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HEARINGS

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THE 1976 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 26, 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 318, Russell Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Sparkman, and Javits; and Representative Long.

Also present: Loughlin F. McHugh, Lucy A. Falcone, George R. Tyler, and Larry Yuspeh, 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. We are very fortunate this morning to have an excellent panel. We are also fortunate to have our distinguished colleague from Alabama here, who is the former chairman of the Banking and Currency Committee and the ranking member on this committee. Congressman Long, from Louisiana, who is always helpful and diligent, is also present.

This Joint Economic Committee hearing is one of the many that we have had relating to the annual report. It is one of an annual series to evaluate the President's economic report.

Today, we are focusing on the social cost of unemployment.

We have had a great deal of discussion on the direct economic costs: The loss of income, the direct economic costs, the loss of production, the loss of revenue.

Congress has devoted much of its debate and committee time to our economy—searching for ways to rapidly achieve full employment and maintain price stability.

We've talked about the billions of dollars in lost income due to our recession.

We've talked about $15 billion or more that the Federal Government is paying in higher welfare and unemployment compensation due to the recession.

We've talked about the record Federal budget deficit—a deficit due to the combination of higher welfare outlays and a $45 billion shortfall in tax revenues—revenues paid in normal times by plants and workers now idle and unemployed.

We've talked about the need for meaningful temporary public works and employment programs to more rapidly spur our recovery.

We've talked about the fear, the apprehension, the lack of confidence in present economic policies which many of us believe is holding back economic recovery.

We've talked about predictions from administration spokesmen that these same economic policies will leave at least 7 million persons unemployed next Christmas.

But there is a lot more we haven't talked about enough:

The fact revealed in a Roper poll last year, that 38 percent of all families are now affected one way or another by unemployment is extremely important.

We haven't talked about the very strong relation between soaring imprisonments—prison population—and unemployment. Or, about the frustration and anger—the stress—which unemployment imposes on workers and their families.

We haven't talked about the relationship—demonstrated by such eminent researchers as Mr. Brenner, at John Hopkins University—between unemployment and mental health disease.

Nor of the terrible, hidden link between the stresses of unemployment and heart disease, stroke, and even kidney disease.

We rarely talk about an entire generation of young adults now who have been denied the opportunity of a full-time steady job. They can scarcely be expected to accept our basic work ethic—when they can't even find work. Many of them never having had the chance to experience work.

And we rarely talk about the aggressive behavior—the family squabbles which result in maiming or murder—because of stress caused by unemployment.

In reality, the Congress and society have largely ignored the social aspects, the social costs of unemployment.

The Joint Economic Committee is trying to rectify this shortcoming. It has launched a broad investigation of the relationship between social stress due to unemployment and physical and mental illness, and aggressive behavior. There are three studies underway now with assistance from the Library of Congress.

These studies have one major purpose: To assist our national economic policymakers on Capitol Hill and the White House in assessing the full impact and effect of decisions raising or lowering unemployment.

To my mind, we have only one-half the full story when we don't take into account the impact of unemployment on mental and emotional and physical illness and on crime.

The Joint Economic Committee wants to fill out that picture, and today's hearing will contribute to that effort.

Our witnesses today are:

Chief Frank Fools Crow, from Kyle, S. Dak., with his interpreter, Chief Mathew King.

Dr. Steven Jonas, a physician and a professor at the State university of New York.

Mr. Leon Keyserling, former Chairman of the Council of Economic Advisers, and may I give our everlasting thanks for the help you have given this committee.

Mr. Patrick V. Murphy, president of the Police Foundation.

Chief Crow, we will hear from you first.

STATEMENT OF CHIEF FRANK FOOLS CROW, KYLE, S. DAK., ACCOMPANIED BY CHIEF MATHEW KING, INTERPRETER

Chief KING. Mr. Chairman, I am explaining to Chief Crow the many things that you have mentioned here, which are too numerous to remember.

Chairman HUMPHREY. Well, thank you. If we could just have his general reflections on what is happening with unemployment and the effect it is having on the social structure and the social behavior of his tribe, that would be helpful.

Chief KING. Yes; he understands that.

[Statement of Chief Frank Fools Crow as interpreted by Chief Mathew King.]

Chief KING. I am very thankful that, according to Indian tradition, that we are brothers and sisters and am very happy to see my brothers and my sisters this morning.

I would like to express the conditions of our Sioux Indians back in South Dakota. The white man's philosophy of life is different from the Indian's philosophy of life. They want us to live like white people and therefore we have to change our whole lifestyle, which is our blood. And it just cannot be done.

These are true statements. They have been proven many times. And I want to come right out and tell you the conditions under which we live back in South Dakota.

We need more hospitals back in Pine Ridge. We need more doctors and nurses. We need more institutions, more schools. We need more overall reform of our government which we are living under. Those changes will have to be made to improve the standards of living amongst our people.

They have a program on the Pine Ridge Indian Reservation to build houses together like a town where all the Indians can live together. And that is not the lifestyle of our Indian people. And there are many troubles in these communities. They want them to live as white people in a city with community life, but we don't believe in that. Therefore it is terribly hard for us to understand everything that is involved here. We cannot understand the programs that are being forced upon us, which we can't cope with.

We also remember many years back the Indian lived so that they didn't have to depend on anybody. They were in the stock business with horses and cattle. And they were self-sufficient. The Government didn't have to help them.

They lived as humans. They lived as people. But today it is so different.

Besides raising cattle and horses they also raised hogs and chickens and turkeys and geese and ducks. They raised them or they farmed on their land. They never bothered the Government. They didn't even know that the Government was there. The Government didn't have nothing to do with them because the Indians were self-sufficient. They were a self-governing people. Economically they were sound. They were able to prepare themselves. But today it is different.

