceeded $200 billion. Four years from that date, in fiscal 1975, the $300 billion mark was passed. And unless expenditures are held under a very tight rein, Federal spending will easily exceed the $400 billion level in fiscal 1977.

The President's budgetary program for the coming fiscal year, taken on an overall basis, would go far toward breaking the spiral of Federal spending which has been so largely responsible for the 10-year stretch of inflation that culminated in the deep recession from which we are now emerging. The proposed budget would limit the rise of spending in fiscal 1977 to 5½ percent, compared with an average yearly increase of 12 percent over the previous 5 years. The Federal deficit is projected to decline from $76 billion in the current fiscal year to $43 billion in the next, with a balanced budget finally in view by fiscal 1979.

Some well-meaning citizens are now urging the Congress to provide added fiscal stimulus in the interest of speeding the return to full employment. I would warn this committee that still larger Federal expenditures and a bigger deficit may fail in their purpose. A deeper deficit would require the Treasury to rely more heavily on credit markets, thus drawing on funds badly needed for homebuilding and business capital formation. Worse still, a significantly larger deficit would revise fears of accelerating inflation, and weaken the confidence of businessmen and consumers that is essential to the restoration of general prosperity.

Moderation in monetary policy is also needed to bolster confidence in the economic future. That is why the Federal Reserve has been so diligently seeking to foster a financial climate conducive to a satisfactory recovery, but at the same time to minimize the chances of rekindling inflationary fires.

Since last spring, growth rates of the major monetary aggregates—while varying widely from month to month—have generally been within the ranges specified by the Federal Reserve in its periodic reports to the Banking Committee of the Congress. On a seasonally adjusted basis, the quarterly average level of M_1—that is, currency plus demand deposits held by the public—rose over the last three quarters of 1975 at an annual rate of 5.7 percent. M_2, which also includes time and savings deposits at commercial banks other than large certificates of deposit, rose at a rate of 9 percent. A still broader monetary composite, M_3, which also includes deposits at thrift institutions, rose at a rate of 12 percent.

These increases in the monetary aggregates were accompanied, as we expected, by a sharp rise in the turnover of money balances. The rising velocity of money has not, however, been associated with higher rates of interest or developing shortages of credit—as some critics of Federal Reserve policy had predicted. On the contrary, conditions in financial markets have continued to ease, and are more comfortable now than at any time in the past 2 years.

There is a striking contrast between the movement of interest rates during the current recovery and their behavior in past cyclical upswings. Short-term interest rates normally begin to move up at about the same time as the upturn in general business activity, although the rise varies from one cycle to another. In the current economic upswing, a vigorous rebound of activity, a continuing high rate of inflation, and a record volume of Treasury borrowing might well have been expected to exert strong upward pressures on short-term interest rates. However, after some runup in the summer months of last year, short-term rates turned down again last fall, and since then have declined to the lowest level since late 1972. Long-term rates have also moved down; yields on high-grade new issues of corporations are now at their lowest level since early 1974.

Conditions in financial markets thus remain favorable for economic expansion. Interest rates are generally lower than at the trough of the recession. Savings flows to thrift institutions are still very ample, and commitments of funds to the mortgage market are continuing to increase. Mortgage interest rates are therefore edging down.

Moreover, the stock market has been staging a dramatic recovery. The average price of a share on the New York Stock Exchange at present is about 60 percent above its 1974 low. A large measure of financial wealth has thus been restored to the millions of individuals across our land who have invested in common stocks. Besides this, the advance in stock prices has made it considerably easier for many firms to raise equity funds for new investment programs or for restoring their capital cushions.

In general, the liquidity position of our Nation's financial institutions and business enterprises is now much improved. Corporations issued a record volume of long-term bonds last year, and used the proceeds to repay short-term debts and to acquire liquid assets. Commercial banks

reduced their reliance on volatile funds and added a large quantity of Federal securities to their asset portfolios. The liquidity position of savings banks and savings and loan associations has likewise been strengthened.

The market for State and local governmental securities was, of course, adversely affected by the New York City financial crisis. Even in this market, however, interest rates are now well below their 1975 highs, and the volume of securities issued has remained relatively large. The difficulties of New York City, moreover, have had a constructive influence on the financial practices of State and local governments—as well as on other economic units—throughout the country. The emphasis on sound finance that is now underway enhances the chances of achieving a lasting prosperity in our country.

These notable accomplishments in financial markets indicate, I believe, that the course of moderation in monetary policy pursued by the Federal Reserve last year has contributed to economic recovery. The Board was pleased to learn that the Senate Banking Committee, in its recent "Report on the Conduct of Monetary Policy," agrees with this view.

Last spring, when the Federal Reserve first announced its projected growth ranges for the monetary aggregates, concern was expressed by some economists, as well as by some Members of Congress, that the rates of monetary growth we were seeking would prove inadequate to finance a good economic expansion. Interest rates would rise sharply, it was argued, as the demand for money rose with increased aggregate spending, and shortages of money and credit might soon choke off the recovery.

We at the Federal Reserve did not share this pessimistic view, and our judgment has been borne out by experience. We knew that the turnover of money is apt to increase rapidly with a return of confidence. We know also that financial technology has been changing, that the innovative process has accelerated of late, and that significant economies in the handling of cash balances were therefore being effected.

The developments that have recently fostered economizing on the sums held as currency or demand deposits include the spread of overdraft facilities at banks, increased use of credit cards, the growth of NOW accounts in New Hampshire and Massachusetts, the emergence of money market mutual funds, the development of telephonic transfers of funds from savings to checking accounts, and the growing use of savings deposits to pay utility bills, mortgage payments, and other obligations. One very recent development that has had a considerable downward influence on the level of demand deposits was the regulation issued by the banking agencies last November, which enabled partnerships and corporations to open savings accounts at commercial banks in amounts up to $150.000.

The relatively slow rate of growth in demand deposits during recent months has been watched carefully by the Federal Reserve. In view of the rather rapid pace of economic expansion, the relative ease of financial markets, and the absence of any evidence of a developing shortage of money and credit, we have been inclined to view the recent sluggish rate of expansion in M_1 as reflecting the influence of various factors that are reducing the amount of narrowly defined money needed to

finance economic expansion. However, since it is impossible to project the scale on which further economies may be realized, we have taken steps to insure that the rate of monetary expansion does not slow too much or for too long.

During the past 3 months or so, open market policies have therefore been somewhat more accommodative in the provision of reserves to the banking system. This has been reflected in a decline of the Federal funds rate to around 4¾ percent. Last month, the discount rate was lowered from 6 to 5½ percent. And on two occasions—in mid-October and again in late December—the Board reduced reserve requirements. These reductions were aimed principally at encouraging a further lengthening of the maturities of time deposits at member banks, but they also released nearly $700 million of reserves and thus enabled banks to support a higher level of money balances.

In taking these steps, our objective has been to stay on a course of monetary policy that will continue to support a good rate of growth in output and employment, while avoiding excesses that would aggravate inflation and create trouble for the future. As I indicated in testimony before the House Banking Committee earlier this month, the Federal Open Market Committee has projected growth ranges of the monetary aggregates for the year ending in the fourth quarter of 1976 that differ only a little from those announced previously.

We believe that the monetary growth ranges we have projected will prove adequate to finance a good expansion of economic activity in 1976. But the uncertainties that at present surround monetary developments, particularly the behavior of M_1, will require a posture of exceptional vigilance and flexibility by the Federal Reserve in the months ahead.

Before closing, I would remind this committee that fiscal and monetary policies alone cannot be expected to achieve our economic goals in the current economic and financial environment. Structural policies can make a significant contribution to the restoration of full employment and also to correcting the long-run inflationary bias in our economy. In the time remaining, let me briefly sketch several lines of attack that seem promising.

First, governmental efforts are long overdue to encourage improvements in productivity through larger investment in modern plant and equipment. This objective would be promoted by overhauling the structure of Federal taxation, so as to increase incentives for business capital spending and for equity investments in American enterprises.

Second, we should face up to the fact that environmental and safety regulations have in recent years run up costs and prices and have held up industrial construction across our land. Progress toward full employment and price stability would be hastened by stretching out the timetables for achieving our environmental and safety goals.

Third, a vigorous search should be made for ways to enhance price competition among our business enterprises. The Congress is to be commended for putting an end to the so-called fair-trade laws. It would be desirable to go further and reassess the entire body of laws directed against restraint of trade by business firms and to improve the enforcement of such laws. We also need to reassess the highly complex governmental regulations affecting transportation and the many other laws and practices that impede the competitive process.

Fourth, governmental policies that affect labor markets have to be reviewed. There are grounds for thinking that the Federal minimum wage law is pricing many teenagers out of the job market, that the Davis-Bacon Act is serving to escalate construction costs, and that programs for income maintenance now provide benefits on such a generous scale that they may be blunting incentives to work. High unemployment and numerous job vacancies still exist side by side—perhaps because job seekers are unaware of the opportunities, or because the skills of the unemployed are not suitable, or for other reasons. Surely, better results could be achieved with more effective job banks, more realistic training programs, and other labor market policies.

Finally, we need to think through the appropriate role of a limited incomes policy in the present environment. Recent experience has emphatically demonstrated that lasting benefits cannot be expected from comprehensive or mandatory wage and price controls. However, a policy that would permit modest delay in key wage or price increases, thus creating opportunity for quiet governmental intervention or for public hearings and the mobilization of public opinion, may yet be of significant benefit in reducing abuses of private economic power and moving our Nation toward the goal of full employment and a stable price level.

Under current conditions, the return to full employment will have to depend rather heavily on policies that serve to reinvigorate competition and release the great energies of our people. That is why structural aspects of our economy deserve more attention from members of Congress and other students of public policy than they are as yet receiving. In the Board's judgment, wise structural policies in conjunction with moderate fiscal and monetary policies offer the best hope for the attainment of a lasting prosperity.

Senator PROXMIRE. Thank you very much.

The chairman of the committee has had to be necessarily absent to vote in another committee. He is coming right back. He asked me in the meanwhile to fill in.

I ask Congressman Reuss ot begin the questioning.

Representative REUSS. Thank you, Mr. Chairman. Welcome, Chairman Burns.

Testifying before the House Banking Committee, last July in one of your periodic, constructive dialogs with House and Senate committees, you projected the target rate for M_1 for the July, 1975 to July, 1976 fiscal year from 5 on the downside to 7½ percent at the upside. Two weeks ago in your appearance before the House Banking Committee, you very modestly altered the downside so as to be 4½ percent instead of 5 percent.

That afternoon, the Dow Jones average on Wall Street took a plunge and Walter Heller suggested that your observation was responsible for that. I don't know whether that had anything to do with it or not.

But trying to repair any damage to people's wealth that may have been done, let me ask you the following question: In projecting your July to July 5 to 7½ percent M_1 growth in figures, you did that on an annual average basis. Today as you usually do, you are talking in terms of quarterly growth rates which as far as I am concerned is fair enough.

If you look at the first half of that July-to-July year, the growth rate in the last half of 1975, that is, the first half of the July-to-July year, was only 4.8 percent.

Therefore it is a fact, is it not, that you could stay within your sound, sensible limits of 7½ percent on a annual basis and still create new money now in the first 6 months of 1976 at a rate in excess of 10 percent?

Mr. Burns. You state exactly what I was going to say. It is an arithmetical truth.

Representative Reuss. I will rest right there. I hope this is duly reported. If there is anything to the statement of the effects of little marginal remarks on Wall Street, I hope it affected it favorably today!

Mr. Burns. I have learned not to pay attention to the flurries of the stock market. Whatever happens one day will be nullified the next day and will be forgotten, as it deserves to be.

We at the Federal Reserve Board are not prisoners of numbers. Our goal is to do what is best for the American economy, not to make this or that number, however beautiful it may appear, come true.

Representative Reuss. Having established that arithmetically within your sound band, could you be expansive enough to satisfy Jim Tobin from the present to July and still be the soul of propriety?

Mr. Burns. I think I would like to judge for myself. I have my conscience and my God. My objective is not to make any individual happy. It is to do my job. The growth rates we announce on any given day express our best judgment as of that day. I cannot emphasize too strongly that if we kept to the judgment of yesterday despite changes in the economic and financial environment—or after second thoughts that we deemed to be better than earlier thoughts—we would not be doing our job.

Representative Reuss. Amen. But isn't it a fact that you not only stuck with that 7½ percent in April, July, and October, but in January as well, and then stuck to it a couple of weeks when you testified previously?

Mr. Burns. That is correct.

Representative Reuss. Given the factors you have described, is there not a factor afloat which may make a given increase in M_1—whatever the number is—a little more stimulative than has been true in other years? Isn't there more bang for a buck in M_1 than there used to be?

Mr. Burns. That is my judgment. The evidence is quite clear for the past six quarters; our big difficulty is that we do not know whether the trend of the past six quarters will continue at anything like the same rate this year. Therefore in expressing our growth range for M_1, we, in the end, decided to be cautious.

There was, I might say, some sentiment within the Federal Open Market Committee to lower not only the lower limit, but also the upper limit of the growth range for M_1. But we felt we needed more evidence and were not ready for this.

Representative Reuss. Thank you very much.

Senator Proxmire. Congresswoman Heckler?

Representative Heckler. Thank you, Mr. Chairman.

Your statements on housing are applicable to the Boston situation. Before coming today, I conferred with some of my local sources on

the status of the housing starts in Massachusetts. High taxes and energy costs are causing slowing starts.

I would like to digress on the points you have touched upon and pursue a subject of great concern to me. I would like to know what is the status of the implementation of the Equal Credit Act?

Mr. BURNS. That is an embarrassing question. After we put out the regulation I put the matter out of my mind and I cannot answer your question. However, you deserve an answer and you will get it from me in a day or two.

[The following was subsequently supplied for the record:]

CHAIRMAN OF THE BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
Washington, D.C., February 23, 1976.

Hon. MARGARET M. HECKLER,
House of Representatives,
Washington, D.C.

Dear Mrs. Heckler: I am pleased to respond to the question you asked at the recent hearing before the Joint Economic Committee about the Board's efforts to implement the Equal Credit Opportunity Act. As you know, on October 16, 1975, the Board adopted its Regulation B, "Equal Credit Opportunity." Prior to this action, public hearings had been held and invitations for comment on two successive drafts of the regulation had elicited more than 1,000 responses.

During the weeks immediately preceding and following the publication of the regulation in final form, seminars were held in each Federal Reserve District to inform creditors of its provisions. In order to apprise both consumers and creditors of their new rights and obligations, numerous public speeches were made by staff of the Board and the Federal Reserve Banks, and other publicity was also given to the new regulation. The Federal Reserve System has printed 1.5 million copies of the regulation, has distributed 600,000 copies directly, and is making the remainder available for distribution by the other supervisory agencies responsible for enforcement of the Act.

As expected, the Board has received many requests for interpretations of the regulation as well as complaints from consumers, chiefly women, who feel that their rights to obtain credit on the basis of their individual creditworthiness may have been violated. Many of the responses to these letters are placed in a Public Information File and the more significant staff responses are made publicly available.

A pamphlet on Equal Credit Opportunity is being prepared and will be issued shortly. A handbook to assist bank examiners in determining whether commercial banks are complying with Regulation B is also being prepared.

As you know, H.R. 6516, which has now passed both Houses of Congress, provides for an annual report by the Board to Congress on the administration of its functions under this Act. The filing of such a report will provide Congress with the opportunity to evaluate the implementation of the Act.

I hope that this letter is responsive to your concern. If I can be of any further assistance, please do not hesitate to ask. Your staff may also wish to get in touch with Frederic Solomon, Director, or Janet Hart, Deputy Director, of the Board's Office of Saver and Consumer Affairs, who have primary staff responsibility in this area.

Sincerely yours,

ARTHUR F. BURNS.

Representative HECKLER. In your statement you refer to antitrust. You talk about the need to restore vigor to price competition and indeed to competition. You discuss the need to reassess the entire body of laws directed against restraint of trade in business firms.

I agree with this statement and I am genuinely disturbed by what I see, the growing centralization of power. Recently Members of Congress were visited by local gas station owners who said they are threatened with extinction because the large oil companies are acquiring the

gasoline outlets. We know there will be no consumer betterment. The competitive process will not be aided.

Any price advantage at the outset will be destroyed by the acquisitions. I am concerned about the extinction of small business in this country. You seem to be speaking to that issue. I wonder what body of laws and what specific laws you are referring to in your statement which address the question of producing a more vigorous marketplace?

Mr. BURNS. Professor Houthakker of Harvard has compiled a list of legislative proposals. I would like it placed in the record. I don't necessarily mean to endorse every one of his suggestions because I have not studied some of them sufficiently.

One of his suggestions is to amend the antitrust laws to make refusal to sell a violation in the case of corporations with sales of over $100 million per year. Other suggestions, in the field of energy are deregulation of prices on new natural gas and outlawing the state prorationing of oil and gas. In agriculture he suggests repeal of the Meat Import Act and replacement of import quotas by tariffs, if needed at all.

Representative HECKLER. I would like to have that inserted in the record.

Senator PROXMIRE. Yes; without objection.

[The information follows:]

TENTATIVE OUTLINE OF AN OMNIBUS ANTI-INFLATION BILL

(By Hendrik S. Houthakker[1])

The main purpose of this bill is to make the American economy more resistant to inflation and more responsive to anti-inflationary policies. It is based on the notion that there are many structural rigidities, usually in the form of barriers to competition, that have accumulated through legislation over the years. Many of them date back to the Great Depression.

Now that we are faced with inflation as a long-run problem, the time has come to undertake a long-run attempt at solution. Without structural reform it is unlikely that monetary and fiscal policy will get rid of inflation in the foreseeable future.

Most of the barriers to competition which this bill would remove have powerful defenders. A piecemeal approach consequently has little chance of success, as this administration's efforts toward partial deregulation of transportation have demonstrated. Vested interests see these provisions as their property, and are likely to counter any isolated attempt at reform with the question, "Why pick on me?" The only way to deal with this problem, therefore, is an Omnibus Bill, which would deal with many of these barriers at the same time while adding a number of other anti-inflationary measures. Such a bill would appeal to widespread public concern over inflation and thus hopefully overcome the opposition of lobbying groups. An agreement would have to be made with the Congressional leadership to have the bill considered as a whole, perhaps by a Select Committee; otherwise the separate titles might be killed by the Standing Committees, many of which are primarily attuned to special interests.

The following is a preliminary listing of the subjects this bill might cover. The order of presentation is arbitrary:

1. GOVERNMENT OPERATIONS

(a) Repeal of the interest rate ceiling on long-term government bonds.

(b) Authority to issue cost-of-living bonds whose principal and interest would be related to the Consumer Price Index.

[1] Professor of economics, Harvard University.

(c) Repeal of the private express statutes, which give a monopoly to the Postal Service.

(d) Repeal of legislation now preventing the sale of surpluses from the stockpile.

2. GENERAL BUSINESS

(a) Abolition of resale price maintenance.

(b) Amendment of the antitrusts laws to make refusal to sell a per se violation in the case of corporations with sales of more than $100 million per year.

(c) Reformulation of the merger guidelines to emphasize the effect of mergers on competition rather than numerical standards.

(d) Requiring all corporations over a certain size to have a minimum number of outside directors.

(e) Corporate income tax reform: a large subject which should perhaps be in separate legislation. The main points would be graduation by rate of return on equity, exemption of dividends paid to residents from corporate taxation, and removal of the investment tax credit.

3. LABOR

(a) Prohibition of unreasonable restrictions on union membership, such as prior apprenticeship or excessive entrance fees.

(b) Abolition of union-operated hiring halls.

(c) Repeal of the Davis-Bacon Act and similar laws concerning wages paid under government contracts.

(d) Reform of Unemployment Insurance so as to make it less of a disincentive to work.

(e) Exemption of juveniles from minimum wage laws.

4. ENERGY

(a) Deregulation of wellhead prices of new natural gas.

(b) Outlawing of state prorationing of oil and gas.

(c) Repeal of the Connally Hot Oil Act.

(d) Termination of crude petroleum allocations and oil price controls.

(e) Reform of pipeline legislation so as to make oil pipelines effective common carriers.

(f) Termination of the embargo on uranium imports.

5. AGRICULTURE

(a) Amendment of marketing order legisation so as to prohibit restrictions on interstate movement and production quotas on individual producers.

(b) Repeal of the Meat Import Act.

(c) Replacement of import quotas on dairy and other farm products by tariffs, if needed at all.

(d) Abolition of export subsidies, except when the domestic price is at the support level.

(e) Repeal of the antitrust exemption of agricultural cooperatives with sales exceeding $10 million per year.

6. TRANSPORTATION

(a) Removal of all route and other restrictions in existing trucking licenses.

(b) Automatic approval of changes in railroad rates within a zone of reasonableness determined by variable costs.

(c) Exemption of bankrupt railroads from rate regulation.

(d) Repeal of the antitrust exemption of railroad and trucking rate bureaus.

(e) Amendment of civil aviation legislation to permit discount air fares and to bring capacity-limiting agreements under the antitrust laws.

(f) Repeal of the Jones Act governing coastal shipping.

(g) Abolition of subsidies for ship construction and operation unless military need is proved.

7. BANKING

(a) General reform of Federal Reserve regulation Q, including permission for banks to pay interest on demand deposits.

(b) Relaxation of the interest limitations on savings institutions.

(c) Allowing interstate banking subject to the antitrust laws.
(d) Improvements in accounting procedures to clarify the balance sheets of financial institutions.

8. FOREIGN TRADE

(a) Repeal of the Buy American Act.
(b) Repeal of the constitutional prohibition against export duties.
(c) Termination of voluntary export agreements on textiles and steel.
(d) Tightening of provisions concerning export credits.

9. ADMINISTRATION AND ADJUSTMENT ASSISTANCE

(a) Establishment of an Anti-inflation Board consisting of the Secretary of the Treasury, the Director of OMB, the Chairman of CEA, FRB and FTC, the Counselor for Economic Affairs and the Assistant Attorney General in charge of the Antitrust Division, with economic and legal staff.
(b) Revival of the Government Regulation and Procurement Board.
(c) Establishment of an Adjustment Assistance Fund which could make limited grants to firms or workers seriously damaged by provisions of this bill, or guarantee loans to firms for restructuring made necessary by this bill.

Representative HECKLER. I would like to raise another question which relates to trade and competition. In my district we have a concentration of apparel firms. At a recent hearing of the Joint Economic Committee, both the apparel manufacturers and the representatives of the labor unions petitioned this committee to seek redress in abolishing that provision of the laws which provides duty free status for goods which are made under the auspices of an American company, produced abroad and then brought in duty free and encased with an American label.

They consider this to be a very unfair competitive situation in terms of the marketplace. They think the practice is unfair from a competitive point of view. They asked this committee to be active in abolishing that section of the law.

I wondered if you could comment on this, on the justice or the economic factors involved in such a course?

Mr. BURNS. I am not familiar with the problem. But on the basis of the facts that you put before me, it certainly sounds like a dubious practice.

Representative HECKLER. Thank you, Mr. Chairman.

Senator PROXMIRE. Chairman Burns, we all respect you, of course, as a world reknown, eminent economist, a great Administrator, a superb teacher, a skilled political advisor. I think this statement that you have this morning is an example of perhaps your greatest genius, how you can really set up a congressional committee. You have done it beautifully. [Laughter].

At the beginning of your statement you have a highly optimistic estimate of the prospects for economic growth and expansion. Then you set the stage for a pessimistic view on inflation. Then if you accept those views you come through with what would follow as a very logical policy. Let me indicate to you why I question the way you set that up.

You list a series of developments in our economy that should assist growth. No. 1, exports. It seems to me that the argument could be made that you may be too optimistic on that. Many experts feel that the foreign economies have not recovered as briskly as ours has. Furthermore, in the last paragraph, you point out that the foreign trade balance will probably not be as favorable this year.

That is the bottom line as far as the effect, the overall effect on business in this country is concerned. It would seem to me if we are importing more than we were before, it is the net effect on jobs and growth here which is critical.

You discuss inventory and it seems to me that almost any analysis would indicate that it was the turnaround in the third quarter in 1975 on the part of American business that gave us the enormous increase and it is now behind us.

While there may be some improvement in inventory policies, it is unlikely to have the great stimulus we have already received.

As far as retail sales, you talk about them being up in December but in January they were down. Then you talk about housing. It is a remarkable analysis of housing except you leave out the effect of high interest rates which are likely to persist. They may moderate but they are still at a historically enormously high level. As long as the rates stay at the 8½ percent and 9 percent level, we are unlikely to get a resurgence.

You talk about capital spending where business is operating at a higher level of capacity but it is still far below what would seem to be necessary to stimulate a great deal of increased business investment.

The most serious development, however, is the fact that in the first few months of 1975 while the economy was going down, leading indicators were going the other way, to accurately forecast the recovery we had in the last half of the year. Since the middle of 1975, they have been flat and this would indicate that the economy is not likely to be as vigorous in its expansion in the coming few months.

Given all this, can you still argue that we should assume that the economy is going to move ahead with vigor and that our principal problem is inflation rather than growth?

Mr. BURNS. Senator, I set forth my views to the best of my ability in my statement. You characterized them accurately. Now you have stated your views. You read the evidence differently.

I can quarrel with a number of details in your statement, and if you really want me to quarrel, I shall. But I don't see much point in it.

Senator PROXMIRE. Is your relatively optimistic view on the outlook shared by the staff of the Federal Reserves?

Mr. BURNS. Yes; very definitely. It is also shared by the great majority of business economists.

Senator PROXMIRE. It is my information, and correct me if this is wrong, that the econometric model of the Federal Reserve does not indicate this kind of vigorous growth in the coming months. Am I misinformed?

Mr. BURNS. What I hear from our staff is their judgment is reflected in the various modifications that they make in the results turned out by calculating machines. I am content with that. I don't like to talk to machines, and I don't like to listen to what machines say. I have indicated accurately the thinking of our senior economists at the Board.

Senator PROXMIRE. Well, can you tell us about that econometric model? What does it foretell?

Mr. BURNS. I just got through saying I pay no attention to machinery. I pay attention to economic analysis.

Senator PROXMIRE. The only conclusion I can take from that is that the econometric model is not as optimistic as you are. Is that fair?

Mr. BURNS. No; that is very unfair. I have a limited amount of time. I start early in the morning. I end late at night. I work Saturdays and Sundays. I have no time to talk to our machines. [Laughter.]

Senator PROXMIRE. Well, sometimes they make more sense than people do. [Laughter.]

Now, you did reduce, lower the goal from 5 percent to 4½ percent— I should say the range within which monetary policy would operate from between 5½ to 7½ percent.

Mr. BURNS. It is the range that looked reasonable to us at the time we made that decision. I can say that while we made that decision some 4 weeks ago, it still looks reasonable to me today. That is why I have testified as I have. But it is not necessarily the range within which we will operate. It may or may not be.

Senator PROXMIRE. Well, the purpose of that resolution passed by both bodies of the Congress was that we would have some clear, specific indication of what the monetary policy of the Federal Reserve Board was expected to be, what your target range would be.

Is that what it is or not?

Mr. BURNS. I think that is an accurate statement. But, as you will recall, House Concurrent Resolution 133 indicates very clearly that the Federal Reserve is not bound by any given number or set of numbers and is free to change its target ranges, if, in its judgment that would be helpful to our country.

Senator PROXMIRE. It seems to me that if we go to a 4½ percent bottom of the range and you would not have moved the lower limit if there were not some reason for it, if you go to that and assume that we are going to have 5 percent or 6 percent inflation and assume we are going to have the kind of growth you indicate in your optimistic expectations of maybe 6 percent or 7 percent, then you have a very heavy reliance on velocity.

How long can we have that reliance on the increased velocity in money? You were correct and I was wrong but how long can we continue to rely on that?

Mr. BURNS. That I cannot answer. Historically, we have had very high rates of increase in velocity for some rather extended periods. For example, in the six quarters starting with the first quarter of 1950, the velocity of M_1 grew at annual rates of 13, 8, 21, 12, 14, and 6 percent.

Starting with the fourth quarter of 1954, velocity grew at annual rates in excess of 5 percent for five quarters.

Obviously, you can have a pretty long run of large quarterly increases. What will happen this time, I don't know. Growth in the velocity of M_1 was annual rates of 13 percent in the third quarter of 1975 and 9 percent last quarter, and you can also be sure that it is going to be high this quarter.

Senator PROXMIRE. You propose a limited incomes policy which may include, as you put it, a modest delay in key wage and price increases. No such policy is being pursued or advanced by the administration.

The Council of Economic Advisers does not even mention this. I assume you have urged your views on the President and others. Can

you give us any clue as to why the administration is so hostile to this type of policy?

Mr. BURNS. That, I think, they will have to answer for themselves.

Senator PROXMIRE. Is an effective incomes policy realistically possible at this time given the breakdown recently of communications between labor and the administration?

Mr. BURNS. I think it is more difficult at this time, Senator, but it is surely possible.

Senator PROXMIRE. Suppose we had a voluntary price incomes policy? What would be the reasonable price and wage standard guidelines?

Mr. BURNS. I don't think I really ought to try to specify that. It is not quite what I had in mind in the next to last paragraph of my statement. I had in mind a wage and price review board. You have heard me speak of that often.

The board would intervene quietly or hold public hearings in cases of key, strategic increases in prices and wages. The board would make recommendations on a given case, it would monitor what the particular industry or business or trade union did, and it would report to the public.

I believe that the force of public opinion is often underestimated. I think it can count for a great deal in our country.

Senator PROXMIRE. Thank you, Mr. Chairman. I think the next would be Senator Sparkman.

Chairman HUMPHREY. Senator Sparkman?

Senator SPARKMAN. Thank you, Mr. Chairman. I greatly enjoyed your testimony and I also do, Chairman Burns. I would like to ask a question about the wage and price policy program. I remember 2 or 3 years ago or maybe further back than that you advocated a wage and price review board. I believe that is what you called it, wasn't it?

Mr. BURNS. Yes.

Senator SPARKMAN. Do you still believe in that?

Mr. BURNS. Yes, I do.

Senator SPARKMAN. Do we have anything like that in operation?

Mr. BURNS. We have a Council on Wage and Price Stability which has not been as active as I would like to see such a council be. But the council has very limited power. I think if the council had statutory power to ask for a delay of, say, 30 days or 45 days in proposed wage or price increases, it could be a good deal more effective than it is.

Senator SPARKMAN. If I remember correctly what you advocated was a voluntary action that could become perhaps mandatory after certain waiting periods.

Mr. BURNS. No; I don't believe I advocated mandatory power. I advocated machinery under which recommendations would be made by a review board. The recommendations would be made publicly and the extent of compliance with the recommendations would be monitored, but individual businesses or trade unions would be free to accept the recommendations or not.

I would rely on the force of public opinion to move our businessmen and to move our trade union leaders in the direction of complying, in full or in part, with the recommendations of such a board. They would

not comply in every instance, of course, but I would hope they would comply in a sufficient number of instances to make a difference.

Senator SPARKMAN. You believe that could be effective?

Mr. BURNS. I believe it could be effective, yes. I believe it is worth trying. I believe we live in a world where, in one way or another, we will have to experiment with incomes policies.

They have been tried by one country after another. They have never achieved success for more than a very limited period. But one country after another keeps returning to incomes policies and I believe that sooner or later, one way or another, we, too, will.

I don't think we have learned yet how to do this properly. But I don't think we are going to learn without going through some experiments.

Senator SPARKMAN. I get the feeling from your whole statement that you are rather optimistic regarding the economy.

Mr. BURNS. I am quite optimistic about the recovery of our economy in this year and into 1977. But as Senator Proxmire indicated, I am a good deal more optimistic about advances in production and employment than I am about the price level.

I am fearful that, if we have a rekindling of inflationary fires, the expansion will not last as long or go as far as we would like or as it must if we are to have tranquility in our country and if we are to restore economic health to our country.

Senator SPARKMAN. Thank you very much, Mr. Burns.

I again say I appreciate your coming before the committee again and giving us your very able views and advice.

Mr. BURNS. Thank you, Senator.

Chairman HUMPHREY. Congressman Long?

Representative LONG. I, too, appreciate your coming. I have been most impressed by your statement. In addition to all the fields of endeavor that Senator Proxmire outlined now in which you are well respected, you are also well respected as an economic forecaster.

I would like to pursue that for a moment along the lines which Senator Sparkman was speaking of. There is widespread agreement among most of the economists with respect to the modest recovery of 6 percent or 6½ percent or something like that that we are going to see for 1976.

But if we look at the testimony of most of the economists that have been before this committee, particularly the private economists that have been before this committee, nearly unanimously they say that the administration's forecast of 5.7 percent of growth for 1977 cannot be achieved if the fiscal policy that the President has outlined in his budget is followed.

I wondered if you would give us your evaluation of that. It is a $394 billion budget and a 4½ percent to 7½ percent of growth factor with the limitations you placed upon it, and those figures—with which I agree—within those limits of money being available, is that going to be adequate to produce the forecast of the Council of Economic Advisers?

What is your general view on 1977?

Mr. BURNS. My view concerning 1976 or 1977?

Representative LONG. 1977.

Mr. BURNS. I don't think I would want to venture a view on the economy in 1977. My vision is not that good. I believe that the recovery is gathering momentum and that it definitely should extend beyond 1976. I am fearful, however, that untoward developments on the price and wage front could limit the extent and durability of the economic expansion.

That is why I keep returning, as I do, to the danger of a renewal of accelerated inflation.

Representative LONG. This in turn though becomes very difficult for us as Members of Congress to take action on the President's recommended budget. Unless we can get the benefit of people like you that are in the administration——

Mr. BURNS. I am not a member of the administration.

Representative LONG. I well recognize the controversy that has surrounded that in the past and I well recognize your independence with respect to how that budget would work on unemployment and how it would work on economic recovery during the period contemplated by the budget.

Mr. BURNS. We have gotten into the habit of thinking that fiscal policy made by the President and the Congress and monetary policy made by the Federal Reserve determine what happens to our national economy. I think we tend to overlook the fact that the economy has a life of its own and that the most important changes take place in the private economy, quite apart from what you in the Congress do and quite apart from what we in the Federal Reserve do.

You spoke of the testimony of the private economists before your group. Economists, as I think you have learned, are not as helpful to your committee and to the Congress as you would like them to be, for the reason that they are all over the lot in their thinking.

There is still a tendency on the part of academic economists, in particular, to attach a great deal of importance to Keynesian-type economic methodologies. In my judgment those models worked pretty well for a good many years. They served our country and other countries well.

But we live in a different world now. We now live in a world in which, during a deep recession such as we have just gone through, and during a recovery stage in which the unemployment rate remains in the neighborhood of 8 percent, the prime level is rising at an annual rate of something like 6 percent or 7 percent.

In the old days, when during a recession the price level was stable or declining, the Keynesian-type remedy worked remarkably well. At present, you in the Congress may legislate, and if things do not work out the way you expect you may charge the Federal Reserve Board with nullifying your wishes—whereas the real culprit, if there be a culprit, is likely to be the general public, businessmen and consumers, who, seeing a highly expansionist policy on the part of the Congress, may pull in their horns because they fear a revival of double-digit inflation.

That is still a great fear throughout our country. I believe you must recognize that when you talk to your constituents.

Representative LONG. I do recognize that and many people, including myself, are greatly concerned about this. But look back at the philosophical statement that you just made in this regard, carrying it

down to the practicalities of the effect that the tax cut had last year, looking at action of Congress and its effect upon the economy and the economic recovery, what do you attribute—to what do you attribute the economic recovery that we have had upon that tax cut that was enacted by the Congress?

Mr. BURNS. I attach only a very limited significance to it. I think the economy was recovering on its own. The forces of recovery were building up. Consumer spending began reviving several months before the tax cut was enacted. But I think the tax cut did contribute to recovery.

Representative LONG. You would take then the attitude that a jobs program such as we are considering now with respect to—in the House, for example, we vote this afternoon on the override of the President's veto—that again, the effects of that would be nominal insofar as the recovery—long range on the economy?

Mr. BURNS. That is a complex question. A tax cut enhances the power of business people and of consumers to spend. But they may choose to save more instead; the people may nullify the intention of the Congress.

Representative LONG. With respect to the tax cut itself in that regard, you did say that the tax cut buttressed the consumer buying power which I assume buttressed the consumers' optimistic attitude and confidence in the economic recovery as a result of that tax cut during the last year.

Mr. BURNS. I think it had a limited positive effect. But the savings rate increased. By way of contrast, if you enact a public works bill, that will lead to an increased number of jobs. That is a direct effect. It is a surer effect than that of tax cuts.

But that is only one consideration. The trouble with most public works bills in the past has been that they did not do what you in the Congress really wanted them to do, and that is to have an effect on jobs immediately. Although I have not personally examined the bill you will be voting on this afternoon, I am told it suffers from the same difficulty.

I doubt that you want to pass a bill today that will increase jobs in 1977, 1978, or 1979. You would not object to that, but you are seeking an early, immediate effect. The difficulty with the present public works bill, as I understand it, is that it will have very little effect in 1976.

If you want to pass timely public works benefits, you have to organize yourself for the purpose. We are not organized in this Government to do that. When I was Chairman of the Council of Economic Advisers, I inaugurated a continuous inventory of planned public works projects. By turning to that inventory, you could pick out the construction projects that could be started promptly, because you had the necessary information for every item. You could also pick out the construction projects that could be terminated within, say, a year or a year and a half. You don't have that kind of inventory at the present time. Therefore, you may not achieve through your public works bill that which you seek.

Representative LONG. I don't completely agree with you. I think that a lot of us in the Congress feel that it is going to take some period of time to get the public works program started and we are already

into a period of the second month, the middle of the second month of the year.

We are looking at the effect of this in late 1976 and through 1977 as well as 1976. Most of the economists, Government economists, private economists that I have read and that I have listened to feel that we have got the economic recovery well on the way.

That is a little different from the creation of the jobs. It is of course a direct part of it but it is a little separate. We are worried enough just as the economists are by the fact that as you say they are all over the lot as to what is going to happen in 1977.

It was my hope that the program could give us the stability as we move into later 1976, and into 1977, that it could give us a stabilizing influence during that period. My time has expired.

Thank you very much.

Chairman HUMPHREY. Congressman Moorhead.

Representative MOORHEAD. Thank you, Mr. Chairman, and thank you, Mr. Burns, for what has been characterized as an optimistic statement. That optimism also extends to the Nation's financial institutions. Yet we have seen a recent failure of the Hamilton Bank. We have seen published lists of so-called problem banks and problem savings and loans of a considerable number. But since your testimony is that the situation has improved, do I take it that a year ago the list of such banks and savings and loans would have been larger than today's?

Mr. BURNS. I think the answer is probably that the list was smaller. But, you see, the lists that we have involve a lag. Banks typically are examined once a year, and the examinations themselves lag behind events. So the list is probably longer today than a year ago. But the condition of the banking system as a whole, as we know from aggregate statistics, has greatly improved during the past year. The capital position of banks—that is, the ratio of bank capital to bank assets—has improved very significantly. The liquidity of banks improved dramatically during 1975. The reliance of the larger banks on volatile funds has diminished greatly. So a process of improvement within the banking system is certainly underway. You cannot judge that from a list of so-called problem banks.

In that connection, Mr. Moorhead, you should bear in mind that any regulatory agency that does its job will always have so-called problem banks on its shelf.

All that that means is that some banks require more regulatory attention than others. The number of so-called problem banks, or banks on our surveillance list, is small relative to the number of financial institutions in our country.

Representative MOORHEAD. So the increased number over a year ago is because of regulatory lag rather than ——

Mr. BURNS. That is right.

Representative MOORHEAD. If there might have been more problem banks than a year ago, we did not know about them?

Mr. BURNS. That is accurate.

Representative MOORHEAD. Again on the optimistic feature, Mr. Burns, you take—your testimony as I listened to it is that the recovery will continue all through 1976 and into 1977 and you do not agree with those economists who see the recovery ending in mid-1976, is that correct?

Mr. BURNS. That is my present judgment, yes.

Representative MOORHEAD. What are your predictions about the rate of unemployment, let's say, through 1976?

Mr. BURNS. I don't know, really. I would anticipate that by the end of the year unemployment will be approximately 7 percent.

Representative MOORHEAD. With the recovery as you have testified continuing into 1977, what do you see in early 1977?

Further reduction in the unemployment rate?

Mr. BURNS. As I indicated, my vision does not extend very far. But as of now, assuming the rate of inflation does not quicken appreciably, I would expect unemployment to continue declining in 1977.

Representative MOORHEAD. What are your predictions about the rate of inflation? Some would say that we expect particularly in early 1977 to be back in or close to the double digit inflation.

Mr. BURNS. No; I don't expect that. Actually if you were to take a census of the thinking of economists, you probably would find that the great majority would project a lower rate of inflation.

I have been rather skeptical of that judgment and I still am.

Representative MOORHEAD. I am interested in the part of your testimony where you say the sharp rise and the turnover of money balances as we expected. Yet when you were asked about what you expected in the future about velocity, you indicated that you could not predict.

Mr. BURNS. I think I should clarify the statement. In my studies, which go back a good many years, of the behavior of money and of our financial system, I learned years ago—and I have learned nothing in recent years to alter this conclusion—that the dynamic factor on the monetary side is not the stock of money but the willingness of people to use the existing stock—in other words, velocity.

In the course of a business cycle expansion, velocity will go up. Normally, velocity goes up faster in the early stage of expansion—say, in the first year—than in the second or third year. But there are all sorts of variations from one business cycle to the next.

I would expect velocity to keep on increasing. But I am not able to judge whether the extraordinary rate of increase which we had in the third quarter and the fourth quarter of 1975, and which we will almost certainly have again in this first quarter of 1976, will continue. I doubt that that very high rate of increase will continue. But, as I indicated, velocity may continue to rise for another few quarters at a high rate, though perhaps not at that very high rate, and——

Representative MOORHEAD. This would have a tremendous effect on the need for increase in money aggregates such as M_1?

Mr. BURNS. That is exactly right.

Representative MOORHEAD. Thank you.

Chairman HUMPHREY. Chairman Burns, I had to go to another committee for awhile and I deeply regret that. But I have had the opportunity to read your entire statement. In the same spirit of my colleagues, I want to commend you for a fine statement. I am always glad to meet another optimist.

I know that the Federal Reserve uses econometric models. Let me digress to say that I don't always put all my faith in econometric models because the human factor has to be weighed in very carefully.

I am a little more bullish about the economy than most of the people I listen to. I have been saying that for several months because the psychological factor, the consumer factor, in this area is terribly important. But now I would like to ask you to what extent in your own relatively optimistic view of the outlook, is this consistent with the econometric models used by your banking system?

Mr. BURNS. I am sorry you were not here when Senator Proxmire asked me that very question. My answer, in brief, was that I really do not pay any attention to our econometric models. I do my own economic thinking. I spend a lot of time with our economists and I gain greatly from their knowledge and their judgment.

But I do not get reports about the noises put out by our econometric machines and I do not ask for reports on that subject. In all humility, Senator, they don't interest me. They have been so foolish and so wrong so much of the time.

Chairman HUMPHREY. Well, that is a precise answer, I would say. [Laughter.]

Maybe we ought to economize and get rid of those econometric models. Well, I think they do have some useful function. I don't believe that they necessarily can project with accuracy but they give you some indication of what the impact of certain policies will be.

Mr. BURNS. All they do is take past experience over a number of years and average it out. They don't take any account of the human or psychological factors that play so large a role in economic life.

I have often said and I firmly believe—and I think you share my belief, Senator—that hope is perhaps the most powerful of all economic forces. How to put that into an econometric model, I don't know.

Chairman HUMPHREY. My middle initial is hope. Some people think it is Horatio but it is really hope. [Laughter.]

Mr. Burns, you said the economy has a life of its own and I agree with that. But I do feel that fiscal and monetary policies have more than an indirect effect. For example, when you tighten a money supply which may be necessary and the interest rate goes up, it has an effect.

The economy has a life of its own. So does your body. But if somebody takes out 2 quarts of blood, it is going to slow you down. If somebody gives you a good diet with some vitamins, it is going to pep you up. I did not want you to get too flat out on the basis of the economy having a life of its own because I think you have a lot to say about the life of this economy.

That is why I like to stay in touch with you. Monetary policy has a lot of impact or you would not be spending your time working on it as much as you do. You do agree that it has more than an indirect effect, don't you?

Mr. BURNS. I agree with your thought, certainly. As for your precise language, what difference does it make whether we call it direct or indirect?

Chairman HUMPHREY. If you have to pay 9 percent for a mortgage and points besides, you are not going to buy a house unless you are awfully well off. If you have to have a construction loan and you are a builder and you are paying a rate of 17 percent, you are not going to make many loans.

Mr. BURNS. High interest rates, taken by themselves, certainly have a negative influence—and in the area that you are now describing, a strong negative influence.

Chairman HUMPHREY. This brings me to an observation I would like to make about housing. You have heard—I am very interested in this subject. The housing construction industry is so vital to our economy that true recovery with any sustained force is not very likely without a substantial recovery in construction and in residential construction.

You stated in your prepared statement that housing starts are likely to extend significantly the gains already made in 1975. Yet I have a report here from our staff on housing starts showing that in October housing starts were up to 1.43 million. In November they dropped to 1.38, December 1.29, and January 1.22. What reason do you have for feeling that the housing business is going to substantially improve? Of course, it can't get much worse without a catastrophe. That may be one of the reasons, but in all seriousness, what is the reason that you think there will be as you put it, that the gains will extend at the 1975 levels?

Mr. BURNS. The basic reasons are, first, that consumers are in a more confident mood and their real purchasing power has increased rather notably in recent months. Second, mortgage interest rates have been edging down.

Chairman HUMPHREY. Significantly?

Mr. BURNS. I wish they were lower. I wish they would inch down more. The average rate on new commitments by savings and loans on conventional home mortgages is now about 8.8 percent or thereabouts. It is coming down rather steadily.

The highest figure was a little over 10 percent. That is not an enormous decline but it is not negligible either. For short-term interest rates, the decline has been larger.

Chairman HUMPHREY. Yes, but the long-term interest rate is much higher.

Mr. BURNS. Our thrift institutions are flooded with money at the present time. Mortgage commitments have been rising and the volume outstanding is larger now than it has been during the past 2 years.

The figures on housing starts that you cited, I must say, are a little disturbing. But in the light of history, one should expect sharp ups and downs in the monthly series on housing starts. Over the years I have found the figures on building permits somewhat more reliable as indicators of trend.

The showing for permits has been more favorable than that for housing starts in very recent months. If you were to add to the number of building permits the number of housing starts in areas where permits are not issued, in January, for example, you would find an increase rather than a decline.

That may be perhaps the most significant series to look at. But there are ups and downs also in that series that are very hard to judge, and the seasonal adjustment factors are troublesome. But I do think that there has been an upward trend in housing.

There also has been an upward trend in shipments of mobile homes, which are recovering from a greatly depressed level.

I would be very much surprised, in view of the upsurge in consumer confidence and the more favorable outlook for the economy, and—in view of what has been happening in financial markets and with respect to the working down of the inventory of unsold homes, if that does not——

Chairman HUMPHREY. That is a factor, I agree. The occupancy rate is better in rental units.

Mr. BURNS. Yes. The decline of the vacancy rate in the fourth quarter of 1975 was impressive. That argues well for the future.

However, Senator, I must say that I don't anticipate a boom in residential construction. After the wild boom that continued into 1973, it will take some time before confidence on the part of investors as well as consumers is adequately restored.

Chairman HUMPHREY. I don't find myself in basic disagreement with that. Our time is running here and I want to make a couple of observations for your consideration. Here are some of the things that trouble me.

I don't disagree with your overall optimistic look. I don't say it is overly optimistic. I say it is a prudently optimistic look. I tend to feel as you do that there is something happening in the economy and I have often said it has more vitality than most people in government seem to sense.

There is an innate basic vitality in this country and we ought never to underestimate that. Investors are prone to be cautious because they have been hurt and they are not quite sure that this recovery is for real. Some people feel the economic recovery is in a volatile phase and may not last.

We have been holding hearings around the country. These are very interesting hearings. Whatever metropolitan area we go to, we find incredibly difficult problems. I am not trying to assess blame. I am just trying to point out that in Los Angeles there is 11 percent unemployment. I was in Boston Monday and it has better than 11 percent unemployment.

Fall River has 12 percent or more of its labor force unemployed. Provincetown, R.I. has 12.8 percent of the labor force unemployed. I went to New York and it has 14 percent unemployment. Detroit, even with the partial recovery of the automobile industry, has 15 percent unemployment.

We are getting a recovery that you and I can see in terms of a plant utilization. I was interested in your figure today of around 81 percent or so. We are getting some profit recovery which is necessary for capital formation. I don't frown upon that. We are beginning to see certain signs of recovery but these pockets, these great urban pockets of unemployment, I think represent the most serious economic and social challenge that we face. How do we get at that unemployment?

It is demoralizing over the long run and it is bound to be debilitating to the economy over the long run. It is so costly, first of all, in terms of providing even minimal services and assistance to the victims—to the people that are unemployed.

Second, it is like a drain on the productive capacity of the country. That is why I have of course put myself on the line for certain types of jobs programs without trying to tell anybody that those public jobs programs are the ultimate answer.

I don't think they are the ultimate answer. I think the ultimate answer of course is in the private sector.

In the meantime we have alternatives and choices to make. Do you want to keep people on food stamps, unemployment compensation, and welfare or do you want them to have some kind of job? A lot of these people feel service jobs are less than good jobs. I know that. In fact I don't think some of them are very good at all but they do have something to offer.

That is one set of factors. Here is another one. Bank loans are down. I read in the record the other day when Greenspan was here, that the February 9 issue of Business Week, reported that while the money is there, the people that the banks loan the money to don't need the loans and the people that need the money, the banks are not loaning it to.

This is a problem because unused capital is something like unemployed workers. It is the velocity of money that counts.

That is another thing that concerns me. I don't want you to think I have all the answers. I am very good on problems. I am an expert on problems. You have also mentioned another concern today, the labor negotiations that are coming up. What is going to be the wage rates? Frankly over the last couple of years, the American labor movement has been quite responsible. In terms of other labor costs and other industrialized countries they have been responsible. But there is a lot of restlessness.

I can tell you in talking to the top union leadership, that it may not want to go as far as some people are advocating. The rank and file members are very restless and these negotiating committees are going to have real trouble with their membership.

On top of that, I am a midwesterner. We have not had a dust storm since the late 1930's. I would like to take you to some of the most productive earth in the world. It is in Blue Earth County and Nicholas County and there are dust storms there even as I speak to you today.

We have lost top soil and it is dry through the great wheat producing and feed grain producing belt, Oklahoma, Kansas, Nebraska, upper Texas, and California. California's drought has been somewhat broken in recent days but basically the water level is way down.

I have been around long enough to know that you can tell what the spring is going to be like by the snow you get in the winter. It is the snow cover that really counts. Once in awhile you are saved by early spring rains but you can't plant winter wheat in April. You can plant some of the wheat in our country in April. You can plant the hard wheats in the Dakotas and northern Minnesota, but the winter wheats planted in the fall of 1976 will be harvested in May of 1977. That crop is in and that crop is suffering at an estimated annual rate of loss of production of 36 percent to 38 percent.

We are exporting our wheat and that is part of our business. I believe in exports. But I predict that unless God Almighty steps in and rescues us, you are going to have a shortage of wheat. If you have a shortage of feed grains, you are going to have high beef, pork, and fowl prices and all the cost of living projections will be wrong, because food is a great item.

More importantly, food is what affects consumer confidence. We had several public opinion pollsters present testimony before this com-

mittee; Mr. Gallup, Mr. Harris, Mr. Hart, and the others. Every one of them said that the average citizen identifies inflation with food. You and I both believe in one thing, consumer confidence. I agree with you that consumer confidence is even more important than the work of the Federal Reserve. What does the consumer think? What does the woman that walks into the supermarket, the businessman that has some capital he would like to invest, what do they think? That can have a disastrous effect. Have you taken those matters under consideration in your optimistic projections?

Mr. BURNS. The only answer I can give is that I have not taken them into consideration sufficiently.

Chairman HUMPHREY. I am sure that none of us can be sure about this. These are just observations.

Mr. BURNS. Some of the things that you mentioned, particularly what is happening to the soil in Minnesota, I just did not know about.

Chairman HUMPHREY. I used my State as an example.

Mr. BURNS. You know your State and I am going to know a little bit more about it this afternoon than I know now. I am grateful to you for calling this matter to my attention.

One thing puzzles me, though. I do not say this in any critical spirit at all, but the markets for wheat and for feed grains have not been behaving in line with your forecast. That does not mean that you are wrong and the market is right.

Chairman HUMPHREY. I am talking of the future. I understand. I have learned a lot in the last couple of years and it has been a very great experience in trying to keep track of market conditions because I have served as chairman of the foreign Agriculture Subcommittee, and it necessitated me to be knowledgeable about international events.

There are a couple of reasons. One is that the Soviets have bought what they want and the Indians have had a very good crop. But I am talking about our own conditions. I realize that basically the feed grain market is a world market. But, interestingly enough, what happens here at home in our supply has more immediate, direct effect.

What you have said is right. I have been puzzled, to be frank, about what the future market shows in light of the forecasts of the Department of Agriculture.

The Department of Agriculture has more optimism in forecasts than Hubert Humphrey has and I want to tell you, that is a recordbreaker. I have been trying to show them year after year that they have been a little bit over the line.

I have been right more often than they have been, not because I am particularly smart, but because I live with those folks out there.

Well, I have a lot of other things to do and I think you have, too. Most of the questions we have here, you have touched on. Did you give us an indication of what you projected the real output growth would be in the coming year?

Mr. BURNS. No. I spoke about the outlook for unemployment but not for real output. I expect growth in overall production this year could be close to 7 percent.

Chairman HUMPHREY. That is about what I think. I personally believe—you are speaking of calendar year 1976?

Mr. BURNS. Yes.

Chairman HUMPHREY. Yes. I think the other estimates run between 6 percent and 6.5 percent.

Mr. BURNS. Some are lower. My own judgment is on the high side, taking the economists' forecasts as they are running.

Chairman HUMPHREY. I tend to find myself with that feeling. Now, one other question. On these structural problems and particularly the matter that I mentioned of the urban unemployment, I wanted to ask you about whether you think that we ought to have programs specifically targeted toward these areas?

I guess what I am getting at is that some of this general, overall type of policy such as tax reductions, budgetary policy, monetary policy, all of that, is fine but shouldn't we be targeting certain efforts into these pockets of economic difficulty?

Mr. BURNS. That is a difficult question for me.

I have a personal history in this area. In the Eisenhower Administration, I was instrumental in initiating discussion and legislation on area development and on local community economic problems. That was a time when unemployment was, on the average, quite low. I remember vividly going to Denver in September 1955 and getting the President's approval—he was then laid up—on a new program in this area.

My answer to your question is definitely in the affirmative. My only reason for speaking hesitantly is that in recent years I have paid very little attention to local problems.

I did get involved with the problem of New York City, and you know why. You are now reminding me of an earlier interest I had, an interest to which I ought to return. I had not done so recently, apart from New York City.

Chairman HUMPHREY. I subscribe to your views on public works in terms of the kind of projects that we ought to have, that we can turn on and off and know the effect.

We always need certain kinds of public works on a continuing basis. You need highways. You need this on a continuing basis.

But to meet unemployment problems, you have to have public works programs that you can implement quickly. When the unemployment rate drops, you can turn them off without any economic loss.

They have to be ready and programmed and set. I wish you would put that brilliant mind of yours, Mr. Burns, back to work on some of these regional problems. I am very sincere in what I am saying because you have a wealth of experience.

In the Eisenhower days when you were Chairman of the Council, I know your efforts of that time. I think those programs did have a positive effect.

I do believe that the Congress and the administration have to learn how to deal with more specifics rather than just the generalities. I know that general economic health is very desirable and it helps everybody.

But, when you go to Boston and Fall River and meet those wonderful people there and the spirit that they have and the work that that chamber of commerce and that labor movement is doing up there, and still see 12.5 percent unemployment—you cannot just uproot those people.

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They have loved ones there. They buried their parents there. They have young ones, and they do not want to be uprooted.

I want my friend, the distinguished Chairman of the Federal Reserve Board, to turn over this other stuff—you say you are not spending too much time on econometric models. Don't spend any. Turn your mind to some of these other unemployment problems.

Senator Javits.

Senator JAVITS. Thank you, Mr. Chairman.

Mr. Burns has been here a long time. I apologize for having to leave but there has been some debate on intelligence matters in another hearing. I think we would agree that is all pretty important stuff. Would you be able to spend 5 minutes and no more?

Mr. BURNS. My time is at your disposal, sir.

Senator JAVITS. I have three questions. One, what seems to be developing is an endemic unemployment picture may represent, and in my judgment does represent, a structural deficiency in our economic system. In other words, we do not know what to do with a given number of workers.

Does this open up some considerations that have to be given to continuing education and upgrading of skills on the ground that we are close to the point where at least twice as many professions as we are preparing people for will be needed? We still have enormous numbers of people who have not gone beyond high school.

Is there a structural defect in the American economic system which gives us excess workers in certain areas? In order to thoughtfully use these workers, should we consider a material expansion of post-high school education concomitant with work?

In many of the Communist countries, they do exactly that except ideology is also taught. What about a massive upgrading of training?

Mr. BURNS. As a professional educator for very many years, I have been enthusiastic about governmental activities in the training and educational areas.

I must, however, say to you that I am disappointed by the results that have been achieved. I do not know what is happening. I looked into the matter a few years ago—some 2 years ago, I believe—at a time when the Departments of Labor and HEW were spending $4 billion or $5 billion a year on training programs, and, I found they did not even know what kinds of jobs people were being trained for. Maybe this defect has been corrected. I do not know.

We have been spending a lot of money but somehow we have not been doing things right. The thought that you expressed about combining education with work may be precisely the new concept that we need in connection with our training programs. Because we would be training people to improve themselves on jobs that they already have, they would be learning something about their aptitudes and about their attitudes toward this or that occupation.

I am afraid much of the money we have been spending on education and training has been money wasted. We have not known how to do it well. I have the strong impression that we pursue educational programs in the abstract without regard to economic needs and circumstances.

There is a kind of backwardness about our educational system. I do not know what it is. During the 19th century and the early decades of this century, immigrants who came to this country were trained by our schools. We did a marvelous job.

Then we had millions of individuals—Blacks, most of them—moving north, entering classrooms, being subjected to academic discipline, being bewildered in the process, lost.

The educational job that we have been doing in our country is, I think, very deficient. Your thought of combining work with education—which, as you say, is done in Communist countries—may be a very constructive thought to pursue.

Senator JAVITS. Thank you. I will try a piece of legislation on that score.

Mr. BURNS. I hope that your Committee will hold a thorough set of hearings on why we have apparently accomplished so little with the massive expenditure that we have made on Government training programs.

Senator JAVITS. OK.

Mr. Burns, I will make it my job to see that we do. I was very interested in Senator Humphrey's reference to an inventory of public works projects on the shelf and so on.

It takes me way back to the very early days of the New Deal. Indeed, it goes back to Mr. Hoover's days. Do you think that we need some mechanism in Government which would do that kind of planning; to wit, planning with reference to recession over a longer term?

Mr. BURNS. I would answer that with an emphatic affirmative. As a matter of fact, with a tiny staff I developed a continuous inventory of public works projects when I was Chairman of the Council. It was not maintained, and it is gone now.

It would not be very difficult to make that kind of inventory again. Every project was cataloged and indexed, so that if you or another Senator or the President had a question about what could be started within, let's say, a month or 3 months or 6 months, and how much of that could be completed within 12 or 18 months from the starting date, you could get the answer promptly.

To organize an effort like that would be very constructive, and if done properly, it would not cost very much money.

Senator PROXMIRE. Although this is a political committee, sometimes we do not ask political questions. I say that because you are sensitive to the fact, as a very intelligent man, that there has been criticism of the Federal Reserve Board policy in the last Presidential election year, 1972, when it was alleged that the money supply was increased at an 8 percent or 9 percent rate in order to help the incumbent administration.

Now, I know that criticism, you resent that criticism very much and many times have indicated that this was not a consideration at all. I accept that.

However, the problem is that this is an election year, too, and the feeling on the part of some people is that you are a little gun shy, that because of the fact that you have been accused of having been expansionary in 1972, in 1976, you are bending over the other way and you are not giving the kind of expansionary push that the economy now should have.

The money supply increased very slowly in the last couple of months, at least, and not very rapidly over the last year or so. This is a response to an anticipated criticism, possibly.

I know it is hard to proceed without being criticized. But, can you give us assurance, publicly, on the record, that you are aware of this and what your reaction is to the kind of criticism you have heard?

Mr. BURNS. I do not know what to do, Senator, about self-appointed psychiatrists. When people say I am gun shy, that is one of the numerous things they say about me. I do not pay the slightest attention to it.

I can assure you that I shall continue not to pay the slightest attention to it. I will do what I think is right. Beyond that, let me point out to you that monetary policy is made by a body of people and even if one member or another did require psychiatric care, the remainder of the group could handle it.

Senator PROXMIRE. Many of us probably do require psychiatric care, but you are one person in my judgment who requires none at all.

However, most of us realize that you have an extraordinary influence on the Board. Many people feel it is a wise, constructive influence and I think often it is. It is not just as if you are one in seven votes. You perhaps have more influence than almost any other economic policymaker in our Government.

Let me ask you about this: You are a member of the Lockheed Loan Guarantee Board?

Mr. BURNS. Unfortunately, yes.

Senator PROXMIRE. That board recently met and has taken a position that they will not press Lockheed to disclose the names of the public officials who received bribes.

Mr. BURNS. That is correct.

Senator PROXMIRE. Did you take part in that decision?

Mr. BURNS. I did.

Senator PROXMIRE. Did you concur in that decision, or did you dissent?

Mr. BURNS. I concurred.

Senator PROXMIRE. In view of the fact that foreign governments are pleading for these names, including the Prime Minister of Japan and the Ambassador of Japan, in view of the fact that foreign governments may fall because those names are not disclosed, why would it not be a proper foreign policy to disclose those names?

Mr. BURNS. Let me speak only for myself in connection with the Loan Guarantee Board. I thought about this problem very carefully and I reached the conclusion that I could not do my job one iota better if I knew the precise names of the individuals who were being bribed.

I knew enough to make me sick, Senator; namely, that bribes in enormous amounts had been paid. I think I would feel much the same way if the bribes came to a small figure. It is just wrong and I do not want to have anything to do with it.

How could I do my financial job any better if I knew the names? My job is to make sure, to the extent that I can, that nothing like that happens in the future in this one area for which I have responsibility.

A second thought had some influence on my own thinking; namely, that others in the Government were concerned with the issue of dis-

closing the names or not disclosing the names—the SEC, the Foreign Relations Committee.

I did not see why we had to jump into that act, and I did not see, to repeat, how I or the Loan Guarantee Board could do its job any better knowing the names.

I have got a job to do, but knowing that a bribe went to Mr. "X" or Mr. "Y" would not help me do my job in the slightest. If you are interested in the names. others are already concerned with that.

Senator PROXMIRE. You say that you want to do what you can to prevent this kind of action in the future?

Mr. BURNS. I have a responsibility, unfortunately, on the Loan Guarantee Board, as far as Lockheed is concerned. I have no responsibility beyond that as a government official.

Senator PROXMIRE. Is it not true that the single action that would have the clearest effect in preventing that kind of policy in the future would be to disclose the names of the people who received the bribes?

Mr. BURNS. That is a matter of judgment. But if that is true, others are attending to it. Why would we on the Loan Guarantee Board have to get into the act and compete with others in an area which is already being attended to sufficiently?

Senator PROXMIRE. Well, a cloud has been cast over every nation involved. The government in every nation has a cloud. The Japanese Government may fall. The Queen of Holland may be removed from her throne. It can have a profound effect.

Under these circumstances, don't you feel that the Lockheed Loan Guarantee Board which is in a position to exercise real leverage on the firm should exercise it and require that these names be disclosed, to clear the innocent?

Mr. BURNS. I think the list is in process of being compiled by various congressional committees. Why do we have to get into it?

Senator PROXMIRE. This morning's newspaper disclosed that J. P. Morgan is raising the largest amount raised in history I believe for the purpose of providing equity capital to its bank, the Morgan Guaranty Trust Bank, some $117 million. In addition they are raising a substantial amount of subordinate debt.

This is very welcome news. I notice that capital has already—also been raised by at least two other major banks in recent weeks. It is possible that this kind of action, improving the capital position of banks, will be extended? Do you see this as something that is likely to be continued in coming months?

Mr. BURNS. I am glad you asked me that question. I think this is badly needed. I think it will prove salutary. I am just as encouraged as you are by today's news.

But some of the actions on the part of particular committees of the Congress are going to make it a lot more difficult for banks to raise capital. This is something that I think all of us have to bear in mind. We at the Federal Reserve Board have done a great deal to stimulate larger retention of earnings by banks.

We have done a great deal to limit the extent to which bank holding companies expand into new areas and thereby dilute their capital position. We have tried very hard in a difficult environment to

help create conditions that woud be favorable to larger injections of new capital by banks.

I think this trend will continue. But if we have one congressional committee or another looking into examination reports and asking that examination reports be made public, and if we have newspaper stories regarding examination reports, that may weaken the trend that you and I would both like to see develop and which I think will develop.

Senator PROXMIRE. Well, I would hope that you can take whatever action that you can to encourage this. It would seem to me that if banks are going to perform their function and make risky loans—and they should, maybe they have been too conservative in the past. One way they can do this without catastrophe is to have an adequate capital. The fact is that the big banks in this country have had their capital decline very sharply.

The Federal Reserve had a suggested sound ratio of 8 percent between ratio and assets. The ten biggest banks in this country have an average capital of little more than 4 percent. Some of them have substantially less that that.

Mr. BURNS. These figures——

Senator PROXMIRE. Also, the 10 biggest banks have a situation where their classified loans now exceed their capital and that puts them in a very weak position, as you know. I don't have the time to get into that now but I would hope that one thing we can do is to put as much pressure as possible and call as much attention as possible to the need for banks to increase their capital anyway they can.

One of the best ways is to sell equity capital.

Mr. BURNS. Sure, but then you need a market.

Senator PROXMIRE. Well, the markets, as you have told us, are good. One of the most encouraging developments is the improvement of the stock market.

Mr. BURNS. I must say to you that the recent furor about the condition of banks has been greatly exaggerated and has not improved the prospects for raising capital on the part of the banking system. This is something that I would like to sit down and talk to you about in great detail.

Senator JAVITS. Could you submit to us whether or not there is a need in your opinion with respect to the system for some financing mechanism for new technology, not just in the mainstream of the commercial banks or the Wall Street investors, but some government bank for new technology, in order to encourage new technological development?

Would you think that over?

Mr. BURNS. I would be very glad to.

[The information referred to follows:]

I have reservations about the desirability of a special governmental agency for financing new technology. The Federal government already plays an active role in the pursuit of new knowledge and in the application of new knowledge to practical purposes. In recent years, the Federal government has provided over half of the funds expended for research and development in this country.

A government technology bank probably would augment investment significantly only if funds were provided at a substantial subsidy. A case for such subsidies could be made in the energy area, so that we could achieve independence in this critical area. This deserves careful exploration.

In general, however, the most promising way to augment the flow of investment funds to innovation and technological improvement would be to seek improvements in the flow of savings to investment. I would strongly urge reforms of the tax structure to encourage larger individual investment in inequities, and to strengthen the earnings position of our nation's business firms.

Chairman HUMPHREY. Thank you again very much for appearing before us today, Mr. Burns, and giving us your very excellent statement.

Mr. BURNS. Thank you, Mr. Chairman.

Chairman HUMPHREY. We will now recess the hearing, to reconvene at 10 a.m., tomorrow morning. Thank you all for your assistance.

[Whereupon, at 1 p.m., the committee recessed, to reconvene at 10 a.m., Friday, February 20, 1976.]

[The following information was subsequently supplied for the record:]

RESPONSE OF HON. ARTHUR F. BURNS TO ADDITIONAL WRITTEN QUESTIONS POSED BY CHAIRMAN HUMPHREY

Question 1(a). I would like you to reflect a moment for us on what you feel to be the value of these periodic appearances before the Banking Committees. Are they constructive? In asking for targets for growth of the money supply are we going after the right question? Have we gotten ourselves into a box in which we look only at the money supply and ignore interest rates?

Answer. In my judgment the quarterly oversight hearings on monetary policy involve a mutually beneficial dialogue and are constructive. I do not share your concern that the hearings may focus too narrowly on the money supply and ignore interest rates. Indeed, one of their benefits has been the increased general understanding they have produced of the variety and complexity of the considerations that must enter into the making of monetary policy. The discussions have stressed the wide range of factors apart from the money supply that influence the course of the economy—including the Federal budget, private wage and price policies, labor market policies, flows of funds through financial institutions, the public's choices between spending and saving, and credit market conditions, including interest rates.

I believe it would be both inappropriate and misleading for the Federal Reserve to express a view at these hearings about the likely future course of interest rates. An announcement by the nation's central bank of its intentions or expectations about interest rates would be subject to misinterpretation, could impair the effectiveness of monetary policy, and could have harmful consequences for the economy and the nation.

Fundamentally, interest rate movements reflect the interaction of changes in the demands for credit and in the available supply of funds. Interest rates are influenced not only by the strength of the economy and by the public's willingness to defer consumption and save for the future, but also—and this has been especially important in recent years—by the expectations of borrowers and lenders about the rate of inflation.

Any announcement of interest rate intentions or expectations by the Federal Revenue may lead many borrowers and lenders to believe that the System could—and in practice would—guarantee particular interest rate levels. Insofar as participants in financial markets acted on such a belief, market interest rates would initially tend toward the announced levels. However, the Federal Reserve could not, in fact, maintain interest rates at some announced level because they depend on many factors outside of its control.

Moreover, efforts by the Federal Reserve to sustain particular interest rates could result in inappropriate rates of growth in bank reserves and money. If, for example, interest rates came under upward pressure because of rising demands for funds, System efforts to prevent, or limit, interest rate increases could result in unduly rapid monetary exapnsion, thereby feeding inflationary pressures. On the other hand, if interest rates came under downward pressure because of slackening business activity and declining demands for funds, System efforts to prevent, or slowdown, the declines could result in monetary growth rates below those needed to reinvigorate the economy.

Question 1(b). In my own view, Congress has the responsibility to set explicit targets for output, employment and purchasing power. If we did that, we could hold the Federal Reserve accountable for helping us to reach those targets. Suppose that we had in existence a full Congressional procedure for setting such targets, what targets would you recommend for this year and next? Can we get the unemployment rate down to 7 per cent this year? 6 per cent by the end of next year? Can we do better than that? What about inflation: How long could we get the inflation rate by the end of next year?

Answer. The available evidence suggests that we are in the midst of a vigorous recovery. The unemployment rate dropped to 7.6 per cent in February—down 1.3 percentage points from its peak last May. Total household employment reached an all-time high in February and has risen by nearly a million in the last two months. Average weekly hours are up sharply from their recession low. The current expansion in economic activity should result in further reductions in the jobless rate; 7 per cent unemployment by the end of 1976 is not an unreasonable expectation. Based on our experience with past cyclical rebounds, 6 per cent unemployment, or even less, by the end of 1977 also appears reasonable.

My recommendation, however, would be to concern ourselves less with the specific timetable for reductions in the unemployment rate and concentrate more on laying the groundwork for a sustained recovery. We must be careful to prevent a rekindling of inflation. If inflation is allowed to accelerate, consumer and business confidence will be shaken, and the recovery could falter.

It is very difficult to forecast price movements two years into the future. Recently there has been some abatement in the rate of inflation, as wholesale prices of farm products, processed foods, and fuels have declined. However, other prices have continued to advance, and it is clear that there still exist strong upward pressures on the general price level. Wages are rising rapidly—compensation per hour has been increasing at about an 8 percent annual rate. Since the long-term growth of productivity is about 2½ per cent, rising labor costs are exerting strong upward pressures on prices. Furthermore, 1976 and 1977 are heavy collective bargaining years. If wage settlements in major industries exceed those of 1975—when wage and benefit increases for the first year averaged around 11 per cent—a new explosion of wages, costs, and prices may be touched off. I trust that will not happen, but we cannot rule out the possibility of intensifying pressures on the general price level as the recovery proceeds.

Question 2. On page 21 you assert that "high unemployment and numerous job vacancies still exist side by side." What is the source of your information? The official statistical series on job vacancies was discontinued some time ago because, in the opinion of the Bureau of Labor Statistics, it was too unreliable to be worth publishing. During the few years that the series was published, it consistently indicated many more unemployed than vacancies—even in years of relative prosperity.

Answer. The main quantitative sources of information on job openings presently are the Job Bank Openings Summary (JBOS), which is a monthly report on full-time permanent job openings listed with the public employment service, and the Index of Help Wanted Advertising in newspapers compiled by the National Industrial Conference Board.

The data reported monthly in the JBOS come from a sample of job banks. For example, in October—when the unemployment rate was 8.6 per cent—there were 325,000 available job openings reported by 34 State Employment Services for 136 job bank districts. By the first of November, 128,000 of these jobs were still available, and about 69,000 had been open for 30 days or more. These jobs represent only a portion of those listed with State Employment Services, and the jobs so listed represent only a portion of vacancies in each district. Thus, the JBOS listing represents a small share of total job vacancies. It is also noteworthy that the JBOS descriptions of the vacancies indicate that openings were not confined to skilled occupations. Rather, a wide range of opportunities from unskilled to skilled were listed.

While the Index of Help Wanted Advertising does not give the specific number of job listings, it does provide some indication of the movements in vacancies. The most recent reading of this index, in January, showed that it has risen almost one-fifth from its recession low in May.

More and better quality data on job vacancies are needed. The available evidence—including reports from private employment agencies—does indicate, however, that numerous job vacancies and high unemployment existed side by side in

1975 and still exist today. That is one reason why I believe that in order to achieve full employment and price stability, economic policy must rely on structural programs designed to improve the operation of markets, as well as on traditional stabilization policies.

Question 3. Several times in the recent past you have advocated a large scale temporary public employment program. I don't believe you mention it in your statement today.

Do you still support such a program?

If so, how would you answer the contention of the Administration that their studies indicate such a program is a highly inefficient way to create additional jobs?

If you have dropped your advocacy of such a program, what alternative would you support for assisting those unemployed who are exhausting their unemployment insurance benefits or who have no entitlement to such benefits?

Answer. I have an active interest in programs to provide jobs in periods of high unemployment. The primary objective of such programs should be to provide an opportunity for those who lose their jobs, and for others who have inordinate difficulty finding a job, to have productive employment that provides a reasonable income and also offers an opportunity to develop new skills.

As you know, I supported the principles and the intent of the existing public service employment program. It provided much-needed temporary public employment during last year's economic downturn. However, I believe this program has reached a point of diminishing returns. Further expansion of federally-subsidized public service employment appears likely to displace growth that State and local governments would otherwise finance from local budgets. I also believe that a public service jobs program like the one that presently exists would, over the long-run, be an inefficient means of creating new, permanent employment.

I have previously suggested that jobless workers, in addition to being entitled to a short period of regular unemployment compensation, could be assured a federally-sponsored job in schools, hospitals, public parks, or other public services. The wages paid for such jobs should be kept somewhat below the Federal minimum wage. This would promote transfers to the private sector as job opportunities become available. The pay received by workers lacking a regular job would not have to be markedly larger than the average unemployment insurance check today. However, the Federal government would be offering what I believe most jobless people would prefer—namely, an opportunity to work, to develop or maintain job skills, and to be a contributing member of the community, rather than to depend on welfare payments.

RESPONSE OF HON. ARTHUR F. BURNS TO ADDITIONAL WRITTEN QUESTIONS POSED BY SENATOR TAFT

Additional Written Questions Posed by Senator Taft

There has recently been much concern expressed over the lowering of the Federal Reserve's target range for growth in M1, with predictions made that this will lead to inadequate monetary expansion and an end to recovery.

I assume that the Federal Reserve employs a wide range of economic data in reaching decisions on whether to insert or withdraw funds from the banking system. I assume you were never wedded to M1 as your only guide?

I wonder if you could give a brief description of the factors the Federal Reserve does review, in deciding on policy, and say whether or not the unusual behavior of M1 was quickly recognized, understood, and discounted.

Aren't the Federal Reserve's ultimate goals the control of unemployment and inflation, rather than these intermediate so-called targets? In other words you have a total spending and employment target?

Switching to international monetary matters for a moment, I should like to bring to your attention an attached editorial from the Wall Street Journal. It is entitled "Wrong Target at the N.Y. Fed."

The editorial claims that the Federal Reserve Bank of New York has been instructed to intervene in foreign exchange markets to do more than merely smooth over market irregularities. Furthermore, there seems to be an effort under way to link the dollar to currencies which are of different strengths, and whose values would normally move at different rates, or even in different directions, with respect to the dollar.

I do not believe that the governments of the world are ready to accept the discipline which is necessary to maintain a system of fixed exchange rates without crisis. Furthermore, I do not see how we can hope to stabilize the exchange rates of two diverging currencies simultaneously, without help from the nations involved. Are we receiving such help? Are we abandoning the goal of a relatively free float, for which we have negotiated so hard at Rambouillet and Kingston, and which has been recommended by the Joint Economic Committee and other Committees of the Congress?

I should appreciate receiving your views on this subject.

Attachment.

[From the Wall Street Journal, Feb. 4, 1976]

WRONG TARGET AT THE N.Y. FED

For several months now, whether by accident or design, the Federal Reserve and the Bundesbank have coordinated monetary and exchange-rate policies in a way that has fixed the dollar at 2.60 Deutschemarks thereabouts. This crucial currency stability, a bridge between the continents. has been the most encouraging sign we've seen that the West might yet bring inflation to its knees.

It is thus alarming to discover that the New York Fed has taken its eye off the ball in order to prop up the French franc. It has been buying francs, paying with dollars, and thus injecting dollars into the monetary system. Not surprisingly, this injection caused a surplus of dollars relative to D-marks, and the dollar declined Monday to 2.57 DM. The price of gold also shot up by $3 an ounce.

In essence, this means the Fed has stopped cordinating its monetary policy with that of the Bundesbank, and started to cordinate with the Bank of France. If the Fed starts selling dollars to support whatever currency is weakest at a given moment, it will mean that it is cordinating its monetary policy with whatever monetary policy happens at that moment to be the most inflationary in the world.

Someone at the Treasury, preferably Under Secretary Yeo, should have a chat with the Fed and point out that the only way a more stable monetary system can work is by linking the D-mark and the dollar, the pivotal currency in Europe with the pivotal currency outside of Europe. It is up to the French, Italians, et al, to manage their own monetary policies to stay within the European snake, as the linkage of their currencies is called. and up to Western hemisphere and Asian nations to fix similarly to the dollar. This means that all nations would accept the joint monetary policy of the United States and Germany; if those two nations then run proper monetary policies the world inflation will be licked.

The Fed and the Bundesbank have it easily in their power to keep the dollar-DM rate stable at 2.60. But once either of them starts fooling around iwth other currencies, the whole system starts shaking again. Unless the Fed wants another round of global inflation, it had better keep its eye on the ball.

Response of Hon. Arthur F. Burns to Additional Written Questions

BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM.
Washington, April 24, 1976.

Hon. ROBERT TAFT, Jr.,
U.S. Senate,
Washington, D.C.

DEAR SENATOR TAFT: I am pleased to respond to questions that you asked in connection with the Joint Economic Committee hearings held on February 19.

Your first set of questions concerns the mole of M_1 in monetary decisions. The basic objective of Federal Reserve policy is a satisfactory performance of the economy, and not any particular growth rate for M_1 or other monetary aggregates. About four times a year, we do specify longer-run growth ranges for M_1, as well as for other monetary aggregates, that at the time appear to be consistent with broad economic objectives. It is always understood, however, that these ranges are subject to subsequent review and modification as economic and financial conditions change.

We have long recognized that there is only a loose relationship between M_1 and the basic economic objectives of policy. As the year 1975 progressed, it became clear that M_1—after a sharp burst of growth in the late spring that was related to disbursements of tax rebates by the Treasury—was expanding at a rather

moderate pace. At the same time, however, incoming evidence suggested that a strong economic recovery was underway. Thus, it appeared that the public had become more willing to employ existing cash balances to finance expanding economic activity. This was reflected in a very sharp rise in the turnover, or velocity, of M_1 during the last half of 1975 and the first quarter of 1976. Because of the rise in velocity, less additional cash was needed to finance economic recovery; the performance of the economy, of course, was our basic objective.

Numerous changes in financial technology were underway last year that reduced the public's need and desire to hold demand deposits—the principal component of M_1. These included more widespread use of telephonic transfer between demand and savings accounts, increased availability of overdraft facilities, and new regulations permiting businesses and state and local governments to hold savings accounts at commercial banks. As a result of these and other factors that reduced the demand for M_1 relative to other monetary aggregates, M_1 growth over the 12-month period from March 1975 to March 1976 was near the lower limit of the longer-run growth range originally set by the FOMC; but growth in M_2 (which includes certain time and savings deposits at banks) was at the midpoint of its range and expansion in M_3 (which also includes deposits in nonbank thrift institutions) was at its upper limit.

Preferences of the public for the form in which transactions and liquidity balances are held keep shifting. For that reason, the Federal Reserve takes a variety of monetary aggregates into account in framing its monetary policy—not only M_1 but also the broader measures of money noted above. In addition, these aggregates are considered in relation to emerging credit conditions and the liquidity position of key economic sectors—business firms, households, banks, other financial institutions. Finally, the ultimate objective of policy is the economy itself, so that monetary policy is essentially guided by developments in production, employment, and prices, rather than by predetermined judgments concerning monetary growth rates.

With regard to your second set of questions on international monetary matters, Federal Reserve intervention in foreign exchange markets has sought to help avoid disorderly conditions in exchange markets for the U.S. dollar. The purpose has not been to link the exchange rate for the dollar to any particular foreign currency or group of currencies. Our intervention has thus been in harmony with the principles agreed upon at the Rambouillet meeting last November. Federal Reserve intervention has been moderate in amount and it has been undertaken in consultation with the U.S. Treasury. There has also been consulation with the foreign central banks whose currencies are involved; but this consultation does not extend to the coordination of monetary policies, as assumed in the editorial cited in your inquiry.

Please let me know if I can be of further assistance.

Sincerely yours,

ARTHUR F. BURNS.

THE 1976 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, FEBRUARY 20, 1976

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

The committee met, pursuant to recess, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Henry S. Reuss (member of the committee) presiding.

Present: Representatives Reuss and Hamilton.

Also present: John R. Karlik and Sarah Jackson, professional staff members; George D. Krumbhaar, Jr., minority counsel; and Michael J. Runde, administrative assistant.

OPENING STATEMENT OF REPRESENTATIVE REUSS

Representative REUSS. Good morning. The Joint Economic Committee will be in session for further hearings.

Today the Joint Economic Committee's annual review of the economy looks outside of the United States to the interaction of our country with others and to what we may learn from the examples of other countries. This morning we intend to investigate three issues.

First, the extent to which we can expect recovery from recession in the industrialized world, what the U.S. contribution to that recovery is likely to be, and how much, in turn, growth abroad will reinforce efforts to achieve full employment here.

Prof. Lawrence Klein of the Wharton School at the University of Pennsylvania, who has been instrumental in constructing the LINK model that seeks to quantify economic interrelationship among countries, will address these questions.

Second, Mr. Rimmer de Vries, vice president of the Morgan Guaranty Trust Co., will focus on the balance-of-payments financing problems low income countries are likely to encounter during the next year or two.

Even with additional assistance from the IMF, the World Bank, OPEC, and other individual countries, a financing gap is likely to remain. Will sufficient credits be forthcoming from U.S. commercial banks and from the Eurodollar market to avoid additional unemployment or even starvation in developing countries?

Third, this year marks the 30th anniversary of the Employment Act of 1946, which committed the U.S. Government to promoting "maximum employment, production, and purchasing power" and which established the Joint Economic Committee. We have therefore asked Prof. Walter Galenson of the New York State School of Industrial

and Labor Relations at Cornell University to survey the policies used to maintain high employment in other developed countries, the extent to which each has succeeded in achieving its objective, and the problems that have arisen in individual cases.

Gentlemen, will you please proceed?

All three of you have prepared very comprehensive prepared statements, which, without objection, will be received in full in the record. Each of you may proceed in any way you choose.

STATEMENT OF LAWRENCE R. KLEIN, PROFESSOR OF ECONOMICS, THE WHARTON SCHOOL, THE UNIVERSITY OF PENNSYLVANIA

Mr. KLEIN. It seems that the world outlook is not as gloomy as it was a few months ago. I will read from my prepared statement, Congressman Reuss.

The world recession-cum-inflation that began with the Middle East war and oil embargo of October 1973 is still being felt in some areas, but recovery movement is well underway and likely to gain strength during this year. The OECD countries went downhill en masse in 1974–75, followed by repercussions on third and fourth world countries (OPEC and non-OPEC developing countries), resulting from reduced demand for imports by the industrial nations.

By the terminal year of their 5-year plans the centrally planned economies of the socialist world began to feel the effects, too, as a result of higher import costs and reduced demand for their exports. The economic position of the Soviet Union was further eroded by the disastrous grain harvest and falling gold prices. Only China appears to have emerged in a robust manner in the midst of this world economic setback.

Although we have sometimes tended to relegate foreign trade and payments to a secondary position in contemporary business analysis of the U.S. economy, that attitude is changing. We are economically interdependent with the rest of the world, and, indeed, the largest single trading country.

It can be said that we are now doing our share in leading the world out of the present recession. We were leaders on the way down, and we are at the front on the way up. Naturally we are the first to benefit from our recovery, but it is essential to the world economy and very important to other peoples that we maintain fully the momentum of the present recovery.

Let me summarize briefly the situation round the world.

NORTH AMERICA

The administration's forecast of 6 percent real growth and 5 to 7 percent inflation for the United States seems plausible, although I and my colleagues of Wharton Econometric Forecasting Associates think that the fiscal assumptions of the Government forecast are not realistic.

We look for continuation of a strong net export position, dropping somewhat as recovery induces imports, and further appreciation of the dollar. We are factoring a good performance in agricultural exports into our forecast.

The Canadian recovery is lagging behind that in the United States both as regards real activity and the rate of inflation. As production continues to grow in the United States, however, Canadian exports and activity should improve.

Mexico has had a poor tourist season, partly cyclical and partly political in origin. The growth rate receded to 4 percent in 1975, which is a low value for her. The inflation rate fell from 24 percent in 1974 to about 16 percent in 1975 and has remained distressingly high. That may seem like progress, but that still is very poor.

The peso is under pressure for a substantial devaluation. The Wharton (DIEMEX) model forecasts a growth rate of 4.5 percent to 5 percent for 1976. That would put Mexico just a bit below target.

WESTERN EUROPE

The recession was deeper than anticipated a year ago in Europe. There were successive waves of marking down prospective performance as the year progressed, month by month.

This mistaken perception of 1975 has led possibly to a pessimistic bias in appraising 1976. There is no doubt, however, that inflation rates have come down considerably in European OECD countries, and Britain has made a discernible achievement so far, through her pay ceiling limitation, in bringing down the inflation rate from a figure in excess of 25 percent to one of about 16 percent.

The trade balances of Britain, Italy, Denmark, and Finland, among others, are strongly unfavorable and are not expected to turn around very soon, leading to pressure on currencies, with some further devaluation in prospect. The West German surplus is so strong that there may have to be some currency realinement within the "snake."

It is not yet possible to point to established economic indexes and note that Western European economies have started to recover. Some order statistics have improved, and the motor industry has already turned the corner.

The expectation is firm, however, everywhere, that 1976 will be a positive growth year—in some cases, by no more than 1 or 2 percent but on average by about 3 percent.

This should be only the first step to stronger recovery in 1977. Unemployment is generally expected to worsen before it gets better.

JAPAN

The recovery phase is already visible in Japanese economic statistics. The upturn is not as far long as in the United States, but fully discernible on charts of indexes of leading indicators. Japan quickly shifted from being the worst among OECD nations in 1974, with respect to inflation, to being among the best in 1975.

Consumer prices have been almost flat in recent months and wholesale prices slowed down to practically no change at even an earlier date in the past year.

The official growth forecast for 1976 is about 5 percent, but Project LINK, which I direct at the University of Pennsylvania, is at least a full point on the more optimistic side. This rate may look high, but it is only one-half the rate that was considered normal prior to the

oil embargo. The Japanese revival is partly export led, but is also receiving stimulus at this time from both fiscal and monetary authorities at home.

Japan's recovery is quite visible in terms of economic status but there is a very strong mood of pessimism among the business community in Japan at the moment. They will have to see some months of Japanese and world recovery before they change to being more optimistic.

AUSTRALIA

Political troubles have clouded the economic picture, but it is thought that recovery started in the past few months and is expected to continue at modest rates of 3 to 4 percent in 1976, with unemployment growing some more before it improves, and a large drop in the inflation rate—to about 15 percent.

Grain trade should be beneficial to Australia in the coming year, but further steps in the recovery path depend heavily on continued improvement in Japan and revival of nonferrous metals demand.

OPEC

Oil demand dropped considerably during 1975, as a result of the world recession. The drop was much larger than expected—possibly 15 percent as compared with 10 percent. This has led to reconsideration of development plans in some countries such as Iran, Nigeria, and Venezuela. It has also resulted in some price shading, especially for refined products and some particular grades of crude—having in mind, of course, the Iranian 9½ cent cut this week. OPEC imports have been exceptionally strong, even larger than was thought possible, on the basis of absorptive capacity, at the start of the crisis period in 1973.

The large imports facilitate the recycling of petrol dollars and have unfortunately wasted some development funds. It also provided a cushion for the OECD countries. OPEC economic activity should improve in 1976 as the recovery process generates fresh demand for fuel imports.

FOURTH WORLD (MEANING NON-OPEC)

Developing countries without oil resources fared poorly in 1975. They were faced with declining export volumes because of the world industrial recession, high prices for fuel and other essential imports as a result of OPEC pricing and world inflation, and falling prices for primary commodities that they export in large measure. Inflation and recession, sometimes accompanied by political instability, hit developing countries of the fourth world in 1975. Inflation rates are still very high. Some of the worst have subsided a bit, as in Chile, but the phenomenon and its potential danger are still very much in evidence.

Offsetting this improvement, as in Chile, there has been deterioration elsewhere, as in Argentina. Countries in this grouping grew by no more than 3 to 4 percent in 1975, far below a target value of 6 percent, but they should benefit by export-led growth as the industrial world continues to recover in 1976. There is no doubt, however, that the fourth world suffered a severe setback last year.

CENTRAL PLANNED ECONOMIES

At the outset, 1975 seemed to hold promise for being a very good year for socialist economies. As it turned out, the Soviet Union suffered a major setback on a few counts. Agricultural production fell far short of goals. The grain harvest alone was about 30 percent short.

In Project LINK, we marked back our estimates of Soviet growth by midyear from an expected high value of 6.5 percent down to 4 percent.

As the harvest continued to worsen, my associates and I projecting our econometric model of the U.S.S.R.—the Stanford Research Institute/Wharton Econometric Forecasting Associates—have estimated rates as low as 2 to 3 percent. After the 1972 harvest failure, the overall economy rebounded strongly in 1973.

This time around, we might expect Soviet growth to be restrained in 1976 because some livestock capital is apparently being slaughtered for lack of feed, and deliveries from agriculture to industry are expected to be short this year. Falling gold prices, rising prices for Western imports, and falling export opportunities in some basic materials lines present some unfavorable conditions for the Soviet economy at the present time.

In the rash of completed reports of 5-year plans covering the period, 1971–75, that have just been made available, it appears that economic performance was close to target values for the other CMEA countries. In the final year, however, there was a noticeable adverse transmission effect of the Western business cycle.

Exports to the West suffered because of poorer demand conditions; Soviet fuel prices were raised in partial response to world prices; the Soviets did not raise the prices by the full amount of the world prices, but, nevertheless they were raised; purchases from the West were generally more expensive.

The other CMEA countries had poor agricultural results for 1975, but not as disastrous as those of the U.S.S.R. For 1976, they expect to realize normal agricultural conditions again, and improve on 1975, but industrial output should suffer, by losing 1 or 2 percentage growth points off normal rates.

As the CMEA, including the U.S.S.R. have become more open and integrated into the world economy, they have found that it is not possible to remain fully insulated from transmission effects of worldwide economic conditions.

America and the whole Western world enlarged their export trade with the CMEA bloc and enjoyed a favorable surplus, which was more or less a cushion in this recession year. The prospects now are for some cutback in East-West trade in total and certainly restrictions on CMEA imports in hard currency values.

China, it appears, has enjoyed a good "konjunktur" in 1975, at a reported growth rate of 8 percent. There is every prospect that she will do as well in 1976.

This review of the world economic situation adds up to a recovery pattern, now in motion, with different segments of the world economy at all successive phases of the business cycle.

Barring some major worldwide disturbance, comparable to that of October 1973, we should see a fulfillment of this world recovery move-

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ment. In Project LINK we have tried to put the numbers together on a global basis. Our projection is for total world trade—a good indicator of overall world activity—to grow by 3.5 percent in 1976 and increase to a growth rate of 9.2 percent in 1977. This brings total trade back to the strong path that was established toward the end of the 1960's and early 1970's.

Thank you.

Representative REUSS. Thank you for a most valuable tour of the horizon. I am going to call on the other witnesses, but I do want to ask one question: I am glad that China enjoyed a good "konjunktur" in 1975, but what the hell is a "konjunktur"?

Mr. KLEIN. It is their overall business situation. They had a good, positive expansion and were on the upside.

Representative REUSS. Well, I hope we all have a good "konjunktur."

Mr. de Vries.

STATEMENT OF RIMMER de VRIES, VICE PRESIDENT, MORGAN GUARANTY TRUST CO., NEW YORK, N.Y.

Mr. DE VRIES. Congressman Reuss, the economic and financial problems of the developing nations have become a key issue in international finance. Economic growth has slowed significantly in the non-OPEC LDC's, and is considerably lower than had been hoped prior to the increase in oil prices. Indeed, in many LDC's, living standards are no longer rising.

Furthermore, the international debts of the developing world as a whole have become very large. Some observers, in fact, believe that widespread defaults are inevitable; and some spokesmen from developing countries are proposing a concerted rescheduling of external debt.

I appreciate the opportunity to make a few comments on these important issues.

1. To begin with, it is well to remember that while the problems of economic development have always been with us, the LDC problem in its present severity is of rather recent origin. Prior to the oil price increase of the late 1973, the non-OPEC LDC's as a group had for several years been doing reasonably well with respect to economic growth and a balance-of-payments performance, and had achieved the overall growth target set by the UN for the first and second development decades.

During the 1960's and through 1974, their economies grew at a 5¼ average annual rate in constant prices. Further, between the end of 1970 and the end of September 1973, the reserves of non-OPEC LDC's more than doubled from $14 billion to nearly $30 billion.

2. The relatively favorable overall economic performance of the non-OPEC LDC's in the 1960's and 1970's was brought to a halt, however, in 1974. A major reason for the sharp turnabout was the increase in oil prices in 1973 and 1974.

The current account deficit of the non-OPEC LDC's as a group worsened from $9 billion in 1973 to $26 billion in 1974. Of this $17 billion deterioration, slightly over half was directly due to the oil price rise.

3. The world economy is now adjusting to the shock of sharply higher oil prices. The quintupling of oil prices led to an extremely large international balance-of-payments disequilibrium in 1974.

Correspondingly, the current account position of the developed nations deteriorated from a surplus of $10 billion in 1973 to a deficit of $25 billion in the year following. As previously mentioned, the non-OPEC developing countries' current account position worsened from a deficit of $9 billion in 1973 to one of $26 billion in 1974.

Accordingly, of the $58 billion increase in the OPEC area's current surplus, almost two-thirds was incurred vis-a-vis the developed countries, and about one-third vis-a-vis the non-OPEC developing countries.

You will recall that in the first half of 1974 there was widespread disagreement about how rapidly and how smoothly the world would adjust to this disequilibrium.

It now appears, however, that the adjustment mechanism is working much more smoothly than had been expected. The OPEC countries astounded many observers by tripling their imports of goods and services between 1973 and 1975, from $29 billion to an estimated $87 billion.

In addition, world oil demand over the same 2 years was reduced by about 6 percent, partly because of energy conservation and partly as a result of the recession in the industrial countries which was itself aggravated by the higher oil prices.

Accordingly, the OPEC countries' current account surplus was reduced by more than half, to about $30 billion in 1975. At the same time, the current account position of the developed countries improved by about $30 billion, as they reestablished a small surplus of $4 billion. The swiftness with which these changes occurred confirms again the power of the market forces, and the ability of countries to adjust to new conditions in the international economy.

However, as noted earlier, in the initial stages of this adjustment process, the overall position of the non-OPEC developing countries continued to worsen.

There were several reasons for this adverse trend, and first, the developing nations do not have the same ability that the industrial nations have for cutting back energy demand. Second, the non-OPEC LDC's have not yet been able to benefit in a major way from the export boom to the OPEC countries; about 80 percent of OPEC imports come from the industrial nations, due to both long-term trade relationships and the broadly based nature of the industrial countries' export sectors. Third, the developing nations have been badly hurt by the deep recession in the industrial countries, which has led to both price and volume declines in their exports. Fourth, the current account imbalances of many developing countries were aggravated by the slow response of their policymakers to the radically altered international environment, in part the result of an unwillingness to cut imports by scaling down development plans. Finally, the apparent need for immediate adjustment was in many cases mitigated by the availability of large previously committed but undrawn external credits still in the pipeline.

As the balance-of-payments adjustment process continues, some improvement now seems likely in the current accounts of the non-

OPEC LDC's. In 1976, OPEC's current surplus probably will be little changed. The recovery now underway in the industrial countries, however, will tend to weaken their current account position. This year, the developed countries as a group may experience a $7 billion current-account deterioration, with the United States accounting for more than half of that figure. Thus the non-OPEC LDC's will be able to benefit from increased import demand in the developed countries. In addition, the non-OPEC LDC's are beginning to reduce their growth rates, and in some cases to adjust their exchange rates, thus slowing the increase in their imports. As a result, they may register a $5 billion decline this year in their collective current account deficits. At a projected $29 billion, however, it will still remain very large.

4. The non-OPEC LDC current account deficit will have to be pared somewhat further after 1976. It should be stressed, however, that it is not necessary or desirable for these countries to seek current-account equilibrium. Given their stage of economic development, they should—and very likely will—continue to be large capital importers.

Indeed, net flows of official capital and direct private investment probably will suffice to cover about 80 percent of the non-OPEC LDC's current account deficits in 1976. First, net official flows from traditional sources—bilateral Government aid, project lending from international development agencies and compensatory lending from the IMF, remain considerable, a net $15 billion on average in 1974 and 1975, and probably at least as much in 1976. Second, OPEC bilateral grants and loans have now become sizable, an estimated $4 billion last year, and could rise to $5 billion or so in 1976 in view of the large magnitude of commitments already made. Of course, it is logical to expect a decline in bilateral OPEC flows in the last 1970's as the OPEC surplus narrows. Third, the annual flow of private direct investment has been running at a fairly steady rate of about $3.5 billion. Adding up these three sources, we come to a total of about $23 billion, even before further short and medium-term commercial borrowings, and before additional reserve usage.

Thus, assuming that capital availabilities from official sources and direct private investment remain well above $20 billion, the current-account adjustment required of the non-OPEC LDC's during 1976 and thereafter is probably around $10 to $12 billion at a maximum, of which $5 billion may be achieved this year. If their current-account adjustment can exceed $10 to $12 billion the medium-term future, the non-OPEC LDC's would have basically three alternatives—to add to their foreign exchange holdings and recoup the reserve losses experienced since 1974; to reduce their short- and medium-term commercial debt, thereby improving the terms of their total indebtedness; or to raise their import budgets, thus permitting more rapid domestic economic growth.

It is important to stress that, in order to bring about an improvement of this magnitude in the current accounts of the non-OPEC developing countries, the industrial nations must be willing to accept some deterioration in their current accounts. In other words, in order to reestablish some measure of balance-of-payments equilibrium in the world, some redirection of international trade—and some relocation of productive activity must occur. In particular, the industrial countries

must make an effort to transmit to the non-OPEC developing countries any improvement that they achieve vis-a-vis OPEC countries.

Of the projected $75 billion increase in OPEC goods and service imports during 1974–76, about 90 percent will originate in the leading industrial nations. These nations in turn should increase sharply their imports of raw materials and manufactures from the non-OPEC LDC's. The industrial countries should welcome the products of the non-OPEC LDC's, and the latter should make sure that their products are competitive.

It should be emphasized, again, that the magnitude of this desirable redirection of trade is not so large as to merit alarm. But it will mean that the relocation of labor intensive industry to the developing countries, underway for some time, should continue.

5. With this perspective on the international economic outlook, let me now turn to the position of the commercial banks with respect to the LDC financing problem. The leading commercial banks around the world have developed their international lending activities in an important way during the last 10 or 15 years, and they will do so in the future. They will continue to make loans to creditworthy borrowers in the developing world. The absolute size of a country's external debt, and the size of its current account deficit in a given year, are by no means the only—and frequently are not the most important criteria of worthiness. Many other factors—economic, financial, political—must be taken into consideration.

At the end of my prepared statement is an appendix listing of some of these factors.

Several relate to the quality of economic and financial management, and in particular to the ability and willingness to adjust to changing circumstances, and to work with the IMF in making these adjustments. Others relate to the fundamental natural and human resource base of a country. Still others focus on the level and structure of external indebtedness, the availability of foreign exchange reserves, and the balance-of-payments outlook.

In short, it may well turn out that banks will be willing to continue to lend to countries that already have large external debts outstanding, and that are continuing to incur large deficits—if other factors are favorable. For example, about 50 percent of commercial banks' foreign loans outstanding in the non-OPEC developing world are to Brazil and Mexico, both of which have large external debt burdens and very large current account deficits. Banks will continue to make sizable new loans to those countries, however, because they have confidence in the quality of their economic management, and because their long-term current account prospects are reasonably favorable.

Let me summarize then, the main points of this presentation. First there is no escape from the need of the non-OPEC LDC's to adjust to the present economic environment. Second, a very important determinant of creditworthiness, and of the ability to attract private and official funds, is willingness of a country to pursue active policies to foster such adjustment. Third, I am reasonably optimistic about the ability of most of the non-OPEC LDCs to achieve this adjustment without undue disruption. Many of the non-OPEC LDC's have already made major progress in this direction, and the size of the current

account deficit of the non-OPEC LDCs as a group will be reduced by $5 billion this year. Fourth, since the interdependence of the world economy has grown so rapidly in recent years, the industrial countries, including the United States, have an important responsibility in helping the developing countries to make the necessary adjustments; and the best contribution the industrial countries can make is to encourage imports from the developing countries by stimulating their own economies, and by lowering tariff and nontariff barriers for the products of the developing world. In particular, industrial countries should increasingly be willing to import the manufactures of the developing countries, which are the fruits of the industrialization process that we have been encouraging and financing.

Within this overall picture, the international lending agencies have a vital role to play. The World Bank's lending program should keep expanding, and to assure this goal the capital of that institution may well have to be increased—in part to preserve its ability to tap the private markets. The International Monetary Fund should not be turned into an international aid agency; but its ability to make medium-term loans on conditional terms should be preserved. Indeed, the IMF has very substantial resources available which regretfully have been used too sparingly by developing countries in the past. Finally, additional commercial bank lending to developing countries will be forthcoming for those nations which follow sound, balanced economic and financial policies.

Mr. Chairman, again I appreciate the opportunity to appear before you here today. Many of the thoughts I have adduced here are developed more fully in a current issue of our monthly publication, World Financial Markets, which I attach for the record.

Representative REUSS. Thank you, Mr. de Vries. Without objection, all your material will be included in the record as you earlier requested.

[The prepared statement of Mr. de Vries and the publication World Financial Markets follow:]

PREPARED STATEMENT OF RIMMER DE VRIES

Mr. Chairman, the economic and financial problems of the developing nations have become a key issue in international finance. Economic growth has slowed significantly in the non-OPEC LDCs, and is considerably lower than had been hoped prior to the increase in oil prices. Indeed, in many LDCs, living standards are no longer rising. Furthermore, the international debts of the developing world as a whole have become very large. Some observers, in fact, believe that widespread defaults are inevitable; and some spokesmen from developing countries are proposing a concerted rescheduling of external debt. I appreciate the opportunity to make a few comments on these important issues.

1. To begin with, it is well to remember that while the problems of economic development have always been with us, the LDC problem in its present severity is of rather recent origin. Prior to the oil price increase of late 1973, the non-OPEC LDCs as a group had for several years been doing reasonably well with respect to economic growth and balance of payments performance, and had achieved the overall growth target set by the UN for the First and Second Development Decades. During the 1960s and through 1974, their economies grew at a 5¼% average annual rate in constant prices.

Of course, it should be noted that the middle and higher income LDCs registered a better growth performance during the 1960s than did the poorer LDCs. This parity became more pronounced in the early 1970s. For the more developed LDCs, the 1971–74 average annual real growth rate accelerated to nearly 7%, versus 5.7% in the 1960s. On a per capital basis, real growth in these countries

rose from 3.1% per annum in the 1960s to 4.3% in the early 1970s. Growth in the poorer developing countries, by contrast, slowed to 1.6% per annum in 1971–74, from 4.4% during the 1960s. Per capita growth rates for this group dropped from 2% to —0.8% respectively.

An important reason for this disparity in growth performance is that the more developed and dynamic LDCs were in a better position to benefit from rapid OECD economic growth, especially during the export boom of 1972 and 1973. Between 1967 and 1974, exports of the richer non-OPEC LDCs grew at an 18% average annual rate, including a 90% jump during 1973 and 1974 together. Comparable figures for the poorer LDCs were 11% and 53% respectively. Although the terms of trade of the more developed LDCs worsened during the early 1970s (with the exception of 1973), the increase in their ability to import was maintained by rising export volume, as well as rising external borrowing.

The poorer LDCs saw their terms of trade worsen to an even greater extent, however; and, quite a few were affected with major crop failures. Exacerbating the difficulties of this latter group of countries was their limited ability to attract new debt. These factors resulted in a stagnation of import volume, frustrating development plans in the poorer developing countries during the early 1970s.

These important disparities between richer and poorer LDCs notwithstanding, rapid growth of exports from the developing world as a whole, plus accelerated external borrowing, enabled the non-OPEC LDCs to increase substantially their international reserves in the early 1970s. By end-September 1973, that is, on the eve of the dramatic rise in oil prices, the non-OPEC LDCs had total international reserves (gold, foreign exchange, SDRs and IMF gold tranches) of nearly $30 billion, more than double the $13.7 billion level of end-1970. Again, it should be noted that the bulk of this reserve growth was concentrated in the middle and higher income countries. For example, between end-1970 and end-September 1973. Brazil's reserves had more than quadrupled, from $1.2 billion to $6.5 billion; reserves of Taiwan, Korea, and Malaysia had nearly doubled; those of the Philippines tripled; and so on.

2. The relatively favorable overall economic performance of the non-OPEC LDCs in the 1960s and early 1970s was brought to a halt, however, in 1974. A major reason for the sharp turnabout was the increase in oil prices in 1973 and 1974. The impact of that increase has varied between the non-OPEC LDCs in timing and strength, of course, depending on factors such as the relative importance of imported oil in domestic energy requirements, the availability of external finance from commercial sources and the IMF, the differential impact of the recession in the industrial world on LDC exports, and the promptness of economic policy adjustments in the various LDCs.

Broadly speaking, however, it is useful to distinguish between the direct impact of the oil price increases, and related but indirect effects.

The current-account deficit of the non-OPEC LDCs as a group worsened from $9 billion in 1973 to $26 billion in 1974. Of this $17 billion deterioration, slightly over half was directly due to the oil price rise. Another 15% was attributable to higher prices for food and fertilizers, which in turn stemmed in some degree from the oil price increase. The remaining one-third of the 1974 non-OPEC LDC current-account deterioration resulted from a number of factors, among which the more important were a slowing of export growth due to the recession in the industrial world, and increased interest payments on external debt. These latter two factors also explain most of the further $8 billion deterioration in 1975. The oil price increases in 1975 played a much less important role than in 1974, and food and fertilizer prices actually tended to decline.

3. The world economy is now adjusting to the shock of sharply higher oil prices. The quintupling of oil prices led to an extremely large international balance-of-payments disequilibrium in 1974. The OPEC countries increased their current-account surplus from $4 billion in 1973 to $62 billion in 1974. Correspondingly, the current-account position of the developed nations deteriorated from a surplus of $10 billion in 1973 to a deficit of $25 billion in the year following. As previously mentioned, the non-OPEC developing countries current-account position worsened from a deficit of $9 billion in 1973 to one of $26 billion in 1974. Accordingly, of the $58 billion increase in the OPEC area's current surplus, almost two-thirds was incurred vis-à-vis the developed countries, and about one-third vis-à-vis the non-OPEC developing countries.

You will recall that in the first half of 1974 there was widespread disagreement about how rapidly and how smoothly the world would adjust to this dis-

equilibrium. Many commentators doubted that the OPEC countries, particularly those with low populations relative to oil revenues, would be able to increase their imports rapidly. Moreover, many believed that the demand for oil would prove very inelastic with respect to price, and that the ability of oil-importing countries to cut back on oil demand would be small. Thus, it was concluded that the huge disequilibrium created at the end of 1973 would last for many years, and would continue to be an upsetting force in the world economy, and in international financial markets.

It now appears, however, that the adjustment mechanism is working much more smoothly than had been expected. The OPEC countries astounded many observers by tripling their imports of goods and services between 1973 and 1975, from $29 billion to an estimated $87 billion. In addition, world oil demand over the same two years was reduced by about 6%, partly because of energy conservation and partly as a result of the recession in the industrial countries which was itself aggravated by the higher oil prices.