Chief Crow says that while living together there were many handicaps. He said the people became hostile against one another. They made them live like white people in towns and they made them learn the ways of the white man. And the police and the Government officials who are working for the Indian people are having a hard time trying to make the Indians adjust. And all the people, their attitude is so different today than it was in 1908.

Chief Crow says in order to help the Indian people they must build houses for them on their own allotments and they must have enough stock to keep them busy. I think that would alleviate some of the drinking habits of the Indian people because they are not doing anything—because 80 or 90 percent of the Indian people are not working today. They are just running around wild. That is our problem amongst the Lakotas in Pine Ridge.

He says he is 86 years old.

He says he lives on his own allotment. Chief Crow says he raises his own cattle and horses and also a few geese and chickens and turkeys.

Chief Crow says he has been cut off from old age and social security payments because of the little livestock he has.

Chairman HUMPHREY. Because of what?

Chief KING. Because of the livestock he has.

Chairman HUMPHREY. The livestock that he has?

Chief KING. A few head of cattle.

He says although he feels the necessities of life sometimes, but he never likes to go to the Government officials who are responsible and ask for help because he feels that they know what they're doing. All of us have trust in the programs of the Government. Many times though they do not work at all.

He says he lives a good life with his wife. He says he has his own allotment and is self-sufficient and has never relied on the Government. But as for my stand toward the Indian people and the fight I put up for them, many of the opposition groups, they burned down my house. They have done a lot of things against me to put me down.

He says: "I can take it" and keep on fighting.

Chairman HUMPHREY. Who are these opposition groups?

Chief KING. The so-called Wilson and his goons.

Chairman HUMPHREY. Oh, yes. I see.

Chief KING. Although I got very little help since this happened to me, Chief Crow says, but he still lives on his own allotment and he knows it is good to be on your own allotment. Nobody can say that you are doing the wrong thing there because it is your land and your property.

He feels that he didn't come here to put in an argument or appeal to the people here. He knows this group is an understanding group of people and the only thing he can do is present his case and present his case about the condition of his people back in Pine Ridge among the Lakota people and hope that you will understand the situation we have back home.

Chairman HUMPHREY. Thank you.

Chief KING. He said when he gets home, he will report the visit here today. We have over 300 different tribes in the United States that are standing together also with the minority groups among the white people, the poor people, the colored people, and the Mexicans. So we are together. I think we could train the votes any way we want.

Chairman HUMPHREY. Yes——

Chief KING. The appropriations made by the Government have never been enough to cover all the trouble we are in—not only the Sioux but other tribes as well. We are hoping that the Government understands that it is time that it does something for the Indian people.

He says he is hoping that the people who are running for office will understand the Indian problems and that they will try to help them some way so that Mr. Indian can stand on both feet again.

He says we don't want liquor on a reservation. We never had liquor; that is, we have a law prohibiting the sale of liquor on the Indian reservation. That law has never been rescinded and we would like to readopt that provision, which is in the Treaty of 1851, 1868, 1877, 1889, and different other treaties. As we said, the philosophy of the white man's life is different from the Indian philosophy. That is one thing the Indian cannot handle—that is liquor. On the Indian reservation we want to be free of liquor so that we can become a nation and become human beings again.

We are not condemning the sale of liquor but we don't want it on the Indian reservation, the Indian country. Anyone who wants to drink it would have to go among the white people and drink all he wants there.

Chairman HUMPHREY. And they do.

Chief KING. I never use liquor, Chief Crow says, in any form and I am still living.

Chairman HUMPHREY. He looks pretty good for 86 years old. He looks pretty healthy. I think that is a good ad for temperance.

Chief KING. I believe the only way we can solve many of these things, Chief Crow says, is to cooperate and have a better understanding of the situation that the Indians are involved in because of being forced to follow the white man's philosophy of life, which is forced upon our Indian people. And we want to live like Indians. We want to live our own way. We want to run our own government our own way just the best we know how. And Chief Crow says he hopes he can take some good news back home from this room.

Chairman HUMPHREY. Well let's go on to the other witnesses and then we will want to have some questions for the chief. We will take each witness in line and then we will come back for some questions. Is that agreeable?

We will now turn to Mr. Murphy, president of the Police Foundation.

STATEMENT OF PATRICK V. MURPHY, PRESIDENT, POLICE FOUNDATION, WASHINGTON, D.C.

Mr. MURPHY. Thank you very much, Mr. Chairman. I am honored by the invitation to appear before this distinguished committee and I congratulate the committee on its efforts to examine the social costs of unemployment.

From my earliest days in police work 30 years ago, I became aware of the social costs of unemployment. Where there was a high rate of long-term unemployment, there was degradation and dislocation of the individual, the family, and the neighborhood. And with degradation and dislocation, particularly of the family, are found those conditions which encourage crimes, especially homicide, rape, street robbery, and burglary—the type of crime which has turned many city neighborhoods into warrens of fear.

As the chief police official of New York City, Detroit, Washington, D.C., and Syracuse, N.Y., I found that wherever census tract data showed areas of high unemployment there were also rates of crime 50 to 100 times as high as in other parts of these cities. Look at the map of any sizable city. In areas where there is a high rate of long-term unemployment, there is also an intensive concentration of social problems: alcoholism, drug abuse, mental illness, violence-ridden schools. In the parts of cities where unemployment is the highest, education is usually poorest. Where the map shows high unemployment rates, there are often hostilities flowing from centuries of racial discrimination and the greatest number of victims of economic injustice and exploitation.