Accordingly, the OPEC countries' current-account surplus was reduced by more than half, to about $30 billion, in 1975. At the same time, the current-account position of the developed countries improved by about $30 billion, as they re-established a small surplus of $4 billion. The swiftness with which these changes occurred confirms again the power of the market forces, and the ability of countries to adjust to new conditions in the international economy.

However, as noted earlier, in the initial stages of this adjustment process, the overall position of the non-OPEC developing countries continued to worsen. There were several reasons for this adverse trend. First, the developing nations do not have the same ability that the industrial nations have for cutting back energy demand. Second, the non-OPEC LCDs have not yet been able to benefit in a major way from the export boom to the OPEC countries; about nine-tenths of OPEC imports come from the industrial nations, due to both long-term trade relationships and the broadly-based nature of the industrial countries' export sectors. Third, the developing nations have been badly hurt by the deep recession in the industrial countries, which has led to both price and volume declines in their exports. Fourth, the current-account imbalances of many developing countries were aggravated by the slow response of their policy-makers to the radically altered international environment, in part the result of an unwillingness to cut imports by scaling down development plans. Finally, the apparent need for immediate adjustment was in may cases mitigated by the availability of large previously committed but undrawn external credits still in the pipeline.

As the balance-of-payments adjustment process continues, some improvement now seems likely in the current accounts of the non-OPEC LDCs. In 1976, OPEC's current surplus probably will be little changed. The recovery now underway in the industrial countries, however, will tend to weaken their current-account position. This year, the developed countries as a group may experience a $7-billion current-account deterioration, with the United States accounting for more than half of that figure. Thus, the non-OPEC LDCs will be able to benefit from increased import demand in the developing countries. In addition, the non-OPEC LDCs are beginning to reduce their growth rates, and in some cases to adjust their exchange rates, thus slowing the increase in their imports. As a result, they may register a $5-billion decline this year in their collective current-account deficit. At a projected $29 billion, however, it will still remain very large.

4. The non-OPEC LDC current-account deficit will have to be pared somewhat further after 1976. It should be stressed, however, that it is not necessary or desirable for these countries to seek current-account equilibrium. Given their stage of economic development, they should—and very likely will—continue to be large capital importers.

Indeed, net flows of official capital and direct private investment probably will suffice to cover about nine-tenths of the non-OPEC LDCs, current-account deficits in 1976. First, net official flows from traditional sources—bilateral government aid, project lending from international development agencies, and compensatory lending from the IMF—remain considerable, a net $15 billion on average in 1974 and 1975, and probably at least as much in 1976. Second, OPEC bilateral grants and loans have now become sizable, an estimated $4 billion last year, and could rise to $5 billion or so in 1976 in view of the large magnitude of commitments already made. Of course, it is logical to expect a decline in bilateral OPEC flows in the late 1970s as the OPEC surplus narrows.

Third, the annual flow of private direct investment has been running at a fairly steady rate of about $3½ billion. Adding up these three sources, we come

to a total of about $23 billion, even before further short- and medium-term commercial borrowings, and before additional reserve usage.

Thus, assuming that capital availabilities from official sources and direct private investment remain well above $20 billion, the current-account adjustment required of the non-OPEC LDCs during 1976 and thereafter is probably around $10–$12 billion at a maximum, of which $5 billion may be achieved this year as their current deficit is projected to decline to $29 billion. If their current-account adjustment can exceed $10–$12 billion in the medium-term future, the non-OPEC LDCs would have basically three alternatives—to add to their foreign exchange holdings and recoup the losses experienced since 1974; to reduce their short- and medium-term commercial debt, thereby improving the terms of their total indebtedness; or to raise their import budgets, thus permitting more rapid domestic economic growth.

It is important to stress that, in order to bring about an improvement of this magnitude in the current accounts of the non-OPEC developing countries, the industrial nations must be willing to accept a deterioration in their current accounts. In other words, in order to re-establish some measure of balance-of-payments equilibrium in the world, some redirection of international trade—and some relocation of productive activity—must occur. In particular, the industrial countries must make an effort to transmit to the non-OPEC developing countries any improvement that they achieve vis-a-vis the OPEC countries.

Of the projected $75 billion increase in OPEC goods and services imports during 1974/76, about 90% will originate in the leading industrial nations. These nations in turn should increase sharply their imports of raw materials and manufactures from the non-OPEC LDCs. The industrial countries should welcome the products of the non-OPEC LDCs, and the latter should make sure that their products are competitive. It should be emphasized again, however, that the magnitude of this desirable redirection of trade is not so large as to merit alarm. It will mean, however, that the relocation of labor-intensive industry to the developing countries, underway for some time, should continue.

It is also necessary, however, that the developing countries themselves take economic adjustment measures to facilitate the desirable improvement in their current-account balances. In many cases, as noted, this will imply acceptance of a lower rate of economic growth than they had hoped for before the rise in oil prices. In Taiwan, for example, government policy measures led to in improvement in the current account from a $1.1 billion deficit in 1974 to a negligible $125 million deficit last year—but at the expense of an abrupt halt to economic growth in 1974, and only a 4% increase in real GNP last year. Now, however, with the necessary adjustment having taken place, the country is well placed to resume rapid economic expansion. Indeed, it is better for such slowdowns to be planned through official adjustment programs than imposed by market forces in an ad hoc fashion that may not be consistent with national development priorities.

5. With this perspective on the international economic outlook, let me now turn to the position of the commercial banks with respect to the LDC financing problem. It should be stressed above all that the leading commercial banks around the world have developed their international lending activities in an important way during the last 10 or 15 years, and they will do so in the future. They will continue to make loans to creditworthy borrowers in the developing world. Indeed, it must be stressed that the absolute size of a country's external debt, and the size of its current-account deficit in a given year, are by no means the only—and frequently are not the most important—criteria of creditworthiness. Many other factors—economic, financial, political—must be taken into consideration.

I have attached in an appendix a listing of some of these factors. Several relate to the quality of economic and financial management, and in particular to the ability and willingness to adjust to changing circumstances, and to work with the IMF in making these adjustments. Others relate to the fundamental natural and human resource base of a country. Still others focus on the level and structure of external indebtedness, the availability of foreign exchange reserves, and the balance-of-payments outlook.

In short, it may well turn out that banks will be willing to continue to lend to countries that already have large external debts outstanding, and that are continuing to incur large deficits—if other factors are favorable. For example, about 50% of commercial banks' foreign loans outstanding in the non-OPEC developing world are to Brazil and Mexico, both of which have large external debt burdens and very large current-account deficits. Banks will con-

tinue to make sizable new loans to these countries, however, because they have confidence in the quality of their economic management, and because their long-term current-account prospects are reasonably favorable.

Let me summarize, then, the main points of this presentation. First, there is no escape from the need of the non-OPEC LDCs to adjust to the present economic environment. Second, a very important determinant of creditworthiness, and of the ability to attract private and official funds, is willingness of a country to pursue active policies to foster such adjustment. Third, I am reasonably optimistic about the ability of most of the non-OPEC LDCs to achieve this adjustment without undue disruption. Many of the non-OPEC LDCs have already made major progress in this direction, and the size of the current-account deficit of the non-OPEC LDCs as a group will be reduced by $5 billion this year. Fourth, since the interdependence of the world economy has grown so rapidly in recent years, the industrial countries, including the United States, have an important responsibility in helping the deevloping countries to make the necessary adjustments; and the best contribution the industrial countries can make is to encourage imports from the developing countries by stimulating their own economies, and by lowering tariff and non-tariff barriers for the products of the developing world. In particular, industrial countries should increasingly be willing to import the manufactures of the developing countries, which are the fruits of the industrialization process that we have been encouraging and financing.

Within this overall picture, the international lending agencies have a vital role to play. The World Bank's lending program should keep expanding, and to assure this goal the capital of that institution may well have to be increased—in part to preserve its ability to tap the private markets. The International Monetary Fund should not be turned into an international aid agency; but its ability to make medium-term loans on conditional terms should be preserved. Indeed, the IMF has very substantial resources available which regretfully have been used too sparingly by developing countries in the past. Finally, additional commercial bank lending to developing countries will be forthcoming for those nations which follow sound, balanced economic and financial policies.

Mr. Chairman, again I appreciate the opportunity to appear before you here today. Many of the thoughts I have adduced here are developed more fully in a current issue of our monthly publication, *World Financial Markets*, which I attach for the record.

APPENDIX

CREDITWORTHINESS: SOME FACTORS TO BE TAKEN INTO ACCOUNT

A. Policy factors

1. Quality of economic team; strength of central bank; impact on political leadership.
2. Monetary/budget policies; wage/price policies.
3. Current-account adjustment policies; exchange-rate policies; import restraint policies.
4. Relations with IMF; willingness to cooperate with international banking community in providing necessary data, projections and other information.

B. Basic economic factors

5. Growth strategy: is it balanced; policy toward agriculture; appropriateness and efficiency of industrial investment.
6. Natural resource base.
7. Human resource base: population growth, educational level, entrepreneurial ability.
8. Financial resource base: policy toward stimulating domestic savings; financial market development; relative importance of foreign capital in total domestic investment.
9. Export diversification by commodity and region.

C. External finances

10. External debt, level and maturity structure; and debt service burden.
11. Reserves.
12. Potential access to medium-term official finance, e.g. IMF.
13. Balance-of-payments prospects and outlook for external debt service burden.

D. Politics

14. Domestic and regional political stability.

World Financial Markets

Morgan Guaranty Trust Company of New York

January 21, 1976

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The financing problem of the developing countries

One of the most pressing issues in international finance at present is the financial plight of the non-OPEC less-developed countries (non-OPEC LDCs). They have amassed large external debts. Disbursed government and government-guaranteed external debt with original maturity over one year was $61 billion at end-1973 for 75 of these countries. By the end of 1975, that figure may have climbed to over $90 billion. And this figure excludes short-term and non-government guaranteed external debt.

The burden of servicing this growing external debt has been aggravated by the recent small decline in the goods and services exports of the non-OPEC LDCs. Amortization and interest payments on the government and government-guaranteed external debt for these countries as a group may exceed 9% of gross foreign exchange earnings in 1976, up from about 7% in 1974. More importantly, the extremely large current deficits experienced during the last two years, and likely in 1976, imply a very rapid increase in debt service requirements two or three years hence. As a result, some observers have expressed concern that the financing problems of some of the non-OPEC LDCs may be unmanageable.

In analyzing this serious problem, it is useful to divide the world into four areas: the developed or industrial nations (mainly the 24 OECD countries); the oil-exporting nations (OPEC); the communist countries (chiefly Comecon); and the non-OPEC LDCs. With the quintupling of oil prices since 1973, a major international payments imbalance was created. As shown in Table 1, the OPEC countries recorded a huge current-account surplus in 1974. Each of the other three areas registered a current-account deficit. Market and other forces began an immediate adjustment process, however, as a result of which the OPEC current-account surplus was cut by more than half in 1975.

As a counterpart to the decline in the OPEC surplus, the large current-account deficit registered in 1974 by the industrial countries was transformed to a small surplus in 1975. This evolution reflected both the recession in the OECD countries, as well as the sharp rise in their exports to OPEC. The industrial countries account for over three-quarters of OPEC's imports, and due both to long established trading relationships, and to the broadly-based nature of their export sectors, have

Table 1

Current account balances excluding official transfers

billions of dollars

	actual 1974	*est. 1975*	*proj. 1976*
OPEC	62	29	28
Developed countries[a]	−25	4½	−2½
Non-OPEC LDCs	−26	−34	−29
Communist countries	−5	−10	−7
Statistical discrepancy	+6	−10½	−10½

a OECD countries plus Israel, South Africa and Yugoslavia, but excluding Turkey

been well placed to benefit from the huge rise in OPEC imports.

The situation of the non-OPEC LDCs has been quite different. Their exports to OPEC have grown less rapidly than those of the industrial nations and, starting from a small base, in 1974 accounted for only 9% of the total increase in world exports to OPEC. Furthermore, among non-OPEC LDCs, the semi-industrialized countries have benefited disproportionately: six of these nations provided half of the increase in OPEC's 1974 imports from the non-OPEC LDCs as a group. In addition, the non-OPEC LDCs have been hurt by the deep recession in the industrial countries which has led to both price and volume declines in their exports.

It is also important to note that the current-account imbalances of the non-OPEC LDCs were aggravated in many cases by the slow response of policy makers to the radically altered international environment. Substantial, previously granted credits still in the pipeline, as well as unwillingness to cut imports by scaling down development plans, contributed to the continuing deficit. Thus, although the current-account imbalances of both the OPEC and the developed countries were sharply curtailed in 1975 by comparison with 1974, the imbalance of the non-OPEC LDCs continued to grow.

As the balance-of-payments adjustment process continues, some improvement is now likely in the current accounts of the non-OPEC LDCs. Although this year, as the discussion starting on page 7 points out, the OPEC surplus probably will be little changed, thereafter it will resume its decline. More important, recovery in the industrial countries will tend to weaken their current-account position. This year, the developed countries as a group may experience a $7-billion current-account deterioration, with the United States accounting for more than half of that figure. The non-OPEC LDCs are now beginning to reduce their growth rates and to adjust their exchange rates in some cases, thus slowing the increase in their imports. As a result, they may register a $5-billion decline this year in their collective current-account deficit, but it will still remain very large at a projected $29 billion. There may also be a small improvement in the Comecon countries' deficit.

In order for the non-OPEC LDC deficit to be pared further, some additional deterioration in the developed countries' current account appears necessary. More importantly, the developed countries should make an effort to transmit to the non-OPEC LDCs any improvement achieved *vis-à-vis* the OPEC countries. Since the developed countries are more able to respond to the rapid rise in OPEC import demand than are the non-OPEC LDCs, it would be desirable for the developed countries during their economic recovery to increase sharply their imports from the non-OPEC LDCs. Such imports consist not only of raw materials but also of industrial products, which are increasingly manufactured in the more advanced LDCs such as Brazil, Mexico, and Korea. The markets of the industrial countries should be wide open for the products of the non-OPEC LDCs and the latter need to make sure that their products are competitive, partly by pursuing realistic exchange-rate policies. Within the framework of such conditions and policies, a reduction in the current-account deficit of the non-OPEC LDCs to about $20 billion over the next few years is a reasonable expectation.

It should be noted that the estimates in Table 1 — as well as similar analytical exercises by the IMF and the OECD — indicate that

Table 2

Current account balances of developed countries[a, b]

billions of dollars

	actual 1974	*est. 1975*	*proj. 1976*
United States	—0.3[c]	13	8
Canada	—1.7	—5	—4
Japan	—4.7	—½	—2½
France	—5.8	0	—3
Germany	9.7	3¾	4
Italy	—7.8	0	—2
United Kingdom	—8.6	—3¾	—3¼
Belgium-Lux.	0.8	¾	½
Denmark	—1.0	—¼	—¾
Netherlands	1.5	3	3½
Norway	—1.0	—2½	—2¼
Sweden	—1.0	—2	—1½
Switzerland	0.2	2½	1¾
Subtotal	—19.7	9	—1½
Other countries	—15.3	—16	—13½
Total	—35.0	—7	—15
Memorandum: total, excluding official transfers	—24.5	4½	—2½

a OECD plus Israel, South Africa, and Yugoslavia, but excluding Turkey
b including official transfers
c excludes special transfers to India, Vietnam, and Israel totaling $3.1 billion related to offsetting capital transactions

there is a very large statistical discrepancy on the order of $10 billion in 1975 and again in 1976. The discrepancy arises mainly from asymmetries in the recording of various trade and services transactions between countries. Time lags between the reporting of exports by the exporting countries and the recording of the corresponding imports by their trading partners will result in an excess of surpluses over deficits in the global summation of current-account balances when the nominal value of trade flows increases, as was the case in 1974, and an excess of deficits over surpluses when the value of trade flows decreases as occurred between the fourth quarters of 1974 and 1975.

The discrepancies in 1975 and 1976 indicate that either the OPEC surplus is underestimated or that the combined deficit of the other three areas is overstated, or a combination of both. The bulk of the discrepancy in 1975 probably should be distributed among the developed, Communist, and non-OPEC LDC areas, making the surplus of the former larger and the deficits of the latter two areas smaller. The same should be done for the projected numbers for 1976, thus further reducing the magnitude for the projected deficit of the non-OPEC LDCs.

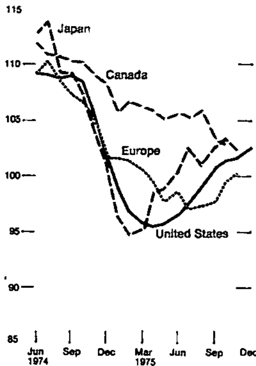
Another point that should be stressed is that it is not necessary or desirable for the non-OPEC LDCs to seek actual current-account equilibrium. These developing countries should continue to be large capital importers. As the discussion on page 10 shows, net capital inflows from non-OPEC official sources and international agencies have averaged about $20 billion in 1974 and 1975, and are likely to be at least that large in 1976. In addition, sizable capital contributions now flow directly to some developing nations from the OPEC area. Accordingly, if the capital flows from official and international institutions are maintained while the current-account deficits of the non-OPEC LDCs are reduced, the latter's recourse to private financial sources will become considerably less this year and thereafter. Thus, based on appropriate policies and trends in the developed countries, the OPEC area, and the non-OPEC LDCs, plus greater availability of funds from official sources, including OPEC countries, the non-OPEC LDC financing problem seems manageable in the aggregate. Indeed, while some developing countries still face difficult financing problems, others may well be able to reduce their outstanding borrowings from commercial sources.

Growth and payments of developed countries

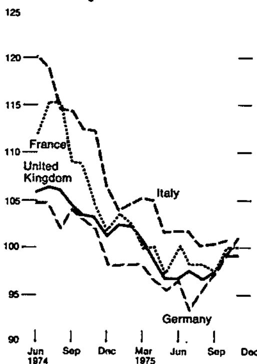
As noted earlier, the developed countries achieved a remarkable improvement in their combined current-account position *vis-à-vis* the rest of the world last year. This large adjustment stemmed mainly from the greater severity of recession in industrial countries than was experienced elsewhere. Import needs of most industrial nations plummeted, a development that was reinforced by sizable inventory liquidations. Their exports sagged much less, being sustained especially by expanded sales to the OPEC countries and Comecon nations.

The United States accounted for nearly half of the collective current-account improvement. However, large gains also were chalked up by Japan, France, Italy, the Netherlands, Switzerland, and the United Kingdom (see Table 2). Important exceptions to the general picture of marked improvement in current-account balances were Canada, Germany, Norway, and Sweden, for

Industrial production
1972 average = 100



Industrial production
1972 average = 100



the most part countries whose principal foreign markets slumped to a greater extent than their own economies.

Most of the overall strengthening of the developed countries' current account in 1975 had taken place by mid-year. As early as last spring, the U.S. and Japanese economies had bottomed out and had begun to recover, the latter, albeit, somewhat hesitantly. In mid-summer the German economy also bottomed out, and by the fourth quarter of 1975 was evincing an upturn in both industrial production and orders. Elsewhere in Western Europe, industrial production generally leveled out in the fourth quarter (see chart). Thus, with a good recovery getting underway in the United States and a resumption of moderate growth in the two other largest industrial countries, OECD import demand began to revive. Moreover, in the second half of 1975, there was a slowing in the rapid expansion of industrial countries' exports to OPEC and to Comecon.

Economic recovery has been strongest in the United States, and is likely to remain so. Industrial production in December was 7.8% above the low point recorded in April 1975 (see chart). Real GNP advanced at a seasonally adjusted annual rate of about 8% between the first and second halves of 1975, and a real GNP gain of perhaps 6%-7% this year is a reasonable expectation.

While the U.S. recovery, particularly the large third-quarter advance, was spurred by a sharp decline in the rate of inventory liquidation, final domestic demand has been expanding steadily. Consumer spending, buoyed by last spring's fiscal stimulus and solid gains in real personal incomes, has recovered nicely — a development confirmed by last month's large increase in retail sales. The prospect of further sizable gains in real incomes and growing consumer confidence augurs well for a sustained advance in consumer spending this year.

Although the turnaround in the inventory cycle and the upturn in consumer expenditure occurred earlier, and have been more pronounced in the United States than elsewhere, an even more striking difference has occurred in the area of corporate profits and business capital spending. Corporate profits in the United States have been rising steadily since the first quarter of last year, and are widely expected to increase by roughly one-third, on a year-over-year basis, in 1976. Business capital spending already has leveled out. Given the normally close relationship between corporate profits and capital-spending trends, there appears to be a reasonably good chance that the continuing flat trend projected in the government's latest survey of plant and equipment plans may be replaced by at least a moderate expansion.

Elsewhere, corporate profits have remained under pressure. Companies in many countries have considerably less flexibility — because of contractual obligations, government policies, or lifetime employment practices — to adjust their work forces in the face of reduced demand and are burdened with larger increases in wage costs than their counterparts in the United States. Business capital spending in other countries is still declining, and shows no sign of any early turnaround.

Although the Japanese economy bottomed out in the first quarter of 1975, the pace of recovery since mid-year has been very hesitant. Industrial production in November 1975 was 7.8% above the February 1975 low, but the trend since mid-year has been relatively flat. Consumer spending is likely to remain fairly sluggish in view of relatively

Table 3

Real GNP growth of selected OECD countries

percent changes

	actual 1974	*est. 1975*	*proj. 1976*
United States	—1.8	—2	7
Canada	2.8	—½	5
Japan	—1.1	1¾	4½
France	5.1	—3	3½
Germany	0.4	—3½	3½
Italy	3.4	—4½	2
United Kingdom	—0.1	—2	1
Belgium	4.0	—2½	1
Denmark	2.0	—1	1½
Netherlands	2.0	—2½	2½
Norway	3.7	2½	4
Sweden	4.2	0	½
Switzerland	—1.2	—3	1

Table 4

U.S. trade balance

seasonally-adjusted, f.a.s. value basis
billions of dollars

	1974	*1975*[a]
Total, excluding military aid	—2.3	11.6
Agriculture[b]	10.3	11.6
Fuels	—22.0	—21.7
Manufactures	8.3	19.9
Chemicals	4.8	5.0
Semi-manufactures	—6.6	—4.0
Machinery and transport equipment	14.1	22.3
Other	—4.1	—3.4

a January-November at annual rates
b includes other non-manufactures except fuels

modest wage gains and still high unemployment. Business fixed capital investment has fallen sharply, and new orders for machinery are continuing to decline. Given current low levels of capacity utilization and uncertain demand prospects, no early turnaround in business investment is foreseen. Exports, however, began to recover in the latter part of 1975, although the expansion of most of Japan's overseas markets this year seems likely to be moderate. Real GNP growth in 1976 is expected to be around 4%-5%, modest by past standards, but generally in line with the government's desire for a gradual recovery.

The economies of most European countries appear to have bottomed out by the end of last year. However, only in Germany is there convincing evidence of an upturn in industrial production and orders. Elsewhere in Western Europe the best that can be said is that output and orders are no longer declining. The leveling out of industrial production in Europe has been largely the result of a gradual slowing of inventory liquidation. Apart from Germany and France, here has been little or no upturn in consumer spending. Business capital spending continues to fall throughout Europe, despite various fiscal incentives introduced in a number of countries. In many parts of Europe, government spending was about the only demand sector to show any strength last year.

For OECD Europe as a whole, merchandise exports account for approximately 23% of GNP, but nearly two-thirds of these exports go to markets within the European area. Only about 6½% of OECD Europe's exports go to the United States and less than 1% to Japan, so that the earlier and stronger economic upturns in these two countries have had only a limited direct impact on the European economic activity.

Growth in Europe this year will depend heavily on an expansion of consumer expenditure. Real disposable incomes are expected to increase moderately, although savings rates are not expected to decline much, if at all, from already very high levels. While surveys suggest that consumer confidence is beginning to improve in several countries, fears of inflation and unemployment continue to have a strong influence on spending decisions. There appears to be little or no chance for a turnaround in business capital investment in Europe until late this year, at the earliest. In the face of depressed profits, excess capacity, and uncertain markets; government fiscal incentives can do little to spur business investment. Government spending may not be as strong an expansionary force in 1976, since some governments are making efforts to restrain the growth in their spending in the face of large public sector deficits.

On balance, it appears that Germany and France will record the best growth performance in Europe this year, with real GNP advancing by perhaps 3%-4% on a year-over-year basis. The economies of Italy and the United Kingdom are likely to lag, in terms of both timing and magnitude of expansion, perhaps registering real GNP growth of only about 1%-2% in 1976 (see Table 3).

This prospect of moderate growth in the industrial countries suggests a companion worsening this year in their net current-account position. The likely deterioration — to a deficit of around $15 billion from 1975's estimated deficit of $7 billion (both including official transfers) — is rather slight, however, in the context of aggregate OECD merchandise exports that exceeded $400 billion last year. The deterioration would be greater if economic growth prospects were higher. The payments erosion also would be greater were it not for the progressive and

Table 5

OPEC's current account balance of payments

billions of current dollars

	1974	1975	1976
Oil revenues	101	100	113
Other exports of goods and services[a]	10	9	10
Imports of goods and services[b]	53	87	104
Trade balance	58	22	19
Investment income	4	7	9
Current balance	62	29	28

a excluding investment income receipts
b excluding investment income payments on direct investment

Table 6

Oil consumption in major industrial countries

	percent change: 1974 from 1973	Jan-Sep 1975 from Jan-Sep 1974
United States	—3.2	—1.2
Japan	—2.6	—11.0
Germany	—10.3	—4.2
France	—6.0	—9.8
Italy	—0.9	—9.3
United Kingdom	—6.4	—11.8
Total	—4.0	—5.0

continuing curtailment of energy demand, induced by the oil price jump of the past few years, coupled with OPEC's appetite for the goods and services of industrial nations.

Table 2 sets out projections for the current accounts of some OECD countries. The bulk of the expected net OECD deterioration is pinned to the United States, in view of its more vigorous growth outlook, together with important declines for Japan, France and Italy.

The U.S. current account

Some observers foresee a much greater 1976 downswing in the U.S. current account than the $5-billion decline indicated in Table 2 because of a strong cyclical upturn in imports. Indeed, there was a quite rapid rebound in U.S. imports in the second half of 1975. Imports were up 8% overall in September-November from the preceding three months, in contrast to their 4% decline for January-November from 1974. But exports have continued to advance in recent months, though less vigorously than imports, and the trade balance has narrowed only marginally to an annual rate of $12.6 billion, census basis, in the September-November 1975 period.

Consistent with the consumer-led domestic recovery, recent U.S. import growth has been concentrated in finished manufactures and oil. Auto imports in November, except from Canada, ran nearly 35% above the levels of last winter. Non-durable consumer goods were up some 30%, but the recovery of durables was more laggard. In the still cyclically-depressed basic industries, however, imports remained very weak: for example, iron and steel imports at the close of 1975 were fully 60% below the peak of a year earlier.

The outlook for oil imports in 1976 is clearly for a sizable increase over 1975's average pace, in view of the decline in domestic output and the expected strength of the general economic recovery. Yet consumption remains depressed and in the face of increased prices may not rebound with historic vigor. Moreover, the gain in oil imports this past fall was so strong that this year could see little further rise in oil imports. Volume approached 7.4 million bpd in September-November — seasonally-adjusted including imports through the Virgin Islands — 20% higher than the average for the first eight months of 1975, and close to the average level expected for 1976.

Agricultural exports last fall moved up sharply from low first-half 1975 levels. For the full-year they may have been slightly ahead of 1974's $22.3 billion. The recovery was wholly in the volume of shipments, for in recent months there has been some weakening of prices. For the remainder of this crop year heavy shipments are already committed. Thus, assuming no major upset to the overall world crop situation, agricultural exports in 1976 could advance over last year's figures by one or two billion dollars.

With only minor changes foreseen in U.S. oil and agricultural trade combined, the key question in the overall trade outlook for 1976 lies with manufactures. As noted, cyclical recovery of imports is evidently in progress, but there is at the same time a sustained strength of exports despite the depression of markets abroad. The strength of exports in 1975 owed much to price inflation in long lead-time capital goods, whose unit values in late last year were up 18% from a year earlier. The cooling of inflation in this country, however, means that the rate of increase in capital-goods prices is falling sharply, to around a 7% annual rate in the second half of 1975. So export gains in 1976 will depend more on the actual volume of shipments than on further price gains. In view of the

Table 7

Industrial countries' exports to OPEC

	percent change: 1974 / 1973	1975 year-to-date / same period 1974
OECD[a]	77	98[b]
United States	85	76[c]
Japan	100	75[c]
Germany	80	82[d]
United Kingdom	45	95[c]
France	64	85[e]
Italy	84	95[f]

a excludes exports to Gabon, Qatar and the United Arab Emirates
b Jan-Jun
c Jan-Sep
d Jan-Oct
e Jan-Aug
f Jan-Jul

Table 8

Current account balances of OPEC countries[a]
billions of dollars

	1974	1975[b]
Arabian Peninsula	34.6	26.3
Kuwait	7.3[c]	4.4
Qatar	1.3	0.8
Saudi Arabia	22.9	18.0
United Arab Emirates	3.1	3.1
Other	26.9	3.1
Algeria	0.4	—2.5
Ecuador	0.0	—0.2
Gabon	0.2[b]	0.0
Indonesia	0.4[b]	—2.2
Iran	10.9	4.7
Iraq	2.4	1.0
Libya	1.9	—1.4
Nigeria	4.5	0.7
Venezuela	6.2	3.0
Total	61.5	29.4

a excluding official transfers, except in case of United Arab Emirates and Qatar
b estimated
c fiscal year ending March 1975

sluggish pace of capital-spending in most of the world, the demand for U.S. capital goods exports might be rather weak, although the United States is still very competitive in this area.

Allowing for exchange-rate changes, inflation of U.S. wholesale prices of manufactures at end-1975 from five years earlier was 10% less than the average of industrial competitor countries. Although most of the competitive gain is traceable to exchange-rate changes of 1970-73, it would be imprudent to believe the benefits are yet exhausted. The long-run consequences of changed price relationships are of greatest importance for decisions affecting both capital equipment purchases and plant location. Regarding the latter, more foreign companies are establishing production facilities in the United States, while U.S. companies appear to be slowing their investment abroad, both of which will have a favorable impact on U.S. trade flows. The much superior U.S. labor-cost performance in the past year or two, relative to other nations, and consequent better profit margins for U.S. firms also speak for underlying strength of U.S. manufactures this year.

Altogether, the weakening of the U.S. trade balance this year may not be so large as commonly supposed. The surplus could still run \$5-\$6 billion or higher, census basis, compared with last year's near \$11.5-billion outcome. The current account also should benefit this year from the presumption that some of the large military deals negotiated with Middle Eastern countries will be coming on stream, reducing the traditional net deficit on military transactions. Some improvement is anticipated on balance in net investment income. Thus the overall U.S. current account in 1976 could decline by a little less than the surplus on merchandise trade alone, from an estimated \$13 billion in 1975 to about \$8 billion this year.

The outlook for OPEC

The decline in the OPEC surplus continues. It now seems clear that the collective current-account surplus of the OPEC countries in 1975 was less than half that of 1974 (see Table 5). This year, however, any additional decline in the surplus may be small, as world petroleum demand picks up and as OPEC imports grow much more slowly.

Official balance-of-payments data for 1974 have now been made available by all OPEC governments but one. These data necessitate some revisions in previous estimates for the aggregate OPEC surplus for that year. The combined OPEC current-account surplus, excluding outflows of grant aid, was \$62 billion in 1974 — \$3 billion less than the \$65 billion generally assumed. Of particular interest, commodity imports c.i.f. were \$41 billion, and services imports — excluding income payments on direct investment — were \$12 billion, for a total OPEC import bill of \$53 billion.

OPEC's collective current-account surplus in 1975 probably was on the order of \$29 billion. Demand for OPEC oil exports dropped from 28 million barrels per day (bpd) in 1974 to 26 million bpd in 1975. This decline was due largely to warm weather and recession conditions in the OECD countries. After dropping 4% in 1974, petroleum product demand in six major industrial countries was down a further 5% in the first three quarters of 1975 (see Table 6). Moreover, OPEC oil production in the fourth quarter of 1975 was lower than in the third quarter. Thus, in spite of a higher average OPEC government take per barrel in 1975, total oil revenues were little changed from 1974, at about \$100 billion.

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Table 9

Current account balances of non-OPEC developing countries[a, b]

millions of dollars

	actual 1974	*est. 1975*	*proj. 1976*
Argentina	220	−970	−50
Brazil	−7147	−7210	−6000
Chile	−384	−540	−300
Colombia	−500	−450	−250
Mexico	−2558	−3500	−3250
Peru	−685	−1150	−1200
Costa Rica	−251	−235	−200
El Salvador	−127	−70	−120
Guatemala	−102	−75	−100
Honduras	−125	−110	−100
Nicaragua	−198	−215	−200
Panama	−270	−290	−225
Subtotal	−12127	−14815	−11995
Korea	−1879	−1600	−1400
Malaysia	−296	−900	−750
Philippines	−283	−850	−850
Taiwan	−1115	−125	−100
Thailand	−92	−500	−500
Singapore	−1203	−1500	−1250
Subtotal	−4868	−5475	−4850
India	−2000	−2750	−2520
Pakistan	−1039	−1200	−1000
Egypt	−1321	−2300	−2000
Turkey	−642	−1500	−750
Tunisia	−14	−315	−275
Zaire	−169	−450	−400
Subtotal	−5185	−8515	−6945
Total, 24 countries	−22180	−28805	−23790
Other countries not shown	−3920	−5500	−5000
Total non-OPEC developing countries	**−26100**	**−34305**	**−28790**

a includes all countries which are not members of OECD (except Turkey), OPEC, or the Communist bloc, but excludes Israel, South Africa, and Yugoslavia

b current balances excluding official transfers

OPEC imports, however, continued to grow rapidly through the second quarter of last year. Latest-available data show OECD commodity exports to OPEC up more than four-fifths from corresponding 1974 periods (see Table 7). Even assuming no further increase in the most recently reported level of imports, aggregate OPEC imports last year probably rose by two-thirds over 1974, to $87 billion.

In 1976, it seems likely that world oil demand excluding OPEC and communist countries' domestic use may rise by around 4% from the 1975 average, or by 1.7 million bpd to 45.5 million bpd. Non-OPEC production, however, also will rise — perhaps by 900,000 bpd, a continuing decline in the United States being offset by increased output in the North Sea and in various developing countries including Mexico, and perhaps by net communist countries' exports. Thus, OPEC exports should rise by about 800,000 bpd over 1975, to some 27 million bpd. Furthermore, assuming some rise in OPEC oil prices next June, average per barrel take for 1976 will be 8%-9% over 1975. Total OPEC oil revenues, then, would rise to perhaps $113 billion, and non-oil goods and services exports could be another $10 billion.

OPEC imports clearly will grow much more slowly in 1976 than they did in 1974 and 1975. There are signs that some OPEC countries in current deficit, such as Algeria and Indonesia, are cutting back on imports; others that anticipate current deficits in the not too distant future, such as Iran and Venezuela, are significantly slowing their rate of import increase; still others are finding that port capacity, lack of human resources, and other constraints are posing increasing problems to further import growth. On balance, aggregate OPEC import volume may not rise by much more than 11%-12% in volume this year. Import prices may also rise, however, perhaps by 7%. Thus the total OPEC import bill may approach $104 billion in 1976. Investment income receipts may amount to $9 billion. As a result, OPEC's current-account surplus could be on the order of $28 billion this year — down only slightly from 1975.

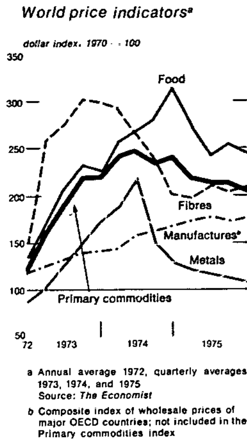
OPEC's current-account surplus was much more concentrated last year than in 1974. In the latter year, every OPEC country enjoyed a current surplus. The four countries of the Arabian Peninsula amassed some $35 billion, or 56% of the total (see Table 8). In 1975, however, although the combined surplus of those four countries dropped to perhaps $26 billion, their share of the total rose to almost nine-tenths.

Adjustment in the non-OPEC developing countries

The 1975 current-account deficit of the non-OPEC developing countries as a group was at about $34 billion, based on estimates for 24 countries which comprised 85% of this group's deficit in 1974 (see Table 9). The 1975 estimate represents an $8-billion deterioration from 1974, and follows a near-tripling (from about $9 billion to over $26 billion) of the deficit in the latter year in the wake of higher oil prices. In 1975, more than three-quarters of the $8-billion current-account deterioration for this group was concentrated in nine countries — Argentina, Mexico, Peru, Malaysia, the Philippines, Thailand, India, Egypt, and Turkey. Another one-fifth of the deterioration was registered by a group of poor countries, and is reflected in the $5.5-billion deficit of non-specified countries shown in Table 9.

For a number of developing coun-

World price indicators[a]



a Annual average 1972, quarterly averages 1973, 1974, and 1975
Source: *The Economist*
b Composite index of wholesale prices of major OECD countries; not included in the Primary commodities index

Table 10

Real GNP growth in selected non-OPEC developing countires
percent change per year

	avg. 1969-73	1974	est. 1975
Argenitna	5.1	7.2	2½
Brazil	10.3	9.6	4
Chile	1.9a	5.2	2
Mexico	6.3	5.2	4½
Peru	5.4	6.6	4
India	2.8	1.0	—
Korea	11.5	8.7	7½
Malaysia	8.4b	6.3	1½
Philippines	6.1	5.8	5½
Taiwan	11.5	0.6	4
Turkey	6.9	7.4	7

a includes a 6.2% absolute decline in 1973
b 1971-1973

tries, current-account deficits in 1975 were greater than had been estimated only several months ago. In some countries, such as Turkey, Korea, and Zaire, there has been a lag in adjusting policies, to the less favorable export environment and higher import costs. In others, such as Brazil and Mexico, measures were taken during 1975 to restrict imports and reduce real economic growth (see Table 10), but they were either insufficient or slow to take effect.

In contrast, the current-account deficits of several other countries were significantly reduced last year. Taiwan showed a nearly $1-billion favorable swing, the result of prompt monetary, fiscal and other regulatory policy adjustments in early 1974, which cut imports by one-fifth between that year and 1975. Indeed, as can be seen in Table 10, Taiwan's overall economic growth came to an abrupt halt in 1974; but, with the necessary adjustment now having taken place, the country is well placed to resume rapid growth. Korea's current-account deficit is also estimated to have declined somewhat last year. All of the improvement came in the second half, however. Policy adjustments were more tardy in Korea than in Taiwan, although no less effective when ultimately taken. Furthermore, in late 1975 both Taiwan and Korea have benefited from a strong resurgence in their consumer goods exports. In Colombia and in Central America, modest declines in current-account deficits occurred as a result of the combined impact of stronger coffee prices in the second half of last year, and generally slower import growth.

In 1976, a roughly $5-billion decline in the non-OPEC LDCs' current-account deficit is feasible. These countries' imports may grow by only 3%-4%, while exports are expected to register a 10%-12% recovery following a slight decline in 1975. The resulting favorable trend in the merchandise trade balance, however, is likely to be partially offset by a further deepening of the deficit on services, which to a large extent reflects rising interest payments on external debt.

The expected current-account improvement reflects three key factors. First, in contrast to the situation a year ago, policy makers in many of these countries now recognize that lower rates of economic growth, and thus of imports, are unavoidable given the necessity of improving their payments positions. Indeed, some countries have concluded that it is better for such slowdowns to be planned through official adjustment programs than imposed upon them by market forces in an *ad hoc* fashion. Second, the cyclical recovery in the industrialized countries should stimulate a rise in non-OPEC LDC export volume. Third, there is some evidence that their terms of trade are beginning to improve. As shown in the chart, primary commodity prices have bottomed out, while the rise of wholesale manufactures prices in the industrialized countries (i.e., LDCs' import prices) has slowed markedly.

The bulk of the expected improvement this year in the non-OPEC LDC current-account is likely to accrue to a small number of countries, however. About two-fifths of the $5-billion decline may reflect improvements for Argentina and Brazil alone. Argentina may register a 23% increase in exports, the result of higher wheat production, a gradual re-opening of the EEC beef import market, and a recovery of manufactured exports under the stimulus of a more realistic exchange rate policy. The improvement in Brazil's current account will come mainly from import restraint, since export growth is expected to be moderate, and growing interest payments will

not permit a reduction of the services deficit. Another one-half of the current-account improvement for the non-OPEC LDCs is expected to be divided fairly evenly among nine countries (Chile, Colombia, Mexico, Korea, Malaysia, Singapore, India, Pakistan, Egypt, and Turkey). In general, those countries which will have to make the greatest sacrifices in terms of real economic growth and foregone improvements in living standards will be those that have high petroleum import costs relative to GNP, and that are not well situated to benefit from the cyclical upturn in the industrialized countries.

Financing the non-OPEC LDCs

Gross financial requirements of the non-OPEC LDCs will be more than $40 billion in 1976, compared with about $44 billion in 1975. In addition to the current-account deficits, these figures include scheduled external debt amortization estimated at $10 billion in 1975 and $11½ billion this year. In 1973, gross requirements were only $17½ billion — $26½ billion less than in 1975.

As Table 11 shows, this sharp increase in financial needs has been met from a variety of sources. One source was the drawdown of official foreign-exchange holdings. In 1975, reserves dropped by $2½ billion, and at year-end amounted to about $30 billion, less than three months' import cover. In contrast, during 1973 and 1974 gross international reserves of the non-OPEC LDCs had increased by more than $11 billion.

Official sources of financing, from both bilateral and multilateral sources, increased from $15 billion in 1973 to nearly $25 billion in 1975. Within this nearly $10-billion increase, direct bilateral OPEC grants and credits rose by more than $3 billion. However, these flows have been highly concentrated in the Mideast and African regions, mainly among Moslem countries. Flows from the traditional official bilateral and multilateral sources of development finance are generally better distributed: increased flows from these two sources together covered 17% of the increment of gross financial requirements. Drawings from the IMF rose from a negligible $400 million in 1973 — an exceptionally favorable balance-of-payments year for the non-OPEC LDCs — to approximately $2 billion annually during the last two years. More than half of this amount came from the IMF oil facility.

Table 11

Non-OPEC LDC external financing
billions of dollars

	1973	1974	est. 1975	proj. 1976
Gross requirements:				
Current account	—9	—26	—34	—29
Amortization of external debt	—8½	—9	—10	—11½
Total requirements	—17½	—35	—44	—40½
Gross sources:				
Official	15.1	21.2	24¾	28
OECD bilateral	8.5	10.3	11	11½
Communist bilateral	2.1	2.3	2¼	2½
OPEC bilateral	0.9	2.5	4	5
Multilateral development institutions (e.g. IBRD, IADB)	3.2	4.3	5¼	6
IMF drawings	0.4	1.8	2¼	3
International reserve changes[a]	—8.3	—2.8	2½	2½
Private direct investment (net)	3.6	3.6	3½	3½
Commercial credits	10.3	16.5	19½	12
Euro-currency loans	4.6	6.3	8.8	
International bond issues	0.6	0.2	0.3	
U.S. bank credits (net)	1.0	4.8	4½	
Export credits[b]	4.1	5.2	6	
Other[c]	—3.2	—3.5	—6¼	—5½
Memorandum:				
Gross international reserves at year-end	29.5	32.3	29.7	27.2
Reserves as % of imports of following year	27%	28%	23%	19%

a minus sign indicates reserve increase
b includes suppliers credits and credits (other than Euro loans) by non-U S banks
c includes short-term capital outflows plus errors and omissions

About one-third of the increased financial requirements of the non-OPEC LDCs was met by commercial credits, mostly from banks. Gross inflows of such credits rose to $19½ billion in 1975, financing close to 45% of gross financial requirements. Net of repayments, commercial credits were, of course, well below this gross inflow, probably about $14 billion. On a gross basis, close to half of these bank credits came from the Euro-currency market, about one-quarter from the head offices of U.S. banks, and the remainder from banks and suppliers in other countries.

As noted, the gross financial requirements of the non-OPEC LDCs for 1976 are estimated to fall by some $3½ billion, to little more than $40 billion. At the same time, official sources of funds are projected to rise by nearly $3 billion. Of this latter increase, bilateral aid and loans from OPEC countries may climb by perhaps $1 billion. The level of bilateral commitments by OPEC countries has grown substantially over the past two years, so that a further rise in disbursements in the near term can be expected, despite the declining trend in OPEC current-account surpluses. Multilateral development institutions also can be expected to provide a larger amount of credits. A new, but relatively minor, factor here will be the World Bank's "third window" for lending to poorer countries at subsidized interest rates.

The IMF may also prove to be a somewhat more important source of funds in 1976, despite the phasing out of its oil facility. At the turn of the year, two major changes in IMF facilities were agreed upon. The compensatory facility for assisting primary producers experiencing a short-term export shortfall was liberalized, and normal credit tranches relative to quota size were increased temporarily until the increase in quotas themselves takes effect toward the end of next year. Table 12 shows IMF credits potentially available and actually used by the non-OPEC LDCs during the past two years, with some estimates for this year.

As regards *potential* IMF credit availabilities, the decision to increase credit tranches by 45% is clearly the most important, raising the potential to $11 billion from the $7.4 billion that would have been available if the sum of the four credit tranches had remained at 100% of quota. In addition, the compensatory facility was liberalized by increasing the allowable drawings in any one year for a qualifying export shortfall. In view of the declines in exports suffered by a number of non-OPEC LDCs in 1975, the availability of compensatory finance would have been about $600 million before the liberalization; now it may be on the order of $1.4 billion. Thus, funds potentially available to the non-OPEC LDCs from the IMF in 1976 will be $3 billion greater than in 1975.

Actual use of IMF facilities by these countries normally has been

Table 12

IMF resources for non-OPEC developing countries availability and use

billions of dollars

	1974	1975	1976 Old Rules	1976 New Rules
Potentially available:				
Credit tranches	7.9	7.5	7.4	11.0
Compensatory financing facility	nil	nil	.6	1.4
Oil facility	3.9	2.7	.3a	.3a
Trust fund	*	*	*	.5
Total available	**11.8**	**10.2**	**8.3**	**13.2**
Actual and projected use (gross):				
Credit tranches	.75	.49		2.0-2.5 (credit tranches and compensatory financing facility combined)
Compensatory financing facility	.13	.22		
Oil facility	.91	1.50		.2
Trust fund	*	*		.5
Total use	**1.79**	**2.21**		**2.7-3.2**

* credit facility not available in that year
a remainder from 1975 oil facility

low in relation to potential, e.g. about 15% in 1974 and more than 21% in 1975. Gross drawings in 1975 are estimated at about $2.2 billion based on data through November, nearly a one-fourth increase from 1974.

In both years, oil-facility drawings were the predominant feature. In 1974, such drawings were semi-automatic; in 1975, however, somewhat greater conditionality was introduced by imposing requirements similar to those applied to first credit tranche drawings — primarily a letter of intent from national authorities to the IMF outlining the borrowing on a country's economic policies. Drawings on the compensatory facility — which by and large are subject only to the statistical test for qualifying export shortfalls — nearly doubled last year. Particularly heavy use of that facility was made in the fourth quarter, although the share of compensatory drawings accounted for only 10% of the total IMF drawings last year.

In 1976, combined usage of the credit tranches and the compensatory facility is likely to amount to $2-$2.5 billion. The IMF Trust Fund for the poorer countries (financed by the profits from the sales of IMF gold) is expected to be in operation by late in 1976, and could make available an additional $500 million. Some 57 countries having 1973 per capita GNPs of $350 or less would be eligible for drawing on the Trust Fund.

Other sources of finance in 1976 will be private direct investment projected to continue to run at an annual rate of about $3½ billion, and a further rundown of official reserves (estimated this year again at $2½ billion). Accordingly, the total amount of funds available to the non-OPEC LDCs from three major sources — official sources, foreign direct investment, and reserve usage — may amount to $34 billion. Allowing for some short-term capital outflows, included among "other" in Table 11, recourse to gross foreign commercial credit may therefore fall to $12 billion in 1976 from nearly $20 billion in 1975.

There are, of course, several other reasons for expecting a decline in bank lending to the non-OPEC developing countries. Banks' concern with capital adequacy, including lending limit problems, as well as continuing concern over the indebtedness of some developing countries which have been large commercial borrowers in recent years, would at all events lead to this result.

In summary, then, the non-OPEC LDC financing picture in 1976 seems well within the realm of manageability. Assuming the projected gross financial requirement of $40 billion, and given the greater availability of funds from official sources including the IMF as well as some further reserve use, non-OPEC LDC borrowing from commercial sources could decline to a rate well below those of 1975 and 1974. Thus, the share of gross requirements to be financed by foreign banks would drop accordingly, to about 30% this year from 45% last year. Of course, individual countries may still experience financing difficulties, particularly if they have not yet taken adequate adjustment measures. Furthermore, these measures in some cases will imply a heavy burden on living standards.

Statistical appendix

for key to data in charts and tables see October 1975 World Financial Markets

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Information herein is from sources we consider to be reliable but is furnished without responsibility on our part.

New international bond issues

Issuer (Guarantor) (Euro-bond: E; Foreign bond: outside United States—F,O; in United States—F,US)	Country/state of domicile	Amount, millions	Offer date	Coupon rate [a]	Maturity	Offer price	Yield [b]
December 1975							
U.S. companies							
Beneficial Finance International Corp. (Beneficial Finance Corp.) (E) c	Delaware	C$25	17	9¾ a	1982	100	9.52
Foreign companies							
Graenges AB (E)	Sweden	$30	2	9¾ a	1980	100	9.52
First Canadian Investments Ltd. (E)	Canada	C$25	2	10a	1980	100	9.76
Asahi Chemical Industry Co., Ltd. (E) d, e	Japan	$30	2	6¼	1980	100	6.25
Sanko Steamship Co. (Industrial Bank of Japan) (E)	Japan	DM 80	5	8½	1980	99¾	8.58
Y.S. Line (Cayman) Ltd. (Yamashita & Shinnibon Steamship Co., Ltd.; Industrial Bank of Japan) (E)	Cayman Islands	$15	8	9½ a	1980	99¼	9.52
Long Term Credit Bank of Japan (E) f, g	Japan	$15	8	9a	1978	n.a.	n.a.
Banque de Paris et des Pays-bas (E)	France	$25	9	*	1980	100	*
Hudson Bay Mining and Smelting Co., Ltd. (F, US)	Canada	$50	10	10½	1995	100	10.50
Canadian Pacific Securities Ltd. (Canadian Pacific Investments Ltd.) (E)	Canada	C$35	10	9¾ a	1981	100½	9.48
Atlas Copco AB (F, O)	Sweden	SwF 80	15	7¼ a	1990	100	7.61
Polysar Limited (E)	Canada	$30	16	10a	1982	100	9.76
Credit Commercial de France S.A. (E)	France	$25	17	**	1981	100	**
Pechiney Ugine Kuhlman S.A. (E)	France	FF 100	18	10a	1981	100	9.76
Steel Company of Canada Ltd. (F, US) f	Canada	$78.5	18	10¼ a	1995	n.a.	n.a.
Industrial Bank of Japan Ltd. (E)	Japan	$35	18	9¼ a	1980	100	9.05
Mitsubishi Electric Co., Ltd. (E) h	Japan	$30	18	7½	1991	100	7.50
Mitsubishi Kakoki (E) f, i	Japan	$10	n.a.	7¾ a	1988	n.a.	n.a.
Niigata Engineering Co. (F, O) f	Japan	SwF 30	n.a.	8a	1980	99½	7.97
British Columbia Telephone Co. (F, US) f	Canada	$30	n.a.	n.a.	n.a.	n.a.	n.a.
Canadian Acceptance Corp. (F, US) f	Canada	$50	n.a.	10	1990	n.a.	n.a.
State enterprises							
South African Iron and Steel Industrial Corp. (Republic of South Africa) (E)	S. Africa	ECU 30	2	9¼ a	1980	98½	9.43
Sociéte de Developpement Regional (Republic of France) (E)	France	EUA 22	9	9¼ a	1985	100	9.04
A/S Ardal og Sunndal Verk (F, O)	Norway	SwF 60	9	7¾ a	1990	100	7.61
Cie. Française des Petroles (E)	France	$50	16	9a	1981	100	8.81
Ontaro Hydro (Province of Ontario) (E)	Canada	$75	16	9a	1982	99½	8.91
Staatsforetag AB (E)	Sweden	EUA 20	18	9¼ a	1985	99	9.14
South African Railways and Harbours (E) f, j	S. Africa	$50	n.a.	***	1985	n.a.	n.a.
Ontario Hydro (E) f	Canada	$100	n.a.	9¾ a	1982	n.a.	n.a.
Governments							
Province of Manitoba (E)	Canada	EUA 30	1	9¼ a	1985	100	9.04
Kingdom of Denmark (F, O)		SwF 80	2	7¾ a	1990	100	7.61
Kingdom of Norway (E)		DM 100	8	7¾ a	1980	99½	7.73
Province of Newfoundland (E)	Canada	C$30	9	10¼ a	1985	100¼	9.98
Regional Municipality of Ottawa-Carrolton (F, US)	Canada	$20	16	†	1984	100	†
		$30	16	9⅜	1996	99½	
Republic of Ireland (E)		DM 100	22	8¼ a	1980	98½	8.21
Province of Manitoba (E) f	Canada	Fl 100	n.a.	9¼ a	n.a.	n.a.	n.a.
Regional Municipality of Waterloo (F, US) f	Canada	$10.5	n.a.	n.a.	1995	n.a.	n.a.
Regional Municipality of Hamilton-Wentworth (F, US) f	Canada	$9	n.a.	10½	1990	n.a.	n.a.
Newfoundland Municipal Finance Corp. (F, US) f	Canada	$25	n.a.	10⅞	1995	n.a.	n.a.

New international bond issues

Issuer (Guarantor) (Euro-bond: E; Foreign bond: outside United States—F, O; in United States—F, US)	Country/state of domicile	Amount, millions	Offer date	Coupon rate [a]	Maturity	Offer price	Yield [b]
December 1975—continued							
International organizations							
International Bank for Reconstruction and Development (F, O)		DM 250	2	8a	1982	99½	7.94
European Investment Bank (E)		$50	2	9a	1982	99	9.01
International Bank for Reconstruction and Development (F, US)		$250	10	8.35	1980	100	8.35
		$250	10	8.85	1985	100	8.85
		$250	10	9.35	2000	100	9.35
European Coal and Steel Community (F, US)		$125	17	8⅜	1980	100	8.38
European Investment Bank (E)		$20	19	9a	1981	99¾	8.83
European Coal and Steel Community (F, O)		DM 150	22	8a	1982	99	8.03
International Bank for Reconstruction and Development (F, O) f		SwF 200	n.a.	7½a	1980	n.a.	n.a.
European Coal and Steel Community (F, O) f		DM 60	n.a.	8a	1980	n.a.	n.a.

a Coupon interest is payable semiannually, unless followed by an "a" which indicates an annual coupon.

b Where coupon interest is payable annually, payment is discounted semiannually for comparability in computation of yield.

c Bond holder has option to redeem bonds in 1979.

d Bond holder has option to redeem bonds in 1980 at 112%.

e Convertible into the common stock of the company after Apr. 1, 1976. Conversion price premium over closing price of stock on day preceding offer as 7.84%.

f Private placement

g Certificates of deposit

h Convertible into the common stock of the company after Apr. 1, 1976. Conversion price premium over closing price of stock on day preceding offer was 6.42%.

i Convertible debt.

j Bond holder has option to redeem bonds in 1978.

* Interest is payable at ¼% over six-months Euro-dollar interbank rate. Minimum interest is 7¼% p.a.

** Interest is payable at ¼% over six-months Euro-dollar interbank rate. Minimum interest is 7½% p.a.

*** Interest is payable at 1¾% over six-months Euro-dollar interbank rate.

† Varying interest and maturities ranging from 7½% to 8%, and 1977 to 1984.

Euro-currency bank credit facilities

publicly-announced in period, in millions of dollars

	1972	1973	1974	1975 QI	QII	QIII	QIV	Year
Developed countries	**4 088**	**13 748**	**20 859**	**1 407**	**1 423**	**1 981**	**1 949**	**6 760**
France	176	50	3 224	395	50	124	165	734
Greece	270	510	419	—	19	220	—	239
Italy	928	4 762	2 322	—	—	50	45	95
Spain	136	479	1 151	121	510	309	320	1 260
United Kingdom	689	3 150	5 655	51	44	15	8	118
United States	865	1 649	2 221	128	386	143	88	745
Othera	1 024	3 148	5 867	712	414	1 120	1 323	3 569
Developing countries	**2 495**	**7 323**	**7 178**	**1 540**	**3 014**	**4 094**	**3 213**	**11 861**
Non-OPEC countries	1 562	4 597	6 331	1 400	2 242	2 924	2 274	8 840
Brazil	579	740	1 672	446	521	795	845	2 607
Mexico	197	1 588	948	294	535	790	650	2 269
Peru	139	434	443	50	200	24	100	374
Philippines	50	187	844	75	60	68	135	338
South Korea	100	205	134	266	76	—	—	342
Otherb	497	1 443	2 290	269	850	1 247	544	2 910
OPEC countries	933	2 726	847	140	772	1 170	939	3 021
Algeria	172	1 302	—	—	100	400	—	500
Indonesia	93	167	469	80	665	—	531	1 276
Iran	335	722	115	5	—	240	70	315
Other	333	535	263	55	7	530	338	930
Socialist countries	**274**	**780**	**1 238**	**169**	**817**	**631**	**808**	**2 425**
Poland	—	430	509	10	340	80	50	480
U.S.S.R.	—	—	100	—	250	—	400	650
Otherc	274	350	647	159	227	551	358	1 295
TOTAL	**6 857**	**21 851**	**29 275**	**3 116**	**5 254**	**6 706**	**5 970**	**21 046**

a includes multi-national organizations, *b* includes regional development organizations, *c* includes COMECON institutions, *p* preliminary

New international bond issues

new issues in period, in millions of dollars

				1975			Jan	
	1973	1974	1975	Oct r	Nov r	Dec r	1976p	1975
Euro-bonds, total	**4 193**	**2 134**	**8 580**	**637**	**411**	**991**	**1 248**	**559**
by category of borrower								
U.S. companies	874	110	268	19	40	25	—	—
Foreign companies	1 309	640	2 884	234	187	357	501	146
State enterprises	947	542	3 211	220	49	361	312	169
Governments	659	482	1 625	134	116	178	223	186
International organizations	404	360	592	30	19	70	212	58
by currency of denomination								
U.S. dollar	2 447	996	3 733	335	220	590	800	110
German mark	1 025	344	2 234	—	19	107	133	323
Dutch guilder	194	381	765	28	60	37	37	84
Canadian dollar	—	60	582	151	64	114	208	—
Unit of account	99	174	363	75	—	84	23	18
French franc	166	—	293	41	34	22	23	—
Other	262	179	610	7	14	37	24	24
Foreign bonds outside the United States, total	**2 626**	**1 432**	**3 998**	**243**	**372**	**346**	**101**	**264**
U.S. companies	546	77	42	—	19	—	—	—
Foreign companies	396	455	1 274	—	93	42	—	153
State enterprises	446	568	936	89	126	23	101	39
Governments	297	138	708	33	38	30	—	63
International organizations	941	194	1 038	121	96	251	—	9
by currency of denomination								
German mark	362	253	1 064	—	58	193	—	131
Swiss franc	1 526	911	2 591	147	314	153	73	113
Dutch guilder	—	4	137	29	—	—	28	—
Other	738	264	206	67	—	—	—	20
Foreign bonds in the United States, total	**960**	**3 266**	**6 219**	**149**	**1 003**	**1 153**	**657**	**410**
by category of borrower								
Canadian entities	865	1 962	2 936	122	630	303	307	310
International organizations	—	610	1 875	—	75	850	250	100
Other	95	694	1 408	29	298	—	100	—
International bonds, total of which issued by:	**7 779**	**6 832**	**18 797**	**1 029**	**1 786**	**2 490**	**2 006**	**1 233**
Developed countries	5 739	5 065	14 574	849	1 578	1 319	1 434	1 066
Developing countries	695	603	718	27	18	—	110	—
International organizations	1 345	1 164	3 505	151	190	1 171	462	167

r revised *p preliminary*

International bond yields

long-term issues, at or near end of month

	1972	1973	1974	1975							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
U.S. companies:											
U.S. dollar	7.49	8.30	9.35	8.62	8.62	8.52	8.68	9.28	8.80	8.70	8.52
German mark	7.01	9.18	9.33	8.42	8.30	8.42	8.07	8.34	8.10	8.03	7.99
Swiss franc	5.89	6.90	8.00	7.19	7.06	7.15	7.14	7.15	6.92	6.90	6.72
European companies:											
U.S. dollar	7.69	8.56	11.23	9.64	9.84	9.76	9.92	10.33	10.01	9.83	9.62
German mark	7.19	9.18	9.93	8.93	8.89	9.09	8.93	9.14	8.99	8.77	8.77
Governments:											
U.S. dollar	7.65	8.69	10.08	9.13	9.16	9.17	9.39	9.59	9.67	9.46	9.30

Central bank discount rates

	1972	1973	1974	1975				current	
	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	end Dec	Jan 19 1976	effective since
United States	4.50	7.50	7.75	6.25	6.00	6.00	6.00	5.50	Jan 19, 76
Canada	4.75	7.25	8.75	8.25	8.25	9.00	9 00	9 00	Sep 3, 75
Japan	4.25	9.00	9.00	9 00	8.00	7.50	6 50	6.50	Oct 24, 75
United Kingdom	9.00	13 00	11.50	10.00	10.00	11.00	11.25	10.75	Jan 16, 76
Belgium	5.00	7.75	8.75	7.50	6.50	6.00	6 00	6.00	Aug 21, 75
France	7.50	11.00	13.00	11.00	9.50	8.00	8.00	8.00	Sep 5, 75
Germany	4.50	7.00	6.00	5.00	4.50	3.50	3.50	3 50	Sep 12, 75
Italy	4.00	6.50	8.00	8.00	7.00	6.00	6 00	6.00	Sep 15, 75
Netherlands	4.00	8.00	7.00	6.00	6.00	4.50	4.50	4 50	Sep 15, 75
Denmark	7.00	9.00	10.00	9.00	8.00	7.50	7.50	7 50	Aug 18, 75
Norway	4.50	4.50	5.50	5.50	5.50	5.50	5.00	5.00	Oct 7, 75
Spain	5.00	6.00	7.00	7.00	7.00	7.00	7.00	7.00	Aug 10, 74
Sweden	5.00	5.00	7.00	7.00	7.00	6.00	6 00	6.00	Aug 22, 75
Switzerland	3.75	4.50	5.50	5.00	4.50	3.50	3.00	2.50	Jan 13, 76
Brazil	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	Feb, 72
Mexico	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	
Philippines	10.00	10.00	6 00	6.00	6.00	6.00	6.00	6.00	Dec 12, 74
Singapore	—	—	—	6.00	4.00	4.00	4 00	4.00	Jul 15, 75
South Africa	6.00	5.50	8.00	8.00	8.00	8.50	8 50	8.50	Aug 11, 75
Venezuela	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct, 70

Day-to-day money rates

monthly averages

	1972	1973	1974	1975							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	5.33	9.95	8.53	5.22	5.55	6.10	6.14	6.24	5.82	5.22	5.20
Canada	3.71	6.57	7.38	6.92	6.88	7.19	7.42	7.85	7.95	8.55	8.74
Japan	4.46	10.20	13.23	10.81	10.47	10.75	10.44	9.43	8 48	7.36	7.73
Australia	4.12	6.21	7.28	7.00	6.75	6.66	7.87	7.60	6.95	7.12	7.17
United Kingdom	6.75	11.00	9.34	8.63	7.75	8.70	9.50	9.88	10.81	11.16	10.44
Belgium	3.75	7.38	9.05	4.88	4.44	4.98	5.27	4.37	4.58	4 00	3.97
France	7.32	11.52	11.87	7.60	7.32	7.28	7.18	6.92	6.68	6.74	6.45
Germany	6.75	11.75	8.35	5.45	4.95	4.25	2.00	4.28	3.32	3.32	4.05
Italy	5.88	7.88	17.20	10.14	9.43	9.45	9.78	8.40	7.66	7.38	7.38
Netherlands	3.20	8.75	6.96	1.82	1.54	1.61	1.46	1.07	4.63	4.19	4.39
Spain	n.i.	11.75	5.63	6.08	5.56	5.93	6.16	6.61	6.96	8.02	n.a.
Sweden	3.34	3.83	8.93	8.56	9.00	8.17	7.20	7.08	7.49	5.30	5.24
Switzerland	4.00	7.50	5.00	2.50	1.25	3.00	0.75	1.50	1.25	1.00	1.00
Brazil	15.36	13.54	12.00	12.00	15.02	14.40	13.75	14.76	20.16	21.00	16.68
Mexico	9 00	9.00	9.00	9.00	9 00	9.00	9.00	9.00	9.00	9.00	9.00
Philippines	9.38	13.38	16.53	8.03	8.47	12 99	12.96	13.26	14.15	12.52	15.14
Singapore	3.60	9.34	8.13	5.04	3.84	3.02	3.40	3.90	3.48	3.95	4.00
South Africa	4.39	2.93	5.85	5.53	5.48	5.55	6.15	6 38	6 62	6.68	6.75
Euro-dollars	5.14	9.91	8.35	5.40	5.36	5.98	6.06	6.19	5 82	5.54	5.35

Treasury bill rates

bond-equivalent yields, at or near end of month

	1972	1973	1974	1975							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	5.21	7.54	7.28	5.29	5.92	6.30	6.52	6.94	5.59	5.64	5.27
Canada	3.65	6.32	7.05	6.87	6.99	7.44	7.87	8.46	8.16	8.52	8.64
Japan	4.15	5.80	6.83	6.31	6.31	6.31	6.06	5.68	5.68	5.68	5.68
Australia	3.85	7.35	7.81	7.81	7.31	7.31	7.19	7.19	7.19	7.19	7.19
United Kingdom	8.48	12.82	11.44	9.81	9.85	10.71	10.66	11.79	11.74	11.30	10.78
Belgium	4.80	7.65	10.50	6.60	6.00	6.25	6.05	6.05	6.05	6.05	6.05
Germany	4.30	7.12	5.19	3.40	3.40	3.40	3.40	n.i.	n.i.	n.i.	n.i.
Netherlands	4.25	10.00	7.50	3.38	3.50	2.00	2.75	3.75	4.50	4.75	5.00
Sweden	2.77	2.52	8.95	8.45	8.45	8.45	6.36	6.35	5.83	4.81	4.81
Brazil	15.36	14.75	18.35	17.21	17.21	16.44	17.37	18.73	20.59	24.16	25.10
Philippines	12.29	9.66	10.31	10.42	10.20	10.28	11.84	10.88	9.46	9.51	9.62
Singapore	3.75	3.68	4.48	3.70	3.71	3.27	3.17	3.40	3.39	3.39	3.36
South Africa	4.42	3.21	6.16	5.78	5.71	5.63	6.51	6.75	6.96	6.96	7.05

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3–4 month) money market instruments, other than Treasury bills, at or near end of month

	1972	1973	1974	1975							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	5.65	9.47	9.60	5.45	6.35	6.48	6.83	6.96	6.05	5.91	5.91
Canada	5.31	10.52	10.52	7.51	7.51	7.77	8.82	9.47	9.08	9.73	9.86
Japan	4.88	12.00	13.50	11.00	11.00	11.00	10.50	9.50	8.00	7.50	8.00
Australia	4.75	9.00	12.50	10.00	10.00	9.75	9.25	8.75	8.75	8.50	8.50
United Kingdom	8.94	15.94	12.75	9.81	9.56	10.38	10.38	10.56	11.63	11.19	10.69
Belgium	4.85	7.95	11.00	6.75	6.25	6.50	6.20	6.20	6.20	6.20	6.20
France	8.00	11.50	11.50	7.25	7.25	7.13	7.00	6.88	6.88	6.88	6.50
Germany	7.75	12.75	8.30	4.80	5.00	4.30	4.10	4.00	4.10	4.10	4.20
Italy	6.25	8.50	17.50	10.00	10.25	11.00	9.75	8.50	8.00	8.00	7.88
Netherlands	4.75	14.00	8.38	3.63	3.63	3.50	3.50	4.25	5.25	5.38	5.63
Spain	n.i.	n.i.	8.75	8.85	9.99	10.14	10.27	10.17	10.57	11.15	n.a.
Brazil	22.16	18.85	26.89	25.53	26.21	26.89	26.33	26.62	26.35	28.96	28.96
Philippines	n.a.	n.a.	18.52	13.33	14.72	13.65	14.51	15.43	16.57	16.38	16.06
Singapore	5.88	8.25	9.19	5.19	4.19	3.56	3.88	4.50	4.38	4.50	4.56
South Africa	5.47	7.33	11.31	8.54	6.96	6.87	8.95	9.21	8.48	8.37	8.68

Euro-dollar deposit rates

prime banks' bid rates in London, at or near end of month

	1972	1973	1974	1975							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
overnight	4.50	9.75	8.00	5.25	6.00	5.79	6.13	6.44	5.63	5.20	5.13
7-day fixed	5.13	9.50	9.38	5.38	6.19	6.06	6.44	6.55	5.81	5.38	5.19
one month	5.69	10.06	9.75	6.00	6.25	6.31	6.63	6.94	6.31	6.63	5.38
three months	5.88	10.13	10.19	6.00	6.63	6.94	7.31	7.88	6.81	7.00	5.81
six months	6.19	10.13	10.19	7.00	7.31	7.94	8.31	8.69	7.13	7.69	6.63
twelve months	6.38	9.56	9.75	8.00	7.75	8.38	8.69	8.81	8.06	8.06	7.19

Commercial bank deposit rates

at or near end of month

	1972	1973	1974	1975							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	5.63	9.25	9.25	5.38	6.25	6.75	7.00	7.13	6.38	6.25	5.50
Canada	5.13	8.50	9.25	7.00	7.20	7.50	8.00	8.75	8.75	8.75	8.75
Japan	3.75	4.25	5.50	5.50	5.50	5.50	5.50	5.50	5.50	4.50	4.50
Australia	3.90	9.00	8.50	9.00	8.75	8.50	8.50	8.25	7.50	7.50	7.25
United Kingdom	8.81	15.25	12.25	9.81	9.69	10.38	10.38	11.31	11.50	11.19	10.50
Belgium	5.75	10.25	11.55	6.50	6.00	6.25	5.88	6.13	6.25	6.38	6.13
France	6.75	10.00	11.00	7.75	7.75	7.75	7.75	7.50	7.50	7.50	7.00
Germany	7.25	11.50	8.00	4.50	4.50	4.00	4.00	3.50	4.00	4.50	4.20
Italy	4.00	4.00	14.50	11.00	9.00	9.00	9.50	8.50	9.00	9.00	9.00
Netherlands	4.75	13.75	8.50	3.75	4.00	3.38	3.75	4.50	5.38	5.50	5.63
Denmark	6.00	8.00	9.00	7.00	7.00	7.00	6.50	6.50	6.50	6.50	6.50
Norway	3.00	3.00	3.50	3.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Spain	2.50	3.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Sweden	4.75	4.75	6.75	6.75	6.75	6.75	5.75	5.75	5.75	5.75	5.75
Switzerland	4.00	5.50	6.00	3.50	3.00	3.00	2.50	2.50	2.50	2.50	2.50
Brazil	n.a.	24.00	27.00	27.00	29.00	29.00	29.00	29.00	29.00	32.00	32.63
Mexico	n.a.	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Philippines	6.50	6.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Singapore	5.00	6.50	7.50	5.25	4.62	3.94	4.00	4.50	4.25	4.38	4.69
South Africa	5.25	5.50	8.00	8.00	8.00	7.00	7.00	7.00	7.50	7.50	7.50
Venezuela	7.00	7.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Euro-dollars	5.88	10.13	10.19	6.00	6.63	6.94	7.31	7.88	6.81	7.00	5.81

Commercial bank lending rates to prime borrowers

at or near end of month

	1972	1973	1974	1975							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	5.75	9.75	10.25	7.25	7.00	7.50	7.75	8.00	7.75	7.25	7.25
Canada	6.00	9.50	11.00	9.00	9.00	9.00	9.00	9.75	9.75	9.75	9.75
Japan	6.33	7.91	9.55	9.42	9.20	9.11	9.03	8.92	8.78	8.64	8.45
Australia	7.25	9.00	11.75	11.75	11.75	11.75	11.75	11.75	11.75	11.75	11.75
United Kingdom	8.50	14.00	13.00	10.50	10.50	10.50	11.00	11.00	12.00	12.00	12.00
Belgium	6.25	10.00	13.00	9.00	9.00	9.00	8.50	8.50	8.50	8.50	8.50
France	9.15	12.45	14.45	12.35	11.85	11.85	11.85	10.85	10.85	10.85	10.85
Germany	8.50	14.00	11.00	8.50	8.25	8.25	7.50	7.00	7.00	7.00	7.00
Italy	7.00	9.50	19.50	15.00	14.00	14.00	14.00	12.00	12.00	11.00	11.00
Netherlands	6.00	11.00	10.50	8.50	8.50	8.50	8.00	7.00	7.00	7.00	7.00
Denmark	9.00	11.00	13.00	11.00	11.00	11.00	11.00	10.50	10.50	10.50	10.50
Norway	7.50	7.50	7.83	7.83	8.33	8.33	8.33	8.33	8.33	8.33	8.33
Spain	7.00	8.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Sweden	7.75	7.75	10.00	10.00	10.00	10.00	9.00	9.00	9.00	9.00	9.00
Switzerland	7.00	7.25	8.50	8.50	8.50	8.50	8.25	8.25	8.00	7.75	7.50
Brazil	18.20	16.80	16.80	16.80	16.80	16.80	16.80	16.80	16.80	16.80	16.80
Mexico	12.50	13.50	14.00	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Philippines	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	7.50	9.00	10.25	8.00	8.00	7.25	7.00	7.00	6.95	6.95	7.08
South Africa	8.50	8.00	10.50	10.50	10.50	11.00	11.50	11.50	11.50	12.00	12.00
Venezuela	10.00	10.00	10.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Euro-dollars	6.63	10.75	11.32	7.13	7.75	8.07	8.44	9.00	7.94	8.13	6.94

Domestic government bond yields

long-term issues, at or near end of month

	1972	1973	1974	1975							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	5.95	7.35	8.13	8.33	8.12	8.35	8.41	8.52	8.15	8.30	8.05
Canada	7.12	7.71	8.64	8.71	8.88	9.34	9.39	9.87	9.35	9.58	9.49
Japan	6.39	7.79	9.98	9.30	9.42	9.36	9.49	9.39	9.36	n.a.	9.01
Australia	6.00	8.50	9.50	9.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00
United Kingdom	9.75	11.39	16.27	13.70	13.84	13.00	12.67	13.21	13.96	14.03	13.71
Belgium	7.21	7.79	8.79	8.09	7.94	8.21	8.21	8.41	8.28	8.53	8.12
France	8.03	9.29	11.21	10.31	10.21	10.20	10.03	10.10	10.15	10.19	10.18
Germany	8.48	9.49	9.73	8.41	8.48	8.63	8.92	8.82	8.86	8.82	8.73
Italy	7.57	7.60	12.65	11.42	11.23	11.50	11.43	11.51	11.55	11.46	11.37
Netherlands	7.50	9.01	9.09	8.54	8.33	8.75	8.94	8.83	8.97	8.87	8.61
Denmark	10.73	12.70	14.36	12.30	11.92	12.03	12.48	11.90	12.14	12.39	12.57
Norway	6.13	6.20	7.26	7.30	7.25	7.27	7.28	7.30	7.28	7.28	7.29
Sweden	7.34	7.37	8.17	9.00	9.04	9.05	9.08	9.11	9.13	n.a.	n.a.
Switzerland	5.25	6.31	7.17	6.83	6.47	6.45	6.32	6.17	6.08	6.00	5.81
Brazil	22.00	19.44	38.69	49.87	49.97	51.98	38.47	37.57	38.67	33.01	33.30
Philippines	n.a.	n.a.	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Venezuela	8.14	8.09	7.70	7.65	7.56	7.46	7.33	7.31	7.14	7.04	n.a.

Domestic corporate bond yields

long-term issues, at or near end of month

	1972	1973	1974	1975							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	7.15	7.75	9.25	9.10	8.75	8.95	9.20	9.30	8.65	9.00	8.55
Canada	8.15	8.81	10.72	10.67	10.57	10.93	10.94	11.40	11.15	11.15	11.12
Japan	6.75	10.73	11.82	9.19	9.10	9.64	9.55	9.64	9.65	9.64	9.39
Australia	8.00	10.25	13.50	13.50	13.75	13.75	13.50	13.50	13.25	13.25	12.50
United Kingdom	10.40	13.56	19.50	16.05	15.98	15.47	15.44	15.29	16.08	16.01	14.90
Belgium	7.74	8.39	11.00	9.83	9.84	9.94	9.94	9.98	10.38	10.24	10.24
France	8.30	9.81	11.90	11.02	10.93	10.87	10.83	10.79	10.76	10.82	10.85
Germany	8.58	10.33	10.09	8.59	8.52	8.87	8.93	9.01	9.06	8.80	8.63
Italy	8.67	8.58	14.41	11.89	16.18	n.a.	11.42	11.60	11.81	11.96	11.94
Netherlands	7.63	9.64	9.55	8.24	7.84	8.54	8.67	8.97	8.92	8.66	8.52
Norway	6.29	6.30	7.56	7.79	7.71	7.74	7.78	7.67	7.77	7.77	7.73
Spain	8.33	9.04	11.64	11.96	11.29	11.39	11.59	11.51	11.10	11.09	n.a.
Sweden	7.28	7.26	8.05	9.06	9.08	9.10	9.13	9.13	9.15	9.17	9.14
Switzerland	5.47	6.55	7.95	7.62	7.52	7.29	7.28	7.36	7.36	7.26	7.08
Mexico	11.22	n.a.	14.73	12.56	12.81	12.77	12.59	13.33	12.68	12.68	13.02
Venezuela	10.13	10.09	10.61	10.36	10.33	10.38	10.08	10.05	10.16	10.25	10.18

Representative REUSS. Mr. Galenson.

STATEMENT OF WALTER GALENSON, PROFESSOR OF ECONOMICS, CORNELL UNIVERSITY

Mr. GALENSON. Mr. Chairman, the prepared statement that I prepared for the committee which deals with unemployment in Western Europe and Japan makes two basic points: First, the official unemployment statistics for most of Western Europe that I set out in my prepared statement, and for Japan as well, cannot be compared meaningfully with those for the United States.

This is quite apart from the adjustment for different concepts and methods of measuring employment and unemployment. The Department of Labor has in fact made adjustments for such differences in concept. It presents them in the Monthly Labor Review occasionally.

Second, what makes the comparisons difficult is the fact that policies and the institutions that have been established to handle unemployment in other countries differ greatly from those of the United States. A large number of people who would be included among the unemployed in the United States do not enter into the unemployment category in other nations.

The prepared statement includes a review of these policies and institutions. Let me begin with this second point first. Using Japan, Germany, France, Great Britain, Italy, and Sweden as the basis of our comparison, it is clear that the United States is much more prone than any of the others to use what might be termed a pure market solution to handle unemployment.

By this I mean that firms simply dump their redundant employees on the labor market and that those laid off are supported by unemployment compensation until they are called back or find other jobs.

We have had some manpower employment programs over the years but these have been relatively small. All the countries in my sample have some form of unemployment compensation, of course, but they use a variety of other measures as well.

The emphasis in many of them appears to be on measures that make it possible for business enterprises to retain on their payrolls employees for whom they have no immediate need. These measures are intended to be temporary, though continuing depression has tended to stretch the time duration in some cases.

No. 1, direct payroll subsidy schemes have been employed extensively in Japan and Great Britain. Beginning January 1, 1975, hard hit Japanese employers have been eligible for wage subsidies equal to half of 90 percent of the compensation of employees who are clearly redundant, or whom they determine to be redundant. These employees may or may not show up for work but they are not counted as unemployed.

I might add at this point that Japanese employers have been imaginative in using some of these people. Hitachi, a large concern that manufactures tractors, among other things, has sent some of these people around the country to consult with the owners of their tractors to inspect them and to discuss their operation with the farmers and with the other people who are driving them, the idea being to create good will among the consumers.

This has worked very well. There have been other schemes of this kind to try to use people who could not be used for direct production. Government loans in the form of payroll subsidies have been provided in Great Britain since August, 1975 for similar purposes up to a maximum of about $20 a week per employee.

No. 2, there has been a good deal of work sharing in Western Europe with the Government making up the wage deficit of employees on short time. This has been a common practice in France and in Italy.

Indeed a good proportion of Italian industrial employees during the past year, 1975, have been on some sort of short-time employment.

No. 3, there have been many forms of indirect subsidies through credit guarantees and special contracts that have constituted another approach used in Japan and also very extensively in France.

No. 4, on some occasions, large injections of capital have been given to firms, particularly in Great Britain, to keep them from going under. This is largely for employment considerations. The outstanding cases there are British Leyland and Chrysler, but these are not the only cases. These two large automobile concerns going under would have meant 125,000 jobs lost and the British Government could not afford that.

I might also point out that recorded unemployment would have been much higher in Germany and France if there had not been a substantial pool of so-called guest workers, migrant laborers from outside the Common Market, who were available to cushion the shock. Some of these people were induced to return to their home countries by golden handshakes, while others were forced to leave by withdrawal of their working permits.

The only country in my sample that has used a well formed panoply of measures thought out in advance to avoid unemployment is Sweden. It is no surprise that this Nation has the lowest rate of unemployment in the survey. These measures include counter cyclical investment funds, which are very well known and have been operating for a long time; Government subsidies, fairly large, for environmental improvement; foreign inventory accumulation, for energy expansion; and the more traditional expanded public works programs. Sweden is one of the few countries that has resorted to direct public service jobs. This has not been a major method of attempting to cushion the unemployment shock in these countries.

Reverting to my first basic point, I have made some extremely rough and ready estimates of what unemployment might have been in these countries if American practices had been used.

If they had simply followed the policy of firing people for whom there was no immediate need and putting them on unemployment compensation, and also if the migrant workers could not have been shipped out in Germany and France.

Japan's unemployment rates for 1974 and 1975 were under 2 percent according to the official statistics. They should in fact be raised to somewhere between 3½ percent and 5 percent. At the present time, as many as 3 million employees in Japan are without a job. The Ministry of Trade and Industry estimates that another 3 million may be redundant, which would imply an unemployment rate in the vicinity of 11 percent for Japan.

The German unemployment rate for the first quarter of 1975 would have risen from 3 percent to 5 percent, while the British rate of 3½ percent for the same period might well have exceeded our rate of 8.4 percent.

It is also very doubtful whether the Italian unemployment rate, regardless of the statistics, has really been lower than ours during 1975. It is difficult to make any judgment for France except to say that the French have had long practice with concentrating unemployment on foreign workers. This was done on a substantial scale in the 1930's during the Great Depression.

The conclusion that one might draw from looking around the world depends in large measure on one's economic preconceptions. Many Americans would tend to regard the European and Japanese schemes as unwarranted and inefficient interventions in the labor market.

Others perhaps, who are less addicted to pure market solutions, might be prepared to look with greater interest at the various alternatives that other free enterprise economies have adopted. I do not think that anyone will be prepared to question the fact that West Germany and Japan are free market economies.

For myself, I can see considerable virtue in a firm's preserving intact, skilled, loyal manpower during cyclical downswings rather than risk the loss of good people by putting them on the dole. There is almost always something they can do if the financial resources can be found.

I have not gone into the administrative problems, but they have proved to be by no means insurmountable, no more so, I would say, than the proper administration of an unemployment compensation system.

Indeed, it strikes me that solutions of this nature make more sense than simply putting people in ad hoc public service jobs which are not likely to be very productive in any event, or than just detaching them from their firms and supporting them out of a central unemployment compensation pool.

It may be too late in the business cycle for us to consider such measures. Let us hope so. I submit that if it is not, we might do well to consider a variant of some of these plans as alternatives to layoffs. This also as pertains to those who exhaust their unemployment benefits and have to go on welfare.

For the future, it might be well to plan early for the next bout of unemployment rather than resorting to ad hoc measures that are costly, and in my opinion, less effective.

Thank you, Mr. Chairman.

Representative REUSS. I was following every word you spoke. Were the last words you spoke in your prepared statement?

Mr. GALENSON. No. The oral statement differs a bit from the prepared statement I submitted.

[The prepared statement of Mr. Galenson follows:]

PREPARED STATEMENT OF WALTER GALENSON

UNEMPLOYMENT IN WESTERN EUROPE AND JAPAN

Recent rates of unemployment for the major industrial nations of the West are shown in Tables 1 and 2. For higher rates, one must go back to the 1930s.

Surprisingly little attention has been devoted to the diverse ways in which various countries have attempted to handle the problem in the short run. The purpose of this paper is to describe the manner in which nations have attempted to mitigate the severity of the unemployment burden placed upon the individual worker. What is particularly interesting is that unlike the 1930s, when the problem was generally met simply by laying workers off, a number of new institutional devices have now come into operation. The nature of changing attitudes toward the problem is scarcely appreciated.

The precise means chosen to alleviate unemployment depend upon a number of circumstances: the power and influence of trade unions. the prevailing view of the extent to which the government should involve itself in the labor market, the political consequences of adopting one or another program, among others. It is difficult to discern any simple cause and effect relationships that have determined the nature of the solution. It would be necessary to dig deeply into the political and economic history of each nation in order to make solid judgments. All that can be attempted here is a very brief analysis so that the variety of alternatives can be appreciated.

TABLE 1.—PERCENT OF UNEMPLOYMENT, MAJOR DEVELOPED MARKET ECONOMIES, 1970–74

[Adjusted to U.S. concepts]

	1970	1971	1972	1973	1974 [1]
France	2.5	2.8	2.8	2.7	3.1
Germany	.5	.7	.9	1.0	2.1
Italy	3.5	3.5	4.0	3.8	3.1
Japan	1.2	1.3	1.4	1.3	1.4
Sweden	1.5	2.6	2.7	2.5	2.0
United Kingdom	3.1	3.8	4.3	3.0	3.0
United States	4.9	5.9	5.6	4.9	5.6

[1] The unadjusted rates for 1974 are as follows:

France	2.1
Germany	2.6
Italy	2.9
Japan	1.4
Sweden	2.0
United Kingdom	2.6

Source: OECD, Main Economic Indicators.

Source: Joyanna Moy and Constance Sorrentino, "Unemployment in Nine Industrial Nations," Monthly Labor Review, June 1975, p. 12.

TABLE 2.—PERCENT OF UNEMPLOYMENT, MAJOR DEVELOPED MARKET ECONOMIES, 1975

[As published by each nation]

	1st quarter	2d quarter	3d quarter	October
France	(1)(2)	(1)	(1)	(1)
Germany	[2] 5.0	4.5	4.5	4.6
Italy	[2] 3.1	3.4	3.3	(1)
Japan	1.8	1.8	(1)	(1)
Sweden	[2] 1.8	1.5	1.5	1.7
United Kingdom	[2] 3.1	3.7	4.3	4.7
United States	8.4	8.9	8.4	8.6

[1] Not available.

[2] These rates, adjusted to U.S. concepts, are as follows:

France	4.6
Germany	3.0
Italy	3.1
Sweden	1.6
United Kingdom	3.5

Source: Monthly Labor Review, June 1975, p. 10.

Source: OECD, Main Economic Indicators, December 1975.

All of the nations included in this survey are committed to the maintenance of high levels of employment. Nevertheless, all found themselves in difficulty as depression spread across international lines. All have systems of unemployment compensation as the first line of defense. None, however, has been as prone as the

United States to use the traditional mechanism of layoff and uemployment compensation as the principal means of handling the problem. This institutional diversity makes it necessary to use great caution in comparing unemployment rates internationally, as we shall see.

JAPAN

We start with Japan, which in many ways is at the opposite end of the spectrum from the United States. Despite the reputation that this nation has of being a free market economy, the labor market is very far from conforming to orthodox free market tenets.

Japan is famous for its so-called "permanent commitment" in employment. This is usually interpreted as meaning that once an employee, white- or blue-collar, achieves regular employment status with a firm, he is guaranteed full employment with the same firm for the duration of his working life, regardless of his performance or the firm's need for his services.

In fact, the system does not work quite that way. Apart from the civil service, it is limited primarily to large and medium size enterprises. There are no precise estimates of the number of employees who are covered by the employment guarantee, but it is probably substantially less than half of all employees.

Even for the large firms, however, there is no universal guarantee. Female employees are generally excluded from the system entirely. Several categories of male employees, even in the largest firms, are not covered by the guarantee. These include temporary employees who are taken on for specific, relatively short periods of time; they may be doing the same work as regular employees, but they are not eligible to be members of the union and they are not entitled to permanent work. One estimate puts the number of these employees at around 5 percent of total employment in large firms, but this is probably a substantial underestimate.

Then, a good deal of work is subcontracted by large firms. In many cases, the subcontractors work exclusively for a single large company, but their employees are not covered by the employment guarantee. There is no good estimate of the number of persons who fall into this category.

The first time the system was tested was during the recession of 1971. A number of large firms in the electrical machinery, textile, and chemical industries laid workers off, but they guaranteed them between 80 and 100 percent of their wages during the layoff period. On the whole, however, the system withstood the shock of recession very well.

A more severe test has been provided by the current depression, and the outcome is not yet clear. Individual companies have been forced to make compromises. For example, the Toyo Spinning Company, one of the largest textile firms in Japan, announced in October, 1974, that it would encourage employees to resign voluntarily, hoping thus to achieve a 15 percent reduction in its labor force. Kanebo, another major textile manufacturer, closed five plants for six months, transferring 1650 employees to other plants not producing textiles. Yunichika closed three of its plants and reduced operations in six others; it hoped to recruit about 1,000 voluntary retirees while temporarily laying off another 3,000 persons. Mitsubishi Electric inaugurated a six-day layoff for 5,000 employees. Some of the largest electrical appliance manufacturers—Hitachi, Toshiba, and Fuji, all closed many of their plants for several days in January, 1975, affecting 70,000 employees.

A number of firms have inaugurated salary cuts for managerial staff, nonrenewal of employment contracts for short-term workers, and large-scale work reassignment within the firm. One measure that has created a great deal of friction was the cancellation of agreements to hire new school graduates who were due to come on in April, 1975. Some of the most profitable firms in Japan were forced to take this unprecedented action, including Matsushita Electric, Sony, and Fuji-Xerox.

The permanent commitment system has the advantage of permitting management a great deal of scope for intra-company mobility. Thus, for example, Tateishi Electric transferred a number of workers in research and development to the sales division in an effort to boost sales. Engineers at an Hitachi plant that manufactured agricultural machines were sent out as members of a caravan to visit customers, checking their products as a free service to customers.

All in all, some 3,800 companies have instituted temporary layoffs or wage cuts. To prevent the lifetime commitments system from falling apart, the government instituted a new employment insurance law that became effective on January 1, 1975. This provided for government subsidies to employers in par-

ticularly hard hit industries in which temporary or part-time layoffs appeared unavoidable. Under the scheme, a temporarily laid off employee continues to receive 90 percent of regular pay from the firm, which in turn receives one-half the amount from the government (two-thirds in the case of medium and small-sized firms). The employee thus retains his permanent status with the firm, and is subject to recall for full or part-time work whenever the need arises. The term of subsidies was limited to 75 days, but extension is under consideration.[1]

Since subsidized employees are not included among unemployed, the published unemployment figures are clearly too low by comparison with those of the United States. This is not the only reason, however. The majority of employees who are not covered by the lifetime employment guarantees are much more prone to drop out of the labor force than is generally true in the United States. In the fourth quarter of 1974, for example, approximately 1.4 million persons withdrew from the labor force.[2] The number of women working part time had been increasingly during recent years, but it dropped sharply in 1974. The total number of part-time workers, both men and women, fell by 54 percent in large enterprises during 1974.[3]

It is very difficult to estimate with any precision what Japanese unemployment rates would have been if the United States practice of relying primarily on unemployment compensation had been followed, and if adjustment was made for differences in the pattern of labor force participation between the two countries. The 1974 Japanese unemployment rate, as shown in Table 1, was 1.4 percent. A U.S. estimate, making allowance for the latter factor, put the November, 1974, rate at 3.5 percent rather than the official 1.3 percent.[4] The Mitsubishi Bank, measuring unemployment as the ratio of man-hours not worked to potential man-hours came out with a figure of 5.7 percent at the end of 1974.[5] Sohyo, the largest Japanese labor federation, estimated unemployment to be 2.5 times greater than official data indicate.[6] All of this suggests that the official data are unrealistic, and that a range of 3.5 percent to 5 percent is more indicative of the true situation in 1974 and 1975.

The Japanese Government has also resorted to more familiar anti-depression methods: increased public works, the expansion of housing and anti-pollution loans, easier credit for small business. The wage subsidy, however, is the most distinctive aspect of the Japanese unemployment scene, and it is directly linked to the fact that Japanese firms have a big stake in maintaining intact the permanent employment guarantee. The entire trade union structure, the basic unit being the enterprise union, depends upon this guarantee, and were the guarantee to be eroded to any considerable extent, there could be drastic social and political consequences.

Broadly speaking, then, the Japanese have preferred to handle a good portion of their unemployment by maintaining redundant workers on the payroll. Japanese firms are financed to a great extent by bank loans, and thus far the banks, and now the government, have been prepared to finance redundancy rather than have the support of the unemployed handled through the unemployment compensation system. The Japanese scheme has the advantage of maintaining the labor force of the firm intact, and of helping cement the loyality of employees to individual firms. As long as the government and the banks are willing to finance it, there is no reason why it could not continue. Questions could be raised, of course, about the efficiency of freezing workers to individual employers, rather than permitting a greater degree of labor market mobility. But it could hardly be argued that this practice, involving virtually zero labor mobility for a good portion of the labor market, does not work. The Japanese growth rate for the past two decades, 1974 and 1975 excepted, provides convincing proof to the contrary.

GERMANY

The German methods of dealing with unemployment are much more like those of the United States, but there are some significant differences. The data in Tables 1 and 2 suggest a relatively low rate of unemployment, 3 percent in the first quarter of 1975 (adjusted to the U.S. concept) compared with 8.4 percent for the United States, but this comparison has certain complications.

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[1] *Japan Labor Bulletin,* November, 1975.
[2] OECD Economic Surveys, *Japan,* July, 1975, p. 19.
[3] *Japan Labor Bulletin,* November, 1975.
[4] *Monthly Labor Review,* June, 1975, p. 13.
[5] *Ibid.*
[6] *Japan Labor Bulletin,* November, 1975.

Chief among them is the fact that Germany had had a substantial number of foreign workers. The peak was reached in 1973, when there were an estimated 2.5 million migrants in Germany, comprising about 10 percent of the labor force. A recruitment ban from outside the Common Market was imposed in November, 1973, and restrictions on internal movement in April, 1975. The precise number remaining at the end of 1975 is not known, but is believed to be in the neighborhood of 2.1 million, implying that 400,000 returned home.

The rate of unemployment among foreign workers in mid-1975 was on the order of 8 percent.[7] Not all of those who returned home were unemployed, but in view of the generally poor employment conditions prevailing in their countries of origin, as well as the situation in Germany, it can be assumed that a very substantial number were. If it is assumed that all 400,000 who left would have been without work had they remained in Germany, and add this number to the reported 582,000 unemployed for the year 1974 and the 831,000 for the first quarter of 1975, the rates of unemployment rise to 3.7 percent and 4.7 percent respectively (U.S. statistical concepts).

It might be noted that not all of the out-migration was costless to Germany. Some foreign workers were induced to leave by bonuses. The state of Baden-Wurttemberg, for example, paid 2,000 workers about $6.4 million to go home. But administrative measures have been the principal weapon. For the unemployed, work permits are revoked after the expiration of unemployment compensation benefits. Foreign workers are now forbidden to move to areas of excess concentration of migrants. Employers who hire foreigners illegally are subject to maximum fines of $20,000 and three years of imprisonment.

The German Government has prepared to take direct action to prevent the closing of plants when this would have imposed an undue burden on an area. A case in point is the Volkswagen enterprise, one of the largest in Germany. The Federal government and the state of Lower Saxony own some 40 percent of Volkswagen stock, so the government has a good deal of control over policy. In the Spring of 1975, there was an excess capacity of between 200,000 and 300,000 cars a year, and of somewhere between 15,000 and 20,000 jobs in the various parts of Volkswagen. Moreover, this came after a reduction in force of 20,000 workers, who had been persuaded to leave in 1974 through special inducements.

The management of Volkswagen proposed that several plants of the company be closed permanently as a means of handling overproduction. This solution was opposed by both the Metal Workers Union and the government on the ground that the impact upon several communities would be very great. The Board of Directors of Volkswagen, in consequence of this opposition, resolved instead to reduce employment overall by an additional 25,000 by the end of 1976. It is hoped that voluntary retirements will take care of 15,000 of these jobs, 10,000 more may have to be discharged. However, all plants remained open.

The codeterminationn system also plays its part. Thyssen, the large steel firm, took over a plant in the Ruhr town of Witten in May, 1975, and decided to eliminate 300 of 7,200 jobs. Through worker representation on the Works Council and the Board of Directors, a scheme was developed whereby the reduction in force was accomplished through early retirement, retraining, income guarantees, and transfers.

Germany has also resorted to a variety of stabilization measures, including investment programs for depressed areas, employment premiums, and labor mobility grants.[8] The Germans still rely to a considerable extent on market forces to clear the labor market, however, although it is clear that the government is prepared to intervene when a substantial loss of employment may have a severe impact on local areas.

THE UNITED KINGDOM

British unemployment rose rapidly during 1975, reaching almost 5 percent by October. This is an understanding of the true situation, perhaps by a substantial amount. It can be costly for British employers to lay workers off, and the trade unions have been resisting layoffs by a variety of means.

The minimum period of dismissal notice is one week for a worker who has held a job for three months, rising to two months after 15 years. Redundancy pay goes to anyone who has been employed for more than two years, regardless

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[7] Derived from OECD Economic Surveys, *Germany,* July, 1975, p. 33, assuming a total of 2.1 million workers at that time.

[8] See OECD Economic Surveys, *Germany,* July, 1975, pp. 19–27.

of how quickly he or she finds a new job. The rate is calculated on a sliding scale, depending on previous earnings, age, and length of service. Unemployment benefits, supplemented by special family benefits, provide workers who are laid off with a substantial proportion of previous earnings. Unemployment compensation is thus in Britain, as elsewhere, an important means of meeting unemployment.

In August, 1975, Parliament enacted a temporary employment subsidy scheme, whereby companies in financial difficulties can secure short-term loans to allow them to defer layoffs. All private firms are eligible when the Department of Employment is satisfied that the company would, if it did not receive a subsidy, dismiss at least 50 workers at one establishment within a period of 90 days or less. The company must consult with its unions, and the application for assistance must be signed jointly by the company and the union. The loan will not be granted if the Department finds the company insolvent or about to become so.

The amount of the subsidy is about $20 a week per full-time worker, prorated for those working less than full time. Payments are authorized initially for six months, subject to confirmation at the end of each month, with a maximum duration of nine months on reapplication.

Apart from legislation, a great deal of resistance to layoffs has developed, and many unions now adopt militant poses and oblige the government to step in. The experience of British Leyland, the nation's largest automobile manufacturer, is a good case in point. As in Volkswagen, the company was faced with declining demand and redundant labor. When it became clear that it could not survive without a major reconstruction, involving the loss of thousands of jobs, the Labour Government stepped in and provided refinancing, effectively nationalizing the company, with no advance commitment from the trade unions on labor force reduction.

A similar event took place in December, 1975, when a permanent shutdown of three Chrysler plants, employing 25,000 workers, was threatened. The British Government agreed to provide financial assistance that might eventually total $300 million. In theory, the low productivity of Chrysler is to be raised by a reduction in the labor force, but no specific targets were set, and if the British Leyland model is followed, it is doubtful whether there will be any reduction.

The British Government has been providing what are in effect publicly-supported jobs through its nationalized industries, including part of the automobile industry. The extent of this practice can best be judged by a few figures on labor productivity, shown in Table 3.

TABLE 3.—EMPLOYMENT AND OUTPUT IN MAJOR AUTOMOBILE AND STEEL ENTERPRISES, 1973

	Number of employees	Output per employee (in pounds sterling)
Automobiles:		
Volvo (Sweden)	66,400	15,850
Volkswagen (Germany)	215,000	12,927
Renault (France)	175,000	10,300
British Leyland (United Kingdom)	204,000	7,666
Fiat (Italy)	201,000	7,632
Steel:		
Thyssen (Germany)	92,200	21,074
Mannesman (Germany)	110,000	14,800
Italsider (Italy)	49,000	14,305
Denain (France)	84,000	12,090
British Steel Corp	220,000	8,068

Source: The Financial Times, June 10, 1975.

If British Leyland, in 1973, had achieved the same level of productivity as Volvo, the Swedish firm, it could have dispensed with more than 100,000 employees, and there is no reason to believe that the situation has changed since then. If Volkswagen productivity had been matched, the labor saved would have been 80,000 men, and in the cast of Renault, 50,000.

The British Steel Corporation, a nationalized industry has been attempting to modernize, in part by shutting down obsolete plants, but thus far without success due to union opposition. Productivity data for 1973 show that if it had attained the productivity level of the Thyssen firm in Germany, it could have dispensed with about 60 percent of its labor force of 220,000. Its employment

was one-third higher to produce a specified output than of Denain, a large French firm.

Relative overstaffing is not confined to nationalized industries, as Table 4 shows. ICI, the large British chemical firm, required almost three times as many employees as Dow Chemical to provide an identical volume of sales in 1974. It did somewhat better relative to German and Dutch firms, but in spite of the fact that ICI reduced its labor force substantially from 1969 to 1974, the comparison remains unfavorable.

TABLE 4.—EMPLOYMENT AND OUTPUT IN MAJOR CHEMICAL ENTERPRISES, 1974

	Number of employees	Sales per employee (U.S. dollars)
Dow Chemical (United States)	53,300	92,655
BASF (Germany)	110,989	73,867
Du Pont (United States)	136,866	50,487
Hoechst (Germany)	178,710	46,956
Akzo (Holland)	105,400	40,778
ICI (Britain)	201,000	34,532

Source: The Financial Times, May 28, 1975.

Precisely how much this hidden unemployment would add to the aggregate reported figures cannot be determined on the basis of the available evidence, but the examples cited suggest that it would be a substantial amount. It might very well be that in a real sense, the British unemployment level is as high as that of the United States.

It is easy enough to conclude that the British method of dealing with labor redundancy is inefficient, but the interesting question is whether the nation has any alternative. Squeezing our surplus workers to the extent required to match American or Continental European productivity might, in the British political context, lead to a social upheaval that would be far more costly than the prevailing inefficiency. Was any other course of action possible with respect to British Leyland and Chrysler, with 250,000 direct jobs at stake, to say nothing of the subsidiary industries that would have been affected? When it comes right down to it, what the British system involves essentially is work sharing, financed by government funds. It is at least an arguable proposition that during an economic recession, this is a better way of handling unemployment than by permitting some to work full time while others do not work at all, or by providing marginal public service jobs of dubious value.

ITALY

The official unemployment statistics would lead one to believe that unemployment has been moderate, but in fact, unemployment has been and continues to be a major problem. For one thing, participation rates of people of working age fluctuate considerably with the business cycle and damp down variations in recorded unemployment.

Short-time work is another major form of unemployment. Drastic government action to support this form of unemployment was triggered by the situation at Fiat, the nation's largest employer. The company sold 12 percent fewer automobiles in 1974 than in 1973, and the labor force had fallen by 6½ percent on 1974. In the Fall of 1974, Fiat put 66,000 workers on short time. It proposed to lose 32 days of production over the period October, 1974, to March, 1975. The unions protested, arguing that this would have serious repercussions upon other industries. Nevertheless, on October 7, 1974, management initiated a three-day, 24-hour week for 70 percent of its labor force.

Negotiations with the unions resulted in an agreement on November 30 providing for the following:

1. Beginning December 1, 1974, all workers on short time would return to a normal 5-day week.
2. There was to be an extended holiday from December 20, 1974 to January 13, 1975 for all auto workers in the Turin area, the idle days being paid for by the National Unemployment Fund and by Fiat.
3. Fiat agreed not to reduce the labor force in 1975.

But this agreement proved inadequate to solve the problem. A new agreement provided that 65,000 of the 90,000 workers in the car division would be laid off for 18 working days in February and March, thirteen to be paid for by the Unemployment Fund and five out of paid annual leave. The affected workers were to receive 80 percent of their gross pay, corresponding to 95 percent of net pay.[9]

This solution was generalized by an agreement between the Confederation of Italian Employers and the trade union federations. In the event of partial unemployment, 80 percent of gross pay was guaranteed, for all idle hours up to 40 per week. Firms whose employees drew upon the National Unemployment Fund were to pay the Fund 8 percent of the guarantee amount, for large firms, and 4 percent for small firms. This was followed by legislation effective May 20, 1975, giving the agreement the effect of law. In addition to the payments, the law requires employers to notify the unions in advance of expected duration of layoffs or short time, and if more than 16 hours a week are involved, to examine the problem jointly with the union.

At the end of 1975, there were almost one million registered unemployed in Italy. In addition, 800,000 employees were receiving part-time support from the National Unemployment Fund; without that, total unemployment would probably be on the order of 1.5 million, about 7.5 percent of the labor force. The data in Table 3 show that considerable overstaffing exists in Italy as well as in Britain, at least in the automobile industry. There is a great deal of concealed unemployment in agriculture and services, and the effect of reduced labor force participation is suggested by the fact that there are one million fewer people in the labor force than in 1964, despite a total population increase of over three million.[10] It would be difficult to conclude that the unemployment level in Italy at the end of 1975 was significantly lower than in the United States.

An ironic footnote is provided by the attempt early in 1976 of British Leyland to close out its Innocenti plant in Milan, where 4,500 workers were employed. Upon receipt of dismissal notices, the Innocenti workers sat down on the railroad tracks near a major station and halted all trains from Rome, Venice, and Genoa. The plant was occupied to prevent the removal of machinery and 16,000 cars in stock. Fiat has indicated its willingness to take over the plant and convert it to the production of small trucks, provided the government made available credits of $233 million. The issue was not yet resolved at the time of the present writing. The government was also considering the establishment of a special fund to tide over the workers of other foreign firms facing closure, such as Singer and Ducati, until Italian firms could take over the plants.

FRANCE

France, like Germany, has had a substantial number of foreign workers to cushion the shock of unemployment. There were an estimated 1.8 million legal labor migrants in 1974, about 8.5 percent of the labor force, plus an additional 200,000 to 300,000 persons working illegally. Immigration was halted in June, 1974, and illegal migrants deported when discovered.

The French have also resorted to subsidization of short time work as a means of spreading employment. On the basis of an agreement between the National Council of French Employers and the trade union federations that was reached on June 23, 1975, for each hour lost below 40 per week, a worker receives compensation which, when added to the state partial unemployment allowance, guarantees him 50 percent of his normal gross hourly remuneration. There is also a minimum guarantee, and in fact, workers who earn near the minimum wage are paid almost full compensation for lost time.

Both on the national and local levels, strenuous efforts have been to prevent the closing of enterprises where the impact of unemployment would be severe. Such large enterprises as Rhone-Poulenc (chemicals), Usinor (steel), and Pechiney Ugine Kuhlmann (metals) have been virtually forbidden by the government to engage in layoffs, resulting in substantial losses in 1975. A combination of credits from the state banking system, tax relief, and new government contracts has kept them going. These companies employ over 100,000 workers among them.[11]

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[9] *ILO, Social and Labor Bulletin*, 1975, No. 1, p. 21.
[10] *The Economist*, December 6, 1975, p. 80.
[11] *The New York Times*, January 10, 1976.

At the local level, there have been a number of examples of small firms in financial trouble being saved by a variety of measures. To cite one, a textile mill in a village in the Ardennes filed for bankruptcy in January, 1975. The mill employed 145 of the 541 inhabitants of the village. On the initiative of the mayor, the firm was refinanced out of local individual savings, and the staff acquired a 56 percent shareholder interest. The factory reopened in July, 1975, with a third of its former labor force, others to be taken on when circumstances permitted.[12]

At the end of 1975, there were approximately one million unemployed in France according to official data, some 5 percent of the labor force. To this should be added an additional allowance for part-time work, indirect payroll subsidy, and reduction in the migrant labor force, in order to guage more accurately the degree of the unemployment impact. Precise estimates are not available. However, the French authorities have been so concerned about the effects of unemployment on social stability that effective January 1, 1975, workers who were laid off have been paid 90 percent of their previous gross wages, up to a maximum of one year.

SWEDEN

Sweden had an enviable unemployment rate of 2 percent in 1974. However, an additional 99,000 people were involved in various government programs: 41,000 in job training, 23,000 in public relief works, 14,000 in archival work (in libraries, public agencies, etc.), and 21,000 in sheltered workshops.[13] Adding these to the first group yields an unemployment rate of 4.3 percent for the year.

In 1975, contrary to what was happening in most of Western Europe, Swedish unemployment declined. A number of special investment programs contributed to this development:

1. The principle of counter-cyclical investment funds, effect since 1938, is too well known to require extended comment. Under the present law, a company may allocate up to 40 percent of its profit before taxes in any year to an investment fund. A portion of this can be used freely after five years, while the rest can be invested upon authorization of the government. In 1975, these funds amounted to $2 billion, and the government released a portion of them to spur investment.