From what I have observed during my years in policing, social and economic problems are interrelated. And the manifestations of chronic unemployment and these other problems are despair, violence, frustration and high crime rates.

I am not suggesting that unemployment in every instance causes crime, or that life is so simple that we can observe a direct correlation between unemployyment and the commission of crimes. But it is clear to me that unemployment is a condiiton that is related to high crime rates.

Make no mistake about the high rates of crime in our cities. Crime is tearing our cities apart. This is evident in the crime-devastated sections of the South Bronx and Bedford-Stuyvesant areas of New York City and in parts of many other major cities. And always, where the effects of crime are most damaging to our urban landscapes, there are rates of unemployment, particularly among minority young people, of 30, 40, and 50 percent.

The effect of chronic unemployment is to rob able-bodied men and women of the dignity of work. To tell a person who wants to work that there is no path available to him or her toward dignity in this society is to condemn taht person to a prison, without walls, of degradation and defeat.

In this modern-day social and economic prison, idleness is enforced not behind walls but in the alleys and hallways of the central cities and in backwater pockets of rural poverty. For many of the long-term unemployed, there is idle time to consider their condition which has been described as being "unemployable in the industrial State." For these unemployed, there is idle time to watch television and see portrayed all the material objects they cannot obtain. For these unemployed, there is idle time to consider venting their frustrations in crime or obtaining by criminal means the material things they lack.

Who particularly is condemned to this prison of unemployment? Its primary victims include the young, blacks, Puerto Ricans, Mexican-American Indians. In varying degrees, these groups, particularly black and Spanish-surnamed youths, simply do not have the opportunities for jobs that are open to others. Our unemployment rate may have decreased during the past few months, but there are still vast and stagnant pools of unemployed minority young people in all our big cities. Without the prospect of work, where are they to find the dignity of self-sufficiency?

I do not suggest that with employment comes the certainty that the person with a job will not commit crime. Indeed, the past few years have disclosed the extent of what might be called full-employment crimes—white collar crimes in the board rooms and sales offices of industry and the highest reaches of Government. But without the guarantee of work for those who want work, it seems both obvious and certain that the rate of crime in areas of chronic, high unemployment will continue to be worse than the crime rate in other areas where the unemployment rate is low.

There are two approaches by which this Nation can seek to attack crime where crime rates are the highest. We can sic the police in heavy platoons on neighborhoods with high crime rates. This approach supposes that the police, one part of our fragmented system of criminal justice, alone can be effective in reducing crime. But there is relatively little that the police alone can do to control crime. There first must be a well-meshed and effective system of criminal justice which this Nation does not now have.

But even if the police and the other component parts of the criminal justice system worked productively, the degree to which the criminal justice system can be effective is limited. A police officer cannot stand on every street corner where a robbery may occur nor can we afford to have the police monitoring each potential site of violent crime. The costs, both monetarily and in terms of civil liberties, are clearly unacceptable.

Unfortunately, too many police officers and police leaders believe that the solution to crime lies in a law and order approach that suggests repression. Because of political or social pressures, some police leaders who know better are afraid to speak out against the social injustices that their officers must deal with every day. They worry that citizens will not tolerate a police chief who correctly attempts to attribute crime to its root causes.

I am often frustrated by the fact that many police officers who work in areas with high crime rates do not see more clearly the relationship between crime and the social and economic ills in these areas. I am saddened that leaders of policing and other areas of Government often do not muster the confidence to explain the enormous and stupid price we pay for crime. The price is staggering in terms of lives, human suffering, property and the polarization of our people.

I believe this Nation's citizens would support a second approach to dealing with crime if they understood the true cost of crime. As a first major step toward a reduction in the crime rate, this approach would guarantee each employable person a decent job.

To sum up, we have two choices in dealing with crime. The first is to indulge in loud, futile law-and-order tantrums against crime such as we observed in the 1968 and 1970 political campaigns. We know the results: Crime rates are higher than ever.

Or we finally can begin to deal systematically with one of the root causes of crime—unemployment—by guaranteeing every employable person a decent job.

Thank you.

Chairman HUMPHREY. Thank you very much, Mr. Murphy. Next Dr. Jonas.

Senator JAVITS. Mr. Chairman, before we call on Dr. Jonas may I just say that I take great pride in the testimony that the former police chief of New York, Mr. Murphy, gave and the way in which his knowledge, skill, and experience has developed and then was placed at the disposal of the city and of the Nation. I have a question or two but I will wait of course.

Chairman HUMPHREY. Fine. We will move right along here and get to the questioning. Dr. Jonas.

STATEMENT OF STEVEN JONAS, M.D., ASSOCIATE PROFESSOR, DEPARTMENT OF COMMUNITY MEDICINE, STATE UNIVERSITY OF NEW YORK, STONY BROOK, N.Y.

Dr. JONAS. Thank you. My name is Steven Jonas. I am a physician with degrees in medicine and public health. I am a fellow of the American College of Preventive Medicine, the New York Academy of Medicine, and the American Public Health Association. I am an associate professor in the Department of Community Medicine, Health Sciences Center, State University of New York at Stony Brook. My major forthcoming work is a textbook on health care delivery which I am writing and editing for the Springer Publishing Co.

The social cost of unemployment is a matter of great complexity. Meeting the costs of health care for unemployed persons is one aspect of it. There have been proposals made earlier in this Congress to establish some kind of health insurance program for the unemployed on a national basis. Such a program could be expected to have an important influence on the shape of any future comprehensive national health insurance program. Thus I would like to concentrate today on several major questions related to economic policy which I think are crucial in the debate on national health insurance. The first has to do with rising health care expenditures.