2. A new law enacted in 1974 required all companies with annual profits over $25,000 to set aside 20 percent of pre-tax profits into working environment investment funds, with the aim of improving on-the-job health and safety as well as spurring the economy. The amount collected for 1974 was $500 million. On the basis of the ratio of Swedish to United States GNP, this would have amounted to $12 billion for the U.S., which actually invested $3.2 billion in health and safety measures in 1974. All projects financed by this money must be approved by worker representatives at each company, and then by the Labor Market Board, which is concerned with the employment impact.

3. There is a national system for subsidizing the building up of inventories. A firm can receive a 20 percent subsidy to finance the cost of additional inventory when necessary to maintain employment.

4. When exports began declining in the last few months of 1975, the government moved in with an "employment package" of 25 special measures. These included exemption to heavy energy users of a portion of the tax on electric power, oil, and coal; state subsidies to industries for installing energy-saving systems; additional public works, including a sizable amount of day care centers; and special grants to firms for employing young people under 20 years of age.

This imaginative mixture of fiscal policy, investment subsidies, and direct government intervention in the labor market helps explain why Sweden has come through the present depression almost unscathed. This has been accomplished, moreover, without putting undue pressure on the price level. For the 12 months ending May, 1975, the consumer price index in Sweden rose by 10.8 percent, compared with 9.5 percent for the United States, 12.1 percent for France, 14.1 percent for Japan, and disastrous figures of 19.7 percent and 25 percent for Italy and Britain, respectively. Only Germany, with 6.1 percent, did substantially better.

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[12] International Labour Organization, *Social and Labor Bulletin*, 1975, Nl. 3, p. 273.

[13] OECD Economic Surveys, Sweden, June. 1975, p. 12. An example of archival work: to alleviate the problems faced by Polish refugees in Sweden, research institutes have been provided with funds to employ them while they were learning Swedish and making an adjustment to Swedish life. In an institute at which I spent some time last year, there were the Polish and Soviet press in connection with an institute research project.

There is a great deal more to the Swedish story, but it is beyond the scope of this paper. Sweden pioneered Keynesian policy in the 1930s even before the General Theory saw the light of day. The "employment package" they are currently using is well worth more careful examination than it has received.

SUMMARY

1. Comparison of official rates of unemployment between the United States and other major industrial nations does not give an accurate picture of the relative impact of unemployment, even after adjustment of the foreign figures to U.S. statistical concepts. Industrial differences in handling the unemployment problem make it difficult to interpret direct comparisons. If other countries followed the U.S. practice of laying off redundant workers and supporting them through the unemployment compensation system, their unemployment rates would be higher. A few very rough estimates: the Japanese rates of under 2 percent for 1974 and 1975 would rise to somewhere between 3.5 and 5 percent; for Germany (first quarter of 1975) the increase might be from 3 percent (U.S. concepts) to almost 5 percent; the British rate of 3.5 percent (U.S. concepts, first quarter 1975) could even exceed the U.S. rate of 8.4 percent; and it is doubtful whether the Italian rate was significantly lower than that of the United States for 1975 as a whole.

2. The United States appears to be unique, among the countries surveyed, in its basic reliance on a pure market solution for unemployment. All the other nations do use unemployment compensation as a fallback, but employ a variety of other measures as well. There has been some recourse to additional public works programs, though the creation of direction public service jobs is not a common practice.

3. The emphasis appears to be on measures that make it possible for enterprises to retain on their payrolls workers for whom they have no immediate need. Among these measures are direct payroll subsidy schemes, which have been used extensively in Japan, and also in Great Britain. Indirect subsidies through credit guarantees and government contracts constitute another approach (France, Japan). A third solution is work sharing, with the government making up the wage deficit of those on short time (Italy, France). In cases of threat to the viability of major enterprises or industries, governments have resorted to large capital infusions, with employment considerations paramount (Great Britain).

4. Sweden has what is clearly the most complete panoply of measures designed to avert unemployment. These include such macroeconomic devices as countercyclical investment funds; special subsidies for environmental improvement, inventory accumulation and energy expansion; and expanded public works programs. In addition, there has been direct intervention in the labor market through public service jobs (although this has not been the major weapon) and special incentives to induce industrial enterprises to employ the young and the handicapped. Cause and effect are always difficult to disentangle, but most Swedes would agree that these programs have been a very important factor in keeping Swedish unemployment at a low level during 1974 and 1975.

5. The policy mix for dealing with unemployment varies from country to country. Every measure has costs and benefits, and their evaluation determines the precise course adopted. The extent to which non-economic factors are taken into account depends a great deal on social attitudes. A more direct approach is likely to be adopted where the political consequences of high unemployment are severe. There are wide differences of opinion on the suitability of individual programs. Some people put the stress on economic efficiency, and point to the long run consequences of maintaining in operation enterprises that should be permitted to go out of existence. Other point to the inefficiency entailed in disbanding highly skilled and loyal enterprise labor forces because of temporary fluctuations. Still others might argue that from a broader social standpoint unemployment leads to greater inefficiencies than can be encompassed in a strict cost-benefit analysis. One can never hope to achieve a consensus, but at the very least, an understanding of the policies that other nations have found it expedient to adopt is likely to lead to a better set of solutions for the United States.

Representative REUSS. Let's start, Mr. Galenson, with you and your description of the Japanese system. In your prepared statement you point out that the banks supply the necessary yen by the central bank

and are delighted to lend to employers so they can keep on financing redundancy.

As long as the Government and the banks are willing to finance it, there is no reason why it should not continue.

I must be missing something here, but the mere fact that a bank lends an employer the money to help an employee, doesn't get rid of the fact that the employer has to pay the bank back the money sometime.

How have they bridged this little problem? I want to know because I think it is a great idea and maybe we can interest Morgan Guaranty.

Mr. GALENSON. Japanese firms are capitalized in an interesting way. Most of their capital comes from short-term bank loans. If you just continue rolling these loans over until the firms pick up, their exports expand, they can continue operating.

They have no cash flow problem because the banks are supplying cash. They run more deeply into debt and they eventually have to repay. Presumably, this takes place when they are making profits. But in the meantime, they are being financed.

The alternative might be for these firms to pay larger subsidies into the unemployment compensation funds and their resources would be drawn down in any event.

Representative REUSS. The proof of something is whether it works, of course, and this does seem to work. In essence, it sounds very much like Upton Sinclair's "Epic" in California whereby the Government was going to pay everybody $50 or something every Thursday.

You have to spend it. Here a respectable institution, a bank, through the banking system, in effect is doing this, although in a very humane way and a way that does not seem to offend anybody's sensibilities. The labor force is in place and available when business picks up and when it doesn't—it does not have to go on relief or unemployment compensation.

There are plants and the plants have demonstrated ingenuity in thinking of meaningful things for people to do. One wonders what would have happened in this country if General Motors, instead of laying off scores of thousands of people, had formed a little team and sent them around the country repairing those GM cars on which they neglected to put brakes and so on.

Mr. GALENSON. I would welcome a visit from a Chrysler mechanic who could go over my car for me and tell me what is wrong.

Representative REUSS. Mr. de Vries, on your point about commercial bank loans to these countries, can you explain to me why the Comptroller of the Currency redlined the Government of Italy several years ago at the time of the oil crisis, and said that American banks could not lend any more to Italy? But then he took them off the list and made Italy once again eligible to borrow just at the time when they had lost a leading figure of the central bank and when they did not have a government.

This is sort of baffling to me. Can you throw some light on it?

Mr. DE VRIES. I don't know the details of this episode. Morgan Guaranty is a State chartered bank and as such are not directly involved with the Comptroller of the Currency. Moreover, as a economist I would not necessarily be familiar with the details anyhow. To

my knowledge, much of what the comptroller decided, we heard quite a long time later.

What I thought happened last fall was that the Comptroller of the Currency ruled that all the loans—certainly the major loans of the banks to Italy had to be treated essentially as having been made to the same borrower because these borrowings were all guaranteed in fact by the Government of Italy.

The borrowers had all different hats, but it was essentially the same risk-entity borrowing. So they ruled that for legal lending purposes the banks had to treat all the major loans to Italy as having been made to the same borrower.

That, of course, skirted the issue of whether Italy was credit worthy or not, but in effect had the same effect as it reduces the extent that the banks can lend to a particular country.

Representative REUSS. Wasn't this later withdrawn, though, at a time when Italy was even worse off?

Mr. DE VRIES. Didn't they at that time make this ruling that the banks had to look upon all major loans to Italy as made to the same borrower?

Representative REUSS. That ruling, as I understand it, was made about 2 years ago. But I have been informed that it is no longer in effect. My question is what is going on here? It may have been wrong to put them on it in the first place, but why was it suddenly removed at a time when Italy seemed in a less than secure position?

Mr. DE VRIES. We learned about that ruling not until sometime in November or December last year, not 2 years ago. This is probably for the reason that Morgan Guaranty is a State chartered bank. Now I can comment on Italy. A great deal of improvement did occur last year. From an economic point of view, major improvements were made last year in Italy.

In its balance of payment there was an astounding improvement. It is nonoil trade, there was a large surplus. Certainly inflation was high. But very considerable progress was made on their balance of payments. Italy was not borrowing to a large extent last year and was repaying some of the loans. It is not to me too puzzling that the Comptroller would have looked upon Italy in a little different way.

I think what went wrong in Italy last fall was that management of the exchange rate. In the current issue of World Financial Markets, we deal with the issue of exchange rate management. I believe that as long as there are large differential rates of inflation and political disturbances, governments should manage their exchange rates in a flexible manner.

Many Europeans have expressed in the last few weeks a fair amount of criticism as regards Italy and maybe other European countries' exchange rate management. The Italians were really supporting their exchange rate last fall and toward the end of last year, in a too rigid manner.

If the management had been somewhat more flexible, there would not have been this so-called closing of the exchange markets. There would not have been all the turmoil associated with it. There would have been a depreciation of the exchange rate, but that would have occurred in a more smooth manner.

I believe some improvement did occur in Italy, justifying a different look at Italy, but some of the renewed problems in Italy stem from a too rigid management of the exchange rate.

Representative REUSS. Thank you, Mr. de Vries.

Congressman Hamilton.

Representative HAMILTON. Thank you, Mr. Chairman.

We had Mr. Burns testify before the committee yesterday. I would like to read a paragraph from his statement and then have you gentlemen comment on it, if you would:

> In the current inflationary environment, the conventional tools of stabilization policy cannot be counted on to restore full employment. Recent experience both in our own and other industrial countries suggests that once inflation has become ingrained in the thinking of nations, businessmen and consumers, highly expansionist monetary and fiscal policies do not have their intended effect. In particular, instead of fostering larger consumer spending, they may lead to larger precautionary savings and sluggish consumer buying.

That is the end of the quote. Mr. Burns is raising a very fundamental point there, it seems to me. What I would like you to comment on is his observation that recent experience both in our own country and in other industrial countries suggests that expansionist fiscal and monetary policies just don't work as they are intended to work, that they lead to a feeling of caution and prudence on the part of the consumer.

Mr. Klein.

Mr. KLEIN. I really don't believe that at all. The experience of the United States in the last 12 months really is a recovery that got a very big stimulus, in the form of help from the massive tax rebates and tax reductions—a massive fiscal swing. It was accommodated by the Federal Reserve, too, and the interest rates showed that.

We did not just come out of this recession. We were helped along by very vigorous policy, and that policy worked. There are times when some of the standard textbook policies turn sour, particularly when we are up against a capacity ceiling and there is a joint inflationary pressure at the time of fiscal stimulus.

But, there just is a lot of slack in the economy now in the United States and throughout most of the industrial world. There is very good room now for stimulative policies. Certainly I am not going to write off the inflationary problems and inflationary threats that might be coming along in 1977 and 1978, but we have got to look at 1976. There is just too much unemployment in this country and in the world.

I think public policymakers would not be well advised to hesitate too much in stimulating the economy because of this threat of inflation. There has been remarkable progress throughout the world in cooling off inflationary pressures.

I would not want to see a revival of inflation, but we have got to deal with the unemployment problem.

Representative HAMILTON. Mr. de Vries.

Mr. DE VRIES. There is evidence of some truth of Mr. Burns' statement in Europe. I would link this first of all to the state of confidence. I think confidence in the last few years has received a severe shock among consumers, not only because of the oil crisis but because of inflation. In this connection recent research has pointed out that many people like to restore the liquidity or real value of their past savings.

In other words, if you normally save 5 percent of your income, you may want to increase it now in order to restore some of the real value

of your existing savings wihch have eroded because of the high rate of inflation.

In countries such as Britain, Germany and elsewhere in Europe, the savings rate has become very high in this recession.

Pumping in more money by expansionary fiscal and monetary policies has led to more savings rather than to more consumption. Furthermore, economists are not very good in estimating time lags. Because of the weak confidence, I believe we may have to wait a little longer in this period to see the full effects of the expansionary policies.

Representative HAMILTON. You basically agree with Mr. Burns' statement, is that correct?

Mr. DE VRIES. Halfway.

Representative HAMILTON. Which half don't you agree with?

Mr. DE VRIES. I think there has been and continues to be evidence that the expansionary policies are not working as quickly. But we do see that there is definitely a pickup in Europe and that the measures are working, but maybe with greater lags than previously.

Representative HAMILTON. Mr. Galenson, do you want to comment on that?

Mr. GALENSON. Yes, sir.

It seems to me it is very hard to generalize. There is a good deal of variation among countries, to the best of my knowledge. People's savings habits depend on a number of things, including, for example, the sort of pension schemes they have. If people have generous pension schemes, they don't feel the necessity to save as much.

There is also the problem, which I think is related to this, of the sort of expansion you can have. If you have large budget deficits far too long, you run the risk of having to make it up somewhat or other, sooner or later than, in higher taxes. We have seen this morning Mr. Healy in Great Britain, the Chancellor, advised a cutback on welfare schemes, which is heresy in Britain, simply because of growing taxation.

The Western European socialist countries, in particular have been hit by this problem. People want more cash out of their earnings. They seem now to want less in the way of welfare payments of various kinds—fewer transfer payments. That makes it very difficult to assess spending habits. Industrial workers may have marginal tax rates of 50 percent, and what do they do when they get some extra cash after a wage increase?

I think, by and large, they tend to spend it. I don't think they save very much of it. The Swedes did something interesting last year. They temporarily reduced their sales taxes. They announced that sales taxes were going down for several months. There was a tremendous rush to buy. There was no inclination to keep saving. Toward the end of the period, all the shops began to advertise, "Buy now before the tax goes up again," and they did.

There was a tremendous buying rush, a large increase in consumption, which slowed up after the tax rose again. So it is difficult to generalize, I would say. That is my point. Mr. Burns may be right for the United States. I am not sure he is right for all the countries in Europe.

Representative HAMILTON. I want to ask one other general question of the panel. Mr. Galenson, you brought this topic up and I was interested in your expressing it in terms of some kind of assistance to private companies to retain employees during the downturn. I

wondered what kinds of suggestions you gentlemen would make as techniques to deal with the unemployment dilemma—unemployment and inflation. What specific kinds of techniques do you think we ought to consider to deal with the problems which we now confront?

What attract you as effective devices? We talk about public service jobs and public works up here on the Hill all the time. What kind of techniques do you think would be most helpful in our economy?

Mr. DE VRIES. You mean for the companies to do?

Representative HAMILTON. Broader than that, but yes. How do we get people back to work? What is the most effective way to get them back to work?

Mr. DE VRIES. I would like to make one comment on that. We as banks lend to corporations around the world and we have been watching corporate employment practices of Japan, Europe, and the United States. We have come to the conclusion that one of the great favorable points of this country has been the flexibility that corporate management has toward labor employment, that companies have toward their labor forces. This affects company profits and as you know in all of Europe, corporate profits are very low as compared with U.S. companies. In countries like Holland and Belgium the Socialist governments are extremely concerned and are suddenly waking up and beginning to see that in order to get an economy moving again, you have got to have decent profits for the companies to accelerate their investments. The same is true in England where there has been a great deal of discussion in the last 6 months about the need to restore corporate profits and to foster more efficient industry in order to improve employment prospects.

In the Netherlands there is the same situation and they are looking to some extent to the Germans where they have a more liberal policy. We feel that companies must have the freedom to adjust their labor force. Therefore because corporate profits have been much more restored in that United States than in Europe and Japan, plant and equipment expenditures are rising more sharply and our economy is improving more rapidly than theirs. You have evidence to that effect in all the presentations of the panel.

That is the only comment I want to make. I would not want to push the burden of unemployment entirely on the shoulders of the management of corporations.

Mr. GALENSON. Well, yes, of course. If you are completely free to discharge employees with a week's notice, 2 weeks' notice at the most, if you don't need them, it gives you greater flexibility. You may have higher profits but there is imposed on the country the problem of supporting these people.

We are not letting them starve. The money is coming from somewhere. It has got to come from taxes, higher payroll taxes, basically, unless our unemployment compensation funds are redesigned.

New York is not too far from zero reserves in its unemployment compensation fund. The question is not how mobile the labor force should be but how you support this problem of temporary unemployment. In the long run, over the cycle, my guess would be that it would not cost industry any more to do it one way than another.

Someone has to foot the bill. It has got to come out of profits and production because people are being fed, clothed and housed.

We somehow seem to be stuck with the notion that the only way to handle the problem is let people go when you don't need them.

My major point is that other successful countries—and if you take the history of the last 20 years, I don't think you would say that the Germans and the Japanese are less successful than we—they handle the problem in quite a different way.

Obviously, there are difficulties. If you have a firm that is in very bad health and you try to keep it going permanently just for employment, you are in trouble. But this need not happen.

I recall a few years ago, when the British bailed out Rolls Royce, in the same manner that we bailed out Lockheed at the time, a lot of people said that was a tremendous waste of the Government's money. Rolls Royce is doing quite well now and it is employing quite a number of people. In terms of employment, it probably cost less in the long run.

The issue is simply how you finance the lack of work. It is not whether you finance it, because we are financing it, either by unemployment compensation, or through welfare payments.

Representative HAMILTON. Are you suggesting that we use countercyclical subsidies of some kind to keep these people on the payrolls in the private sector?

Mr. GALENSON. That is the burden of my arguments. I think the Swedes have been very imaginative.

Representative HAMILTON. How do you feel about the investment tax credit? That goes on regardless of the cycle. Is that something we should turn on and off, too?

Mr. GALENSON. I certainly think so. How about inventory accumulation subsidies, which the Swedes have used? The Swedes have also pumped a great deal of money recently into ecological purposes for counter cyclical reasons. Instead of saying we are going to go ahead this year and next year with the same amount, they turn the take on and off depending on the need for employment.

Representative HAMILTON. Mr. Klein.

Mr. KLEIN. I think Walter Galenson has quite an interesting proposal or suggestion because of the disheartening and sometimes discouraging aspects of the way unemployment compensation works in an extreme situation. I would suggest that we might consider something like a bill that Senator Javits introduced, I think in 1971, to provide employment tax credit.

You could look at that as an alternative to an investment tax credit. Since you mentioned investment tax credit, I would like to make the point that that is a very poor instrument to turn on and off cyclically. That is frequently associated with long range investment planning, 1-, 2-, and 3-year programs, even longer.

The entrepreneurs making these investment decisions really need some long term calculations for large scale investment projects. I would prefer to see the investment tax credit used as a longrun device, kept permanently, and shifted for energy investment or for any other kind of investment that seems relevant at a particular point of time, but not shifted about with the business cycle; it should be shifted about on the basis of relative needs.

For the cyclical response then, an employment tax credit which works like the investment tax credit, but is given for employing people

rather than investing, is a very good device and would be a way of implementing the kinds of proposals that Walter Galenson has mentioned. I think it would be premature to write off public works. We could give them a good euphemism; call them national needs, and they can be used selectively and very well at times.

The real problem with the current recession is that there was no planning in this city, in advance, with a shelf of such projects and administrative procedures for bringing them into action when they were needed. People looked upon public service employment as a very second run stopgap kind of measure.

But had there been some advance planning—and this really is now the planning for the next cycle because we are nicely on the road to recovery. Something should always be held in reserve for contingency, but I think we should be looking down the road a little more and thinking about a few years from now and having a backlog of national needs projections lined up.

Representative HAMILTON. Thank you very much.

Representative REUSS. You have testified that Japan is doing very well now on conquering inflation. I think you have testified, Mr. Galenson, that they have continued to do well on conquering unemployment?

Mr. GALENSON. Real unemployment is still high.

Representative REUSS. I realize that, but if you don't know you are unemployed and get paid the going wage on Saturday nights—I should be unemployed like that.

So why isn't Japan in the last year the wonder of the world and why shouldn't they get medals from all of us for what they have done? The last time I heard, poor Japan was the worst hit. They did not have any resources. But they seem—unless there is some bad news that you haven't told us—to be doing very well. Why shouldn't we perhaps learn from them?

Mr. KLEIN. They are in some sense doing well. The Japanese statistics have turned around well. The leading business indicators have good upturns and have been in this phase for about 5 or 6 months. Industrial production probably hit its low point in the spring of 1975 in Japan.

Yet one must realize that the Japanese economy was, in a good year growing between 10 percent and 15 percent and had, before the oil embargo, set up a long-term growth path of very close to 10 percent. This was contemporary thinking among Japanese economists in 1972 or 1973. Now to have to come down from 10 percent or more to actual declines in the rate of growth of total production is a very serious thing.

That was a very big shock. The Japanese economy remains highly vulnerable to future turning off of the spigot on oil or other basic materials. I would say that there is a great deal of uncertainty. I think the basic thing to consider in the case of Japan is a national decision, now, to turn towards a slower rate of growth. The same people who projected the 10-percent growth rate as a longrun normal figure, say 4 or 5 years ago, are now paring that down to between 6 or 8 percent.

In order to accomplish that, there is a big move toward a 5-day working week, a less hectic pace of life, and an attempt to overcome

a great many problems that arose in the achieving of the high growth rate of the sixties

Therefore, I think there is a recognition that there must be a very basic transformation in the Japanese economy. Many changes must be made in order to get on the new track. In addition, with the yen in the neighborhood of 300 to the U.S. dollar and having so much inflation, they are having to work very hard to reestablish export markets in order to cover their import bill.

One could expect that the current Japanese revival will be export led. That means selling a lot to the United States. This won't be an easy task.

Representative REUSS. Let me turn to another of the countries that you discussed, Mr. Klein. You reported that Chile's inflation is somewhat better than it was. yet it is still very high. However, what about their employment and production?

Isn't that a sorry tale?

Mr. KLEIN. Oh, yes.

Representative REUSS. Does Mr. Galenson perhaps have a comment?

Mr. GALENSON. I have not followed it.

Mr. Klein.

Mr. KLEIN. Well,——

Representative REUSS. Aren't they worse off than when the dictators took over?

Mr. KLEIN. I would say that as far as the whole fourth world is concerned, they really are in a poorer position now than before the oil crisis period and Chile would be an extreme example. There are a few blessings and one of the blessings is to cut down an inflation rate from something over 400 percent to something under 300 percent.

If you consider that progress, that is progress. But that does not at all mean that the other problems have been solved.

Representative REUSS. Hasn't their unemployment gone up?

Mr. KLEIN. Well, I would say the real position of the economy in terms of production and employment is still not favorable and is not turning around. The inflation rate has come down and that is as much as we can see.

Representative REUSS. Let we return to the question phrased by Representative Hamilton. He quoted Arthur Burns yesterday. I forget the exact quote but the general theme was go slow and don't overestimate. If you stimulate, it is likely to discourage consumers from buying—due to beliefs that there is going to be more inflation, even though this is not so.

Therefore, don't overstimulate it.

I want to return to you, Mr. de Vries, to see whether you really hold that view because you say in your excellent prepared statement:

> The United States has an important responsibility in helping the developing countries. The best contribution the industrial countries can make is to encourage imports from the developing countries by stimulating their own economies.

Amen, but if we adopt the view that stimulating our own economies it will make consumers despondent. We merely run in circles. It seems to me, this does not necessarily follow. Don't we have to decide whether we agree with Arthur Burns are not?

Mr. DE VRIES. I think there are two aspects to this question. We should have expanding economies. This is the most important point.

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Whether at any point, we need to encourage the economies further by expansionary policies, that is another question.

It appears that the economy of the United States is picking up sufficient steam that we don't need any additional stimulatory policies at this stage. I have focused particularly on the United States, but the main thrust is that—and it has been the thrust of all the analyses of the World Bank and the OECD—that it is most important for the less developed countries that the industrial countries maintain a good, healthy expansion.

Now the other part of the answer is that once you have an expanding economy, we should have an open policy toward the less developed countries' products. We ought to welcome the products from less developed countries. Not only raw materials but also industrial products.

It may mean some competition at home, and relocation of industry, but it is a gradual process and it may take a long time and we should not become discouraged or despondent.

Representative REUSS. Thank you. I have a couple of questions of the panel, probably of Mr. Galenson and Mr. Klein. Looking at what other countries, particularly in Europe, do to help private employers carry a fuller labor complement than they would without government assistance, it is sometimes asserted in this country—where we have an appalling amount of teenage and minority unemployment—that if we lowered the minimum wage, then employers at the margin would hire a teenager they would not otherwise hire.

Endless arguing goes forth about whether or not this would in fact be true. What do you think of the feasibility of a regimen whereby the worker, teenager, or whomever gets the minimum wage but part of that minimum wage is paid by the Government rather than the employer?

That seems to be about what goes on in France, Sweden, and some other places.

Mr. GALENSON. Yes. This policy is not new to European countries. Some of them have been doing it for a long time. I think it works pretty well. If you put a young person to work at a very low wage, he may be discouraged. We have subsidized groups of people, subsidized training and the work of handicapped people, so it is not new in this country.

Rather than making exceptions under the minimum wage statutes, which in some cases might lead to exploitation of people who are really doing a full day's work, I would like to see subsidies for work of younger people who could not earn the minimum.

Representative REUSS. What would you think, Mr. Klein?

Mr. KLEIN. I have no quarrel with that position. I must say that it would be good to avoid schemes that are ad hoc or directed at particular geographical areas or particular sectors unless that happened to be where the unemployment is. But I really do favor the employment tax credit.

It is one way or another of pumping some extra funds into the private sector to get up employment. I think a fairer handed way to doing it is the employment tax credit.

Representative REUSS. Let me say, as I will say again when we close the session, I think the whole panel has been remarkable and I want to congratulate our staff in assembling you. Being from Wis-

consin, which is the home of the so-called institutionalist school of economics, let me say that you have done well by those standards in that you have brought to bear a real insight on what is going on in the rest of the world.

I was very grateful to you, Mr. Klein, because you have stressed inflation. Mr. Galenson has stressed employment and Mr. de Vries has stressed helping the developing countries by the whole panoply of things.

But what it boils down to is that we also must remain prosperous at home so we can buy what they produce. You also advocate lowering barriers against these new found industrial products. You point out, particularly in labor intensive industries, the world may be better off if some of those migrate to the less developed countries and we specialize in what we do best.

Isn't that about what you are saying?

Mr. de VRIES. Yes, sir.

Representative REUSS. Looking at the U.S. situation and at the mandate which we invested here at home, it seems to me we really have to find something or we have to hope we will find something that satisfies your three needs—makes jobs for people in the least inflationary way and with the least discombobulation to your world view.

We happen to be sitting in the committee room of the Committee on Banking, Currency and Housing. The restoration of the existing stock of housing and construction of some new houses in this country is something that if properly organized could be done by relatively less skilled workers and younger workers.

It surely could be done without inflation because it does not draw on scarce resources. Furthermore, it would be a way of insuring that there were enough nonexportable high labor intensity problems so that we could let the developing countries make a few shoes and chocolate bars and buy them without ruining our own economy.

Would you agree that until something better comes along, a real massive attack on upgrading the existing stock of housing would be a good thing to do?

We are not giving up. Government and private labor is interested in this. There are pragmatic problems.

Mr. DE VRIES. It could be a very good idea. In the meantime, an added benefit may be in the saving of energy because houses that are very old have poor insulation. Some of those older houses in the smaller towns and in the country that have been built 75 or 80 years ago are very uneconomical to heat.

They add to our energy problems.

Representative REUSS. Any other thoughts?

Mr. KLEIN. I would like to say that the recovery that we are into now in this country is not getting very much help yet from the housing sector. From a cyclical point of view, there is a real need for stimulus. So far, consumption and inventory investment lead the recovery. That is a little bit counter to Arthur Burns' notion, as well. The stimulus that we need from the housing sector would be very important. That is in addition to the overall welfare point of view that we really need many new housing starts.

I would like to supplement that as well by saying that one of the first signs of the recession in Europe was a severe falloff in housing

and again what few signs we have of recovery in Europe have started in the automobile sector.

We are really hoping to see some revival of house building again on the European side. So, I think you have a very strong point there. This really needs some stressing in this state of the world economy.

Representative REUSS. Mr. Hamilton.

Representative HAMILTON. Thank you, Congressman Reuss.

I would be interested in getting your answer to commodity agreements. As you know, that is one of the items that the developing countries are pushing very hard now.

That is expressed in a number of formal statements that they have made. I understand we have them pretty accurate. It seems to me we have agreed to a commodity arrangement with regards to tea. I think there is one with regard to coffee that is on the President's desk right now.

That will be projected with regard to cocoa. The developing countries are pushing very hard on it. There is a big segment of this country that rejects the idea of these commodity agreements. I would like you to comment on how you see those.

I guess this is more in line with your statement, Mr. de Vries. Should we actively support these commodity agreements as a matter of policy?

Mr. DE VRIES. I would go very slow with commodity agreements. Although, I am not an expert in this particular field. I approach commodity agreements a little bit like exchange rates. We have guidelines and rules for intervention, mostly to lean against the wind. I think this is as far as I would go with both commodity agreements and exchange rates. To bring increasing rigidity into this field would be ill founded and would not contribute to the best allocation of resources.

Representative HAMILTON. Mr. Klein, do you want to comment on that?

Mr. KLEIN. I agree with Mr. de Vries about going slow on the problems, but I think I would be more favorable about getting into some of them and trying them out.

Representative HAMILTON. The pressures are very great here from the developing countries on these things. This is a cardinal point with them.

Mr. KLEIN. The extent to which the central bank is in and out of the money markets is not any different from a buffer stock manager being in and out of the commodity markets. The central aspect is that we must build a good enough buffer stock so we can have swings of the order of magnitude, resulting from being in and out of the market, that are needed in order to stabilize prices.

Most of the agreements and buffer stock schemes that have been tried in the past have been tried on much too thin a basis. When prices fell precipitously there were not enough funds in the capital account to buy up the commodity and there are not enough goods stockpiled when prices go up to stabilize it.

I would say that the projections I have looked at on about 20 or 30 basic commodities markets for the end of the decade suggest that the terms of trade or the real purchasing power of the export prices of

the commodities that are important to developing countries do not look very favorable. It is a very tentative judgment, but there are periods like 1973 and 1974 when they make big gains and then there are periods like 1975 when they make very big losses.

When you average that out over the whole cycle, it appears that the developing countries are not gaining, on balance. They never want to be kept away from the very large gains they can make in individual commodities. But I think there is much to be said for taking a longer view of the situation and saving on average, they will do better under stabilized prices.

Representative HAMILTON. Mr. de Vries, I was interested in your observations that seem to be reasonably optimistic, those are your words, with regard to the non-OPEC LDC's, to make adjustments.

That is in your prepared statement. We have had staggered increases in debt in these countries, do you think we are going to be able to avoid cancellation of debts and moratoriums or are we going to find the non-OPEC LDC's bringing forth a tremendous demand to declare moratoriums in the next few years?

Mr. DE VRIES. I am reasonably optimistic. I don't think we are going to have an organized moratorium. Countries like Brazil and Mexico, who have been extremely large borrowers on the private markets, know that they have far more to lose than to gain if they were to ruin their credit-worthiness. Their policy is to maintain access to the private markets.

Therefore, they will be prepared to make adjustments to control their balance-of-payments deficit, reduce it, and to maintain their credit standing. They will have in the long run higher rates of growth and improved well-being if they maintain their credit standing.

The newspapers the other day reported on some proposals to bring about an organized rescheduling of debts, but this is an extremely controversial issue and will have very little—none whatsoever—support from the leading borrowers in the market.

They don't want any part of it. I know the reactions of some of the leading countries in this. Now obviously when the external debt burden is too high and if there is a country which, because of various adverse circumstances, cannot meet its debt payments—these can be rescheduled.

That has happened before, but should it happen in an organized fashion with debtors and creditors sitting down together. I would not say this is a normal banking funtcion but I would not say it is an abnormal function either. It has occurred before.

Representative HAMILTON. Is it possible, Mr. de Vries, for those countries to default with regard to their debt owed to multilateral organizations and perhaps to other governments and still keep their access to private markets?

Mr. DE VRIES. None whatsoever.

Representative HAMILTON. Thank you, Congressman Reuss.

Representative REUSS. Thank you, Congressman Hamilton.

To everyone on the panel I want to express our gratitude. The committee stands recessed.

[Whereupon, at 11:48 a.m., the committee recessed, to reconvene at 10 a.m., Wednesday, February 25, 1976.]

THE 1976 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 25, 1976

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

The committee met, pursuant to recess at 10:15 a.m., in room 318, Russell Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

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

Also present: Robert D. Hamrin and Ralph L. Schlosstein, professional staff members; Michael J. Runde, administrative assistant; and George D. Krumbhaar, Jr., minority counsel.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. The committee will come to order.

Today the Joint Economic Committee continues its annual hearings—and we are now coming to the conclusion of those hearings—on the Economic Report of the President.

Today's hearing will focus on the outlook for State and local governments in the upcoming year and the effect of the President's budget and economic proposals on these governments.

Last year, State and local governments suffered their worst budget squeeze since the Great Depression. Inflation increased expenditures much faster than tax receipts. Then recession administered the second blow of the fiscal double-whammy. It caused enormous revenue shortfalls and increased expenditures for welfare, public health, and other unemployment-related purposes. According to the President's own Economic Report, State and local governments lost over $27 billion in revenues in 1975 due to high unemployment.

Now, that is a staggering figure. At the very time you are losing the revenues you also have to take on the additional burdens.

This year the situation will be mixed. For some States and localities the recovery will mean higher tax revenues and lower expenditures. For these governments, budgets will be balanced although the level of services will remain significantly below prerecession levels. I emphasize: Budgets may be balanced in some of our areas but services will be reduced.

For other State and local governments, however, this year will mean further fiscal disaster. These governments, particularly central cities and States in high unemployment areas, will be forced to undertake massive tax increases and expenditure cuts. Why does this occur in the middle of an economic recovery? The answer is simple. First, many

areas of the country will not participate in the economic recovery. Unemployment will remain high and budget crises will persist. Second, many of these governments are carrying large operating deficits this year.

Next year, these deficits will have to be offset with tax increases and expenditure cuts.

I want to mention again in the record that the economic recovery still has not made its impact, whatever that recovery, upon some of our big cities as we will learn here today. There are still very high levels of unemployment that far exceed the so-called national average.

Balanced budgets and high bond ratings are not the only way to evaluate the financial health of cities. You've got to look at tax rates, service levels and the quality of life. A city that has balanced its budget with taxes so high that they will drive out industry and expenditures so low that they force out middle-income families is not a healthy city. I want to emphasize that point because we've got some "experts" here in Washington, who look at cities like they were corporate balance sheets. Good cash flow is important to a healthy city, but good cash flow alone does not make a city healthy.

On top of all this, the President's new budget is an outright disaster for State and local governments—offering plenty of rhetoric but no money or too little money at the bottom line. When you look at the numbers—and that's what budgets are all about—the President calls for a 5 percent reduction in real grants-in-aid State and local governments.

Program after program has been systematically slashed to cut State and local governments' piece of pie—only this President calls it "consolidation." According to analysis done by the JEC staff, the four grant consolidations proposed by the President will reduce total outlays for these programs by $1.4 billion in fiscal year 1977. Sure there's a lot of rhetoric about local control and local discretion, but I imagine the Governor and mayors here today know what's at the bottom line. They know that discretion doesn't meet the payrolls, discretion doesn't operate the schools and discretion won't meet local housing needs.

The President's budget also contains what I call "tricks" designed to subtly increase State and local government costs.

First, the President's proposal to increase the social security tax rate would require State and local governments to increase their annual contributions to the social security trust fund in behalf of their employees by $300 million.

Second, the proposal to reduce the portion of transportation block grants that can be used for mass transit operating subsidies from 90 percent to 50 percent would require local governments to increase their own expenditures for mass transit by as much as $250 million.

Third, the President's proposal to phase out extended unemployment compensation benefits and public service employment programs could transfer as many as 600,000 households to the welfare rolls by mid-1977, thus increasing State and local government expenditures for public assistance by as much as $1 billion. Now, that's a total of over $1.5 billion. It's not $90 billion but its a good deal of money and a step in the same direction.

Finally, the President's budget contains absolutely nothing to stimulate private sector investment in high unemployment regions

and cities. His budget has written these areas off as losers and condemned them to a slow death.

As chairman of the Joint Economic Committee, as one of a hundred Senators and as an American citizen, I am going to resist that policy with every fiber of my body. It is time we call it as it is, a new form of economic oppression, designed to isolate the poor and minorities in the central cities and to slowly tighten the noose.

Today, we will discuss these issues, getting your respective points of view, with one distinguished Governor and several distinguished mayors from major cities. These are cities that are facing up to these very problems I mentioned.

Our first witness will be the Honorable Hugh Carey, Governor of New York. On behalf of the committee, I would like to extend a special welcome to Governor Carey, because he is a former member of this committee. Governor Carey left the hard life in Congress for rest and relaxation in the Governor's mansion in Albany. Governor Carey will be followed by a panel of three distinguished mayors representing the United States Conference of Mayors; Mayor Moon Landrieu of New Orleans; Mayor Kenneth Gibson of Newark and Mayor Coleman Young of Detroit.

Now, I am sure that some of my colleagues may want to have something to say. Senator Javits joined us earlier, Governor Carey, and possibly Senator Javits would like to address some remarks.

Senator JAVITS. Mr. Chairman, I will be brief. I would like on the part of the minority to welcome my own Governor of New York, who has fought such a valiant fight to save New York City and I think the country from what would have been the result of a bankruptcy in New York City and is now engaged in another fight to save the State. I believe it will be as successful as the fight to save the city.

The Governor is an excellent witness because he has actually been through the trial by fire. And I would like to express my identity of view with the chairman respecting the need for changing the basic governmental structure as it affects American cities. We simply cannot pay the bill for the Democratic shifts in the United States resultant of a vast number of our population moving from one place to another, which they have every right to do, without the Federal Government taking cognizance of the fact that you cannot bring the impact on a community and expect that community to do other than buckle under. And that is exactly what has happened to us and will happen time and time again in this country. So I would like to join with the chairman with respect to the federalization of welfare and other measures which are absolutely indispensable to save the cities in which over 70 percent of our people live. I know of no more elegant witness on that subject than our own Governor Carey.

Chairman HUMPHREY. Congressman Moorhead has a statement I believe.

Representative MOORHEAD. Thank you, Mr. Chairman. I want to welcome my former colleague here. I recall that the last time you appeared before this committee in your capacity was in New York City on the general subject of New York City's problem and also the countercyclical bill, which as you know, has been vetoed. And I don't know whether we can revise it or not but I hope in your remarks you

will address yourself at some point to that subject. But welcome back to the Capitol.

Chairman HUMPHREY. Congressman Brown of Michigan.

Representative BROWN of Michigan. Thank you, Mr. Chairman. I will reserve my statement until after I have heard the witnesses. I would only welcome you, Governor Carey, and I would like to personally welcome a good mayor, Mayor Coleman Young.

Chairman HUMPHREY. Congressman Long.

Representative LONG. I have no questions, Mr. Chairman. Welcome Governor Carey. I feel particularly honored you are here because your leaving the Congress created the vacancy that gave me the opportunity to go on the Joint Economic Committee.

Chairman HUMPHREY. Add that up to all the relaxation we are getting in Albany and you can see how you have made two people happy.

Governor, we really thank you. You go right ahead with your testimony. We will reserve our questions.

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

Governor CAREY. Thank you, Mr. Chairman, and members of the Joint Economic Committee.

Let me make this opening observation and then go into the testimony. Let me state that it would almost seem as though those who designed the framework of the budget this year decided to treat the States and localities across our country as though we were in the corporate world. In the corporate world you plan a contraction. If you want to limit production because demand is slack or something of that kind, you can do so. The corporate world can plan a contraction without severe stress or undue pain. But when you force State and local governments to exercise undue contractions—in other words, excise programs and life services from their budgets—it is not just like turning down the assembly line and waiting for demand to occur or improve, but what you are doing, in effect, is having a devastating impact on the future of children in the schools; you are forestalling needed health programs; as you pointed out, by withdrawing substantial support from mass transportation, you are increasing the energy difficulties of major parts of our country which are energy poor, and you are also slackening the pace of mass transit, which is a real job provider, an intensive job supplier to the marketplace where jobs, frankly Mr. Chairman, have not been arriving.

So the recovery, while it may be occurring on the corporate side due to some stipulation that we can point to in the Federal budget, but that recovery will not occur in that 15 percent of our economy which is represented by the State and local contribution to the recovery, Mr. Chairman, not if you force upon us a contraction by removing the very stimulation we need to be part of the recovery. That is what I see as an oversight to the President's budget at this time and a philosophy which I must dispute.

It is a great responsibility to appear before you in these hearings in what I think is the important duty of oversight on one of the most important expressions of the national will and national policy.

For the past 30 years, the Employment Act of 1946 has promised all Americans that the goal of national economic policy will be the attainment of full employment at stable prices; that every American worker should have the opportunity for a decent job at a decent income. That is a promise we held out to Americans and we must keep.

We are here today to consider whether the budget proposals presented by the administration are capable of fulfilling that promise.

There can be no doubt that in the 30 years since the passage of the Employment Act of 1946, national economic policy has on the whole been remarkably successful. National economic management in the 1970's, however, has fallen far from the standard set in earlier decades.

In the last 6 years we have suffered rates of price inflation intolerable in a mature industrialized economy. We have seen the economic advantage of the United States eroded to the point where we can no longer boast the highest per capita income of any industrialized power. Unemployment rates have been higher than at any time since the Great Depression of the 1930's. In 1974 and 1975 the U.S. economy suffered a recession so severe that the real gross national product fell by almost 4 percent. This translates into about $65 billion of economic activity which simply failed to take place over the 2-year period.

That money is lost and that effort is gone.

In short, national economic management in the first half of the 1970's has been a dismal failure as most workers and taxpayers can attest.

The question before us is whether the administration's budget proposals hold out the hope of rectifying some of the economic maladies and putting America back on a course to ample employment opportunities and a reasonable cost of living.

I want here, Mr. Chairman, to disagree with those who seem to say we have reached the outer limits and we can only contract and we have got to live within the stringency and austerity that will be our way of life in the future. I disagree with that because America has growth potential and it is here for us to do something about.

After consideration of several factors, I must conclude that the policies which have been presented by the administration are misdirected, built on a set of assumptions which are inaccurate, and inadequate to the economic management tasks we face.

President Ford—and I am talking now about the President's budget—has called the promise of full employment a "cruel illusion," and has said that the notion that the Federal Government can control the economy "just does not make sense." His budgetary proposals reflect that philosophy. His proposals are inadequate and do not provide sufficient economic stimulus to provide the job opportunities we are committed to providing for the American work force.

By the President's own reckoning, the unemployment rate this year, under his Federal budget recommendations, will average over 7.5 percent. We are not in that average at the local level. We are at 11.7 percent in New York and are in bad shape at 22 percent in Buffalo and places like that.

Chairman HUMPHREY. That is 11.7 percent statewide?

Governor CAREY. That is our statewide: 11.7. Look carefully at the whole northeast region and none of the northeast region from Maine

on down to Pennsylvania on down to New Jersey is anywhere near the national average. So it is misleading. We are in sick shape in the whole region of our country there.

This may represent an improvement—the national average that is—over last year's rate but it is still unconscionable, we should not undertake to provide jobs for almost 7 million Americans who are actively seeking productive employment opportunities; 1975 was the only other year in the postwar period when we suffered unemployment as high this administration is willing to settle for in 1976.

Some will say that we cannot pursue a more vigorous economic recovery for fear of worsening the inflation picture.

In my judgment such a position fails to recognize that the extra employment of a vigorous recovery would mean extra output productivity to bank the fires of inflation.

In explaining his recent veto of the public works bill, the President said the help it would provide would come 9 to 18 months down the road, by which time we would be significantly out of our present economic problems. I must question the validity of that observation.

I know the situation in New York City. We won't be out of trouble in that time frame. We will be in worse trouble unless drastic actions are taken and dramatic and dynamic proposals are made.

According to the President's own calculations, his budget proposals, if adopted in full, will leave us with a GNP at the end of this year only some 12 percent larger than at the beginning. This increase will consist of a 6-percent rise in the prices we pay for things and a 6-percent expansion in the real level of economic activity. These numbers, on the surface, might appear acceptable to some, but we must remember that this rate of inflation will still be higher than in all but 5 years of the post-World War II period; and that this rate of real economic expansion will leave us at the end of 1976 with economic output per capita which barely exceeds that which he had already achieved 3 years ago.

We must recognize also that the effect of a budget is not exhausted in a single year. Just as the present situation is conditioned by a series of budget decisions over past years, so, also, the budget adopted this year will effect the American economy for years into the future.

There are several serious implications of the administration's budget proposals for the course of economic activity in this country for the remainder of this decade and beyond. The budget plans of this administration will leave us with an unemployment rate drifting down toward 6 percent possibly by the year 1980. I remind you that only in the recession years 1958, 1961, and 1975 has the unemployment rate been so high in the entire post-War period. The administration's budget proposals foresee a state of permanent recession over the foreseeable future.

In summary, I don't regard that kind of projected economic performance as being indicative of significant future progress. We have to do better in relieving the real hardships created by the present economic situation.

There is another general aspect of the President's budgetary proposals which also bear comment. Too often, these proposals are presented as being in the interest of governmental reform and responsi-

bility, whereas the stark reality of their impact suggests reactionary government and a withdrawal from responsibility.

During the middle part of this century, American Government took on historic assignments. During the Great Depression, the President declared that one-third of the Nation was ill-clothed, ill-housed, and ill-fed, and proceeded to do something about it.

A succession of presidents in prosperity attempted to carry on the work that he had begun. Particularly during the 1960's, a multitude of new assignments in social responsibility were undertaken. With the help of Congress, programs were set in motion to provide relief for the ill, food for the hungry, training for the poor, and education for the young and preschool children, I might add, Mr. Chairman, which has been most successful. On every front, government, with the approval of the voters, knew they had to meet a long-delayed agenda of human needs.

Yes, mistakes were made. Some of the programs were poorly conceived and proved to have built-in difficulties no one had anticipated. But some have succeeded. A series of Federal mandates and regulations were built up that sometimes took on a life of their own, and worked against the very ends they had been created to meet. We know of those fears and we know of those entanglements. We must look for ways to cut back on programs that have proven effective, and make others more workable.

We must find ways to reduce unnecessary and counterproductive Federal interference in State and local affairs, and eliminate expensive administrative overhead.

But in our zeal to reform, let us not throw out our social goals with our waste.

What the present budget suggests is not a thoughtful retrenchment, based on a balancing of human needs with economic needs. It pulls back on commitments that have represented the social philosophy of this country for the last 45 years, and takes a hard shift in a backward direction.

As one of the strong proponents of Federal revenue sharing while I was in Congress, I strongly endorse its concepts, and its continuation. But the creation of a mechanism by which we could more effectively transfer some Federal funds, to be distributed at the discretion of State and local governments, did not—and does not—exhaust the Federal Government responsibilities to our Federal system.

Let me talk as to the State and local government impacts of this budget. I speak to you today as the Governor of a State which, together with many of its local jurisdictions, has known more than its share of fiscal trauma in recent months.

I said to the Governors assembled yesterday at the Governor's Conference that we don't want the fiscal flu of New York to spread to other jurisdictions and, unless contained, and unless it is, frankly, assisted directly where it occurs in the northeast, it will.

One of the most difficult aspects of the President's budgetary proposals is that it disregards the harsh economic realities now facing State and local governments throughout the country. Moreover, these proposals seem to miss the economic significance of these State and local fiscal difficulties for the Nation's economy.

Unlike the Federal Government, State, and local governments around the country cannot exercise the option of deficit spending as a policy tool for economic stimulation. When faced by an economic recession which reduces their revenue potential, these governments are forced into counterproductive and procyclical economic behavior. When faced with reduced economic activity we must inevitably contribute further to that reduction by cutting public services, unless Federal fiscal and economic policies take into account, and attempt to offset, the pressures for such behavior.

The report by the President's Council of Economic Advisers notes that one of the reasons for the less-than-vigorous economic recovery forecast for this year is the weak fiscal condition of the State and local government sector. As you know, this sector accounts for some 15 percent of the total economic activity in the United States. In the past year, the State and local government sector has slipped from a condition of budgetary surplus to a condition of budgetary deficit. In response to this, the only prudent course for most units of State and local government has been to reduce expenditures and/or raise new tax revenue.

Indeed, in 1975, a year of national economic recession, the State and local sector took in new taxes, over $1 billion out of the spending stream, when indeed it should have been reducing taxes to promote economic recovery.

More so than in any postwar recession, the State and local government sector has contributed to the instabiilty of the business cycle. Last spring I testified on behalf of a measure before the Congress to provide intergovernmental countercyclical assistance to help smooth the effects of the business cycle on State and local governments and to help this sector coordinate its cyclical economic policy with the needs of the nation at large. When this proposal was passed by large majorities of the Congress, as part of a broader package of intergovernmental fiscal proposals, the administration vetoed it.

The outlook for the State and local government sector under the administration's budget proposals is bleak. The budget proposes the smallest increase in State and local government grants in many years. These grants, which account for more than 15 percent of Federal spending, will receive less than 5 percent of the increased nominal spending scheduled for 1977, and will actually represent less purchasing power than in fiscal 1976.

Let me cite also some specifics of the budget proposals which I believe will have adverse effects on the fiscal condition of the State and local government sector, on the economy at large, and, in particular, on States like my own New York.

The President's budget requests, for example, a multiyear program to spend $100 billion in the field of energy development. The stated desire is to create energy independence, with greater emphasis put on the use of coal wherever possible. In States like New York, there are many industrial areas which could use coal if it were possible to get it—but to get it requires adequate rail services.

But instead of a Federal policy of rail encouragement we see a policy of rail abandonment. In New York, over 1,000 miles of rail lines stand endangered, with 400 miles of these lines located in the

southern tier alone—one of the State's most critical areas for economic development.

If we took but $1 billion of the proposed $100 billion in energy development—either in terms of loans or guarantees of some sort—and if we put it into improved transportation for existing energy resources, we would have fostered a far less expensive expansion of energy resources, and far less cost than the present administration policy anticipates.

I join with other Governors in saying that in many instances, consolidation, and a shift to a block grant system makes sense. It makes sense to the extent that the Federal Government reduces its restrictive, detailed controls on State-run programs, while continuing to provide broad policy direction. I believe that the Federal Government should continue to play a role, even, in some cases, by establishing national, minimum program goals and standards. We welcome that kind of partnership.

But I disagree strongly with the administration's attempt to use the block grant system as a way of circumventing the original legislative intent of the various categorical programs.

The four major consolidation proposals in the fiscal year 1977 budget do just that. While the requirement for "matching" State dollars is being eliminated, so too are most of the program goals that have been painstakingly established.

These consolidation proposals use a carrot and stick approach, attempting to play off State against State. The carrot is a promise of less Federal intervention; a return to the States of the power to establish program priorities in the expenditure of Federal, as well as State moneys. The stick is a reduction in Federal funding that for many States, New York included, verges on the catastrophic.

Thus, the Congress now has before it a budget that, not only would provide less money for social programs next year than has been appropriated this year, but promises to set in motion a process that will drain off more and more Federal dollars in years to come. That is not consolidation; it is constriction, a slow and painful strangulation. That is the contraction I mentioned earlier and that can take place in the corporate sector but contractions in the public sector of State and local governments can cause a social spasm that can bring about all kinds of unforeseen results.

The proposed health programs consolidation is a good example. Based on an analysis of the budget as submitted by the President, and on the original briefings conducted by Secretary Mathews, 15 separate categorical programs, plus medicaid, would be packaged into one block grant. Under these proposals, however, the States would have to determine priorities almost entirely on the basis of medicaid versus all other categories of health care, or increase State and local tax efforts to make up the difference. Something as important as national health planning would, in effect, be eliminated. Each State would move, if it chose, in its own way, at its own pace. Health planning demands to be a national priority, with national goals.

In fiscal year 1976, New York State will receive over $1.6 billion for these consolidated programs, nearly all, $1.5 billion, of which is for medicaid reimbursement alone. In fact, given the recent congressional

override of the HEW appropriation bill veto, we expect up to an additional $100 million for these programs. The point of reciting these figures is to make absolutely clear what the impact of consolidation will be: New York's entitlement would be immediately reduced to $860 million—a decrease of over $800 million; because of a 5 percent maximum annual reduction—effective for 3 years only—New York would actually lose some $70 million a year beginning in fiscal year 1978; but overall the cost of the program consolidation is $800 million.

This $70 million annual reduction must be contrasted with the $425 million increase in medicaid alone last year, and an even larger increase this year.

I am aware that intensive discussions have been underway within the administration to clarify many of the ambiguities in this proposal. It is even possible that we will all see it in bill form sometime today. While one spokesperson says New York's loss will be held to 5 percent annually, another says 10. One says we will lose nothing, another acknowledges millions.

One thing, however, is clear: The consolidation as originally proposed is clearly and simply a case of the Federal Government bailing out of the medicaid program. It is an acknowledgement that health costs have gone beyond their willingness to pay. Their solution is simple: Get out and leave the States holding the bag.

Other block grant proposals for education, social services, and child nutrition present similar examples. These proposals represent the worst possible Federal response to the economic and budgetary problems of the States. A fictitious concept of "equity" would be substituted for need.

But, unfortunately, that is not all. It is not just the block grant proposals to which we must object. I would like to mention several other budget cuts that would, quite literally, be devastating.

As you know, the President has proposed that public service jobs under CETA title II be phased down by October 1977, and that the additional temporary public service jobs funded through title VI be eliminated entirely. Title VI elimination means the loss of nearly 20,000 jobs; title II phases out a similar number. In a State with an unemployment rate exceeding 10 percent, job losses of that magnitude are staggering.

The elimination of title X, Economic Development Administration, EDA, would mean even more job losses. Last year we received more than $42 million to fund a variety of labor-intensive projects. Next year we would get nothing. What do you tell a person who may be losing his job for the second or third time in 3 years? That his Government doesn't care?

One final example, not of job loss, but the consequence of the President's proposed restriction on the amount of Urban Mass Transit Assistance, UMTA, section 5 funds that can be utilized for transit operating assistance. Virtually all of the $109 million New York now receives is used for operating assistance rather than capital projects.

A restriction to 50 percent on these funds would mean a loss of nearly $54 million in operating subsidies to the MTA—and the MTA is our largest carrier of transit passengers in the metropolitan area. A loss of that size cannot be made by the State and would have to come from the pocket of the already-beleaguered subway or bus rider,

which means a fare increase to the working poor; to those who must use mass transit to get to work and to look for a job. It is an unbearable tax on a group that is already, frankly, heavily overtaxed.

The point of all this is that the budget must be considerate of the needs of our people. We cannot take away their jobs when there is little likelihood that the private sector will rehire them. And we cannot keep asking them to pay more for less.

In broader terms, however, the treatment of State and local governments reflects a basic misunderstanding, or lack of appreciation, of the economic realities of our time. If we are to insure national economic health, a new and realistic view of federalism is essentially a view and policy that benefits all the States and regions of this Union.

It is time to dispel a long-held and cherished myth that somehow, the fiscal problems of States and localities are distinctly apart from Federal fiscal problems or are unrelated to the economic health of other sectors of the Nation.

Our Nation's fiscal health is, in fact, the sum total of all regions' fiscal health.

We can no longer afford to dramatically favor one part of this country over another, in obvious defiance of pressing social needs.

We can no longer allow economic illness to fester in any section of our Nation, for, as it festers, it shall spread and, in time, consume every State and every locality.

The well-documented and advertised difficulty of New York City and indeed of regions of New York, as we have indicated, showed that to be all to true this past week.

We can no longer divide the needs and problems of a mobile and demanding society along convenient geographical boundaries.

The subway cars that travel below New York City are the product of Pennsylvania workers; the seats for those cars, the work of Michigan laborers; and, the subway communications equipment the output from Illinois shops. New York schools' textbooks come from printing presses from all over the Nation.

The last time I appeared before this committee, as Bud Moorhead indicated, during the New York City fiscal crisis, the interrelationship of economies I speak of was clear. In simplest terms, the fiscal demise of New York City, apart from whatever havoc would have been wrought on the local government and the residents of that city, would have reduced the growth rate of the GNP one percent and imbalanced economies in every State.

The events of last year, starkly highlighted the consequences that can occur if this administration continues to ignore the reality of the economic interdependence of all sectors of our Nation.

This interdependence is clear to many others in this Nation. A recent survey of State fiscal conditions done by the National Governors' Conference—meeting now in Washington—staff revealed "State surpluses of previous years are gone, Governors and legislatures—many of whom have already taken dramatic belt-tightening measures—are faced with further tax increases or spending cuts or both to keep their budgets in balance."

As we are dependent on one another, so are we related to the actions of the Federal Government—actions, as reflected in the President's budget, that do not address the reality of our situation.

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The need for a modern federalist approach is pressing—the proof of the need is nowhere more clear than in the vast and aging Industrial Belt that stretches from Massachusetts to Illinois and beyond.

The needs of the Industrial Belt region, which includes the State I serve, amply demonstrate the consequences of pursuing outmoded Federal regional economics. Similar cases can be made for virtually every other region and State—for, each have their own needs, their own resources, their own future.

When New York and other Industrial Belt States were the preeminent economic centers in this country, it was appropriate we contribute more to the national treasuries than we received. Today the facts speak otherwise.

For example, consider the following: job growth rates in this region have lagged far behind the national average in recent years and many States are experiencing chronically high unemployment rates; a decline in manufacturing payrolls from Southern New England to the Midwest; drastic declines in construction activity and shifts, in many States, from net in, to net out migration; and, a resultant growing welfare load in many urban industrial States.

In spite of these damaging realities, we still sent vast amounts of our tax resources to the Federal Government—reosurces, that in far too many instances, are not returned equitably.

This year, for example, New York State will generate an estimated $60 million in taxes. Two-thirds of this, some $40 billion, will come to Washington. To a disproportionate extent, however, this money is never returned to the citizens of our State.

States in the Northeast and Midwest receive only 28.5 percent of the Nation's defense expenditures, for example, but these States account for 42.7 percent of the Nation's population, 46.5 percent of its personal income, and nearly 50 percent of the total Federal tax burden.

Similar imbalances exist in the disbursement of community development and housing funds, where the Industrial Belt receives only 38 percent of the Federal expenditures, despite a rapidly aging stock of housing and community facilities. The region receives a smaller proportion of income support moneys than the portion of Federal taxes which it supplies, despite a substantial growth in welfare dependent populations in recent decades.

I am not offering these examples solely to press for greater consideration of the great region of which New York is a part. A strong case can be made for all regions of the Nation. Each of us must be viewed distinctly, considering our own particular requirements and pressures, but also cognizant that we are one great Nation whose needs must be addressed not only equitably, but rationally.

In short, if we are to have a rational economic policy, as distinct from the President's budget, we must first have a searching reexamination of the basic assumptions concerning regional economic conditions which underlie Federal policies.

Clearly, our view of the President's proposed budget is that it does not substantially address our pressing needs. I have discussed a number of specific instances where the President's proposals, not only fail to honor commitments made in the past to the American people, but also do not respond to the new dynamics of our economy.

Implicit in our criticism of the proposed budget is that it does not provide a sufficiently expansionist economic policy. Beyond this vital policy consideration, the budget also fails to do the following: Recognize the interdependence and importance of State and local governmental economies to Federal fiscal policies and actions, and, acknowledge critically important questions of regional balance and health. In brief, it fails to address new economic realities.

Over the short term, the administration's proposals will not cure our immediate economic malaise, nor will they address the longer term issues unless prompt and sure action is taken on a number of fronts.

First, among these is the necessity for extending revenue sharing. I would hope few in Washington disagree with the need for this important measure, for, without it, State and local governments will be unable to plan their fiscal futures with any degree of confidence and assurance.

In other areas, the President's recent veto of the public works/intergovernmental countercyclical assistance bill, which was supported by large majorities of this Nation's elected representatives, is a tragic misinterpretation of our current needs. I implore the administration to review and reassess the damaging position it has taken and I implore the Congress not to give up this fight.

Unemployment insurance is another area where the Federal Government must reassess its position. By the end of this year, more than half the States of the Nation will find themselves in a deficit situation in their unemployment insurance funds. The policies of the Federal Government must shift from that of overseeing a system that places States in competition with other States, while it drains their own resources. It is time that more of the responsibiliy for assuring needed support for workers unemployed because of national economic cycles is accepted where it should be—at the national level.

The Federal Government must also recognize that income support for the poor and needy in a mobile society is a national responsibility.

I welcome the comments on that proposition made by Vice President Rockefeller yesterday in front of the Governors which called for immediate action on federalization of welfare. That time has come. I welcome his comments.

I call for substantially greater participation by the Federal Government in our welfare financing system.

Many of these proposals are well-known. We have seen them before. Some have already been adequately debated but remain unenacted. But this is also the time to consider new approaches to deal with the realities of our interlocking blocks of regional economies—proposals which approach the needs of modern federalism in a practical and direct manner.

My experience with the New York City crisis has taught me that traditional geopolitical boundaries must sometimes be disregarded in the interest of sound economic and fiscal policies.

Increasingly, sister States and local governments, existing in broad regions bound together by common problems, will find it necessary and desirable to disregard traditional boundaries in the interest of mutual survival. I see an inevitable enhancement of the importance of each of us to one another—a coalescence of mutual interests into a series of regional economic organisms.

I am trying to begin that process in my own region. Just yesterday, I met with several Governors from our neighboring States, and it is clear that there is a strong perception of common solutions to overcome them.

I see a day when the American economic landscape will include regional mechanisms for solving common problems. States might pool some of their capital resources, for example, to create a series of multi-State-funded regional development corporations. Such corporations would utilize federally guaranteed loans to multiply the impact of limited resources on the economic health of their region.

Is it merely visionary to suggest that private investment dollars can thus be attracted to do some of the work which now remains undone because of a lack of public tax dollars? Is it unrealistic to expect fundamental changes in the mechanisms and institutions for dealing with problems of economic development? Is it naive to think that legislatures from different States will join together in such common purpose? I don't think so.

We have had a common market of regional and economic borders and have moved across those borders in a very successful effort over the past years.

The times cry out for change. The only totally unrealistic view is that change is not inevitable.

One reason why we must begin now to anticipate the need for new solutions—to deal with the new realities implicit in the regional economic problems of this Nation despite the lack of interest in them by the present national administration—is to prepare for the inevitable change in national leadership which will occur next January.

In closing, I would note we have come to a period of basic readjustment—a period in which we shall have to accept a reordering of the most fundamental relationships between governmental bodies. For some, the adjustment has begun, for others it is being held off.

For all, it will come.

Thank you.

Chairman HUMPHREY. Thank you, Governor Carey.

The committee I know is very impressed with what you have had to say because of the vantage point that you occupy being the Governor of the Empire State, which is one of the truly great States of our Union. You have stepped into that role of executive responsibility at a time when you have had to face every conceivable demand upon State government.

Your message today is well-documented and I am sure that it will provoke from the members of this committee a great deal of questioning. I for one, want to express my thanks for your documentation, for the evidence that you have presented as to the effect of the current economic policies we have pursued by the Government, by the administration, and particularly the budget message because the budget represents the nitty-gritty, the meat, and the rest of it is talk and rhetoric and just nonsense.

Now, you have emphasized here the importance of the countercyclical assistance for State and local governments and of course combination bill of countercyclical assistance and public works. I want to stake out once again the role of the Joint Economic Committee in this matter.

This committee is not a legislative committee, but it does present to the legislative committees, as you know having served on the committee proposals. Back in April of last year, Senator Muskie and I introduced legislation to provide emergency countercyclical assistance to State and local governments that have unemployment rates above 6 percent. I think people forget that was the trigger.

I am particularly proud of this legislation since its genesis was right here. Actually the first proposal on this came in 1970 and then it was outlined again in the annual report of 1971 and then the proposal was made in the inflation report that was given to us in 1974. Then again, it was spelled out in considerable detail in the annual report of 1975.

Now, there are those of us who think this was the most effective antirecession bill that had been developed by the Congress in terms of helping State and local governments. I am not saying that the amounts were adequate but at least we made the approach.

Could you explain to this committee what the veto of this essential legislation will mean to your State in even more detail than you have? And did the President ever indicate to you, Governor, or to the Governors—because I know you meet with the group of Governors—did he ever indicate to you that he would support this legislation since it was the No. 1 priority for States and cities?

And finally, you and I have talked about this or maybe I was talking with Mayor Coleman Young, but the President has proposed a substitute piece of legislation which relies heavily on the Community Development program. Are you the cosponsor of that bill in the House?

Representative BROWN of Michigan. Yes.

Chairman HUMPHREY. Congressman Brown of Michigan is the cosponsor in the House and I think Senator Griffin is the cosponsor in the Senate. I would like to get your opinion on this legislation as a substitute. I am going to ask the mayors this as well.

So my first question would be what would be the effect of the veto on your State and did the President ever indicate to you his support of it?

Governor CAREY. Mr. Chairman, let me say, first, that in trying to put together a finance plan for the city of New York, for the metropolitan region of New York and building into that plan certain assumptions on behalf of the State government, we programed in expectations that are assumptions and essentially we counted on the fact that there would be a level of funding for the Federal Government that would alleviate our most pressing condition; that is, unemployment and the fact that we lack money for capital projects. So public works' money and countercyclical money were the kinds of money that would directly alleviate the conditions that are eroding the economic base of the State and locality of New York, our locality.

We were led to believe by observing—and I don't want to speak for the President or attribute to him these observations—but led to believe that there would be a marked effort on the part of the Federal Government to recognize the plight of the localities that were hard-hit by a severe and catastrophic unemployment. The veto of that bill frankly, Mr. Chairman, seems to totally reject and, if you will, ignore

the condition that is undercutting our attempt to participate in the recovery.

It is specific as this: That if we continue at 11.7 percent unemployment in the city of New York and other regions of our State, the erosion will accelerate because the increase of the welfare burden and the additions to the unemployment rolls will place upon both the employers and upon the taxpayers a further undue burden, which they cannot bear.

So the countercyclical proposal was really for the relief of the taxpayer who is being forced to pay that $1 billion I spoke of in increased local tax burdens. It is local tax relief. It is directly triggered, aimed at the areas of excessive unemployment.

All unemployment in my estimation is excessive but the gravity of the matter is such that young persons have never held their first job; that persons who have been trained to work and who normally would be acceptable to the employment rolls, they have yet to hold their first job. That is the rejection they feel. That is what the veto did.

Insofar as understanding as Governors is concerned, in our discussions that I held yesterday and over the past days with Governors in the region in which I spoke, Mr. Chairman, we see that further slippage of the economy of the Northeast, that further erosions that I spoke of, of our economic base, will forestall all participation in the national recovery.

Does it make sense to look at a level of unemployment benefits that currently exceeds $20 billion a year and then veto a bill in which one-third of that amount or less would be aimed at curbing unemployment with the countercyclical budget proposal? It does not make sense in my estimation to veto a less costly bill and just go along with the condition of increased unemployment benefits of above $20 billion a year where half the States, as I mentioned, will have to come to the Federal Government because they are in deficit on their unemployment accounts.

This does not reconcile itself with the conditions. And the veto has that impact.

Now, a substitute? I strongly believe in conciliation and compromise with the Chief Executive and the Congress and that both ought to aim for the same objective. But I urge if the substitute is only a palliative, then if it is a community development program under some underfunded system, you are repeating the great error of section eight moneys. The section eight moneys are designed to alleviate our housing shortage. They are unworkable. Section eight moneys are being put into placement for communities that actually have no need just to get them into the program somewhere to see that section eight will work.

Now, please don't give another community development program when what we need in the community is jobs. If you can get jobs, we will develop our own communities. But an unemployed community where the fathers and heads of households are in the majority and are unemployed, that needs one great development—and that is jobs. And unless we get that, community development is just more of what we did in the 1960's; that is, to organize people to seek something.

And as has been said by Saul Bellow I believe, that we are all looking for something to take home at the end of the day and that is a

paycheck and that is the security of a paycheck that will last in a plant that is going to produce. That is the kind of development I want to see. That will let us do our own community development.

Chairman HUMPHREY. Well, I thank you for your answer. Very quickly, Governor Carey, have you made any estimate of what the unemployment rate will be in your State at the end of 1976?

Governor CAREY. We hope it will go from 11.7 percent possibly down to 9.2 percent in a 2-year cycle, a 2-year period. But 9.2 percent is unacceptable.

Chairman HUMPHREY. That would be into 1977?

Governor CAREY. That would be 1977. At the end of 1977 we will get to 9.2 percent if we get an increased rate of recovery. At the present rate of recovery we do not see it going down that quickly to 9.2 percent. That is on a State-wide average basis. Among young blacks, Puerto Ricans, females in the work force, you can speculate on the number. If you want to talk about the construction workers in Buffalo, it would be 22 percent and may go up before it goes down.

So, the averages are misleading. I don't want to deal with that kind of average where we average in workers to say that those that are working are worked into the average, Mr. Chairman, and those that are not, are not; and that overall we are improving. I don't want to do that because we are not improving for those who have not had their first jobs, for those who are in the minorities and who have not had equal opportunity access to the jobs. We are not doing anything for them.

Chairman HUMPHREY. What would be the impact on your budget if revenue sharing were not renewed?

Governor CAREY. We would frankly be in dreadful shape because we have built into the financial plan, which has been approved by the Federal Government that undergirds the financing and the security of the budget of New York City, definite moneys that come from revenue sharing. There almost $300 million in that city alone. If that program is not renewed, reenacted, we are in dreadful shape.

Chairman HUMPHREY. Senator Javits.

Senator JAVITS. Thank you. I appreciate your testimony very much, Governor. It is true that 7½ percent are unemployed, which is somewhere around in the area of 7 million to 8 million unemployment. Even in our own State, where we have about 10 percent of the work force unemployed, 90 percent are employed. Is that a fact?

Governor CAREY. Well, Senator, that is not quite accurate because if you take the unemployment statistics, we get those from the State unemployment office figures and we get them from those who have been employed, who have gone for unemployment benefits, and then we calculate the unemployment rate. But there is a vast number of people who are the people who are not counted. These are the faceless people or the forgotten men of Roosevelt's day.

These people are not counted into the potential work force because they never had a job or some of them have left the unemployment rolls for such a period of time that they have gone on welfare as steady clients. So I don't want to hazard that 90 percent of the people are employed who are employable. We have many more people who are employable but we have not trained them and we have not provided the

jobs or the industries have moved away or our construction capital improvement programs are not existent.

Senator JAVITS. I really was not trying to contend that with you.

Governor CAREY. No; but I mean——

Senator JAVITS. Because I happen to agree with you completely. Generally about one-third of the unemployment roll is added——

Governor CAREY. Correct.

Senator JAVITS. But even if we said 85 percent, my point was, Governor, that we must also—must we not—that assuming we are in agreement about the unemployed, we must have a profound concern for those defects shown in the structure of our economy in this recession, which concerns also even the 85 percent that are employed?

Governor CAREY. Yes.

Senator JAVITS. Is that correct?

Governor CAREY. Because many of those are employed but are not working a full work week and their take-home is decreased.

Senator JAVITS. In addition, Governor, you can't turn the pyramid upside down and stand it on its point. To support the unemployed and to do all of these laudable things we want to do, we have to be certain about the employed and we got to build on that base. That was my point. Because I like very much what you said in your statement about private and public resources combined for the purpose of development and about enterprise in regional development. I think we have got to break the matrices of what has happened in this country as to the political boundaries, which date back to the revolution and before. Who knows when you cross from Manhattan to Yonkers or from Queens to Long Island? I do it, you know, constantly and so do you but you don't know the difference nor often from one State to another.

So, I would like to support you very strongly in your remarks about enterprise on the part of our State and local officials. Because I like what you said on that very much.

Governor CAREY. I am looking at that, Senator, basically because we have encountered both in the private and public sector a severe liquidity shortage. The private sector is grappling for loan monies. We hope that the capital flow will increase for business expansion. But we know the conditions of the banking system and it is such that it is going to be tough to get money. It is even going to be harder for the governments to get money because our sole resource frankly is the Federal Gvernment.

Senator JAVITS. You see, Governor, the minute the Federal Government puts out an attractive bond issue, it is over-subscribed and then it is rationed. This indicates that there is sufficient capital in the country. The problem is velocity, as Arthur Burns said in his very perceptive statement. Velocity is missing. People invest only in what they consider safe investments because they don't trust the economy. That is why I like your suggestion that we have to give these people confidence in the American economy.

Governor CAREY. I welcome the initiative by the Senator from New York, who has brought together the heads of our industry groups and labor groups and we are embarking upon a self-start, if you will, economic expansion program for New York State. But we want to regionalize that. It has even been suggested we go so far as to think that a regional capital resource bank system. We need that.

Senator JAVITS. Terrific. I also hope the Governors, Governor Carey, as they are considering other measures, will consider not only what you are saying but also will consider—even though it engenders certain fears—the concept of planning for our future, which Senator Humphrey and I sponsored in the national planning bill.

It is my judgment that our people are losing confidence in Government, and in our economy because we are not enterprising enough. Enterprise once made America and it will make it again.

Governor, I have one specific question to ask you. Would you be kind enough to address yourself to a federalization of the welfare bill which I introduced with Senator McGovern and which builds upon the structures laid down by Congresswoman Griffiths—and I think you were very much a part of that. The reason we need the help of the Governors is this.

There are very important tradeoffs in this legislation. For example, we say "give up food stamps if you can get a minimum national income because people will buy the food with the money they have in their pockets."

Now, that could sound antiliberal if you looked at it superficially. But, if the Governors, who understand the problem, will consider it and perhaps give us ideas as to how to change it or give us some support, the basic soundness of the idea will be evident. It is my judgment that we have got to federalize welfare. It is the cancer eating at the big cities. New York City is the number one horrible example.

So I hope you will give us a critique of exactly how the Governors would like to see it done.

Governor CAREY. Well, it would be most welcome, Senator. You recall that we did pass the bill on the House side twice and there was a major effort to secure Senate passage but it foundered and twice we foundered. But I would like to introduce the notion that welfare is already federalized except for the payment process. We have the limited program of local assistance to dependent people. The SSI category totally is federalized now and of the Aid for Dependent Children category is federally administered according to guidelines and eligibility standards. So, in effect it is federalized except for the payment of that 50 percent of State and local governments.

So, we are asking that since the Federal Government calls the terms and we have to dance to the tune called by the Federal Government that the Federal Government pay the piper. Because we don't judge who is eligible for welfare. We are forced to accept the welfare clients in our State. The courts have made this a mandate. So we have the judicial system saying "you must pay that needy person" and the Federal judicial system has said "you must pay at grant levels that have been established." So in effect the courts have federalized welfare in terms of our mandate and what they have put upon us as a burden and we don't reject that. We in New York City have always cared for the poor, the needy and the immigrants. And we intend to do so.

But we are federalized except for the payments. And I can show that if the Government were to federalize welfare and adopt a computerized identity and computerized methods of surveillance and issuance of cash benefits including the cash-out of food stamps, we could save money on the total conduct of the program. In fact, we could bring into identity and carefully personalize those who are on welfare

or frankly, as Representative Martha Griffiths well pointed out, those who are tending toward welfare. We could prevent them from becoming welfare clients once we identify the family in need and the family moving into a welfare situation.

And the Griffiths' bill and your bill frankly are the kinds of bills that would move and should move. I welcome again the articulation of his own position by the Vice President, who was the former Governor of our State and who knew that the State was being heavily beleaguered economically by the drain of resources going into an unworkable welfare system mandated upon us by the Federal Government. It is a Federal system except for the payments.

Senator JAVITS. Well, thank you very much, Governor. I have just one other area. I would like to tell you that you can't begin to realize how strong our case—not necessarily our bill—would be if it were butressed by the Governors. That support is how we got general revenue sharing. It would not have happened any other way. And that is how we will get this.

The next absolutely No. 1 objective is the federalization of welfare in money as well as in substantive law.

The only other question I would like to ask you is this. I welcome your warning about these block grants. They are going to kill New York City and New York State and every other State and every other big city had better beware. It is a very illusionary promise that you can have free wheeling for your spending. You have already pointed out that it is absolutely killing mass transit in New York.

In the final analysis the trade-off between freedom of action and the diminition of funds—which you know, will happen—is one of the greatest of threats from the Federal Government to the States and cities. Local governments will face disillusionment if they believe that block grants give them freedom of action. On the contrary, block grants will absolutely impoverish State and local governments and put them in an infinitely worse position than they are in today. So I am glad you agree. Thank you.

Chairman HUMPHREY. All right. Congressman Moorhead.

Representative MOOIHEAD. Thank you, Mr. Chairman. Thank you, Governor Carey for an excellent statement. I like your words about a vigorous recovery. And you served on the Ways and Means Committee. I serve also on the House Banking and Currency Committee. I think we should be adopting both fiscal and monetary policies that would produce a "vigorous recovery" using your words. But even if we do, it seems to me that one of our great failures of our economic policies is that if you have a national average of unemployment of 7½ percent, if you adopt that—recognizing of course there areas with very low unemployment and areas such as your area or mine with very high areas of unemployment—that these aggregate monetary and fiscal policies will do little to reduce unemployment in the areas of high unemployment whereas they will create inflationary situations in areas of low unemployment. I noticed in your testimony, Governor, I counted several times where you referred to "outmoded federal-regional economics" and "outmoded regional economies" and you stated "regional problems" and "regional economic problems." It seems to me that the programs we should be adopting are those that really encourage particularly the private enterprise to locate and ex-

pand in areas of high unemployment; that is, in areas where we don't have to worry about inflation. You mentioned about the defense contracts, for example, that were not going into areas where there is high unemployment.

Would you comment, sir, on how we can best utilize the resources of the Federal Government to recognize different regional economic problems and try to correct them?

Governor CAREY. Well, the first thing to do would be to allow us to operate as regions and deal with the various Federal departments regionally so that when a region spoke on a unitary basis or on a consensus basis, so that would be convincing as far as the Federal Government is concerned.

On the rail transportation system, if we as a region can mark out the track that we need to have preserved in order to have an integrity as a region for rail transportation, we would expect the Department of Transportation to recognize that as a regional judgment, that, frankly, should be supported.

If, indeed, the energy resources of an area are a critical matter and they get around to talking about deregulation of natural gas, someone should build into the directions of the Federal Power Commission some sort of allocation system so that, with the deregulation and the occasion of some higher costing to the consumer, we get a more adequate supply resource especially for industrial use in the production of chemicals and fertilizers, which are the output we can only get from natural gas. These considerations should flow together and a region should be able to assemble that kind of plan and have it recognized by the Federal Government.

The situation is the same in health. We don't all have the same kind of endemic health difficulties in different regions of the country. And those matters that regularly occur that cut down the stability of our health system in certain areas of our country are not replicated in other areas of the country. So regional planning for health is a matter that we can indulge in.

Overall the most important thing is what you specified: allow us to organize into zones for reconstruction of the financial and economic structure of our region; allow us capital resources in forms of guarantees. We are not asking for subsidies but guarantees of some kind that will bring in that venture that you are talking about that will bring vigor back into our economy and take away what evidently is the tendency to horde or to retrench because there is a lack of confidence that that region is an attractive one for further investment either by corporate moneys or by private sector investment of individuals.

If a region is coming back and somebody sees that plant sitings and good communications are bringing employment back into that region, there is a greater tendency to invest. And that kind of encouragement can come from a Federal guarantee system within regional-reconstruction-finance type of operations. And we lack those. There is no planning for that going on at the Federal Government level.

I don't know what the Department of Commerce is going to do with the Economic Development Administration which has successfully effectuated employment opportunities and expansion of business and particularly small business in years past. I don't know what

the program is doing now. It does not seem evident in terms of their future planning.

These are the kinds of things we want to talk about. And when we talk about defense particularly, we all know the sunbelt system of redistribution of defense facilities. We are not asking that the Boston Naval Yard be reopened, which someone has promised I understand, or that the Brooklyn Navy Yard would be reconstituted to build huge carriers. That day is gone. But there is a conversion to what, I hope, is the peace time future of our country. And we want to build transportation vehicles. We want to supply housing and the kinds of equipment for housing that traditionally have come from the skills and talents of Northeastern workers. Therefore in any overall program of housing production or housing resupply or housing rehabilitation, directly our region will benefit if the Federal Government will give us that kind of block support where they will tell us "here is the money and here is the guarantee and here is the credit support so you develop a program for assistance for housing that best fits your region."

So we want the flexibility but we want the recognition that our needs are unique. And, indeed, our regions will be able to support with a great deal of enthusiasm, Congressman, the agricultural development that we need in our country to build in what my good friend the chairman has indicated is a "little cushion," a little additional supply of food against that day of scarcity which may come. And we do not have that today.

And I would welcome a close cooperation between the heavily industrialized regions and the agricultural sectors of our country for regional cooperation and common objectives.

We are the consumers. We enjoy the production of our farm belt. We want to cooperate with our farmers and with our rural people in regional reciprocal planning.

Representative MOORHEAD. Governor, I think your statement is excellent. We all recognize that State boundaries are important but they tend to be historical accidents and the economic boundaries or as you mentioned, Governor, the health boundaries may be different from the State boundaries. A region may be one thing for economics and another thing for health but your willingness to share is to me very inspiring.

Now in your testimony you quoted from the survey by the National Governors' Conference and stated: "State surpluses of previous years have gone. Governors and legislators, many of whom have already taken dramatic belt tightening measures, are faced with further tax increases or spending cuts or both to keep their budgets in balance."

Now on the contrary, this year's economic report of the President contains a rather optimistic outlook for State and local finances. It states: "most State and local governments will be able to cope with expenditure growth without adding unduly to the tax burden of their citizens in this coming year."

Now what I would like to ask you, sir, is do you agree with the statements of the President's Economic Advisers?

Governor CAREY. I can sight the case of New York and neighboring States where we are retrenching. And retrenching means that, in the case of New York, we will be cutting back the basic expenditure level

for State and local governments to a degree we have not experienced in 35 years. We are cutting back on basic services and aid to local governments. And, in doing so, we are being told by mayors and county executives that we are forcing upon them tax burdens which will be counter-productive to consumer purchasing power in the economy. And we are at the level of austerity now where we have frozen, where we have seeked to have a freeze on the wages of the State employees; we have removed from the State payroll the 2-year cycle of 11,000 employees who are, I suppose, searching for nonexistent jobs in the private sector in most cases. So we are not in a position to cope with our own situation for one simple reason: we cannot print money and we are at the level where we cannot tax. The state of New York is 150 percent over the national average of the 50 States and we dare not exact one more dollar of taxation from our people.

Representative MOORHEAD. Governor, last week Chairman Burns of the Federal Reserve System testified: "interest rates in the municipal bond market are well below the 1975 highs." He went on to say——

Governor CAREY. Thanks to the enlightened action of the Federal Government and the Congress in rescuing New York City, which was contributing enormously, that is, 120 basis points of an increase in the municipal markets. And if we had acted sooner, we would have concluded some of that.

Representative MOORHEAD. He also said that the municipal bond market has become more orderly. Is that your experience?

Governor CAREY. It is more orderly because you cannot get into it right now. You could not borrow right now if J. P. Morgan put his signature on a piece of paper and countersigned it. We do not have access to borrowing markets. That is why it is orderly.

The great State of New York, whose accounts and revenues are clearly in imbalance and should have access to the borrowing market, does not have access.

We have the former head of the Federal Reserve, Bill Martin and Mr. Morton who is the former head of American Express and we have Eugene Black who was the former head of the World Bank and they are all working with comptroller Levitt, who is one of the most experienced and reputable fiscal managers in the country. And they are trying to do traditional borrowing on the basis of revenues which are secure but we are having one difficult time getting to the market. That is how stable that market is.

Representative MOORHEAD. Inactivity is very orderly.

Governor CAREY. Inactivity is very orderly. Right.

Chairman HUMPHREY. Congressman Brown of Michigan.

Representative BROWN of Michigan. Thank you, Mr. Chairman. Your introductory remarks, Governor, refer to: "In the last 6 years we have suffered rates of inflation intolerable in a mature industrialized economy."

Do you find that Federal budgetary expenditures are totally unrelated to the problem of inflation?

Governor CAREY. No, I want to make this caveat: That in any effort I say to secure Federal support for the States and localities we have to keep the vigilance on the inflation system clearly on alert. I would see to it that whatever we do in terms of expansionist policies on the monetary side of the budget, be clearly incorporated with a system

under which, Congressman, if we see inflation returning at a rate that is unacceptable, that we step in with the needed checks on inflation that you and I can well determine; that is, unemployment begins to decrease but we get wage settlements of any kind that are frankly inflationary and counter productive, that there be some form of standby controls.

Representative BROWN of Michigan. Would you consider the present rate of inflation tolerable?

Governor CAREY. No, I think it is going down at an acceptable rate.

Representative BROWN of Michigan. So therefore on the basis of your own premise we should be continuing to make efforts to reduce the rate of inflation. Is that not correct?

Governor CAREY. Well, I would like to see inflation where it was at roughly going along at 3 percent as it did doing the 1950's and 1960's with a growth rate exceeding 6 percent. We are not going to get there in a hurry. It is twice as good as double digit has been and as double digit was during the 1974–75 period but I don't think, frankly, that inflation is our major concern at this time.

Representative BROWN of Michigan. But isn't that the basic problem——

Governor CAREY. No.

Representative BROWN of Michigan. Isn't that the basic——

Governor CAREY. No, Congressman, inflation is not the basic problem.

Representative BROWN of Michigan. Isn't that the basic difference between those who would suggest that we continue our Federal spending at a rate where we could have a further $70 billion deficit and those who feel it is important to control inflation and to be a bit more cautious on the expenditure side?

Governor CAREY. I don't want to advocate a $70 billion deficit. I want that $20 billion we are now paying in unemployment compensation to become productive money because it would be supplying jobs instead of unemployment compensation.

Representative BROWN of Michigan. Are you saying the President does not want to have that same goal and objective?

Governor CAREY. If he would ennunciate his objective for the economy and how he intends to achieve it, I would like to hear it.

Representative BROWN of Michigan. Well, you have indicated that the budget is totally devoid in this area and there are some $18 billion in additional public works. I think the chairman had said earlier that he had no problem with doing something for jobs in the private sector. In high unemployment areas the President has a program for accelerated depreciation, which the private sector——

Governor CAREY. Now, now, please, Congressman. I sat in the Ways and Means Committee and helped to write the ADR and I helped to write the investment credit and we put it on permanently. That is there and that is available for business to incorporate in its future planning 2, 3, 4, 5 years hence. It costs $200,000 to create one job in the steel industry and it takes 5 to 8 years to begin a plant. That isn't going to curve unemployment tomorrow. The tax incentive and the ADR approach are long ranged planning mechanisms for the private sector but where is the public mechanism?

Representative BROWN of Michigan. As a public official, that may be your opinion; however, people in the private sector are saying they

feel that especially this accelerated depreciation program in areas of high unemployment will have an impact on jobs.

Governor CAREY. That has been on the books since it helped reelect Dick Nixon in 1972.

Representative BROWN of Michigan. Let me continue. You have taken your shots at the President and his budget. You don't seem to have any criticism for a Congress that has failed to act on general revenue sharing.

Governor CAREY. No, no, no. No; I said I certainly would hope that those in Congress who take the limited view——

Representative BROWN of Michigan. Well in one case you are critical and in the other case you are hopeful.

Governor CAREY. No; I am on the President's side on revenue sharing. He was on my side when we passed the bill. We are not disunited on that. I see it as he sees it. That is needed support which has proven itself. The Brookings study showed it to be a 95 percent effective Federal program and very few programs reach that rate.

Representative BROWN of Michigan. Governor, as you know——

Governor CAREY. This is not a totally critical document. I said I want the President's efforts to support revenue sharing to be supported by the President.

Representative BROWN of Michigan. Governor, in your prepared statement you say—and I wonder if this is the position of the Governors' Conference or only yours—you state:

> I believe the Federal Government should continue to play a role even in some cases by establishing national minimum program goals and standards—

Then you continue to say:

> but I disagree strongly with the administration's attempt to use the block grant system as a way of circumventing the original legislative intent of the various categorical programs.

Then I think in the course of your statement or rather in answer to Senator Javits' questioning you were saying that block grants are catastrophic. Now, are you talking about funding levels or are you talking about the substance of block grant programs?

Governor CAREY. Well, in some cases the funding level by underfunding defeats the intent and the objective of the Congress who first organized the program and enacted it.

Representative BROWN of Michigan. My God, are States incapable of coming up with goals and objectives for use of the block grant funds?

Governor CAREY. We can have all the goals and objectives we can specify. But my goal is full employment. My goal is good health. My goal is convenient and economic transportation. I can't do that without money and I cannot print money and I cannot tax people anymore.

Representative BROWN of Michigan. You have to be shown the way by Washington, is that it, as to how you reach your goal and objective?

Governor CAREY. No; I want to make sure, however, that we don't start a mass transit system that goes to New Jersey's border and then it stops because New Jersey is not cooperating on its side of the transportation system.

We need Federal coordination. That is the whole purpose of our federal system: Namely, to get the States to plan together.

Representative BROWN of Michigan. In your statement you say you are getting together with States to try to work out economic plans and goals. Are you saying you can't do that on mass transit?

Governor CAREY. Yes, we can. That is where the Federal Government comes in and sets say a minimum safety standard for the production of cars that will roll on the rails.

Representative BROWN of Michigan. I trust that that statement and your statement here is not the position of the Governors' Conference?

Governor CAREY. Let me be more specific. I don't want to see the block grant system so conducted that we totally abandon the standards that the Federal Government is under a mandate to incorporate in all programs with regard to equal employment opportunity. I don't want to abandon that. That is a minimum objective I want to see enforced.

Representative BROWN of Michigan. Oh, but that is a constitutional objective.

Governor CAREY. No, statutory and constitutional as well but——

Representative BROWN of Michigan. Well, of course it had its foundation in the constitution.

Governor CAREY. No, but I want to say——

Representative BROWN of Michigan. And nobody wants to in effect negate or avoid those kinds of obligations and responsibilities. But that does not mean we have to write every page of a program.

Governor CAREY. No, but there is a balance here. The balance is we want those minimum aids that will make sure that the Federal Government programs will go to the objective.

Do you want a case in point? There was a time when title XIX of the Social Security Act was allowed to be used for 90–10 matching programs, for 90 percent Federal dollars and 10 percent State dollars and a State option for any service that was in aid of social services. And California nearly bankrupted the Federal treasury because it put the United Way in to match the 90–10, and it took the correctional system of the State of California and built a very healthy surplus out there for the predecessor Governor to Governor Brown. But that was a case where the Federal Government failed to have minimum standards and objectives for the use of block grant moneys in the social security system. And it got to the level of $12 billion and would have skyrocketed to over $20 billion in just 1 year had we not stepped in and limited that title. That is a case of an objective that was very worthy but unless there are standards that the Federal Government incorporates, we the States will frankly raid the Treasury.

Representative BROWN of Michigan. Well, I think there is a lot of difference in saying that the amount allocated to any particular area, that the Congress will exercise some common sense and equity, and so forth in establishing those goals of restrictions but not getting into the program formulation itself, which I suggest your statement suggests. I think there is a difference.

Governor CAREY. No, if you want the sample again, Congressman, the revenue sharing program has definite standards in it. You can't use it to plant geraniums around the village hall. It has definite standards. It is to be used for programs that are in law enforcement, that are in transportation, that contribute to health and the State's education. The

Federal revenue sharing is not a total handsoff program by the Federal Government. It sets forth program objectives, but it lets us spend the money within those categories or broad categories and account for the expenditure.

That is the idea.

Representative BROWN of Michigan. There are many in Congress who advocate that we establish more guidelines and standards and restrictions in general revenue sharing. Do you want us to do it?

Governor CAREY. No, I don't think we should do it.

Representative BROWN of Michigan. My time has expired, but I am just getting started. You have said that the substitute that I introduced—and by the way, Mr. Chairman, it was not the President's program; it is my program and the President has now endorsed it—you said it is unworkable. Why?

Governor CAREY. Because the community development track which you are following, Congressman, is one that we have already experimented with. Frankly, we tried to use in terms of section 8 type funding for housing.

Representative BROWN of Michigan. That is not community development, Governor. You know section 8 is not community development. We try to tie community development with housing, but don't compare it to section 8.

Governor CAREY. But do you know what happened? The housing program in section 8 was so unworkable for our State that we used the money for community development.

Representative BROWN of Michigan. But we are not talking about section 8: We are talking about CD. I think you are handling it very well argumentatively, but you are not responsive to my question.

Why not in community development—and incidentally, if you would like to see all the eligible activities, they incorporate everything including service jobs. But why not——

Governor CAREY. Now, that is in error. When you put in every eligible activity, you raise expectations. But how much money are you going to give us for all these activities? You are going to specify in the laundry list? How much money?

Representative BROWN of Michigan. We are not specifying a laundry list.

Governor CAREY. Well, you just said about a lot of activity.

Representative BROWN of Michigan. The activities that are included in community development are very broad.

Governor CAREY. That means——

Representative BROWN of Michigan. If you decide to substitute, 25 percent of the funds can be used for basically public works that are not within community development. It puts the money for unemployment actions.

Governor CAREY. You mean in a better way than——

Representative BROWN of Michigan. And when the mayors come up, they will have a chance to comment on how they come out on the two bills.

Instead of saying that you have to have your projects approved project by project and all of these things, you get the money and you get to accelerate the jobs, the projects that will mean jobs now, Governor, and you get the money very quickly. But I recognize that, because of the authorship, it probably isn't as good as the original bill.

Governor CAREY. Representative Brown, I strongly advocated a compromise between the Congress and the President on this matter: A compromise that would back away from the veto and the failure to override. I think the will of the Congress is rather clear that we need this kind of program. And I hope we can work with you to shape the right kind of program. But I strongly urge that the triggering mechanism of the countercyclical bill was a very acceptable one and a very simple one.

Representative BROWN of Michigan. The substitute is not countercyclical, Governor. The Public Works Bill at title II starts at 6 percent and I start at 7 percent. The Public Works Bill includes all kinds of other things and not a dime can be used for construction unless it is essential to the public service jobs that are incorporated in title II.

And you say it is a jobs' bill? It may help your deficit, Governor, your bottom line, but it doesn't produce a job.

Governor CAREY. The countercyclical bill?

Representative BROWN of Michigan. Title II.

Governor CAREY. Yes, of course, it does produce jobs because frankly it aims at——

Representative BROWN of Michigan. You will absorb that money in your budget and you will keep the same people at work. It will help Coleman Young as far as his bottom line problem, but as far as jobs in the private sector, there is not one in title II.

Governor CAREY. When we go into capital projects and we are able to continue our capital programs, which frankly now have been totally eliminated, we supply jobs in the most hard hit areas for the trades and constructions that have no work now. That is where the money goes to.

Representative BROWN of Michigan. I am sorry, Mr. Chairman.

Chairman HUMPHREY. Well, we are getting this meeting pepped up a little bit. I always like to see it warm up.

Congressman Long is next. May I say to the mayors, we are going to get to you. Don't worry.

Representative LONG. Thank you very much, Mr. Chairman.

Governor Carey, I particularly appreciate your views because, as the chairman said, because of your perspective you are able to bring, both as a former member of the House and as the Governor of a State. So you look at it from both of those points of view. And your analysis of the overall programs and the overall budget of the President, Governor, I generally agree with.

I want to, in the time allowed me, Governor, to go into this a little bit differently. Those of us who are from non-urban areas that supported, for lack of a better term, the aid to New York legislation—well, as you know, a number of us caught a pretty hard time politically for it. It seems to me as though it was not only in the interest of New York, but in the interest of the Nation's fiscal basis that we do it that way.

If you relate it to nothing but dollars and cents, it seems to me it was in the national interest as well as the thing to do insofar as the international interest was concerned, and just the stability of the whole economic picture for us and for the world.

Now this brings to mind the unique situation that we have with respect to being sure that you succeed at it, which brings us to the next question of where you stand in that regard at the present time and whether or not you are going to, as you see it, be able to fulfill the

commitments and obligations that you have coming this spring in borrowing and in your fiscal programs. Could you give us a minute or two on that?

Governor CAREY. Yes, the repayments schedule calls for us to make a major repayment of the moneys extended on a loan basis by June 30, and that will be met. There is no reservation on that. We will meet that deadline.

What we are doing at the moment, and doing it very assiduously and with tremendous effort by the State and the city and the other agencies involved, such as the Municipal Systems Corp. and so forth, actually we are reworking the financial plan which was the basis for our original submission.

The rework of the financial plan is occasioned by the fact that we are encountering shortfalls in revenue because of the lack of recovery or the pace of recovery being slower than we had hoped and anticipated and because of the impact of additional welfare caseload upon the budget of the city and the discharge of public employees and the decreasing purchasing power which has decreased our sales tax revenue and also the erosion of the real estate tax system because we are not getting property improvements because building starts are down.

Now, all of these factors are contributing to less money to be available in the second and third year of the plan than we had hoped to have. So we are reworking that. And that will mean further drastic economies in levels of expenditure in the city government that must be controlled, and further transfer of certain functions as well, Congressman, potentially to the State.

Representative LONG. Do you think it goes a step further than that in that if you all are not successful in that and if the economic situation does not increase substantially, that we ought to give serious consideration here to something that has been advocated and advocated fairly strongly; namely, that some type of an emergency loan mechanism on the part of the Federal Government to the cities and the States be put into effect?

Governor CAREY. Well, very frankly, whether a system—and there has always been before the House and the Senate Committees alternatives within the tax exempt system—and I am not suggesting for one moment that you abandon the system of tax exemption. It is a cornerstone and a fundamental resource for borrowings of localities and indeed the States.

But within that system, as has been now suggested by Secretary Simon, the possible optional subsidy program for municipal and State and local financing, to me, would be a welcome alternative with appropriate guarantee mechanisms, if those are needed, carrying a premium that would produce a return to the Federal Government. And I see that as something that should be considered by the Congress because, very frankly, it appears to me that because of what has happened in New York and because of the critical liquidity shortage, which is international and heavily, I think, impacts our ability to recover in this country, both in the corporate sector and the public sector, I think there should be a better system of financial backup by the Federal Government in terms of its guarantee mechanisms.

Representative LONG. Have you had any——

Governor CAREY. And incidentally, in New York City, we advocated it be a guarantee and not a loan because we didn't want to impact the

budget. But the administration chose a loan. Now to curtail that impact on the budget, I understand that loan is going off-budget and being put in the Federal Financing Bank System where it won't appear.

Well, if that is good for the Federal Government to go off-budget and handle it that way, when the guarantee mechanism seems to me to be a workable thing for those localities that need it, well then——

Representative LONG. In pursuing the problem and possible ramifications of it, have you had any conversation with either the Federal Reserve or the administration in terms of working out a program along that line?

Governor CAREY. We are suitors of the Federal Reserve. We regularly woo them.

Representative LONG. I know you are suitors of them.

Let me ask you the other way: Have they been willing to be suited?

Governor CAREY. Well, they have come to our court. They have come and looked at our books and systems at the State level. And I think they have been agreeably surprised and agreeably impressed with the status of our accounts and that the Treasury has as well. And we welcome the monitoring of the Federal Reserve in our efforts to get back to the credit markets where we have a rightful access.

We are in close contact with the Federal Reserve Bank of New York and Mr. Burns.

Representative LONG. But you had no affirmative indication to you that they are seriously interested in looking at this as a permanent solution to this problem from the standpoint of a national policy?

Governor CAREY. No, I would be the last one to speak for Mr. Burns or for that matter, Paul Vogley. But they are totally aware and mindful of our condition.

Representative LONG. Thank you.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Governor, we have kept you a long time. And I know that my colleague and friend here, Congressman Brown, would like to pick it up with you again and there may be others that want to ask questions. But I would just like to make a summation statement, then we want to go ahead with the mayors. I think we are impressed with what you had to say about your working with the Governors in the region; that is, the regional development concept. It is something of interest to this committee.

And I want to suggest to you that this committee is prepared to work with you in the development of a sound regional economic program or policy. We will be happy to have some of our staff to work with any group that wishes to do this. We think this is part of the approach. In fact, the Joint Economic Committee's annual report in the last few years has been emphasizing the regional approach.

Yesterday some of us were working—well, I have the privilege as chairman of this committee to work on the annual report, the draft report, getting the draft report ready. And there is a good deal of material on the necessity of the regional approach to our economic problems and not only economic but at times social problems as well. And we want to assure you of our desire to be cooperative. And may I suggest that at any time you or any of your associates wish to contact us, that this committee is prepared to work on that basis. I think we are desperately in need of doing that.

And might I add that I noticed in the budget the figures for the Department of Commerce—if I can just quickly find them—on this. Yes, there has been a very drastic reduction—a drastic reduction in the Economic Development Administration. This is at a time that the regional development seems so necessary. I don't know anybody who is not for it. I mean, Governors that once were very jealous of their own particular jurisdiction, they today recognize this necessity of a region.

In our part of the country, it is the Dakotas and Minnesota and Wisconsin and Iowa. We think in terms of a region.

The amount of money last year in 1976 for Economic Development Assistance programs is $360 million. This year it is cut back to $223,438,000. This is at the very time when these regions are two things: number one, beginning to pull together as a region and looking at their problems on a regional basis; and then tooling up to do the job.

But now the funds are drastically reduced. I think there is always a danger of us trying to feel that the money is the only thing that counts. I don't think it is the only thing that counts. Good organization and good management and good programing count. But without the money, all the rest of that is just talk.

And I think that is what has been emphasized here today.

Governor CAREY. Mr. Chairman, that is a severe cut in a very fundamental program. If we really mean to do anything about setting up businesses, and especially small businesses, in intensive unemployment areas, the sole resource we have looked to frequently has been the Economic Development Administration.

Chairman HUMPHREY. By the way, it has been one of the best of our programs. The EDA, I think, has done more good per program and per person involved and per dollar invested than almost any other area of the Government. It has been remarkable. Out our way it has really assisted us.

I think we are going to let you go, Governor.

Representative BROWN of Michigan. Mr. Chairman.

Chairman HUMPHREY. Do you want to go at it again?

Representative BROWN of Michigan. I just want to say, Governor, I still love you, even though I am amazed you have become more of a federalist since you went to the State house.

Governor CAREY. No, never. More of a federalist? No, never, Congressman. What I am suggesting is when you give us the lofty objectives, don't expect us to buy those lofty objectives with $2 bills. They have to be larger denominations if you want us to really reach the top.

I want to tell you frankly the whole notion advocated here of a new federalism approach does not mean that we want to live under the leash of the Federal Government, but we don't want to live under the lash of the Federal Government either, as is happening now.

Chairman HUMPHREY. I might add that the Federal Government is here and it is provided for by the Constitution. I am not one that is ashamed that I have been involved in it at all. I have been the mayor of a city and I know that without the Federal Government, even in those days we would have been bankrupt. I might add that the Federal Government does not need people to be for it. What we need is people in high positions that will try to make it work and make it what it ought to be, rather than going around like they are going to erase it.

This constant attack on the Federal Government will breed lawlessness in this country, disrespect for law and order, disrespect for institutions, disrespect for our dollar, disrespect for everything. Because the money is Federal money and the Government of the United States holds this country together and is responsible for our security and our defense. The Federal Government is responsible for the coordination of our activities.

And I think to have these people in high places deploring the Federal Government as if it was a menace, well, I consider that to be most unfortunate. And if I weren't a restrained man this morning, I could spell it out more specifically.

Representative BROWN of Michigan. I would just like to say the gentleman from Minnesota does not have a corner on patriotism——

Chairman HUMPHREY. No.

Representative BROWN of Michigan [continuing]. Or on patriotism or on federalism or on the Constitution.

Chairman HUMPHREY. No, I wasn't talking about patriotism. I was talking about sense.

All right, Mayor Landrieu, we thank you for your patience. And you are accompanied by Mayor Gibson of Newark, N.J., and by Mayor Coleman Young of the great city of Detroit, Louisiana, New Jersey, and Michigan are represented here this morning. You are here, I believe, in your capacity as representatives of the U.S. Conference of Mayors. Is that correct?

STATEMENT OF HON. MOON LANDRIEU, MAYOR, NEW ORLEANS, LA., AND PRESIDENT, U.S. CONFERENCE OF MAYORS

Mayor LANDRIEU. That is correct, Mr. Chairman.

I am present of the U.S. Conference of Mayors. On my right is Mayor Gibson, who is vice president; and to my left is the chairman of the Urban Economic Policy Commission, the Honorable Coleman Young, the mayor of Detroit.

Chairman HUMPHREY. Mr. Mayor, you go right ahead with your statement.

Mayor LANDRIEU. Thank you very much.

With your permission, I will be very merciful and not read the statement I have.

Chairman HUMPHREY. You may cite it. You heard the Governor's statement and you may want to cite your statement.

Mayor LANDRIEU. Yes, I will cite a few facts from that statement.

I want to assure Representative Brown of Michigan that he is not without an opponent. This is like a Saturday morning tag match.

The Governor and we are very much on the same team with respect to the prospects of the current budget.

When we were invited, Mr. Chairman, to this meeting, we had hoped that a comprehensive antirecession bill would have been enacted into law. During 1975, the cities of this country like good soliders, who in the old Western movies wanted to attack, did the only and the right thing; and that was we virtually circled the wagons.

We waited with great anticipation while we fought off the forces that are attacking the cities of this country. I don't mean individuals, but rather the economic forces and the social changes that are attacking the cities.

While we fought those off, we waited for help. The rider returned with the sad message and that was the Presidential veto of the countercyclical job's bill was not overridden and in addition with information that was not too encouraging either—and that was in the form of the 1977 Executive budget.

During the entire year, 1975, Mr. Chairman, we laid off workers while the public sector was encouraged through tax incentives to hire them. And we postponed very badly needed capital projects while again, through tax incentives, the private sector was encouraged to build capital projects.

And the projects which we deferred and delayed were those projects which cities most badly need and which in the long run can only cost those communities additional millions and millions of dollars because in many instances they represent deferring maintenance and repairs and the replacement of equipment. We likewise suffered the ravages of inflation that year. And Congressman Brown, we want to assure you that inflation is certainly one of the great ravagers of the cities because local governments suffer more from inflation than any other sector of the economy.

In 1975, local governments, State and counties, and cities lost more than $20 billion through inflation. Cities alone raised taxes by $1.5 billion and at the same time reduced the spending levels by $1.4 billion.

If we look at the current executive budget, we will find that the aid to local governments increases by only 1 percent while the total budget increases by 5.5 percent. If we relate it to inflation, it represents a total of $4.1 billion reduction in actual real money.

The Congressional Budget Office study indicates that if the present trend continues, that we would ultimately be reduced from 12 percent of the present budget to 9 percent in 1981. Now that represents a total loss of $16 billion at the local government.

We cannot accept, Mr. Chairman, the present 7.7 unemployment rate as an acceptable level, nor can we accept the projected level of 6.9 in 1977, nor the 6 percent projected for the rest of the decade. That unemployment rate is by far the highest in the cities of this country. While those figures might represent an average that is unacceptable to us, I can assure you that in the center cities, such as Newark, N.J., or Coleman Young's Detroit and New Orleans, the center cities of this Nation, that that percentage is far in excess.

If you look at the workers within the city who become discouraged and have totally dropped out of the job market, it raises that national average considerably. Plus, if you measure alone in certain areas of the city, Mr. Chairman, that unemployment is running sometimes 15 and 20 and as high as 25 percent when related not only to the geographical areas of certain cities, but also to the aged and to the youth and to the minorities, you can see it is unacceptable.

We were faced last year and are still being faced with additional mandated costs by the Federal and State Governments both through legislative action and through court actions, and increased social security, reduction of water pollution money, the limitation of 50 percent on the amount of mass transit funds that can be used for the transit system, increased unemployment compensation, and the cuts in the management portion of the budgets without reducing the complexities with which we have to deal. They all only caused a further

shift in those budgetary requirements from the Federal to the local level.

There are two areas that may seem to pose some hope. One is in community development where the administration did recommend the full funding of that program. The other, Congressman Brown, is in general revenue sharing where the administration purports to have a very real commitment, and yet provides only 2.5 percent of an increase or $150 million annually in a 5¾ year program.

Now we have recommended that at least that program, the one backbone program that we feel the administration has been solidly behind, that at least that keep pace with inflation. And the U.S. Conference of Mayors has recommended no less than a $500 million increase in that program each year. In that way, at least, the administration's commitment will be represented in concrete terms rather than in just philosophical terms of shifting the categorical programs to general revenue sharing.

Because to give us the general revenue sharing without the annual increment that is necessary to maintain that program, Congressman Brown, really means, if you push it to its ultimate conclusion, that it is a phaseout of that program, if, in fact, you reduce it by 4 percent each year. And that is precisely what is happening under the recommended appropriations for that bill.

The balance of the budget, Mr. Chairman, I will run through very quickly. In the area of public employment, it is suggested that 206,000 emergency public employment jobs be phased out between January of 1977 and October of 1977; and in addition, that there be eliminated 100,000 summer youth jobs. Next for mass transit, a 50 percent ceiling was placed on the transportation funds that can be used; for construction grants, for waste and power and water treatment, well, there is no new Federal funding; economic development is down by 35.4 percent; planning and management assistance is down by 14 percent from the 1976 appropriation; education has been cutback by $1.3 billion below the funding levels appropriated in 1976.