We are all concerned with the well-known rising costs of health care. Currently released figures for fiscal 1975 from the Social Security Administration show that health care now consumes 8.3 percent of the GNP, up from 7.7 percent in the previous year. This sharp rise is apparently due more to a fall in the rate of increase in the GNP than to a rise in the rate of increase in health care spending, but it is still very significant and very worrisome. We spend a higher percentage of our GNP for health care than almost any other country in the world. We must be concerned with the possible effects of any NHI plan on health care spending.

NHI could make total health care spending go up, go down or remain unchanged, depending upon its approach to health care system reform and cost control. The important word here is total. In considering the possible effects of any NHI plan on health care costs one cannot simply look at the amount of money to be spent through the plan, but at what effect it will have on all health care spending. It is very possible that a plan which appears to be "cheaper" because it covers a low proportion of total expenditures, is actually more expensive than one which covers a large proportion, since the latter would perforce have the capability of implementing cost controls much more broadly because it would be handling payments for more services.

Although some observers would have us think otherwise, spending for health care services is not like spending for ice cream and automobiles. After having made the first choice to seek medical attention, it is the rare patient who retains significant decisionmaking power in health care expenditure, except of the negative sort forced upon people who have neither money nor insurance nor an available public facility. Most primary decisions on health care spending are made by physicians. Furthermore, when a decision is made by a physician to put a patient into the most expensive sector of the health care system, the hospital—a decision made much too frequently in this country—a patient cannot shop around for the "best buy" in hospital care or the most efficient one. The patient goes where the physician tells him or her to go. Once in the hospital, the patient loses any chance of control over expenditures. That is entirely between the physician and the hospital.

A recent study by Ms. Nancy Worthington published in the November issue of the Social Security Bulletin shows that the biggest factor in the rise of hospital costs in recent years has been technological advance and the addition of expensive services. For physicians' fees it has been the proliferation of specialism, so that unit prices have been going up. Thus, if one is interested in cost control under NHI, one must have a system which has some way of getting control of these factors. I think that it is very important to consider these issues when we are looking at the question of health insurance for unemployed people.

There are many other policy issues in NHI: Benefits, coverage, number of plans, cost controls, quality control, consumer participation, eligibility, roles of the various levels of government. To my mind, there is one overriding one: the role of the private insurance industry, particularly the commercial companies. Most plans presently before Congress give a very significant place to them. For reasons of cost control, as well as many others, I would recommend that very careful thought be given to this question.

In a paper published in the British journal The Lancet in 1974, I estimated, based upon data available from the SSA, Social Security Administration, that in fiscal 1973, American commercial insurance companies made a profit before taxes but after underwriting losses of about $2 billion on $11 billion in premium income, by investing premium income while they had it. That represented about 1.5 percent of total corporate profits at the time. The United States is the only country in the world which the commercial insurance industry plays a significant role in the health care delivery system. It is obvious what expanded premium income, under an NHI system in which they would have a prominent place, would do to their profit structure.

However, I think that the money-handling role would only be the first step for these companies. Interms of assets, the insurance companies are the largest in the country. Through exchanges of directors, and capital financing they play a very significant role in the manufacturing sector. American capital is always looking for new ways to make a profit, which is in fact right and proper under capitalism:

Profitmaking potential is the chief spur to economic development under our system. Its achievement have been great.

At this time however, American capital is looking for new places to go. One of the last untapped sectors of the economy is the health care delivery system. I believe that once the private insurance companies were to get control of the financing and administrative systems, as they would under most of the plans before Congress, which feature employer-employee or Government purchase of private policies, they would gradually move to take over and operate the whole of the health care delivery system for that is where the real profits lie. Just having doctors and dentists on salary would probably have netted $5 billion in profit in fiscal 1973.

I foresee many bad results for health care from such a system, not least in the area of cost control. Under capitalism, companies are in business to make money, as they should be. Costs can be controlled in health care only if less of it, particularly the expensive kind, is sold. However, profits go up with more sales, not less. Health care is not now vigorously marketed. But supposing it were. Sales could be vastly increased with advertising, better surroundings, more efficiency, and increased manpower, particularly of the cheaper, "physician-extender" variety. Now a certain amount of health care is needed by almost everyone but most people don"t really know how much they need. If the private insurance companies delivered care as well as wrote the health insurance policies, they would be in the same situation that automobile companies would be in if everyone had a legally mandated source of money with which to buy cars, didn't know how many they needed, and had to buy them when a dealer told them to do so.

When this picture is put together with the known record of the insurance companies in dealing with health care delivery system problems to date, poor, and the record in other health care sectors in which profits are important, such as nursing homes and drugs, one must allow serious pause for thought. Remember, in most capitalist countries, NHI is operated by the Government as a public utility, like telephone, electricity and the railroads, with physicians practicing privately. Among other countries, the health care systems of Great Britain and Sweden, which are comprehensive national health services, are the everyone but most people don't really know how much they need. If ones most often described in the English-language literature but they are the most atypical. The public utility approach combining NHI with private practice entirely consistent with capitalist development elsewhere, should be given serious consideration.

Finally, in looking at issues of health care cost control, one should examine the relationship between health care and health. After all, it is the reverse of health, illness, which causes the bulk of health care expenditures, and the bulk of those are for medical care, that is the treatment of sick people by physicians. National health insurance, a term we all use, is actually a misnomer. It is not "health insurance," but rather a prepayment mechanism to cover the costs of care for sickness with some evenness over the general population. However, history, teaches us that there is little relationship between health levels, as we are able to measure them in the population, and the treatment of sick individuals.

The major factors in the improvement of population health levels in the Western World in the last 400 years have been improved nutrition, pure water supply and sanitary sewage disposal, immunization, other measures of communicable disease control and environmental sanitation, and, for a few select important diseases, antibiotics. Most of the measures are preventive, and many of them are aimed at communities, not individuals. This is not to say that treatment, good treatment, is not important for many sick individuals, with, say, appendicitis, a fractured limb, or a bleeding ulcer. But, to the extent we are able to measure it, sickness care affects the population's health only to a limited extent. Thus a national health insurance plan which deals only with sickness will not do too much for health.

As we all know, cigarette smoking is one of the greatest contemporary health hazards. A significant reduction in it would do more for health than any national health insurance plan one could think of. Personal preventive measures, such as education and persuasion, seem not to be too effective. Prohibition is unlikely to work, based on past and present experience with other substances. However, a ban on all cigarette advertising, a limitation in the availability for sale, a rise in price, and Government subsidies to the industry to aid it in converting to other functions probably could work. Great Britain has had significant success in controlling alcoholic cirrhosis of the liver over the last 60 years with a similar program. This is just one example of the kinds of measures which will have to be taken if health levels are to be further improved and, at the same time, health care expenditures are to be brought down, which they will surely be if there is less sickness.

To improve health, the major contemporary health hazards, those responsible for much of the mortality and morbidity in our country, such as cigarette smoke, alcohol, unsafe automobilies, unsafe work places, dysnutrition, sedentarianism, environmental pollution, and others, must be dealt with. To enact a sickness care program alone would neither do much to improve health nor significantly lower care costs. These two should be the major goals. Thank you.

Chairman HUMPHREY. Thank you, Dr. Jonas. That is a very productive and helpful statement.

Mr. Keyserling, we look to you now for some guidance here on some of the social costs of our economic difficulties.

STATEMENT OF LEON H. KEYSERLING, PRESIDENT, CONFERENCE ON ECONOMIC PROGRESS, AND FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. KEYSERLING. Mr. Chairman and members of the committee, I would like to insert my prepared statement and charts in the record.

Chairman HUMPHREY. Yes, we will incorporate the entire text of your prepared statement in the record at the end of your oral statement.

Mr. KEYSERLING. First of all, I want to assume my usually dissident role. My wife Mary said to a gentleman before a speech I was making: "I don't know what Leon will talk about, but it certainly won't be the subject assigned to him." I am not going to do that badly today.

But let me say, first of all, I dissent from the proposition that there is any real dichotomy between social evils and economic evils and their treatment. I don't know whether the slums, which are due to the economic evils of a destroyed housing industry, are an economic or social problem. I could give many other examples. As a matter of fact, America has the capacity and the resources and the institutions to create and maintain full employment in a healthy economy. But we are not doing so necessarily because we lack the social will and the moral purpose.

The reason the Scandinavian countries have full employment and a higher standard of living than the United States is not because they have smarter economists but because everything they do is guided by social vigilance and a moral purpose.

Now, let me also say that, although the social ills are largely the by-product of unemployment. We must recognize first of all that unemployment itself is the greatest social evil of all. It is humiliating. It destroys the individual. It creates anxiety. It produces loss of income that throws people into poverty, which is a great social evil. So we must get rid of the unemployment, do it largely by measures that redress the social situation.

However, before talking about what we need to do to get rid of unemployment as the root evil of evils, let me say a little bit about the especially assigned topic, which is the social evils of unemployment. The first and most important of all is poverty. I made a study recently indicating that half of all the poverty in the United States is directly attributable to unemployment and to the low or inadequate incomes among the employed which result from unemployment. Between 1959 and 1969 when we had a relatively high rate of economic growth and a movement of unemployment down from 6.3 percent to 3.2 percent, poverty was cut in half. It was a great record. Yet we hear people shouting that "we promised more than we delivered," and that we should turn back the clock by abandoning the objectives.

Since 1969, the reduction in poverty has grounded almost to a halt, and the core basis reason why it has ground to a halt are wrongful economic policies, which have ground to a halt the process of economic growth and the increase of employment opportunity and the decrease of unemployment.

So poverty is essentially a product of unemployment: poverty can be cured; poverty can be eradicated within 5 years in the United States with a genuine employment program, especially because that program must necessarily implicate those other measures which directly move against poverty.

The second social evil is the uneven nature of unemployment. I am not going to cite the statistics on that. You all know them. But when unemployment is four or five or six times as high among some people as among others, this is social injustice and this ferments civil discontent. This ferments, Mr. Chairman, distrust in our institutions. And although we should try to equalize the burden of unemployment, we cannot meet the problem by sharing unemployment. There is no inequality or there is not much inequality in the social incidence of unemployment when unemployment is very low. When we got unemployment down to 1 percent in World War II, we didn't have an uneven distribution of unemployment; we just didn't have unemployment.

The impact of unemployment is particularly hard among women and teenagers because they are more highly unemployed and because they have less incomes when they are employed. A full-employment program would remedy that.

The police chief has said so much about the social aberrations due to unemployment that I will not cite the statistics that I have here on that.

Let me come down to what needs to be done about unemployment, because actually my invitation included a mandate on that subject. First of all, to reduce unemployment, we must get rid of the barren, destructive, nonsensical idea that there is a tradeoff between unemployment and inflation. The empirical evidence destroys the theory that there is a tradeoff between unemployment and inflation. The empirical evidence in the great laboratory of the American economy is by now absolutely conclusive. Even Arthur Burns has recognized it in a recent article. There is no correlation between low unemployment and low inflation. In fact, the opposite is true: It is true because an unemployed economy is a wasteful economy, a nonproductive economy, and an economy that induces producers to raise prices to make up for selling less. And when we have had full employment, we have usually had very little inflation. We had very little inflation with full employment even when we didn't have controls, or when the controls were fragmentary and hardly effective. So that is the first thing we got to do.