We have filed with the committee. Mr. Chairman, the Federal budget and cities, which is an analysis that has been made by the U.S. Conference of Mayors and the National League of Cities. And we hope that the details presented in that study will be of some help to this committee.

In closing, Mr. Chairman, and before turning the microphone over to Mayor Gibson, I want to say I share completely your remarks and your sentiments about the Federal Government. Though I came from a State which, as long as I can remember, has been treating the Federal Government as an enemy, I always have taken the position that it was my Government and that those were my Representatives and those were my Senators, just as much as the State legislature were my representatives and the Governor and the mayors of my city. And I still feel that way.

We are not here as adversaries of the Federal Government, but really as partners, urging that that partnership be in truth and in fact a partnership. We are urging that a reasonable balance be struck between the sources of revenue and the responsibility for rendering services to the people of this country.

Now I wish all the public officials in this country assumed the statesman like posture that members of this committee did, and in particular,

members like Congressman Long, who is from an entirely rural area, but has been one of the most solid friends of the cities and urban areas that this United States has had.

Mr. Chairman, with those brief remarks, I would ask Mayor Kenneth Gibson to make his presentation.

Chairman HUMPHREY. Fine.

The statement of the U.S. Conference of Mayors, of course, will be placed in the record at this point.

[The statement of the U.S. Conference of Mayors follows:]

STATEMENT OF HON. MOON LANDRIEU, MAYOR OF NEW ORLEANS, LA., AND PRESIDENT OF THE U.S. CONFERENCE OF MAYORS; HON. KENNETH GIBSON, MAYOR OF NEWARK, N.J., AND VICE PRESIDENT OF THE U.S. CONFERENCE OF MAYORS; AND HON. COLEMAN YOUNG, MAYOR OF DETROIT, MICH., AND CHAIRMAN OF THE URBAN ECONOMIC POLICY COMMITTEE OF THE U.S. CONFERENCE OF MAYORS, ON BEHALF OF THE U.S. CONFERENCE OF MAYORS

Mr. Chairman, Members of the Joint Economic Committee. I am Moon Landrieu, Mayor of New Orleans and President of the United States Conference of Mayors, the national spokesman for virtually all cities over 30,000 in population. With me today are Kenneth Gibson, Mayor of Newark and Vice President of the Conference of Mayors and Coleman Young, Mayor of Detroit and Chairman of the Urban Economy Policy Committee of the Conference of Mayors.

When we are invited to come before you today to share with you our analysis of the President's proposed FY 77 budget and how it would impact on the nation's cities, we were confident that the comprehensive anti-recession program, the Public Works Employment Act of 1975, would have been finally enacted into law. The United States Conference of Mayors together with other public interest groups as well as organized labor and citizens' groups worked long and hard with bipartisan members of Congress to implement a sound, comprehensive anti-recession program to provide employment opportunities for thousands of Americans who want and need to return to work.

We suffered a devastating blow last Thursday, January 19, when a minority of the United States Senate joined with the President in his campaign to frustrate the expressed intent of the majority of Congress to provide meaningful, long-term jobs for the jobless. But, last week's defeat is not a final one. It is a call to action for all of us who have worked for more than a year to see this bill become a reality. We are currently examining alternative strategies to assure that our efforts to date have not been in vain.

We urge members of this Committee as well as the entire Congress to work with us in enacting a complete anti-recession package immediately.

We stress immediate action. Without such economic stimulation and fiscal assistance to stabilize local government, we are fearful that the President's FY 77 budget with its many cutbacks and phaseouts will permanently cripple many of the nation's urban centers.

THE FISCAL REALITY

President Ford has, once again, refused to develop a coordinated, intergovernmental approach to the nation's economic problems. Last year, prior to the release of the Administration's FY 76 budget, the Conference of Mayors recommended that a balance must be struck between methods to disinflate the economy and methods to stimulate it. We pointed out that urban residents were feeling the negative and inequitable effects of recession. Unemployment was mounting, welfare case loads climbed, and local government revenues began to drop off substantially. The proposals contained in his FY 76 budget, however, were principally designed to reduce inflationary pressures and to "avoid commitments to excessive growth of federal spending in the long run." His recovery policies were aimed at the private sector—individual and corporate tax reductions and increased assistance to the unemployed—and aid to State and local government was reduced in real terms while defense spending was increased and allowed to take account of future inflation.

Last year's budget forced State and local government to take actions counter to his national economic strategies:

We raised taxes while the national government lowered taxes in the private sector.

We laid off thousands of employees while the national government was attempting to create jobs in the private sector by the cut in taxes; and,

We postponed or cancelled capital projects while the national government encouraged private investment in capital expansion.

The disastrous effects of these local government actions has been documented many times over but perhaps never so clearly as in this Committee's own report of May, 1975, which revealed that State and local governments lost $20 billion in revenues during 1975 due to the recession.[1] These losses necessitated significant budget adjustments by local government. Cities enacted an estimated $1.5 billion in new taxes and reduced expenditures by approximately $1.4 billion in the same year. That is a total of approximately $3 billion taken out of the economy by local government alone, right in the middle of the worst recession since World War II.

The priorities reflected in Congress' second budget resolution adopted in December, 1975, placed greater value on human resource and economic stimulus programs and less to defense and international relations than did the President. We applaud your sensitivity to the domestic needs of this nation. But, Congress has failed to implement its priorities because a minority of its members together with the President have denied the will of the majority. Because Congress has failed to override the continual Presidential vetoes, the future of cities appears bleak since we will have to live with President Ford's budget proposals.

This failure at the national level has had severe repercussions at the local level:

Unemployment levels have climbed to double-digit levels, hitting hardest and most inequitably on the disadvantaged—the youth, the minorities and the untrained.

The revenue/expenditure gap in local budgets widens daily for most, not just a few, of our cities.

Inflationary pressures continue to mount.

Local long-term economic development programs have been diluted and halted as a result of federal actions and inactions.

The gap between what exists today in our cities—a recession and inflation-ridden economy—and what can exist tomorrow—energized local economies—must be bridged.

THE PRESIDENT'S BUDGET

Unfortunately, we find nothing in the President's proposed FY 77 budget which would bridge this gap. Indeed, his proposed cuts in domestic spending and his acceptance of an intolerable level of unemployment with inflation persisting at high rates, serve only to widen the fiscal gaps which exist in our local budgets. More importantly, our residents are being told to bear an additional unfair burden for at least one more year.

Cities are the homes for those in our society most adversely affected by the recession and by the traditional economic policies that have been applied to fight inflation—the unemployed and the underemployed, particularly the young, the black, the Hispanic, and other minorities, as well as the elderly. The President's FY 77 budget proposals will impact most heavily on our residents:

Proposed increases in Social Security taxes and some Medicare payments will pinch most of the pocketbooks of lower-income people, the disabled, and the elderly.

Proposed elimination, by end of FY 77, of nearly 307,000 full-time public service jobs, 185,000 summer youth jobs, 54,000 other part-time jobs, and 145,000 training slots will serve only to maintain and increase the already double-digit unemployment rates in our cities.

Refueled federal social service expenditures will disproportionately affect certain urban populations.

FISCAL GAP IN LOCAL BUDGETS TO WIDEN

The FY budget will widen local budget gaps between revenues and expenditures in three major ways:

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[1] *Survey of State and Local Finances,* prepared by the Joint Economic Committee, United States 94th Congress, May, 1975.

1. *The Proposed Cuts in Federal Assistance.*—Under the Administration's budget, outlays for federal assistance to State and local government increases by only one percent, while the budget on a whole increases by 5.5 percent. (It should be noted that the one percent overall growth is primarily due to increases in individual transfer payments which are classified with the grants program.) With inflation in the public sector in excess of 8 percent, even a 5.5 percent growth in federal assistance would result in a decrease in the "real dollar" value of funds reaching the State and local level. But the increase is only one percent, and this translates into a $4.1 billion reduction in the "real dollar" value of federal assistance.

Using the Congressional Budget Office projections for the next five years, a similar decrease in federal assistance is revealed. These numbers indicate what will occur if current program commitments are maintained for the next five years. Under the Congressional Budget Office projections, federal grants to State and local governments decline from 12 percent of federal outlays in FY 76 to 9 percent in FY 81. Put in dollar terms, this would result in steadily decreasing assistance, reaching a $16 billion reduction in FY 81.

An example of the Administration's proposed reductions in State and local government assistance is the combining of 14 health programs into a single block grant to States. This consolidation not only reduces the number of categories into a single program, it reduces the dollar amount, also. Outlays for the block grant would be $1.5 billion less than the amount necessary to maintain current policy for the individual programs. Similarly, the President's proposed consolidation of ten child nutrition programs into a single State block grant carries with it a funding level reduction of $1.2 billion from what current policy would dictate.

While the nation's cities welcome these initiatives to reform domestic assistance programs, we are deeply concerned that the reduced federal funding, the elimination of state matching requirements and the total reliance upon the State to decide whether to receive the federal block grants, and how to spend them, will only further exacerbate the present fiscal ills of local government. Cities will be faced with the difficult choice of cutting out programs made possible by federal funds or attempting to maintain them by diverting the necessary dollars from some other essential municipal service. Such actions on the part of local officials will only further widen the current revenue/expenditure gap.

Cities need statutory assurance that they will not only receive their fair share of these block grant monies but also will be involved in the state's planning, policy making, resource allocating, program designing, and evaluating processes. Decentralization, simplification, and administrative efficiency must not become the rationalization for a reduced federal commitment to urban America.

2. *The Acceptance of Continued High Unemployment and Inflation.*—While Administration economists claim that a strong economic recovery is underway and cite the latest drop in the unemployment rate as one positive sign, that recovery remains an illusive, undelivered federal promise in our cities. January, 1975, witnessed not a 7.8 percent level of unemployment but more like a 10 plus percent nationally if the additional "discouraged workers" in excess of one million are added, and part time workers' losses of time are also included. In our cities, even a 10 plus percent rate is more like a 15 or a 20 plus rate. Therefore, the President's acceptance of a 7.7 percent national rate of unemployment in 1976, a 6.9 percent in 1977 and above 6 percent until the end of the decade is totally unacceptable to those of us who know what the effect of such rates of unemployment are on our residents and on our budgets.

Local revenues, provided mainly through taxes that tend to fall short in times of high unemployment and recession, will continue to decline if the President's levels of unemployment are maintained. In addition, persistent high unemployment in our cities will only add to the already great social, political, economic and fiscal demands on local government. In order to achieve balanced budgets, therefore, cities will have to continue their actions of the past year—raising taxes, laying off personnel, cutting public services, and/or delaying sorely-needed capital improvements.

While the President's budget projects a declining rate of inflation, at the city level the inflationary pressures continue to mount. Cities face a variety of steadily rising costs—inflated payrolls, more costly supplies, equipment, an energy, and capital improvements financed at high interest rates. The capacity of city government to provide essential services has been seriously undermined

by inflationary pressures which are much greater on the public sector than they are on the private sector. Not one of the generally available price indexes is an accurate measure of changes in the cost of providing government services—they are not only inadequate on the expenditure side of the fiscal equation but they totally ignore the impact of inflation on revenues. Recently-developed inflation indexes, measuring the impact of inflation on both expenditures and revenues of State and local government reveal that counties, municipalities, and townships together lost about $3.3 billion of purchasing power between 1972 and 1974 due to inflation.[2] This amount is equivalent to roughly 80 percent of their total general revenue sharing entitlement in 1974.

3. *Additional Federally Mandated Costs.*—Over the years, federal and state governments, by executive, legislative and judicial action, have set forth a number of requirements and responsibilities for local government without the necessary accompanying financial resources to meet these responsibilities. These requirements have had a negative, and often severe impact upon local budgets. The question at issue is not whether these regulations and court orders are fair or whether they are unjust.

The fact of the matter is they are being enforced and they are costly. Such personnel-related requirements as the minimum wage, workmen's compensation, Old Age Survivors and Disability Insurance, as well as the costs associated with the attainment and maintenance of air and water quality standards, and the impact of the Brooke Amendment on public housing costs are but a few examples of existing federally-imposed burdens without the accompanying financial resources.

The FY 77 Budget contains proposals that would add to these burdens—once again, without the commensurate federal revenues to carry out the mandated responsibilities. For example, proposed:

Social Security tax increases would make it necessary for local governments whose employees are in the system to increase their contributions to the trust fund.

Reductions in federal support for water pollution abatement would require local government to increase spending vastly to meet federal standards, unless the standards are relaxed.

Cutbacks in federal mass transit operating subsidies would virtually compel compensating outlays by local governments.

Unemployment compensation changes would displace the responsibility for 26 weeks of benefits presently funded fully by the federal government, leaving local government the option of either providing these benefits or increasing their welfare load.

Cuts in federal funds for water quality and health planning regulation, or management without any change in elaborate federal requirements for carrying on such activities on an areawide basis probably would oblige local governments to pick-up the costs.

Additionally, lack of direct federal funding to local governments, implicit in the Budget's proposed block grants for health, social services, and child nutrition, places the future of existing local direct service programs in jeopardy. If funds are not forthcoming, local government will have to either assume the costs of these programs themselves or suffer the political consequences of eliminating them.

These three depressive features alone of the proposed FY 77 Budget would have severe, adverse impacts locally as well as nationally. Further cuts in State and local fiscal outlays could only have significant negative consequences upon the national economy. Should State and local governments be forced to curtail even further its spending, which represents 16 percent of the gross national product, the negative effect on economic recovery would be severe.

PROGRAMMATIC AREAS OF THE BUDGET

While significant reductions occur in most programmatic areas of the FY 77 Budget, there are two critical exceptions to this trend:

General Revenue Sharing.—First, the Administration continues its strong support of General Revenue Sharing. We commend it for this. The Budget reflects the Administration's legislative proposal for a 5¾ year extension of the revenue

[2] David Greytak and Bernard Jump, *The Impact of Inflation on State and Local Government Finances, 1967–1974*, Occasional Paper No. 25, (Syracuse, N.Y.: Metropolitan Studies Program, Syracuse University, 1975).

sharing program. Revenue sharing funds, however, have been subject to the same inflationary erosion that has occurred throughout the local sector. The Budget calls for continuation of General Revenue Sharing through October of 1982, with an annual funding increase of $150 million, or slightly below 2.5 percent. By 1982, it is estimated the real dollar value of General Revenue Sharing funds will be 24 percent below the 1972 allocations. To compensate for this inflationary erosion, the nation's cities are asking Congress to increase the revenue sharing trust fund by a minimum of $500 million a year.

We urge the Congress to immediately reenact the general revenue sharing program. It is ironic that the Congress, which has so vigorously moved to reform its own budgetary practices, is on the verge of causing major disruptions in State and local government through its delay in reenacting revenue sharing. Cities all across this country are now in the process of putting together their FY 77 budgets. Without immediate approval of the revenue sharing program, they will be forced to reduce their FY 77 revenue sharing funding activities by 50 percent or to increase local property taxes to compensate for the projected revenue sharing deficits. We are extremely pleased that the House Government Operations Committee has finally made a firm commitment to move forward with this legislation, and we are confident that the full Congress will give its final approval at the earliest possible date.

Community Development.—Second, the Administration is honoring its commitment to fund fully the Community Development (CD) Block Grant program. We commend it for this, too. This program, which is now operational throughout the country, provides flexible assistance to local governments. Under CD, seven categorical programs have been consolidated into a block grant, with funds being distributed directly to cities.

The rest of the Budget for direct grants to cities is characterized by restraint and phaseouts. Here are some major examples:

Public Employment—phase-out of 260,000 emergency Public Services Jobs between January, 1977, and October, 1977, and, in addition, a 100,000 summer youth job reduction.

Mass Transit—50 percent ceiling on Urban Mass Transportation Administration (UMTA) grants for operating assistance for mass transit. Currently 90 percent of the formula funds are used for operating costs.

Law Enforcement—decrease of 12.7 percent from FY 76 appropriations.

Construction Grants for Waste Water Treatment Works—no new funding requested to meet existing federal standards.

Economic Development—35.4 percent reduction in Economic Development Administration (EDA) appropriations from FY 76 levels.

Planning and Management Assistance—14 percent reduction from FY appropriation.

Education—cutback of more than $1.3 billion below funding level appropriated by Congress for FY 76.

These proposals would only add to the already substantial fiscal woes of city governments.

We are attaching to our statement a copy of the "Budget Highlights" which are contained in *The Federal Budget and the Cities*, an analysis prepared by the United States Conference of Mayors and the National League of Cities. These highlights provide our assessment of the major changes in the President's FY 77 Budget. Additional details are contained in our publication which has been mailed to every Member of Congress.

I would now like Mayor Gibson and Mayor Young to highlight several other concerns of the Conference of Mayors as they relate to the President's economic policies and the state of the nation's cities.

THE PRESIDENT'S NATIONAL PRIORITIES

President Ford told us in his budget message of January 21, that "the Budget reflects my sense of priorities." In sum, his priorities are:

National defense budget increases both in terms of real growth and inflation while budgets for domestic programs, especially human resource programs, are held constant or slashed.

A significant tapering off of outlays to State and local governments.

The roadmap contained in his Budget promises a very smooth road for the well-to-do, a hold-the-line hope for the very poor, a long period of slow recovery for the middle-income, and a very rough time for the working poor.

The very poor, those with incomes below the poverty line—$5,050 per year for a family of four—are promised a continuation of about the same level of help they received in 1975.

The working poor, those who earn more than the government decreed $5,050 but less than the $9,000–$10,000 a family of four must have to make it in our urban areas, will pay more for social security, health services, and will see their children cut from the school lunch programs.

The well-to-do will receive even further tax incentives to invest in stocks while 8 million adult Americans will stand in the unemployment lines throughout 1976.

As a Mayor of a major city whose people have suffered unduly during this recession, I cannot accept these priorities. Neither can the United States Conference of Mayors. The Conference's policy call for a full employment economy—something we will never achieve if the President's will is allowed to prevail.

A decision must be made by you and every Member of Congress whether you accept President Ford's restrained economic recovery which accepts intolerable levels of unemployment through the end of this decade or whether the national interest would be best served by immediately stimulating the economy sufficiently to provide employment opportunities for the millions of Americans who want to return to work.

We are aware that the call for "fiscal" responsibility and the pejorative term of "deficit" spending will influence decisions made by this Congress this year—election year, 1976. But, let me reiterate a point made by many including some of your colleagues here in Congress. The deficit in the federal budget is not a "spending" deficit. Rather, it has been caused by the severe recession of the past several years.

Consider for a moment the approximate $19.3 billion the federal government is spending this fiscal year for unemployment compensation alone. Add to this costs of increased welfare case loads, greater numbers of food stamp recipients and you arrive at a staggering federal expenditures to fund President Ford's current "jobless" policies to say nothing about similar costs to State and local government.

Would it not be better to spend some of this on job creation for which federal revenues in the form of taxes would be realized to say nothing about restoring people's dignity by providing opportunities for meaningful work?

We cannot afford to wait until 1980 for sufficient employment opportunities for our people who reside in our cities. Our cities will not survive that long.

IMMEDIATE ACTION

The United States Conference of Mayors calls upon this Congress to immediately enact a complete public works/anti-recession fiscal assistance for State and local government program to put America back to work. Last week's defeat is not a final one—we will not tolerate a minority of Senators and the President frustrating the will of the majority of Congress and the majority of local officials to provide meaningful, long-term employment opportunities for thousands of Americans.

The President is openly campaigning against the cities of this country. In his recent veto message of the Local Public Employment Act of 1975, the President openly distorted the facts about the legislation. He stated that the jobs would be public jobs and would cost $25,000 each. The facts are that approximately 80 percent of the jobs created would have been in the private sector—which is consistent with his economic policy to stimulate that sector—and the average cost of each would have been about $10,000.

We urge Members of this Committee as well as the entire Congress to work with us now in enacting a solid, anti-recession program immediately.

Unless we are successful, we will find cities across the country confronting the crisis that now besets not only New York but also, my city and many others including Mayor Young's city. I would like him to conclude our presentation by telling you how Detroit is faring.

Chairman HUMPHREY. Mayor Gibson.

STATEMENT OF HON. KENNETH GIBSON, MAYOR, NEWARK, N.J., AND VICE PRESIDENT, U.S. CONFERENCE OF MAYORS

Mayor GIBSON. Thank you, very much.

Chairman HUMPHREY. We surely welcome you again.

Mayor GIBSON. Mr. Chairman and members of the Joint Economic Committee, I am here to speak with you on the President's proposed fiscal year 1977 budget and our interpretation of its impact on the Nation's cities.

President Ford told us in his budget message on January 21, and I quote him: "That the budget reflects my sense of priorities."

In sum, his priorities are national defense budget increases, both in terms of real growth and inflation, while the budget for domestic programs, especially human resource programs, are held hostage or are actually slashed;

A significant tapering off of outlays of State and local governments or to the States and local governments;

A road map contained in his budget promises a very smooth road for the well-to-do, and a hold-the-line hope for the very poor and a very long period of slow recovery for the middle income, and really a very rough time for the working poor.

The very poor, those with incomes below the poverty line, which is $5,050 per year for a family for four, are promised a continuation of about the same level of help that they received in 1975. The working poor, those who own more than the Government decree of $5,050 but less than the $9,000 to $10,000 a year for a family of four, they must have to make it in urban areas. They will pay more for social security, for health services, and will see their children cut from the school lunch program.

The well-to-do will receive even further tax incentives to invest in stocks while 8 million Americans will be standing in unemployment lines throughout 1976.

As a mayor of a major city whose people have suffered unduly during this recession, I cannot accept these priorities and neither can the U.S. Conference of Mayors. The Conference's policy calls for a full employment economy, which is something we will never achieve if the President's will is allowed to prevail.

A decision must be made by you and every Member of Congress whether you accept President Ford's "restrained economic recovery," which accepts intolerable levels of unemployment through the end of this decade, or whether the national interests will be best served by immediately stimulating the economy sufficiently to provide employment opportunities for the millions of Americans who want to return to work.

We are aware that the call for fiscal responsibility in the pejorative term of deficit spending will influence decisions made by this Congress this year. And we all know there is an election this year in 1976.

But let me reiterate a point made by many, including some of your colleagues here in Congress: The deficit in the Federal budget is not a spending deficit, but rather has been caused by the severe recession in the past several years. Consider for a moment the approximately $19.3 billion the Federal Government is spending this fiscal year for unemployment compensation alone. Add to this the cost of increased welfare caseloads, greater numbers of food stamp recipients, and you arrive at a staggering Federal expenditure if we follow President Ford's current jobless policies—to say nothing about similar costs to State and local governments.

Would it not be better to spend some of this on job creation for which Federal revenues in the form of taxes would be realized? And this is to say nothing about restoring peoples' dignity by providing opportunities for meaningful work.

We cannot afford to wait until 1980 for sufficient employment opportunities for our people who reside in our cities because at the rate we are going, Mr. Chairman, our cities may not survive that long.

The U.S. Conference of Mayors calls upon this Congress to immediately enact a complete public works anti-recession fiscal assistance program for State and local governments in order to put people back to work.

Last week's defeat is not a final one. We cannot tolerate a minority of Senators and the President frustrating the will of the majority of Congress and the majority of the local officials to provide meaningful and long-term employment opportunities for thousands of Americans.

The President is openly campaigning against the cities of this country. In his recent veto message of the Local Public Employment Act of 1975, the President openly distorted the facts about the legislation. He stated that the jobs would be public jobs and would cost $25,000 each. The facts are that approximately 80 percent of the jobs created have been in the private sector, which is consistent with his own economic policy to stimulate that sector; and the average cost of each of those jobs would be about $10,000.

Now we urge the members of this committee, as well as the entire Congress, to work with us now in enacting a solid antirecession program immediately. Unless we are successful, we will find cities across the country confronting the crisis that now besets not only New York but also my city and many others and certainly including Mayor Young's city of Detroit.

I would like Mayor Coleman Young to conclude our presentation by telling you now how Detroit is hurting.

Chairman HUMPHREY. Well, thank you very much, Mayor Gibson. We appreciate your testimony here today.

Mayor Coleman Young, you have been with us before as have your other colleagues. We would like you to bring us up to date on what is happening in your area.

STATEMENT OF HON. COLEMAN YOUNG, MAYOR, DETROIT, MICH., AND CHAIRMAN, URBAN ECONOMIC POLICY COMMITTEE, U.S. CONFERENCE OF MAYORS

Mayor YOUNG. Thank you, Mr. Chairman, and Mayor Gibson.

Yes, I have been here before and I think I understand the reason that I am here now. Detroit is being used as the horrible example, but I hope that nobody in this room dreams for one moment that Detroit is the exception. When I first appeared before this committee almost 2 years ago, I indicated certain economic and fiscal problems and high unemployment in our cities which I described as "an early warning" of a national crisis of our cities.

Since that time, we have seen that crisis become real in the near bankruptcy of New York City; and in a threat to the stability of New York State. You just heard from Governor Carey on that.

So I want to tell you today that I consider the President's budget message to be a complete turning of the back of the national administration on the problem of the cities, the poor, the unemployed, the minorities, and the aged in our country.

Detroit suffers severe fiscal problems, but so does Philadelphia, where it is even worse; so does Boston; so does San Francisco; so do many other smaller cities across this land.

I think that the chief deficiency in the President's budget, as well as in the activities of Congress to date, is the failure to recognize that the crisis of our cities is a national crisis and not just a Detroit crisis and that it threatens the very stability and prosperity of the whole American people.

Certainly, we in Detroit and I am sure the mayors of cities across the Nation, are appreciative of the efforts of a majority of the Congress to attempt to do something to correct this situation, as evidenced in the substantial majority by which the public works antirecession bill was passed. But there was not enough support in Congress to override the President's veto.

So far as the cities are concerned, the President has turned his back, and the Congress to date has been unable or unwilling to do anything about our problem.

Chairman HUMPHREY. Let me just interrupt to say that 80 percent of the House Members did vote to override and 65 percent of the Senate. We needed just 1⅔ percent more.

Mayor YOUNG. Let me just say——

Chairman HUMPHREY. I know what you are getting at, but I think it should be clear that there is no indication on the part of the Congress to back off.

Mayor YOUNG. Well, I would urge you——

Chairman HUMPHREY. And I hope that message goes out of this room. We are not going to back off on this program.

Representative BROWN of Michigan. Congress has also passed revenue sharing.

Mayor YOUNG. I will be dealing with you later, Congressman.

Representative BROWN of Michigan. I just wanted to correct the record, Mr. Chairman.

Mayor YOUNG. I would urge you, Senator, and you too, Congressman Brown, from my own State, I would urge you both to take another look at the public works antirecession bill. I recognize the razor-thin closeness of that vote. But you should recognize the absolute necessity of that vote. And while we are on the subject that Congressman Brown spoke of, I think maybe I will just deal briefly with his substitute bill.

I understand Michigan has the high distinction that our Senator, Senator Griffin, and our Congressman, Congressman Brown, have introduced bills which purport to be substitutes or compromises for the public works antirecession bill that the President vetoed. But I can only say most bluntly, Congressman, I consider these to be fraudulent claims. And I will tell you why.

First of all, basically you are talking about an extension of a block grant program. Certainly we need block grant programs. But I think there is here a failure to understand the problems of our cities.

74-796—76——14

In Detroit, we have cut back public employees by 18 percent. We have reduced the payroll of public service by 4,000 workers out of 25,000. For the first time since the depression of the 1930's, we have laid off police officers at a time of high crime. We have laid off firemen. We have laid off sanitation workers. We have closed clinics. We have closed recreational facilities.

Not one quarter in the so-called compromise would go into our general fund, enabling us to save the jobs of these much needed public servants.

Now unemployment, whether experienced by police officers or garbage workers, Mr. Chairman, is still unemployment. The countercyclical bill addressed to unemployment. The substitute does not. So much for that.

I have with me——

Chairman HUMPHREY. How many police officers have you laid off?

Mayor YOUNG. The equivalent, in terms of lost time, of 600 officers, Senator. And as we look at our budget now, if we get no relief from either Lansing or Washington, we could well be talking about 1,000, which could certainly cripple us in our efforts to insure the safety of our people.

We are looking at budget cuts right now in Detroit which could reduce our garbage pickups from once a week to once every 2 weeks, which would imperil the health and safety of our citizens. Our hospital is faced with loss of accreditation. I could go on with the litany.

But I have here, which I will file, three documents: The first is the "State of the City Message," a speech I delivered on January 22, 1976.

Chairman HUMPHREY. We will accept that and it will be placed in the record as part of your testimony.

[The speech follows:]

STATE OF THE CITY MESSAGE,
CITY OF DETROIT,
Thursday, January 22, 1976.

Good morning. Thanks for coming,—and for helping Detroit through a tough year. And it has been tough . . . the roughest period since the last depression for many in our city. We've gone through hard times and had to cut—and we will have to cut some more.

The average unemployment in Detroit during 1975 was 20 percent, almost three times the national average, and the highest rate for any major city in America.

It hurts us. Many hundreds of city employes have been laid off permanently. There are more than 4,000 fewer employes on city payrolls today than there were 18 months ago. During this past year we shut recreation centers, museums and immunization clinics. Both the Fire and Police Departments operated with fewer men and women. Programs had to be delayed.

The coming year will be harder.

The State of our City is rarely good when the economy is crippled. It won't improve when Lansing, and Washington, are deaf to real needs.

Let me talk about where we are—and where we're headed. I said one year ago that we could hope for a new beginning in 1975, and I think we've done that—even in the midst of troubles. But that beginning is in jeopardy. The first steps we've taken toward a renaissance, toward the building of a better Detroit, will be wiped away if we fail to take hard action now.

I mean responsible action. We can't paper this thing over. We can't play with the books, and juggle the figures.

I won't run this city on paper. I will do what I have to do.

This is how close to the edge we really are.

The cost of City Government this year will be about $810 million. That's almost $50 million more than we will receive in revenues. Not because our spending got out of control, by the way. It's because State and Federal Revenue Sharing fell $12 million short, because Blue Cross Insurance jumped $4 million, because new

tax programs were never enacted in the State Legislature, and because you can't tax people who are out of work—and our own income tax collections dropped $6 million.

We knew many months ago that this time was coming.

We made layoffs—by the thousands. Is there another city in Michigan—or in the Country—that has reduced its payrolls by 18 percent? We've frozen hiring. We froze the pay in my office, and of all my appointees and department heads. Some unions made sacrifices. We've cut back on services. If we hadn't taken these painful steps, we'd be facing more serious trouble today.

Sometime in March, just to meet the payroll, the City of Detroit will have to borrow $64 million. That's three times as much money as we've ever borrowed before. It means higher and higher interest costs. It could mean the beginning of a borrowing cycle that I believe is unhealthy for Detroit's future.

The only alternatives are massive cutbacks and the dismissal of thousands of employees—or new revenues.

I will do what must be done, but I believe we've already cut deep enough, and that we are now cutting into the bone—and the heart—of city services. When libraries, Health services, Recreational programs and Fire Protection have all been cut, we have gone deep enough.

This is how serious it is.

On July 1, already $50 million in deficit and with borrowing at record levels, the city faces an immediate obligation to begin paying $50 million more in pay increases, cost of living allowances, and fringe benefits for city employees.

No amount of layoffs, or of cutbacks in services, can enable us to meet this combined $100 million deficit—and the millions more that will be added by continued inflation.

There are those who say the solution to our problem is to turn over our zoo, our parks, our Art Institute and historical museums, to some regional or State authority. These are the accumulated treasures of generations of Detroiters. These are, quite literally, the jewels of our city.

Now it is proposed that we give them away—for free—for the promise that they will be kept polished. The answer is no.

The answer to Detroit's problems is not the dismantling of the city.

We could shut down—or give away—the Art Museum, the Consumer Affairs Department, the Council of the Arts, the Human Rights Department, the Historical Department and its museums, the Department of Public Information, the Senior Citizens Department, the Youth Department, and the Zoo.

Forget for a minute that half of Detroit's young are without jobs and need the special services of the Youth Department. Never mind that nearly 200,000 of Michigan's elderly live in Detroit, and have special needs. Never mind that the other Departments protect the rights of people, or inform, or provide amenities that are the envy of a thousand cities.

Just shut 'em all down.

The total savings between now and July 1, when we face a $50 million deficit, would be less than $2 million.

If I shut down my own office, eliminated the Productivity Center, closed down the Bicentennial Office in the year of the Bicentennial, shut the Neighborhood City Halls and laid off everyone—the savings from now to July would be less than $1 million.

The City of Detroit must pay from its revenues the unemployment compensation benefits due to laid off employees. What have we really accomplished if we eliminate the jobs and services of a $200 a week employe, only to turn around and pay that same employee $136 a week not to work for the city.

It should be obvious there can be no realistic solution to our problem through massive layoffs.

For example: The third largest Department in City Government—after Police and Fire—is Environmental Protection. What would happen if we shut it down next week?

It would mean no more garbage pickups until July 1, no more sidewalks repaired, no more streets paved, no snow removed, no alleys cleared, no street swept and no trash cans emptied. It would mean no more maintenance for city cars—including Police Cruisers.

That's irresponsible. It's not even thinkable. Yet the actual savings between now and July—if we undertook such a crazy step—would be under $9 million. We have a $50 million problem.

If you can't save money, you have got to get money—and the painful answer is taxes. It should be obvious that Detroit needs—and *must* have new revenues.

We have made the hard decisions that New York refused to face until almost too late. We had two obligations: to cut expenditures, and to raise new revenues. We've cut our payrolls to the danger point—but the power to raise new revenues is in the hands of the State Legislature, and the Governor.

We can talk, of course, about long-range solutions.

I expect to hear within the next several weeks from the Task Force on City Finances, headed by Al Pelham and Doug Fraser. This is the first outside, in-depth look at Detroit finances in many years. Perhaps this group, which includes bankers, economists, community people and industrial leaders, can offer fresh ideas for long-range answers and even some additional, immediate steps.

We're considering the establishment of a permanent economic council which could undertake the search for new industry and new job opportunities.

We must find jobs for Detroit. Sure, we need to stay afloat and keep the budget whole—but unless we can see beyond new sacrifice upon sacrifice upon cutback . . . . well, we must work to create new jobs in Detroit. I believe jobs—unemployment will be the key issue facing the Nation this year.

We've placed in the hands of President Ford and his cabinet a comprehensive blueprint for the Economic Revitalization. No other city in America has produced such a bold document for change.

Some of these programs hold the promise of longer-range solutions. Some, like Moving Detroit Forward, we could begin on today.

The problems are not ours alone. New York, Yonkers, Newark, and Royal Oak are not unique cases. Philadelphia, which collects a 3.3 percent income tax from residents and non-residents alike, is approaching a greater finance problem than our own. Boston is in growing difficulty, and so is San Francisco.

It is a national problem, but it has hit Detroit very hard. It's one of the reasons I've spent so many hours in front of Cabinet Officers and Congressional Committees this past year.

Why is it that there are provisions for emergency help and rebuilding funds and federal assistance when a Tornado flattens Xenia, Ohio—but only shrugs of the shoulder when great cities are ravaged by HUD, unemployment, poverty and crime?

When cattle grow sick and die in Michigan, millions of dollars are proposed to ease the farmers' losses. When people grow sick and die in Detroit, the talk is about fiscal responsibility and cutbacks.

We need tax action.

I have no problem with the statewide tax proposal made by New Detroit and other responsible leaders. It is obviously preferable to a Detroit tax and there is considerable precedent for statewide taxation to meet local problems. A new formula for revenue sharing also has my support—and the support of all Michigan's troubled cities.

But we need new revenues now.

Our problem is $50 million today, $100 million tomorrow—and it won't be solved by a program that delivers and if-come $3 million in 1979, as Governor Milliken proposed.

Those who work in our city, who benefit from its services—and who take to their suburban homes more than $3 billion in paychecks each year—should help pay for a small share of the city's costs. That share today is $14 million—just over one percent of Detroit's annual budget.

Nowhere else in America is the tax burden shared so unequally.

Our need for revenues is urgent. In the end, Detroiters may have to help themselves—and we must not shrink from that either.

We don't have good choices any more. The choice is an arm—or the other arm, a leg—or the other leg.

The Governor has said we must forego valuable new programs during hard times. We aren't talking about new programs in Detroit. We are talking about the maintenance of basic city services for a city of one and a half million people.

Detroit, like its businessmen and its citizens, has trimmed down to meet the challenge. This is a lean, working City Government—just like the people who pay the taxes.

Because of the steps we've taken, because of the difficult steps we have yet to take, we have laid the foundations for a better Detroit.

We have made some important beginnings.

Homicides and assaults, the two most violent and feared crimes, decreased in 1975. And, for the first time in a decade, not a single police officer was killed in the line of duty.

I believe these accomplishments are a direct result of increasing professionalism in the Police Department—and a new respect between the department and the community.

The department itself is changing. Over the last two years, the percentage of black patrol officers has risen from 20 to 26 percent, and the command levels of the department have changed dramatically. Other minorities, and women, have joined in increasing numbers. Only a severe economic crisis has ground our progress in these areas to a near halt.

Still, it is becoming, I believe, a people's Police Department that will have the respect and cooperation of the community.

We're not there yet, but we have begun.

Reorganization, a new emphasis on street duty, the Mini Stations, Affirmative Action in hiring and promotions, new enforcement efforts like squads 6 and 7, major heroin convictions—all have begun to have an impact on crime in our city.

Answers aren't simple. FBI figures show crime is rising faster in the suburbs—and fastest in rural areas. In Detroit, while homicides and assaults were down, other crime increased without check.

In short, we haven't solved the problem. I'm not sure we can deal with it effectively until the 100,000 men and women in Detroit who want to work can find work.

We will continue to insist that police officers show respect for our citizens—and to urge that the people reach out to the department. In the coming months, I will present to the State Legislature a package of anti-crime measures that can help us build on the successes of 1975.

Our city came through a difficult challenge in July—and emerged with new respect for the work of a coalition of people and the police. All worked together for the good of Detroit.

Whatever satisfaction we might feel at having avoided a new explosion of violence must be tempered by the memory that two Detroiters died on Livernois—and by the certain knowledge that the tensions and the problems have not gone away.

They will not go away if we are forced to strip the city of employees and services with further cutbacks. They will not go away because Legislators and Governors turn their backs.

This coming year is critical for the survival of our city.

Just 12 months ago the Renaissance Center was said to be in trouble as inflation ate up its initial investments. Doubters wondered aloud if Detroit's most ambitious riverfront project might not fail in the Economic Recession.

Then Detroit businessmen, led by Henry Ford II, made a recommitment to the future of our City. Today's four great office towers—the second, third, fourth and fifth tallest buildings ever built in Detroit—are nearing completion.

I'm sure there will be new complaints and new problems, but here—as in other areas—we have begun.

We've lost the Heritage Hotel, for now at least—and this will hurt the recovery of Washington Boulevard. Yet on the Waterfront rises the Plaza, the tallest hotel in North America. The 400,000 confirmed room nights at the hotel have already begun to boost property values, attract new restaurants, and lure new investments to the downtown area.

This, too, is a beginning.

By unleasing the bulldozers, we caught HUD's attention. Many hundreds of burned-out or abandoned houses that have blighted our neighborhoods are finally facing the wrecking ball.

We have much to do yet with HUD—to raze and rebuild our city's commercial strips, to recycle industrial corridors, to build new housing in Elmwood III and to raise apartments along the waterfront—but we have begun.

Our Move Detroit Forward Plan seems stuck right now in Washington. The plan is not a dream. It's a living program for the economic recovery of Detroit. We didn't even ask for new monies, but for funds already appropriated from taxes we've already paid.

This year we can start on a Rapid Transit System.

This year we can begin building apartments downtown—on the riverfront.

This year we can start on a new town in town at Elmwood III.

These are programs for now, to create new jobs, to revitalize our city.

We're ready to start building—and the process of education has begun, right at the president's desk.

Detroit industries have made important new commitments of their own—from the huge $50 million investment at the Chrysler Stamping Plant to the downtown branch of Piper's Alley. In between, printing companies, electric companies, architects, and dozens of others—especially along the waterfront—have expansion plants and hopes for the future.

The Symphony has come back strongly from a long strike. Fort Wayne is being renewed for the Bicentennial. The Art Institute found support for innovation during hard times—and Detroit was chosen for a National Endowment of the Arts' Challenge Grant.

Belle Isle has begun to show the effects of our $10 million improvement prgoram. These capital funds, by law, can *only* be used for building projects—and *not*—for operations, or for salaries. We must build for tomorrow even as we deal with our problems. The Detroit River has a new national reputation as a first-rate fishing stream. The forest on the Kern Block, and the Farm-a-Lot Program, helped make our city greener. Senior citizens are riding our buses free—for the first time.

Most encouraging of all are the people, the block club leaders, the community organizations, and the neighborhoods that have decided to battle back on their own. The Palmer Park Citizens Action Council, the East Side Concerned Citizens, the residents of West Village, the Michigan Avenue Community Organization, the Latino Community—all have begun to work toward a better Detroit.

We will lose some battles in the coming year.

Some companies will leave the city. Some neighborhoods will panic. Some downtown buildings will struggle with the challenge of the Reconaissance Center. The victories and the defeats, the growth and the decay, are part of being a large city.

Think of Detroit, for a moment, in the same terms as the old Receiving Hospital. It's an old facility run by good people with too few resources. It does the best it can—and that's often very good indeed—but it has shortcomings, too.

Now those shortcomings endanger the hospital's accreditation, its very life, just as Detroit General stands on the threshold of a new future.

Yet the future of the hospitalis as solid as this podium. We've invested more than $50 million in a new medical complex that will be completed within a few years.

The city, too, is laying foundations for the future.

Major institutions in Detroit—the universities, hospitals and banks, and the utilities and the State and Federal Government—have all made significant investments in tomorrow. In the Reconaissance Center, on Belle Isle, in the new Civic Center Plaza and fountain, the Medical Center, Elmwood III, on Washington Boulevard and in nearly plans for Woodward Avenue malls and riverfront parks, and the new Science Center which we will dedicate tomorrow. We are building for the future.

There is heartbreak in Detroit, but there's a determination to turn it around, too. That turn has begun.

Nevertheless, it will be a cold—and empty—tomorrow if Detroit cannot find solutions to an immediate financial crisis.

Nearly all of the solutions are in other hands. The Governor says he can't let the State help Detroit, and now he has refused to let us help ourselves.

Unlike the Governor, we have no Veterans Trust Fund to raid. We have no uninsured motorist fund to use. Moving the date of our fiscal year just delays the day of reckoning.

We must have new revenues—and they can only be obtained by action in Lansing or in Washington. We must have the State's permission even to help ourselves.

I believe Detroiters, together, can cope with the strains of school integration, or renewing neighborhoods, and of rebuilding a city.

I believe we've started toward that goal, and that the signs of movement are real—and countable.

We can't do it alone.

If the Governor and the State Legislature do not see the way clear to assume state responsibility for helping Detroit, then give us the tools to help ourselves.

To do less is irresponsible.

We're asking for a hand—not a handout.

Some of Detroit's problems are beginning to be felt in the suburbs—and the State—today. All of Detroit's problems will be problems of the suburbs and the State tomorrow.

Let's solve them now . . . here . . . today.

Then we can say, proudly, that the State of the City in Detroit's 275th year is promising indeed.

Thank you.

COLEMAN A. YOUNG,
Mayor.

Attachments.

CITY OF DETROIT—COMPARATIVE EMPLOYEE COUNTS

	July 1974	November 1975
Full-time working	[1] 25,236	[3] 23,773
Less:		
EEA or CETA	[2] −458	[3] 3,043
Grant	[3] −1,101	[3] 777
Subtotal	23,677	19,953
Less: Adjustment for reduced police hours	0	550
Net city-financed employees	23,677	19,403
Total reduction in employment	4,274	[4] 18,051

[1] Actuarial valuation payroll count.
[2] Monthly budget department survey.
[3] Finance department payroll count.
[4] Percent of total reduction in employment.

TOTAL ESTIMATED DEFICIT, CITY OF DETROIT, 1975–76

	Amount
Major appropriation deficits:	
40 percent increase in employee hospitalization rates	$4,100,000
Unemployment benefits to laid-off city workers	1,900,000
Social security	1,400,000
Failure to achieve 8 percent savings in fire department	1,655,000
Environmental protection and maintenance department	1,053,000
Subtotal	10,108,000
Major appropriation surpluses:	
The city set aside $25,000,000 to pay costs above the $10,000 per employee ceiling set by Federal Government for its share of public employment costs. Fewer public employment grants than expected meant a surplus	5,550,000
Final totals for previous year show a $16,400,000 deficit rather than $17,600,000	1,248,000
Subtotal	6,798,000
Total appropriations deficits	3,310,000
Major revenue deficits:	
Nonresident income tax, legislation still pending	14,000,000
Reduction in city income tax collections due to economic conditions	6,300,000
Reduction in State revenue sharing, economic condition	7,533,000
Reduction in Federal revenue sharing, new census data	4,625,000
Failure to sell farm acreage at DeHoCo	2,700,000
Reduction in traffic court revenues	3,000,000
Reimbursement, criminal justice institute	1,000,000
Buildings and safety inspection revenues	800,000
Subtotal	39,958,000
Total, major items	43,268,000
All other items	1,032,000
Total estimated deficit	44,300,000

CHRONOLOGY OF 1974 AND 1975 AUSTERITY MEASURES

Date	*Event*
Jan. 2, 1974	Mayor Young assumes office.
Apr. 30, 1974	Sale of $16,510,000 faith and credit bonds at 6.8 percent interest.
July 1, 1974	Beginning of 1974–75 fiscal year. City employment was 25,236, including 458 EEA's.
Oct. 23, 1974	Mayor orders 1975–76 budget requests be limited to 95 percent of current appropriations, exclusive of pay rate increases.
Nov. 15, 1974	Mayor advised of a potential $35,000,000 operating deficit.
Dec. 1, 1974	Total hiring freeze, except for emergency services.
Jan. 20, 1975	Layoff of 1,237 city employees.
Jan. 22, 1975	Sale of $15,800,000 faith and credit bonds at 7.8 percent interest.
Jan. 27, 1975	Layoff of 168 additional city employees.
Feb. 3, 1975	Layoff of 21 additional city employees.
Mar. 22, 1975	Increase in nonresident income tax is proposed.
Mar. 29, 1975	Layoff of 243 additional city employees, all in recreation. (400 special service employees also terminated. All recreation centers were closed for 30 days.)
Apr. 21, 1975	Layoff of 63 additional city employees, meter maids and civic center guards.
May 21, 1975	Sale of $10,930,000 faith and credit bonds at 8.7 percent interest.
May 27, 1975	Budget adopted for fiscal 1975–76. Through the alternative funding sources, 4,116 city-financed positions were eliminated, leaving a total of only 21,299 city-financed positions. $2,300,000 was saved due to the policy decision to forego all automobile replacements. Other austerity measures were included, primarily an 8 percent underfunding of all payroll accounts.
June 15, 1975	Layoff of 815 additional city employees including 314 CETA's.
June 16, 1975	Agreement reached with Police Officers' Union for reduced hours and pay, equivalent of a 641-man layoff. Four other unions reached similar reduction agreements.
June 18, 1975	Sale of $30,000,000 hospital authority bonds at 9.8 percent interest.
June 24, 1975	Mayoral appointees agree to forego all pay increases for the ensuing fiscal year, saving over $300,000.
June 30, 1975	Deficit for fiscal year ending June 30, 1975, is estimated at $16,500,000. Earlier estimate, prior to layoffs, etc., was $35,000,000.
July 1, 1975	Beginning of 1975–76 fiscal year, city employment was 24,097, including 3,312 CETA's. Net city-financed employment had been reduced by 4,130 after adjustments for police officers' reduced pay agreement.
Aug. 18, 1975	Sale of $20,000,000 hospital authority bonds at 9.9 percent interest, the highest interest rate over paid by the city.
Oct. 7, 1975	Without new revenue sources, the deficit for fiscal year 1975–76 is estimated to be between $45 and $55,000,000.
Nov. 1, 1975	City employment now reduced to a total of 23,773, net city-financed is 4,365 fewer than on July 1, 1974, a reduction of over 18.05 percent.

Nov. 8, 1975	Mayor Young proposes a 1 percent increase of the city income tax for both residents and nonresidence.
Nov. 19, 1975	City departments are instructed to live within their current tax allocation. In effect, they must absorb a 12 percent increase in costs. This increase in cost may result in the elimination of 2,500 jobs.
Nov. 20, 1975	Dossin and Fort Wayne Historical Museums will be closed December 1 and two branch libraries will be closed January 1, 1976.
November 30, 1975	After 30 years of discussion, the State takes over the Women's Division of the Detroit House of Correction. This action by the State will result in the saving of $350,000 in future years, but ignores the fact that insufficient payments to cover the cost of State prisoners results in a loss of approximately $1,700,000 for the period July 1973 to December 1975.

Monthly Unemployment Rates for Detroit

Month	Rate
1974 Jan.	11.5%
Feb.	13.8%
Mar.	13.5%
Apr.	12.5%
May	11.7%
June	12.4%
July	11.6%
Aug.	11.9%
Sept.	10.2%
Oct.	11.3%
Nov.	12.4%
Dec.	16.6%
1975 Jan.	20.8%
Feb.	22.1%
Mar.	21.9%
Apr.	20.9%
May	18.8%
June	21.2%
July	20.2%
Aug.	18.5%
Sept.	17.6%
Oct.	18.3%
Nov.	17.5%
Dec.	17.3%

0 3% 6% 9% 12% 15% 18% 21% 24%

SOURCE: Computed from Michigan Employment Security Commission figures.

Additional Facts of Interest

Of the 10 states that permit cities to levy income taxes, only one—Michigan—has legislated that suburbanites will pay one-half of the rate of residents when taxing the income of those who work in the city. In Philadelphia, in Wilmington, Del., in Columbus, O., and in scores of other American cities, the income tax rate is the same on residents and non-residents.

But Michigan goes a step farther. Detroit, alone among the cities of Michigan and alone among all the cities of the country, must levy an income tax on its residents that is four times as great as the income tax on non-residents who work in the city.

Non-residents currently represent a high percentage of the job holders in Detroit, and take home more than $3 billion in income each year. Yet non-residents pay only $14 million in taxes to the city—just over one (1) percent of the city's annual budget.

Detroit is the only city in Michigan that is prohibited by state law from levying a three-mill property tax for the purpose of collecting and disposing of garbage.

Of the revenue measures currently under consideration in the state legislature, a proposed one percent increase in resident and non-resident income taxes would most immediately affect Detroit's budget problems. One alternative, a nuisance tax package proposed by New Detroit to hike taxes on beer, liquor and cigarettes, would provide a more equitable answer by spreading the tax burden across the state.

The city clearly understands the risk that further tax increases could mean a renewal of flight from Detroit by middle income families. But the city also understands that such flight would certainly follow drastic cutbacks in services, reductions in police and fire protection, fewer garbage pickups, and declining recreational programs. These drastic measures are the only steps available to the city in the absence of new revenues.

Mayor YOUNG. The second report is a long-range forecast [1] prepared by our budget department, Mr. Chairman, of Detroit's needs versus its resources. The bottom line on this is that Detroit, like other cities, is falling increasingly behind in the widening gap between needs and resources. We are looking at a $700 million deficit by 1980 unless something is done about that.

Chairman HUMPHREY. We will include that by reference in our testimony and it will be maintained in our committee room files.

Mayor YOUNG. The third document is a report we just received yesterday. It is the report of the Mayors' Task Force on City Finances.[2] My story has been so horrendous before you and others that I thought I might get some reputable citizens to document the authenticity of my statements. So what I have here is a report by a committee chaired by Alfred Pelnam, one of the foremost fiscal experts in the Nation; as well as Douglas Fraser, who is international vice president of UAW. The task force also includes the president of every financial institution in the city of Detroit, and representatives of the "Big Three," and of labor, and so forth.

Chairman HUMPHREY. We also will include that by reference in your testimony. And if there is a summation of the report, we will have that printed.

Mayor YOUNG. I would like to read very briefly from my statement. We talk about how tough it was last year, and that it was the roughest period since the Great Depression. We have gone through hard times, Mr. Chairman. We have had to cut even more.

The average unemployment in Detroit over 1975 was 20 percent—by the way Congressman Brown, it was 12 percent in Kalamazoo—which is almost three times the national average, and this is the highest rate for any major city in America. And so it hurt us.

Many hundreds of city employees have been laid off permanently. There are more than 4,000 fewer employees on the city payroll today than there were 18 months ago. During this past year, we shut recreation centers, museums, and immunization centers. Both the fire and police departments are operating with fewer men and women. Programs have been delayed.

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[1] The report, entitled "Detroit: Needs Versus Resources, 1967–81," dated December 1975, may be found in the committee room files.

[2] The report, entitled "Report of the Mayor's Task Force on City Finances," dated Feb. 24, 1976, together with exhibits 1 through 6, may be found in the committee room files.

Now the coming year will be harder. The state of our city is rarely good when the economy is crippled. It won't improve when Lansing and Washington are deaf to our needs.

Now in this documentation, Mr. Chairman, I will just pick out a few pertinent facts. Detroit did not face the same kind of fiscal problems that New York City faces, although we might well be in the same type of emergency before the next year is out. We face a deficit in our city for the current fiscal year of $44 million in spite of our cuts.

For the next fiscal year or for the next 15 months beginning April 1, we have a cumulative deficit of $100 million. And that is not because, Mr. Chairman, we have not cut. And that is not because we have not tried.

Let me give you some idea of the difference between our situation and New York's situation. For the year of 1973–74 we borrowed $42 million only. We repaid $40 million, which left us a net borrowing debt of $2.5 million. In contrast, New York City during the same fiscal year borrowed $2,558 million and repaid $813 million, with a net borrowing gap of $1.545 million. That is the dissimilarity.

But the basic similarity is the same.

Now Detroit's financial problems are not analogous to New York City's, but nonetheless, the city has a real crisis. And unless an immediate solution to this crisis is found, Detroit will face financial problems equal in gravity to those of New York City.

The city's payroll has been cut drastically. Detroit is not a profligate city. Of the 24 largest cities in America, we rank 16 in the proportion of the number of employees per capita. For instance, again using New York, there are 301 employees in New York for every 10,000 residents, while in Detroit, there are only 266. And we are cutting.

We have talked about the countercyclical bill. Let me say that in my opinion, the most important legislation that is facing this Congress during the current recession, which is a depression in the city of Detroit. Our unemployment rates are officially at 20 and 21 percent. Incidentally, there was an article in the Detroit Free Press just Monday which indicated that a study by Michigan State University—this is by way of borrowing some of Governor Carey's remarks—found that actual unemployment for Detroit is 33⅓ percent; that is, one out of every three are unemployed.

This is a catastrophic depression level. We are talking about depression in city after city across this Nation. Not only were the 600,000 to 800,000 jobs that were included in the public works provision of the public works countercyclical bill important; equally important to many cities such as mine was the money which would have been introduced into our general fund to allow us to operate as a city.