To get rid of the practical application of the evil tradeoff idea, we must reform the prevalent practices of the Federal Reserve Board, which have spawned inflation and contributed to the five periods of recession and stagnation and the low rate of economic growth, and thus contributed to the inflation which is the second greatest evil next to unemployment.

We got to do that by bringing that body under the effective supervision, if not control, of the President and the Congress and mandating it to follow policies which support a full-employment policy.

Let me now say something more about inflation as a social evil. It is absolutely hog-wash to say that inflation hurts everybody. Inflation does not hurt the profiteers and inflation does not hurt me—it just makes me uncomfortable. Inflation hurts the poor. Inflations hurts the unemployed. Inflation hurts those who haven't got the power to counteract it by their own take from the economy. And therefore the prime cure for inflation is to recognize who its real victims are and to adopt the policy of full employment, which is the hallmark of a successful fight against inflation.

Second, we need to change our thoughts about Federal budget policy and we need to change the Congressional Budget Office a little bit too. They haven't even asked the question of what a Federal budget is for. A Federal budget is not for the purpose of being balanced. I can balance it with zero expenditures and zero taxes. I can balance it with $10 billion expenditures and $10 billion taxes. But the purpose of the Federal budget is to allocate, through providing needed goods and services to the people through the public sector, to the extent that these cannot be provided, or provided so well, in any other way, as Lincoln said. And the budget managers are not even asking these questions to the necessary extent.

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This does not mean that I am for a budget deficit. But we must recognize that the budget deficit has been caused almost entirely by unemployment and other idle resources. You cannot possibly, with all the economists in the world and short of a war like World War II, fail to balance the budget if you have full employment. You would have a surplus that you would hardly know what to do with.

Next, we must get rid of unemployment and meet social needs by recognizing the distinction between tax reduction and increased useful public investment. Tax reduction is not much help to the unemployed. Tax reduction does not much help the low-income people. Tax reduction does not very much help anybody. Tax reduction does not stimulate business investment because they have the money to invest but they have not go the sales.

Useful public investment is the way to have a high multiplier effect and stimulate investment and the way to meet imperative human needs. If you want to clean up the environment and make it more healthy, if you want to have health services, if you want to have a mass transportation system, if you want to have proper education, you have to do it by putting the money where the need is. So we need to have a real change in the budget policy.

Lastly, we must have meaningful goals rather than just forecasts. All the economists get together in a summit and forecast how bad off we are going to be 7 years from now. Your budget committees are forecasting intolerable levels of unemployment for a number of years ahead. Roosevelt never asked anybody how high unemployment is going to be 5 years from now; Truman never asked me how high unemployment was going to be 5 years from now. Truman said: "How do we get it down?" The mark of a civilized and enlightened public policy is to set targets and adopte policies to meet those targets. So, above all, we need under the leadership of Senator Humphrey and others, Mr. Chairman, we need something like a full employment and a balanced growth plan, because neither a business nor a government can forge effective and consistent and coherent policies without knowing where they want to go. You can't get on the right train if you don't know where you want to go. And that is as essential as any particular policy.

So if we can move along these very lines and move quickly, we can by reducing unemployment to frictional levels, Mr. Chairman, we can have the programs that are needed for our social purposes, we can be able to afford them, we can get rid of inflation, and thus we can have the kind of healthy economy and healthy social thinking where we can turn our attention to the higher purposes of man.

Thank you, Mr. Chairman.

Chairman Humphrey. Thank you, Mr. Keyserling.

[The prepared statement of Mr. Keyserling follows:]

Prepared Statement of Leon H. Keyserling[1]

Mr. Chairman and members of the committee, thanks very much for the opportunity to be here.

THE COSTS OF UNEMPLOYMENT ITSELF

Before talking about the by-product social costs of unemployment, we must focus upon unemployment itself. The by-products cannot be mitigated without

[1] Chairman, Council of Economic Advisers under President Truman. President, Conference on Economic Progress.

reducing unemployment first. Besides, massive and secularly rising unemployment, with its indignity, anxiety, and loss of income, for the breadwinner and his or her family, is in itself the social evil of evils. It destroys the victims' sense of economic security, inflames their awareness of social injustice, and weakens their commitment to civil obedience.

Not since early 1953 have we had full employment, at about 3 percent unemployment. Secularly, with some cyclical trends downward, unemployment has risen greatly from 1953 until now. In 1975 as a whole, full-time unemployment was 8.5 percent, and the true level was 11.4 percent, or 10.6 million.[2] Allowing for the rotation of unemployment among different individuals within a year, and for their dependents, 60–70 million Americans in 1975 alone were hit directly and hard by unemployment. The reduction in January 1976 was welcome. Nonetheless, short of prompt and drastic changes in national economic policies, the ghastly prospect is that, at the peak of the feeble and uncertain current "recovery," unemployment would remain far higher than at the peak of any of the four previous "recoveries" since 1953. The long-term trend would continue seriously upward.

During 1953–1975 as a whole, we forfeited more than 3.3 trillion 1975 dollars worth of total national production, measured conservatively against our full-employment capabilities. We suffered 61 million man- and woman-years of excessive unemployment.[3] An average of $29,470 was forfeited in family income.[4]

If we do no better during the years ahead, and we will not without prompt and drastic national policy changes, I estimate conservatively that, during 1976–1980 inclusive, we would forfeit another 1.1 trillion 1975 dollars worth of total national production, almost 17 million man- and women-years of employment opportunity, and $8,330 dollars of income per family.[5]

HIGH UNEMPLOYMENT SPURS ANTISOCIAL INFLATION

High unemployment means vastly more, not less, inflation than low unemployment.[6] And high inflation is a cruel social iniquity, because it bears down most heavily upon the unemployed and the poor, and benefits only those who are strong enough to take advantage of it or who help to bring it about.

THE IMMENSE SOCIAL COSTS OF FEDERAL RESERVE BOARD POLICIES

Massive and secularly rising unemployment has been contrived deliberately, to a large degree, by excessively tight money and fantastically high interest rates, these being the Federal Reserve Board's misguided method of trying (and failing) to restrain inflation. Indeed, nothing is more inflationary per se, and more socially oppressive, than this monetary policy. Specifically, the computed average interest rate on the Federal Public Debt rose 185.5 percent from 1952 to 1975. This in itself has cost the Federal Budget almost 104 billion dollars.[7] And this in turn has reduced accordingly the availability of Federal Budget funds for vital domestic priority programs, which largely help the unemployed, the poor, and other underprivileged groups.[8] Meanwhile, the computed average interest rate on the total private debt rose 118 percent, transferring almost 833 billion dollars from borrowers to lenders, mainly from those lower down in the income scale to those higher up.[9]

USE OF THE FEDERAL BUDGET TO REDUCE UNEMPLOYMENT AND TO COMBAT OTHER SOCIAL ILLS

If we move promptly and decisively toward full employment, there will be room in the Federal Budget for the anti-unemployment and social priority outlays we so much need, and these very increases in public outlays are essential to move promptly and decisively toward full employment.[10] Furthermore, this course is

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[2] See my Chart 1.
[3] See my Chart 2.
[4] See my Chart 3.
[5] See my Chart 4, and see again my Chart 3.
[6] See my Charts 5 and 6.
[7] See my Chart 7.
[8] See my Chart 8.
[9] See again my Chart 7.
[10] See my Chart 9. My "model" Federal Budget is based upon an achievement of full employment (3 percent unemployment) and full production by the end of calendar 1978, or about three years from now, which I personally believe to be a highly desirable and entirely practical goal. However, the Full Employment and Balanced Growth Act of 1976, the Humphrey-Hawkins bill, set the goal of full employment three or four years from enactment, or at the end of 1979 or 1980, assuming enactment by the end of 1976.

the only sure and safe road to a balanced Federal Budget, and then to a Budget surplus.[11]

I come now to some of the more commonly used measurements of the social costs of massive and secularly rising unemployment.

MASSIVE UNEMPLOYMENT HURTS EMPLOYED WORKERS, AND DRAGS MANY INTO THE POVERTY CELLAR

Massive and rising unemployment, apart from its other consequences already detailed, is an index of economic trends which hurt employed workers by reducing productivity and restraining real wage increases. Measured in uniform dollars, the real spendable weekly earnings of production workers on private nonagricultural payrolls was lower during the first ten months of 1975 than in 1965.

MASSIVE UNEMPLOYMENT AGGRAVATES THE SOCIAL EVIL OF POVERTY

The total "benefits paid" cost of unemployment insurance compensation in 1975 was 15.6 billion dollars, or less than half of what the unemployed would have received if they had enjoyed full-time jobs, up to the full-employment level.

During periods of relatively good average economic performance, the proportion of American individuals in poverty declined from 22.4 percent in 1959 to 12.1 percent in 1969. Later, with a much worse average economic performance and much more unemployment, the progress against poverty virtually stopped, and 11.6 percent were in poverty in 1974.[12] Referring to the same years, the percentage of children in poverty declined from 26.9 percent to 13.8 percent, and then rose to 15.5 percent. The percentage of nonwhites in poverty declined from 56.2 percent to 31.0 percent, and then stood at 29.5 percent. The percentage of female-headed families in poverty declined from 49.4 percent to 39.2 percent, and then stood at 36.8 percent.

In 1974, there were 5.1 million heads of poor families. Only 1.2 million of these had full-year jobs (some of these, part-time), and only 1.5 million had part year jobs. And 2.4 million, or almost half, were without jobs. Unemployment, part-time work, and low pay on the job were by far the main explanation of poverty among these 5.1 million poor families.

THE SOCIAL EVIL OF UNEVEN UNEMPLOYMENT

The social evils of unemployment are intensified by its uneven distribuiton. In 1975, the unemployment rate was 8.5 percent. It was 6.7 percent for men aged 20 and over, 8.0 percent for women aged 20 and over (including many heads of families), 7.8 percent for whites aged 16 and over, 13.9 percent for nonwhites aged 16 and over, 19.9 percent for teenagers 16–19 years of age, 17.9 percent for white teenagers, and 36.8 percent for nonwhite teenagers.

IMPACT OF HARD TIMES UPON WOMEN AND CHILDREN

In 1975, the unemployment rate was 9.3 percent for women aged 16 and over, and 7.9 percent for men aged 16 and over.

Of the 36.5 million women in the labor force as of March 1975, 42.2 percent were single, widowed, divorced or separated, and these worked to support themselves. Of the 31 million women in the civilian labor force who had husbands present, about 50 percent had husbands with incomes under $10,000, about 28 percent had husbands with incomes under $7,000, and about 16 percent had husbands with incomes under $5,000. All in all, about 70 percent of all women wage earners worked out of compelling economic necessity, and a very large portion of these lived in families with low income or in poverty. Full employment would remedy most of this, and also would reduce the conditions which force so many mothers to work instead of staying home with their children.

Of the 28 million ever-married women in the labor force as of March 1975, more than half had children under 18 years of age, and their labor force participation rate was 47.4 percent, compared with 40 percent for the ever-married women without children under 18.

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[11] See my Chart 10. Footnote just above applies here also.