It is impossible for me to cut, to lay off enough employees over the next 15 month period to eliminate a $100 million deficit without literally crippling our city, without crippling our police department; without crippling our fire department; without crippling our public health services.

We would have received, out of the countercyclical bill, which was vetoed and successfully sustained some $47 million over the next 15 months. That would be approximately one-half of our deficit. It might have been possible with other cuts and with increased taxes on ourselves, which we are willing to do, it might have been possible for us to

manage our deficit. But without help from the Federal Government, without a return of some of our money that we sent to the Federal Government, without help from the State government, the city of Detroit might well find itself in the same situation sometime later on next year as the city of New York did. And there will be other Detroits.

Philadelphia will not be far behind, nor will Boston or San Francisco.

What I am saying, Mr. Chairman, is that we face a national urban crisis in America that could very well not only reverse the promises of recovery—and so far they are only promises to us—but could plunge this country into a catastrophic financial depression.

Chairman HUMPHREY. Well, thank you, Mr. Mayor.

I must say that your testimony is vivid and it is moving, but apparently it has not moved enough people. You talked to us very candidly when you were here a year ago. You told us what was coming and some of us listened. Out of this committee, as I said, came this countercyclical proposal. Needless to say, I personally feel that the jobs issue is the major economic issue facing us.

And I want to say quite candidly that I do not buy the argument that if you help people get jobs, that you bring inflation. I do not believe that because the empirical evidence is entirely to the contrary. The evidence is that as the unemployment went up, the inflation went up. The evidence is that as the unemployment has been coming down, the inflation has been coming down.

And all the malarky to the contrary, it doesn't mean a thing. That is still the fact.

Now have you had a chance to talk with Mr. Simon, with Mr. Greenspan, or with Mr. Lynn? Have any of you?

Mayor YOUNG. Not lately.

Chairman HUMPHREY. These are the people that advise the President. These are the people that are unaware apparently of the crisis that you bring to our attention.

When you meet with the President, Mayor Landrieu or Mayor Gibson or Mayor Young, have these men been at your meetings with the President?

Mayor LANDRIEU. Yes.

Mr. Chairman, I should say that on the day that the public works countercyclical bill passed the House of Representatives, we were at the White House with a meeting of about 150 mayors and a number of cabinet officials and among whom were included Mr. Lynn. We, at that time, made a very strong appeal for the support from the White House of the countercyclical bill. Unfortunately, the appeal was not heeded and ultimately resulted in the veto.

Chairman HUMPHREY. Well, the two key advisers besides Mr. Lynn—and Mr. Lynn is at OMB and I consider that he is a very significant force in the counsels of the administration—are Mr. Simon and Mr. Greenspan. And I must say that I think they are somewhat immune from your kind of pleadings. But I respectfully suggest that if you have a chance in the United States Conference of Mayors, that you once again call for an audience or a meeting with the President and ask for these three men to be present because they determine what is going to happen. They are the advisers to the President.

And I want to let you know that we intend to press forward again with the countercyclical and jobs bills. I am going to do everything

in my power. I sit with the Majority Policy Committee and we met yesterday in the Senate. We will be having a meeting shortly with some of the mayors and Governors. And let me say we do not intend to have 80 percent of the House ignored and 65 percent of the Senate.

So you may note that we intend to play for keeps on this one because this is vital; because this is absolutely vital.

Now I have been hearing a lot about recovery. I believe I said to Mr. Burns and others that I am a little more bullish on recovery than many other people. But I go to the cities—and I was up to Boston recently with Representative Margaret Heckler of this committee, who is an extraordinarily able member—and I was up to Fall River, Mass. And let me say they are not in any recovery.

But what has the recovery done for Detroit? What do you project Detroit's unemployment rate will be?

Mayor YOUNG. Well, we don't see any substantial diminution of unemployment in the foreseeable future. It hovers around 25 percent. But it is not only Detroit, Senator. It is practically every industrial central city in Michigan, such as Flint, and Pontiac, and Lansing, and, yes, also Grand Rapids, which is the home of the President, and even Kalamazoo and Battle Creek, which Congressman Brown represents.

There has been a catastrophic effect throughout the State of Michigan, even in a city like River Rouge, which is one of our richer cities. This is a city with a tremendous tax base because of the Great Lakes steel and auto industry, and so forth. That city has found itself in the same pinch we are in. The mayor of that city has reduced his own pay by 15 percent. All of his department heads have done the same. He is asking the unions representing the city employees to take a pay cut of 15 percent or face the same type of massive layoffs that I have described that are in store for Detroit.

Chairman HUMPHREY. Is River Rouge, well, is there an automobile plant there?

Mayor YOUNG. Yes, the plant is actually in Dearborn, but River Rouge is just as rich as Dearborn in terms of the tax base. That is the point I am making. What is happening is that unemployment has impacted upon the tax revenues of every city of Michigan.

Chairman HUMPHREY. Mayor Landrieu.

Mayor LANDRIEU. May I make one comment, please.

There seems to be a lack of understanding of the problems affecting the cities of this country. Most of the cities of this country, and particularly the larger eastern cities and those east of the Mississippi River, Mr. Chairman, were in difficulty and would be in difficulty even if we were in good times because of the social and economic changes that have taken place.

The present condition of the economy and the lack of assistance from either the State or Federal level with respect to some cities only compounds that problem.

But there seems to be a feeling somehow or another that when we initially adopted general revenue sharing, that that somehow or another cured the urban crisis. Indeed, it did not. We testified very forcefully that all general revenue sharing would do in the amounts in which it was appropriated would be to help us to buy time until more long-range meaningful solutions could be found in the crisis confronting the center cities of this Nation.

Rather than having the time which we felt general revenue sharing would give to us, we found ourselves impacted by the softness of the economy and by runaway inflation. And both of those factors simply threw us back to where we were prior to the passage of general revenue sharing.

Chairman HUMPHREY. Congressman Brown, I don't want to monopolize this, so you go right ahead. I want you to have some questions.

Representative BROWN of Michigan. Yes, I do have questions, Mr. Chairman.

The good mayor of Detroit has referred to the substitute as fraudulent. I think that conclusion can only be reached by a grossly inadequate analysis of the bill. We are talking about Detroit and what Detroit would do under the public works bill versus my substitute.

Now, let us look at the public works bill first. What does it do? The first title gives $2.5 billion for public works projects to be approved on a project-by-project basis by a Federal agency. So that is very discretionary. You don't get a dime of that now.

What do you get in title II? Is title II counter cyclical and directed purely at unemployment? Hell, no.

And let me give you the comparison of what——

Mayor YOUNG. What it does——

Representative BROWN of Michigan. Just a minute, Mayor Young.

Under my proposal, for instance, full funding—$1.5 billion of the public works bill under title II—Mayor Young, you would get in Detroit in the first quarter $10,940,000, but under my substitute you would get $18,021,000.

Well, what about overall? A comparison shows $38 million under the public works bill and $55 million——

Mayor YOUNG. $45 million.

Representative BROWN of Michigan. Well, it is the committee's own figures of $38 million. Those are their figures.

Now maybe you know more about it than the committee does.

Mayor YOUNG. I do.

Representative BROWN of Michigan. Let us talk about Flint, Mich. Flint would get overall under the public works bill, mayor, $2,363,000; under my bill, $5 million and——

Mayor YOUNG. For what purpose? Would you tell me that?

Representative BROWN of Michigan. Basically this would be used under existing program for jobs. And you say that none of the money under my substitute can be used for public services. Have you found what you can do under community development since it is supplementary to the community development program?

Well, let me just quote for you. You say it can't be used for police and firemen? Just look at all the other things which include all kinds of public facilities, all kinds of recreational facilities, economic development.

It goes on to say:

> It can also provide provision for public service needs if such services are directed towards improving the community's public services and facilities, including those concerned with the employment, economic development, crime prevention, child care, health, drug abuse, education, welfare, and recreation needs of persons residing in such areas.

Mayor YOUNG. You probably know very well, Congressman, that the Federal administrators of the block grant programs declared a long

time ago that we could not mix block grant moneys with general fund moneys, and pay employees of the city out of those moneys. You probably also know that the manpower office in the Chicago regional office is now telling us we have some 2,000 public workers on our payrolls now on manpower money. And they are going to review that and possibly force us to lay off those people. And they are saying that manpower moneys cannot be used for public servants, for employees of the city. Incidentally, you have the same bill that Senator Griffin has. I talked to him at 12 noon on the day before the vote on the override. I pointed out these same facts to the Senator, and asked him to change his bill. He understood what I meant. I ask you to do the same thing.

First of all, the amount of money is totally inadequate——

Representative Brown of Michigan. You can talk about funding levels all you want to, but you have got to remember that after the public works bill was worked out in May of last year and came down the pike finally and was finally voted on, title II was in there before we ever did anything about the public service jobs bill that we just passed, which allocates $7.3 billion to CETA and public works and public service jobs.

Now, this would make another $1.5 million; so it would make it about $9 billion for public service jobs. And it seems to me that would be more than adequate in the public services area because it seems to me you ought to focus the money where the unemployment is. And I would say, with respect to Newark, N.J., you can get substantially more funds out of the countercyclical bill than you do out of the public works bill.

The only funds you can be sure you are going to get are in title II, the countercyclical aspect of it. And in title I it is job-by-job approved. Whereas if you get the money by block grants in high unemployment areas, you decide what projects to accelerate and what projects to go ahead with.

Mayor Young. How many firemen and how many policemen, how many garbage men could I save by your bill?

Representative Brown of Michigan. The public works bill was never intended to——

Mayor Young. That is why I say it is a fraud as I face my budgetary problem. Don't tell me it is not a fraud.

Representative Brown of Michigan. How can you call the public service jobs in title II a public works bill? If there was public service——

Mayor Young. I am trying to run a city, Garry. I am about to lay off police officers and garbagemen and——

Representative Brown of Michigan. If you would read the——

Mayor Young. I have read——

Chairman Humphrey. Speak one at a time.

Mayor Young. You go down and look at our streets with nobody to work on the damn streets and no police to patrol them.

Representative Brown of Michigan. If 5,247 was supposed to be a public service jobs bill, it would have been in the Education and Labor Committee and not in the Public Works Committee. Title II was an SOP for public service jobs before you passed the public service jobs bill, which we just passed with $7.3 billion and not $1.5 billion.

Mayor YOUNG. I still need to get money for my policemen and my firemen and my garbagemen.

Chairman HUMPHREY. Congressman, didn't the countercyclical bill provide funds that would go right into the general revenues of the city?

Representative BROWN of Michigan. That is right.

Chairman HUMPHREY. Isn't that what he is talking about? Isn't that what the mayor is saying?

Representative BROWN of Michigan. The mayor is saying he wants money to fund public service jobs. And you have before you, Senator, a bill for $7.3 billion for public service jobs.

Chairman HUMPHREY. Isn't he saying that he wants money to go in the general revenue funds and that the countercyclical assistance, which is the Muskie-Humphrey bill, would have provided funds to go to a city like Detroit, pay for the costs of policemen and firemen and other people that are having to be laid off to take care of some of their budgetary problems?

Representative BROWN of Michigan. And basically title II channels money into a lot of areas with a lot less unemployment than Detroit has.

Mayor YOUNG. The problem with it is that it is not targeted. It goes to depressed areas. By the time you get it scattered all around the country, there won't be anything left for the cities that need it.

Representative BROWN of Michigan. Mr. Mayor, you are talking about a public works bill. Mine tracks nothing but unemployment.

Mayor YOUNG. We are talking about your bill now.

Representative BROWN of Michigan. Mine tracks nothing but unemployment. There aren't any other factors. The anomaly in the public works bill is that you can have an area with say $5,000 per capita income with unemployment of 8.8 percent. And they get $161 per unemployed person whereas you can have another area with $3,500 per capita income and unemployment of 15 percent, which is twice as much, and you get $31 per job.

Mayor YOUNG. I think we need to understand that——

Representative BROWN of Michigan. Now, if that is a fraud, then that is the fraud.

Mayor YOUNG. I think we need to understand the difference between public service jobs and public employees.

Representative BROWN of Michigan. I understand that.

Mayor YOUNG. If you understand that, then you understand your bill does not provide one-quarter for me to maintain a police force, a fire department, a sanitation department, a city hospital, and then you understand why I say it is fraudulent when you tell me, when addressing my problems, to address it the same way that public works——

Representative BROWN of Michigan. I have never suggested and do not suggest that the substitute addresses to public service jobs. Some of the funds can be used but I don't say it addresses itself to that. What it does is it builds upon existing programs.

Mayor YOUNG. It doesn't meet my needs, Congressman.

Representative BROWN of Michigan. What are you going to use? How much money do you need for your public service jobs program?

Are you getting more than your share of the $7.3 billion we have already passed in the House.

Mayor YOUNG. I would receive out of the antirecession bill—and you correct me—on a 1-year basis, I would receive $38 million. But since that bill applied to 15 month or five quarters, an additional $9 million I would receive which would make it $47 million, which I could have applied to $100 million of deficit.

Now, your bill does not even deal with that and you know it.

Representative BROWN of Michigan. If you are talking about going up to five quarters, then you cannot talk about $1.5 billion in title II; you got to talk about $2.2 billion. Now, you can't have it the best of all ways. The committee worked on——

Mayor YOUNG. I like the way it was before you offered your help.

Representative BROWN of Michigan. Well, I frankly feel that you got public service jobs money coming down the pike in the CETA and public works bill.

Chairman HUMPHREY. Do you think the President is going to sign a bill for 600,000 public service jobs when the budget calls for a phase out? Do you really think that, Congressman Brown?

Representative BROWN of Michigan. I doubt he will sign at that level. If you were a little more reasonable, probably he would——

Chairman HUMPHREY. Do you think he would sign it for 500,000?

Representative BROWN of Michigan. I don't know what he would sign it for.

Chairman HUMPHREY. He has 300,000 now and is going to phase that out.

I think we are just kidding ourselves. That bill of 600,000 public service jobs never passed with the majority that the countercyclical and the public works bill passed with. And I imagine you voted to override the President's veto, did you not?

Representative BROWN of Michigan. Of course not.

Chairman HUMPHREY. You didn't?

Representative BROWN of Michigan. No.

Mayor YOUNG. But now that you know the problem, I hope you change your mind.

Representative BROWN of Michigan. Well, I totally disagree with your analysis of the problem.

Mayor YOUNG. Well, I am going to give it to you chapter and verse.

Mayor LANDRIEU. Congressman Brown, I find it difficult to be critical of one who apparently wants to help. And under normal circumstances you would find us being very supportive of your bill if it were not in fact a substitute for this countercyclical public works bill.

Representative BROWN of Michigan. May I stop you just a second? I don't consider it a substitute. I think you can work on a public works proposal on another one and they are already donig that. But what I am saying is if you just go under community development, you can have this kind of money in your coffers as of April 1. It does not take a lot of administration. You use the existing framework mechanisms to counter the funds that is in the community development program. You can use 25 percent of the funds for non-CD projects.

Mayor LANDRIEU. Well, let me try to explain to you, Congressman, why we cannot look at it as a substitute. I think maybe that has been causing some of the rhetoric here today.

If I were in Mayor Young's position, I would be just as angry as he is.

We have been very supportive of the community development block grant concept. We think it is going to work. But bear in mind that under that program you get to go through a whole litany of community participation hearings. You do indeed have to file a plan which ultimately has to be not approved but it becomes effective unless it is disapproved. And it represents a new effort in the low-income neighborhoods.

Now, when you put together those restrictions on that block grant, which restrictions are perfectly acceptable to us as a community development bill—and we think the money ought to be spent as Congress dictates in the low-income areas—but when you place those restrictions on the community development bill as it now exists, it makes it impossible for us to use any of the community development money for what we would generally describe as municipal officials, as citywide purposes; that is, your police protection, your fire protection, your sanitation services. They could be beefed up in the local areas but you could not shift one dollar into that low-income area and pull another dollar out of the bottom of the pile. You could not do that. You could improve the sanitation services in that area.

Our problem is not the question of wanting to improve services. We would like to be able to do that. Our problem at the present is the ability to maintain the current services with that money. So that you are giving us money that would permit us to improve services over here when we are being forced to cut back services in other parts of the city. Now that is a very, very divisive thing to happen to a city. It is one of the problems that we face with the categorical grant system.

The categorical grant systems were well-intentioned and performed a very valuable purpose and provided a valuable goal; but when you have a city that had, let us say, 10 areas of poverty and you had to select 2 of those areas in which those Federal dollars were targeted, it meant those areas were receiving special treatment and the others were not. That became a very divisive thing. It was an extraordinarily difficult thing to explain to a person that lived on one side of the street that the health services, which available to his neighbor living on the other side of the street, they were not available to his children.

And no matter how you try to explain that as a mayor, you could not do that. Now that they have broadened the concept, all of the people in the poverty areas are eligible. But bear in mind only the areas that are low-income, poverty areas are eligible to have CD money.

Now, if your bill tracks those CD guidelines, it is impossible for Mayor Young and Mayor Gibson and myself to use that to maintain the minimum sanitation working force that we now have and the fire and policemen. And that is why we so strongly resist that as a substitute.

Now, even mayors understand there is a bottom to the barrel. And if your bill is passed, it would certainly indicate to us that another bill appropriating a similar amount of money would find it very difficult to be passed unless you just simply advocate constantly raising the

spending limit of the Federal Government which I know you are not advocating.

So, if you are asking what our druthers are, we are asking you please give us the countercyclical bill coupled with the public works bill. That will help the cities of this country far more than anything else that has been recommended.

Representative BROWN of Michigan. Do you not use any local funding with respect to projects that are carried under the CD funding?

Mayor LANDRIEU. Any local funding? Yes, we do, sir.

Representative BROWN of Michigan. You use local funding?

Mayor LANDRIEU. Yes, sir.

Representative BROWN of Michigan. Now, if you got a supplemental community development grant so that you could accelerate that project that you are presently using some local funds for in connection with the CD grant, why wouldn't you then have more money in your coffers to pay your public service employees?

Mayor LANDRIEU. Because you cannot use that money to pay——

Representative BROWN of Michigan. You are not using that money. You are using your local funds——

Mayor LANDRIEU. Are you suggesting pulling the local money out of the bottom of the pot in those neighborhoods? The CD wouldn't let you do that because you would be running exactly contrary to what you are suppose to do.

Let us assume we have one police officer for every 10 blocks. Now, what you are saying to me is you take that CD money and replace that police officer with another police officer using your money.

Representative BROWN of Michigan. No, what I am saying is——

Mayor LANDRIEU. And they are not going to let us do that.

Representative BROWN of Michigan. No, my question to you was, mayor, don't you use some money with respect to other than public service functions, mayor, in community development project areas? Don't any of those funds go in?

Mayor LANDRIEU. Yes.

Representative BROWN of Michigan. If they do go in for brick and mortar of any kind—other than public service jobs—those funds could be retained. You could use the supplemental community development funds for those activities.

Mayor LANDRIEU. Well, Congressman, every community developed their own community development plan. You will find the best plans across this Nation are those that took community development money and they took local dollars and they took State dollars and then they took the private dollars which were leveraged out of the private sector and packaged them all together in a kind of a neighborhood improvement development.

Those that just used the Federal dollars didn't maximize it at all. Now, every community had to figure out for itself what its best plan was. So, you are not going to find any consistency about how many local dollars are being used and how many private dollars are being used in a community development project.

We do know, however, that those funds, while they are in fact a block grant, are limited and restricted to the use of those CD areas and only for those CD purposes.

I might say to you that only 25 percent of the 1975 dollars are in the pipeline or have come out of the pipeline or have come out of the pipeline in the way of concrete projects as far as I know. So, you still got 75 percent of $75 stuck in that CD line. It is not the kind of project that Senator Humphrey was working for and the Congress was working for in the accelerated public works bill.

Now, those projects could have been underway in 90 days. And the reason they could have been is because all of us have a backlog of repair work, of renovations that have to be done. I looked at a list the other day of some 33 fire stations. And I spoke to the city engineer and I said "Do I have to do these fire stations?" And he said, "Mayor, if you don't do that on that fire station's roof today, you could put buckets under it, but when you come back in 2 years you will have to replace that roof and you may have to replace the whole structure."

Now, when you defer that kind of maintenance in cities, all you are doing is deferring the day of disaster and making it more certain. We have been forced to defer reasonable maintenance efforts in our cities. The other day I asked why so much of our equipment was down. We got a very competent garage that services all of our equipment and the equipment man simply said: "Mayor, I can't keep the equipment rolling." He said: "It is so old that you roll it in here, we patch it up, we ship it out, and the same piece of equipment is back the next week." So, what we have to do is buy new equipment and constantly reduce the amount of outlays that we are spending on maintenance.

If you had money, you would do preventive maintenance. I go through Washington, D.C. I don't see the buildings in Washington, D.C., in the kind of condition you find municipal buildings.

Chairman HUMPHREY. You mean our governmental buildings?

Mayor LANDRIEU. Government buildings.

Chairman HUMPHREY. Because if you take a look at the rest of the city. that isn't so.

Mayor LANDREAU. No, Government buildings. But throughout the cities of this country. if you look at the public buildings and send engineers into those buildings, many ought to be condemned but we don't do so because there is no substitute right now. Ultimately, they have to be replaced. So that the backlog begins to eat you up.

I know that you are well-intentioned in what you want to achieve, Congressman, but as a mayor who is equally well-intentioned, may I suggest to you that your bill is not targeted to what his needs are or to my needs nor to Mayor Gibson's needs.

Chairman HUMPHREY. Gentlemen, we are going to have to break this off. I tell you what I think I am going to do. I am chairman of the Subcommittee on Foreign Assistance and Military Sales and Military Assistance. The last bill we processed, in that bill they had $2 billion of budget support for countries you can't even spell the name of. And I think we are going to include you under that. That is about the only way you are going to get it if we can get the President to sign those bills. [Laughter.]

I am not kidding you. It is incredible to me that we will take and put $2 billion in what we call support and assistance and take and put that all around the world, which is nothing less than what you are talking

about here, Mayors Young, Gibson and Landrieu. This is strictly budgetary assistance to bail out a country that has a shortage of money to pay for its needs. And maybe that is what we are going to have to do.

And I know that it is ridiculous to even propose such a thing under that kind of jurisdiction but I do think it tells us that what we are proposing here is nothing new. There is nothing to countercyclical assistance. Countercyclical assistance is domestically what we are doing right now internationally and I will be damned but we are more concerned about some place like Botswana or Korea than we are about Newark, N.J. or Detroit or New Orleans. It is incredible.

Representative BROWN of Michigan. Before you wind up I would just like to respond to Mayor Landrieu. Mayor, I just want to point out that the bill provides for 25 percent of the funds to be used in non-CD under your basic plan: Your plan is already in. It also says that where the recipient of the funds can certify that strict compliance or compliance with all the CD requirements would impair the achievement of the goals and objectives of putting people to work, they can be raised. And what I am saying is that although you talk about the funding for the firehouses and all of this, but I am saying that if that bill is passed, all you got to do is compare your experience—good or bad—as it is under CD, mayor, with what your categorical experience is.

Now, we are not talking about 49 days, which has been the processing time on most of our CD applications: We are talking about 49 months. And all I am saying is I just wish that in turn you would take another look at this proposal because the mechanism is there and the funding could be there. If you do something later on—and I am sure that this Congress is not going to be satisfied with the $78 million countercyclical bill—Congress is not going to be satisfied with that. They are going to come up with something else in public works. And you got the public service jobs bill coming down the pike too. And I would suggest that it might be in the interest of especially those mayors with high unemployment and especially those mayors like the mayor of Newark, N.J., and the mayor of Detroit, that they get this money now and then see what they can get later.

Chairman HUMPHREY. OK, boys. That does it.

Representative BROWN of Michigan. Because now you have nothing.

Chairman HUMPHREY. Time to quit.

[Whereupon, at 1 p.m., the committee recessed, to reconvene at 10 a.m., Thursday, February 26, 1976.]

[The following statement was subsequently supplied for the record in the context of today's hearing:]

STATEMENT OF THE PUBLIC EMPLOYEE DEPARTMENT, AFL–CIO, ON THE IMPACT OF RECESSION UPON PUBLIC EMPLOYEES AND THE PRESIDENT'S FISCAL YEAR 1977 BUDGET PROPOSAL, MARCH 1976

The Public Employee Department, AFL–CIO, represents twenty-nine national unions comprising over two million members in the public sector of the economy.

We appreciate this opportunity to document to you the massive adverse impact that the current severe economic recession is placing upon public employees and to show the further potential harms to public employees that would arise from adoption of the President's fiscal year 1977 Budget proposal.

Lost output, wasted economic opportunities, and hardship on the working people of America typified the economic year 1975. The leadership vitally necessary in order to move the economy out of recession and towards economic recovery was not there. During 1975, 8.5 percent or 7.8 million of America's work-

ers were unemployed. It is estimated that during 1975 some 20 million workers were unemployed at some time during the year. Over the year, over one million workers became too discouraged to continue looking for work and hence were not technically counted as unemployed. Additionally, an average 3.7 million workers were working part-time for economic reasons. Therefore, the official unemployment statistic of 8.5 percent during 1975 greatly understates the true impact on American workers and on wasted and lost economic opportunities for the American people. The true unemployment figure for 1975, including discouraged workers and part-time unemployed was 11.5 percent.

Full employment is not just a slogan: It is an absolute necessity for a well-functioning economy. The unique position of the public employee during this current recession, the worst since the Great Depression, has to be recognized and dealt with immediately.

Public employees are the victims of recession and inflation. They have in no way contributed to these national maladies. Unemployment rates for public employees are at record highs—exceeding by one-third the previous record high in 1950. Additionally, the 28 percent increase in the inflation over the last three years has seriously eroded the already meager living standards of public employees. Many now fall well below the officially accepted standard defining the "working poor."

Public employees, however, are doubly threatened; burdened not only by unemployment and inflation, but by the fiscal crunch of governments at all levels. Decreasing tax collections and increasing expenditures caused by this severe, prolonged recession threaten the financial stability and even survival of some government entities. The OMB estimated lost net revenues of over $70 billion by the federal government during fiscal 1976 due to recession. The Economic Report of the President estimates lost net revenues to the state and local governments of $27 billion due to economic decay.

Future economic movements offer no expectations of a reversal of recession. President Ford's proposed budget, if implemented, would guarantee the continuance of the worst recession since the Great Depression. His budget statement forecasts national unemployment levels of 7.7 percent for 1976, and 6.9 percent 1977, with long range "hopeful assumptions" calling for 6.4 percent unemployment in 1978, and 5.8 percent unemployment for 1979. At the same time, the CPI is forecast to increase by 17.4 percent over the next three years, declining somewhat to 4.6 percent in 1979.

The declining government revenues, combined with increasing burdens upon government entities due to recession have created confrontations between the tax payers and the tax assessors at all government levels. The legitimate needs of public employees as victims of recession and inflation have been exploited, and threaten to continue to be exploited, as a readily available "political scape-goat mechanism" to direct attention and blame away from this economically caused confrontation.

Regardless of its impropriety, the threat to public employees due to economic recession continues on all fronts. Even optimistic projections of economic recovery suggest a very slow recovery—taking more than five years. Less optimistic forecasts see a return to worsening recession after the election year ends.

In the face of this, the President's proposed budget recommends major, across-the-board cut-backs in precisely the programs designed to help alleviate our national economic sickness. The President's indefensible veto of the Public Works Conference Report, sustained February 21 by the Senate, is a recent case in point.

Public employees are singled out as responsible for the economic plight of government and, on the other hand, are targeted as the first group expected to bar the brunt of reduced government spending. Nationwide, public employees are experiencing layoffs, reduction in hours and minimal increases in wages and fringe benefits; simultaneously the American public continues to pay higher taxes for fewer services.

THE PERFORMANCE OF THE AMERICAN ECONOMY

Public employees today are being told that jobs must be sacrificed in order to quell inflation and provide a basis for future economic growth in a free America. This assertion does not stand up in light of the economic facts.

An analysis of three major overriding goals of the American economy, the fulfillment of which is a key measure of the well-being or hardship of the American people over the period 1965 to 1975, substantiates our contention. These goals

are: (1) full employment, (2) stable prices, and (3) economic growth. The degree to which the American economy can realize a reasonable balance between the stable prices, full employment, and economic growth is a good measure for making this judgment.

The performance of the economy in the years 1965 through 1969 stands in sharp contrast to the lack of fulfillment of these goals in the years 1970 through 1974. Unfortunately, 1975 was vastly below the poor showing of 1970 through 1974.

Between 1965 and 1969, unemployment moved from a high of 4.5 percent to a low of 3.5 percent—averaging 3.8 percent. During this same period, inflation went from a high of 6.1 percent over the year to a low of 1.9 percent also averaging 3.8 percent. Public employees had an average unemployment rate of 1.8 percent. Real economic growth averaged 4.6 percent.

All three of these measures of economic well-being fell off sharply between 1970 and 1974. Unemployment moved from a low 4.9 percent to a high of 5.9 percent—averaging 5.3 percent, up 39 percent over the 3.8 percent average for 1965 through 1969. Inflation over the year moved from a low of 3.4 percent to a high of 12.2 percent and similarly averaged 5.3 percent, up 39 percent over the 1965–1969 average level. Unemployment among public employees more than doubled over 1965–1969. Real economic growth declined by one-third from the 4.6 percent annual rate recorded in 1965–1969, to only 2.6 percent.

During 1975, economic conditions rapidly deteriorated, reflecting the results of the worst recession since the Great Depression. Unemployment averaged 8.5 percent—up an additional 60 percent from the 5.3 percent recorded in 1970–1974, and up an astonishing 124 percent over the 3.8 percent averaged in 1965–1969. Inflation in the 12 months ending in December 1975 was up 7.0 percent—up sharply from the 1970–1974 average of 5.3 percent and was almost double the 3.8 percent rate of 1965–1969. Real economic growth in the year 1975, had ceased, and in fact, was declining at an annual rate of 2 percent per year. Unemployment for public workers increased to an average of 4 percent during 1975.

Given the events of the last six years, the promises of the Nixon-Burns economic game plan developed in 1969, to reduce the rate of inflation while maintaining full employment bordered on the farcical. Continued adherence to the same economic policies that have failed for the past six years by President Ford and Chairman Arthur Burns, is inexcusable. Continuance of this policy could well change the worst recession since the Great Depression into the Devastating Great Depression of the 1970's.

Repeated pronouncements by the Administration that unemployment is a necessary evil to alleviate inflation in light of the events of the past six years is tragic irony.

It must be clear to all impartial observers, that there is no relationship between unemployment and inflation in the operation of the American Economy today except for the fact that both are at intolerable high levels.

Between 1969 and the summer of 1974, the Nixon-Burns economic policies created inflation and recession. Since the summer of 1974, the same policies under Ford-Burns have continued high inflation rates and the worst recession since the Great Depression.

The losses in human terms are immense and tragic. Unfortunately the losses cannot be measured in a way in which the Administration can readily understand.

The losses measured in terms of dollars of Gross National Product caused by the current recession can be, and are partially, measured by the federal government.

If 4 percent of the labor force were unemployed, instead of the massive unemployment we have today, the potential GNP for 1975 would have been one trillion 729 billion dollars. This compares to the preliminary actual GNP figures for 1975 of one trillion 499 billion dollars.

The difference between the potential GNP—what the American economy is capable of producing if 4 percent were unemployed—and the actual GNP recorded, represents the waste and loss of goods and services suffered by the American economy due to the unemployment in excess of 4 percent. American people gave up approximately 230 billion dollars worth of goods and services. That is, the cost of the current massive recession was 230 billion dollars of additional goods and services which could have been produced and provided a higher standard of living for all Americans.

Indeed, an additional caveat should be noted. The American economy is capable of performing at a level of unemployment of less than 4 percent. In fact, the system is capable of producing at a level of approximately 3 percent unemployed,

or with 97 percent of its civilian work force employed. Nonetheless, the official government statistics for potential GNP with 4 percent unemployed are very meaningful in terms of analyzing the cost of the current massive recession. This represents a loss of $2,500 per civilian labor force member.

Attainment of full employment in the American economy is a goal totally neglected and, in some quarters, a forgotten goal. Full employment is not just a slogan: it is an absolute necessity for a well-functioning economy.

PUBLIC EMPLOYEES

The unique position of public employees during this current recession has to be recognized and dealt with immediately. They are the victims of both recession and inflation. They have in no way contributed to these national maladies. Unemployment rates for public employees are at record highs—exceeding by one-third the previous record high in 1950. Additionally, the 28 percent spiral of inflation over the last three years has seriously eroded the already modest living standards of public employees. Many now fall well below the officially accepted standard defining the "working poor."

Public employees, however, are doubly threatened; burdened not only by unemployment and inflation, but the fiscal crunch of governments at all levels. Decreasing tax collections and increasing expenditures caused by this severe prolonged recession threaten the financial stability and even survival of some government entities. The Office of Management and Budget estimated lost net revenues of over $70 billion by the federal government during fiscal '76, due to recession. The Economic Report of the President notes that lost net revenues to the state and local governments are estimated to be $27 billion due to economic decay. The policy of continued and prolonged severe recession is a scandalous waste of the American citizens' standard of living. Almost $100 billion in net revenue would become available to America's governments, national, state and local, if only America returned to a rate of 4 percent unemployment. And even a 4 percent rate of unemployment is excessively high, as noted above, and is capable of being reduced to 3 percent without harming the economic system.

In December of 1975 there were 12.5 million state and local public employees. The $27 billion lost net revenues due to economic recession represents well over $2,000 per public employee at the state/local level. The villains causing the state/local financial crunch are the wasteful, misguided economic policies of the Administration and regressive, ineffective tax systems. The victims have been the workers of America and especially America's public employees. The most recently available census data shows that the average public employee at the state/local level earns only $9,448 annually. At that rate of pay over 2.7 million public employees could be hired full time out of the lost net revenues of the state/local governments due to the economic recession.

America paid the high price of sustaining unemployment in the Great Depression of the 1930's. Economists calculate that the lost out-put of goods and services due to unemployment during the 1930's, was greater in dollar terms than the entire cost of World War II. Why, forty short years later, should we re-live the mistakes of the past?

Notwithstanding the Full Employment Act of 1946, the American economy has simply failed to achieve its goal. The unemployment rate of 8.5 percent during 1975 represents a scandalous waste of manpower in the American economy. Idled workers and excess capacity are the mode of operation of the present Administration's economic game plan.

To reiterate, the American people are falsely being led to believe that this very high level of unemployment is a necessary evil for obtaining stable prices. They are not being told of the tremendous losses in the standard of living for all workers caused by continued high unemployment. They are not being told of the great human tragedy of workers who are willing, able, and actively seeking work and yet, unable to find jobs. They are not being told of the soaring demand for services at the local, state and national government levels that is being ignored because of the lack of revenue to fund such demands.

It is, indeed, an ironic tragedy that in the early summer of 1975, the American people were told by Administration spokesmen that "the recession is over;" that the economy "is on target" for its economic recovery. This pronouncement by the Administration was misleading and based upon false assumptions. Public employees and other workers throughout the country know first-hand that these pronouncements simply did not conform to reality.

Public employees realize that the facts are, as they were then, in opposition to these optimistic platitudes. They are suffering daily from continually mounting layoffs. Unemployment for public employees in 1975, has been at historically high levels. Legal contracts are not being honored. Public employees are being used as scapegoats for the mismanagement of many administrations at the national, state, and local levels.

The monetary and fiscal policies of the current national Administration have created the environment for, and caused the current recession. This recession has produced a social milieu creating peak demands for the services provided by public employees. In the private sector, peak demand creates additional output. It is both unfortunate and improper that government revenues reduced by recession and inflation cause public sector layoffs at a time of increasing demand for the services produced by these same employees.

Therefore, the current rising unemployment among public employees is not a manifestation of a lack of demand for their services, but rather, is the result of an erosion of the tax base and hence, budgetary pressures on the individual government units involved. In turn, this process is, of course, delayed in its reaction to the onset of a general economic recession or to a general economic recovery.

GENERAL IMPACT OF FORD'S FISCAL YEAR 1977 BUDGET PROPOSAL

President Ford's proposed budget, if implemented, would guarantee the continuance of the recession. His budget statement forecasts national unemployment levels of 7.7 percent for 1976, and 6.9 percent for 1977, with long range "hopeful assumptions" calling for 6.4 percent unemployment in 1978, and 5.8 percent unemployment for 1979. At the same time, the CPI is forecast to increase by 17.4 percent over the next three years, declining somewhat to 4.6 percent in 1979.

The entire American economy and people will suffer a continued falling standard of living, loss of dignity through prolonged unemployment and underemployment, and the continued frustration of wasted and lost economic opportunities under Ford's fiscal year 1977 budget proposal.

Major across the board cuts below Ford's October 1975 current services budget estimate of $423 billion would severely impact American workers. These cuts include:

	Billions (minus)
Health programs	$1.4
Medicare	2.2
Food stamps	1.2
Temporary employment assistance	1.2
Federal housing assistance	1.2
Veterans programs	1.0
Social Security	0.9
Child nutrition	0.9
Public assistance	0.3
Urban mass transit	0.2
Special unemployment assistance and federal supplemental benefits	0.8
State employment security agencies	0.1
Federal and military employee retirement	0.2
Federal civilian and military pay	3.6
Education	1.3

All of Americas poor and working classes will be harmed while the rich continue enjoying increasing profits and high interest rates on their investments.

Public employees are severely and uniquely impacted by many of these major proposals, and by glaring omissions of funding and past vetoes of needed public sector financial aid and programs.

In addition, the fiscal year 1977 budget calls for increases in the social security tax, which falls most heavily upon Americas working poor. This most regressive tax under President Ford's proposal will account for 32 percent of Fiscal Year 1977 tax receipts.

IMPACT ON FEDERAL EMPLOYEES OF FORD'S FISCAL YEAR 1977 BUDGET PROPOSAL

Federal employees are once again singled out to forego pay comparability because of budgetary and political considerations.

White-collar federal classified employees have not received a pay increase that was not either "capped," lowered by administrative statistical manipulations, or by wage-price controls since January of 1971. Under the present pay-setting procedures the projected pay increases for October 1976 would be 11.5 percent for civilian classified white-collar workers. This figure conforms with official Office of Management and Budget estimates in their past public documents. However, the President's budget assumes adoption of a new statistical gimmick nebulously called "weighing" which will decrease the comparability adjustment from an average of 11.5 percent down to only 7.2 percent. Even more deplorable, the projected increase will be only 2.4 percent for the poorest GS-1 workers and a miserly 4.4 percent for GS-5 workers while, in sharp contrast, the GS-15 and above workers would be scheduled for pay increases of between 12 percent and 15 percent. This administrative change will rob these workers of $1,284 million of comparability income. In addition, the budget proposes a "cap" on pay of 5 percent. The combined lost pay will be almost 7 percent on average or 1,677 millions of dollars.

Fortunately, the blue-collar pay system is less subject to administrative manipulations. Nevertheless, legislative changes to blue-collar federal pay setting advocated by the Administration would eliminate two pay steps and introduce a "flexible average pay reference technique." This would take $301 million out of the pockets of federal blue-collar civilian workers.

The proposed budget is based upon cuts in the federal civilian workforce in many government agencies. Permanent full-time civilian employment is proposed to be cut by 12,500 jobs between June 30, 1976 and September 30, 1977. The following table details the impact of these proposed cuts.

SUMMARY OF FULL-TIME PERMANENT CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH [1]

Agency	As of June 30		As of Sept. 30, 1977 estimate	Change 1976–77
	1975 actual	1976 estimate		
Agriculture	79,133	80,400	80,400	
Commerce	28,711	28,900	28,700	−200
Defense—military functions	954,721	930,700	924,000	−6,700
Defense—civil functions	29,069	29,100	29,100	
Health, Education, and Welfare	129,285	135,000	128,900	−6,100
Housing and Urban Development	15,142	15,000	15,700	700
Interior	58,088	59,200	59,300	100
Justice	49,032	51,600	51,700	100
Labor	13,427	14,600	14,900	300
State	22,324	22,900	22,900	
Transportation	70,345	72,400	72,600	200
Treasury	108,138	113,500	110,000	−3,500
Energy Research and Development Administration	7,457	8,300	8,400	100
Environmental Protection Agency	9,160	9,600	9,600	
General Services Administration	36,400	36,800	36,000	−800
National Aeronautics and Space Administration	24,333	24,300	23,800	−500
Veterans' Administration	184,502	196,600	198,100	1,500
Other:				
Agency for International Development	6,185	6,200	6,200	
Civil Service Commission	6,670	6,800	6,900	100
Federal Energy Administration	2,978	3,200	[2] 1,800	−1,400
Nuclear Regulatory Commission	2,006	2,300	2,500	200
Panama Canal	13,768	13,800	13,800	
Selective Service System	2,121	200	100	−100
Small Business Administration	4,127	4,300	4,400	100
Tennessee Valley Authority	14,084	15,100	15,500	400
United States Information Agency	8,662	8,800	8,800	
Miscellaneous	37,484	40,200	40,200	
Subtotal	1,917,352	1,929,800	1,914,300	−15,500
Contingencies [3]		2,000	5,000	3,000
Subtotal	1,917,352	1,931,800	1,919,300	−12,500
Postal Service	558,311	542,600	543,600	1,000
Total	2,475,663	2,474,400	2,462,900	−11,500

[1] Excludes developmental positions under the worker-trainee opportunity program and certain disadvantaged youth programs.
[2] Excludes the impact of the Energy Policy and Conservation Act of 1975. Allowances for any necessary additional staff is included in contingencies.
[3] Subject to later distribution.

Source: Special analysis fiscal year 1977.

In addition, decreased scheduled staff requirements for FAA will result in $5 million lost income. Further, training programs previously available for air traffic controllers will be cut by $3 million.

Retirement pay for federal workers is scheduled by the President to be lowered through legislative action by 70 million in fiscal year 1977 and 331 million during fiscal year 1978.

IMPACT UPON STATE AND LOCAL EMPLOYEES OF FORD'S FISCAL YEAR 1977 BUDGET

Unemployment for government workers reached its historical high during 1975, fully one-third higher than the previous high recorded back in 1950. Lost revenues due to contraction of the tax base for state and local governments and increased expenditures due to the needs of the unemployed have presented a severe financial drain upon the state and local government sector.

In October of 1975, an Administration current services budget proposal estimate of $423 billion was advanced, which at best simply represented a continuation of the current services budget levels. The inadequacy of the current services budget proposal has been demonstrated throughout 1975 in the economy's continuation of the worst recession since the Great Depression of the 1930's.

The continuation of the budgetary errors taking place in 1975, however, would be preferable to the disastrous cutbacks of even current services funding that is proposed in the President's 1977 budget. Almost $30 billion of additional cutbacks have been taken away from the current services budget—spending that was vitally needed in order to continue services in state and local government areas and spending which was creating only a minimum of jobs to counteract the recession will be lowered or eliminated.

The devastating impacts of the fiscal year 1977 budget proposals then logically may be viewed in two contexts. First, the severe cutbacks in his budget proposals vis a vis a continuation of the current services budget and secondly, the emissions from the current services budget of funds to create jobs and get the American workers, both private and public sector, back to work.

The following outlines some of the most damaging cutbacks of funding in President Ford's proposed fiscal year 1977 budget impacting state and local workers:

I. TEMPORARY EMPLOYMENT ASSISTANCE PROGRAMS

A. *Proposed Cutbacks.*—Temporary employment assistance programs would be phased down, with cutbacks of $1,185 million in fiscal year 1977 and $2,250 million in fiscal year 1978. The omission of this funding is in sharp contrast to the second budget resolutions passed by Congress which projected a vast expansion of these programs.

B. *Effect on Jobs.*—Current temporary employment assistance programs would be reduced by 15,000 jobs during the next six months and approximately 25,000 jobs per month beginning in late 1976 or early 1977 until the temporary employment assistance programs are phased out. By October 1, 1977, only 45,000 jobs would remain.

II. SPECIAL UNEMPLOYMENT BENEFITS PROGRAMS

This program would be allowed to expire as scheduled, with the last date for new claims on December 31, 1976 and the last date for benefits set for March 31, 1977. Reductions in unemployment benefits would amount to $500 million in fiscal year 1977 and $700 million in fiscal year 1978. In addition, the President also would allow the federal supplemental benefit program to expire as scheduled on March 31, 1977. Reductions in unemployment benefits under this program amount to $310 million in fiscal year 1977 and $520 million in fiscal year 1978.

III. URBAN MASS TRANSIT

Urban mass transit grants would be restricted to a maximum of 50 percent of allocated funds for operating subsidies, reducing federal mass transit by $225 million in fiscal year 1977 and $330 million in fiscal year 1978.

IV. HEALTH PROGRAMS

Proposed cuts for alcohol, drug abuse and mental health programs would be $167 million in fiscal year 1977 and $305 million in fiscal year 1978.

V. EDUCATION

Federal assistance for elementary, secondary and higher education would have total reductions of $1,065 million below what was appropriated by Congress in fiscal year 1976. These cuts would amount to $646 million less for higher education and $417 million less for elementary and secondary education.

A. *Impact Aid.*—Impact aid for fiscal year 1977 would be cut by $365 million. Because of misleading bookkeeping procedures, this cut shows up as only an $11 million reduction in the Ford budget.

B. *Supplemental Opportunity Grants.*—This program, for which $240 million was appropriated in fiscal year 1976, would be totally eliminated by President Ford. Again, misleading bookkeeping procedures allow this reduction to show up as a "zero-cut item," rather than as a $240 million cutback.

C. *Direct Loan Programs.*—In fiscal year 1976, $332 million was appropriated for direct loans. The Ford budget proposes $12 million in fiscal year 1977 for direct loans, which is $3 million more than he requested last year. In reality, this proposal represents a cut of $320 million over the amount appropriated in fiscal year 1976 for direct loans.

D. *Work/Study Programs.*—Some $390 million was appropriated for work/study programs in fiscal year 1976. The President requests only $250 million in fiscal year 1977 for this program, the same amount he proposed last year. But this request is a cut of $140 million over the amount appropriated for work/study programs in fiscal year 1976.

VI. INTERGOVERNMENTAL PERSONNEL ACT

IPA grants to state and local governments would be reduced by $5 million in both fiscal year 1977 and fiscal year 1978.

VII. LAW ENFORCEMENT TRAINING

State and local governments would be required to reimburse the federal government 50 percent of the costs for law enforcement training provided by the Federal Bureau of Investigation. This increase would cost state and local governments an estimated $8 million in fiscal year 1977 and $8 million in fiscal year 1978.

VIII. STATE EMPLOYMENT SERVICES

Federal grants to states to maintain employment services would be reduced by $70 million in fiscal year 1977 and $70 million in fiscal year 1978.

IX. STATE UNEMPLOYMENT ADMINISTRATIVE SERVICES

Federal grants to subsidize state unemployment administrative costs would be reduced by $11 million in fiscal year 1977 and $11 million in fiscal year 1978.

X. FOREST AND RURAL FIRE FIGHTING PROGRAMS

Federal grants to states for forest fire control would be reduced by $11 million in fiscal year 1977 and $22 million in fiscal year 1978. The rural community fire protection grants program would be totally eliminated, resulting in cuts of $3 million in fiscal year 1977 and $1 million in fiscal year 1978.

XI. INTERGOVERNMENTAL PERSONNEL ACT

The formula allocating grants to state and local governments would be reduced by one-third. This would cut IPA grants by $5 million in both fiscal year 1977 and fiscal year 1978.

IMPACT UPON POSTAL EMPLOYEES OF FORD'S FISCAL YEAR 1977 BUDGET

In addition, proper budgetary funding should be available for the United States Postal Service.

The U.S. Postal Service was created in 1970 with the avowed purpose of significantly improving the processing and delivery of all classes of mail throughout the United States and abroad. Instead, it is a quasi-public corporation which is driving away potential mail users by continuing increased rates and reduced services.

There is pending in Congress a proposal by Senator Gale W. McGee, Chairman of the Senate Post Office and Civil Service Committee, to finance 10 percent of

the Postal Service operating budget from general revenues of the federal government for three years. At the same time, a committee of qualified experts would investigate all aspects of Postal Service operations and finances, and offer findings and recommendations to Congress for action.

This approach represents a sensible solution to resolving the function of postal operations as a public service under its traditional role as described in the United States Constitution.

Yet, we are witnessing outright opposition by this Administration to efforts aimed at improving this situation. As a reuslt, the USPS is becoming a victim of increasingly serious competition by private carriers for the most lucrative aspects of mail processing and delivery.

The Public Employee Department Executive Board in February of this year went on record as condemning: Opposition by the Ford Administration to the McGee Bill; The elimination of services now performed by the Postal Service in favor of performance of these services by private carriers; Refusal of the Ford Administration to permit continuation of Postal Service subsidies in the budget; The repressive manpower programs recently implemented by the Postal Service. The Public Employee Department Executive Board in this message urges Congress to immediately approve the McGee Bill.

PUBLIC EMPLOYEE WAGE MOVEMENTS

Table I presents wage movements of public and private sector workers contrasted to the cost of living and inflation rates during 1973, 1974 and 1975. This table is presented to totally put to rest any notion that the wage increases achieved by public sector workers are inflationary. As the record clearly shows the wage increases of public sector workers have been extremely meager. At all times the rate of inflation has exceeded the rate of increase in public sector wage settlements. The notion that wage increases such as those achieved by the 1.9 million federal classified workers of 4.8 percent in 1973, 5.5 percent in 1974, and 5.0 percent in 1975 have caused the inflationary rate of 28 percent over the last three years is simply nonsense.

The true cause of the current crisis in state/local finance should be immediately recognized. Strong measures must be taken to move the American economy back toward full employment. The increased net revenues flowing to the federal, state and local governments of almost $100 billion, which will be achieved if unemployment is reduced to 4 percent, will alleviate the financial crunch currently impacting governments and will provide an adequate basis to contniue high level quality services in the public sector. In addition, the modest wage rates that have been negotiated by public sector workers will be easily afforded.

TABLE I.—WAGE MOVEMENTS, PUBLIC AND PRIVATE SECTORS CONTRASTED TO COST-OF-LIVING AND INFLATION RATES

[Amounts in percent]

	1973	1974	1975
Public sector percentage wage changes:			
Firefighters [1]	6.1	7.0	(2)
Police [1]	6.2	6.2	(2)
Sanitation [1]	6.7	7.9	(2)
Teachers [3]	6.8	(2)	(2)
Federal classified workers	4.8	5.5	5.0
Private sector percentage wage changes:			
Major collective bargaining agreements:			
Average over life of contract	5.1	7.3	7.8
Effective wage adjustment [4]	7.0	9.4	8.6
Average hourly earnings production or nonsupervisory workers, private nonfarm economy	7.0	8.3	6.9
Inflation and cost-of-living percentage changes:			
Inflation [5]	8.8	12.2	7.0
Cost-of-living [6]	10.3	13.4	6.1

[1] For cities of 100,000 or more inhabitants, increases are for minimum salary rates.
[2] Not available.
[3] Derived by taking a simple average of the 1971 to 1973 change reported by BLS of 13.6 percent for urban public classroom teachers in cities of 100,000 or more inhabitants.
[4] The effective wage adjustment measures wage movements in major collective bargaining contracts in the private sector caused by the 1st year wage increases, deferred wage increases and cost-of-living adjustments.
[5] Inflation rates are for the 12-month period ending in December.
[6] The cost-of-living figure is derived by taking the average percentage change for the 3 BLS urban family of 4 budget levels for October of each year.

UNEMPLOYMENT RATE, GOVERNMENT WAGE AND SALARY WORKERS, NONAGRICULTURAL INDUSTRIES

[Percent of seasonally adjusted data]

	January	February	March	April	May	June	July	August	September	October	November	December
1950	3.4	3.9	3.7	3.2	3.3	3.2	3.1	2.6	2.3	2.5	2.3	2.1
1951	2.0	1.9	1.6	2.2	1.5	1.6	1.5	1.7	1.9	2.0	2.0	1.6
1952	1.7	1.6	1.4	1.3	1.4	1.4	1.4	2.1	1.7	1.5	1.7	1.4
1953	1.3	1.0	1.3	1.1	1.6	1.8	1.7	2.0	1.5	1.3	1.5	1.8
1954	2.2	2.7	3.3	2.4	2.2	1.7	1.9	1.8	2.3	2.2	2.1	2.0
1955	2.2	2.4	2.4	2.3	2.3	2.0	1.9	1.4	1.8	2.0	1.5	1.9
1956	1.9	1.6	2.4	1.9	1.5	1.6	1.7	1.0	1.5	1.7	1.9	1.8
1957	1.9	1.8	1.7	1.8	2.0	2.2	2.0	1.9	2.0	1.7	1.9	2.0
1958	2.0	2.5	2.6	2.6	2.6	2.6	2.6	2.7	2.5	2.4	2.2	2.4
1959	2.2	2.2	2.1	1.7	1.9	2.0	2.3	2.4	2.3	2.5	2.6	2.5
1960	2.6	2.4	2.5	1.8	2.2	2.3	2.2	2.1	2.3	2.5	2.4	2.9
1961	2.6	2.2	2.6	2.6	2.8	2.9	2.7	2.3	2.6	2.5	2.4	2.2
1962	2.0	1.8	2.2	2.3	2.3	2.2	2.4	2.2	2.0	2.1	2.0	1.9
1963	2.2	2.1	2.2	2.3	2.2	2.1	2.0	2.1	2.2	2.2	2.4	2.3
1964	2.2	2.4	2.4	2.1	2.2	2.0	1.9	2.1	1.8	1.8	2.0	2.0
1965	2.1	2.1	1.8	1.8	2.7	1.8	1.6	2.0	2.1	1.9	1.9	1.6
1966	1.7	1.3	1.7	1.9	1.9	1.9	2.1	2.2	2.1	1.8	1.7	1.8
1967	1.6	1.8	1.9	2.1	2.0	2.0	1.7	1.8	1.8	1.9	1.8	1.9
1968	1.8	1.9	1.9	1.8	1.8	2.0	2.1	1.8	2.0	1.5	1.7	1.6
1969	1.7	1.8	1.7	1.7	1.7	1.8	1.9	2.0	2.0	2.1	2.0	1.9
1970	2.0	2.0	2.1	2.2	2.2	2.1	2.1	2.2	2.0	2.2	2.7	2.8
1971	2.8	2.7	2.8	2.9	3.0	2.8	3.0	3.1	2.9	3.0	3.1	3.1
1972	3.0	2.9	2.9	2.8	2.9	2.8	2.8	3.0	3.0	3.0	2.9	3.1
1973	2.4	2.6	2.7	3.3	2.7	2.7	2.8	2.7	2.9	2.7	2.6	2.6
1974	2.6	2.8	2.8	2.9	3.4	2.9	2.9	2.9	3.0	3.0	3.6	3.3
1975	3.4	3.6	3.8	3.7	4.8	3.9	4.1	4.0	4.1	4.3	4.0	4.4
1976	4.2	4.4										

Source: Public Employee Department, Research, March 9, 1976.