[12] With real wages declining and unemployment much higher, the percentage in poverty was much higher at the start of 1976, but the data are not yet available.

This has grave social consequences for millions of young children. And this problem is compounded by the vast quantitative and qualitative deficiencies in day care.

UNEMPLOYMENT INCREASES SOCIAL ABERRATIONS

The high rate of unemployment among teenagers, and the number of them in poverty, is closely associated with crime, juvenile delinquency, and other social aberrations. In 1972, among suspected offenders with regard to violent crimes, the urban arrest rate per 100,000 population was 270.4 for all ages. It was 163.2 for those aged 25 and over, contrasted with 194.7 for those aged 10–14, and 600.6 for those aged 15–17. It was 631.7 for those aged 18–24.

UNEMPLOYMENT AND THE SOCIAL ILL OF BAD HOUSING CONDITIONS

Still another social—and economic—evil resulting from massive and secularly rising unemployment has been the devastating effect upon home construction, which is now running at an annual rate only about half of what it ought to be, and during the past few years has averaged hardly better than two-thirds of what it ought to be. Recently, the unemployment rate in housing construction has been about 40 percent. In consequence of this, and in consequence of the depressive income impact of extraordinarily high unemployment generally, almost no housing is being built for low- and lower-middle-income families, and very little for middle-income families.[13] Slums and other substandard housing, after being reduced sizably during years of a fuller economy, are now on the increase, and contributing to urban deterioration and increasing urban public costs. The slums—urban and rural—breed increases in crime, juvenile delinquency, disease, and fire dangers and ravages. Slum-living blights family life, perhaps as much as any other social evil which is economic in its roots.[14]

Instead of continuing to make defeatist forecasts about how badly off we will continue to be for all of the foreseeable future, we should set specific *goals* for economic and social restoration.[15] Essential to this, we should bring the Federal Budget into line with the requirements for restiring full-employment and for meeting our social needs.[16] And we need to bring the Federal Reserve under the reasonable influence of the President and the Congress, and get back to the kind of money supply and interest rate policies which were so salutary for so many years between 1933 and 1953.

These and other more detailed proposals for full economic restoration and social justice are contained in the Humphrey-Hawkins "Full Employment and Balanced Growth Act of 1976." I recommend this measure to the favorable attention of this influential Committee, and of the Congress at large. Its enactment as soon as possible is, in my view, an impertaive necessity.

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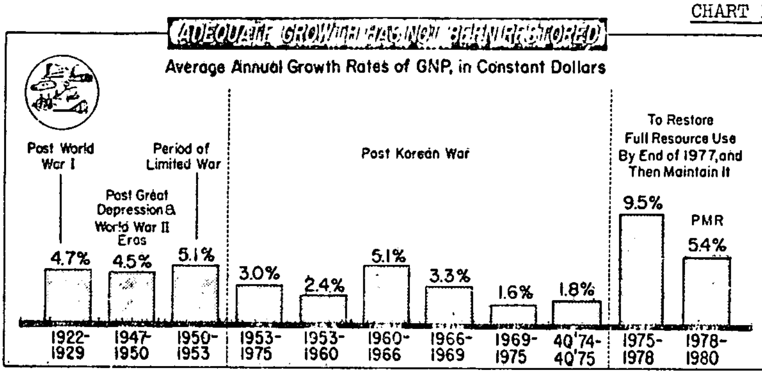
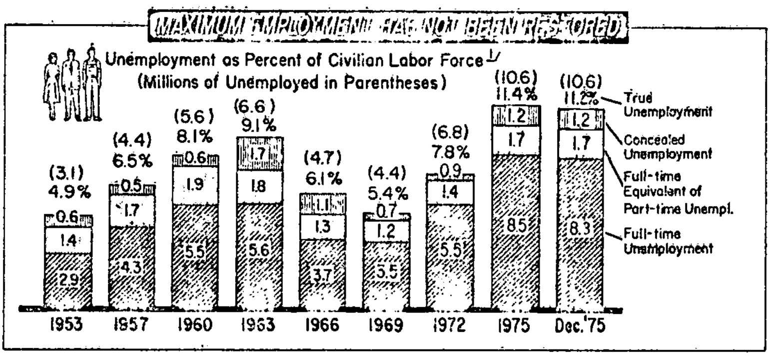
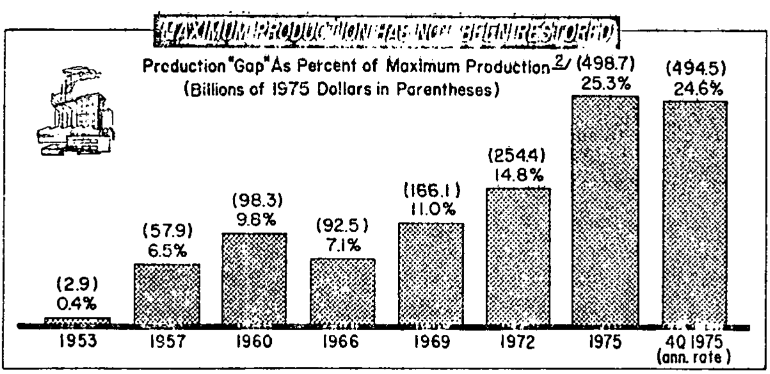
[13] See my Chart 11.
[14] See my Chart 12.
[15] See my Charts 13 and 14. See again footnote referring to my Chart 9, indicating that the goals I discuss are pointed toward full employment and full production by the end of 1978.
[16] See again my Charts 9 and 10, also pointed toward such restoration by the end of 1978.

BASIC U.S. ECONOMIC TRENDS, 1953-1975[1]

CHART 1







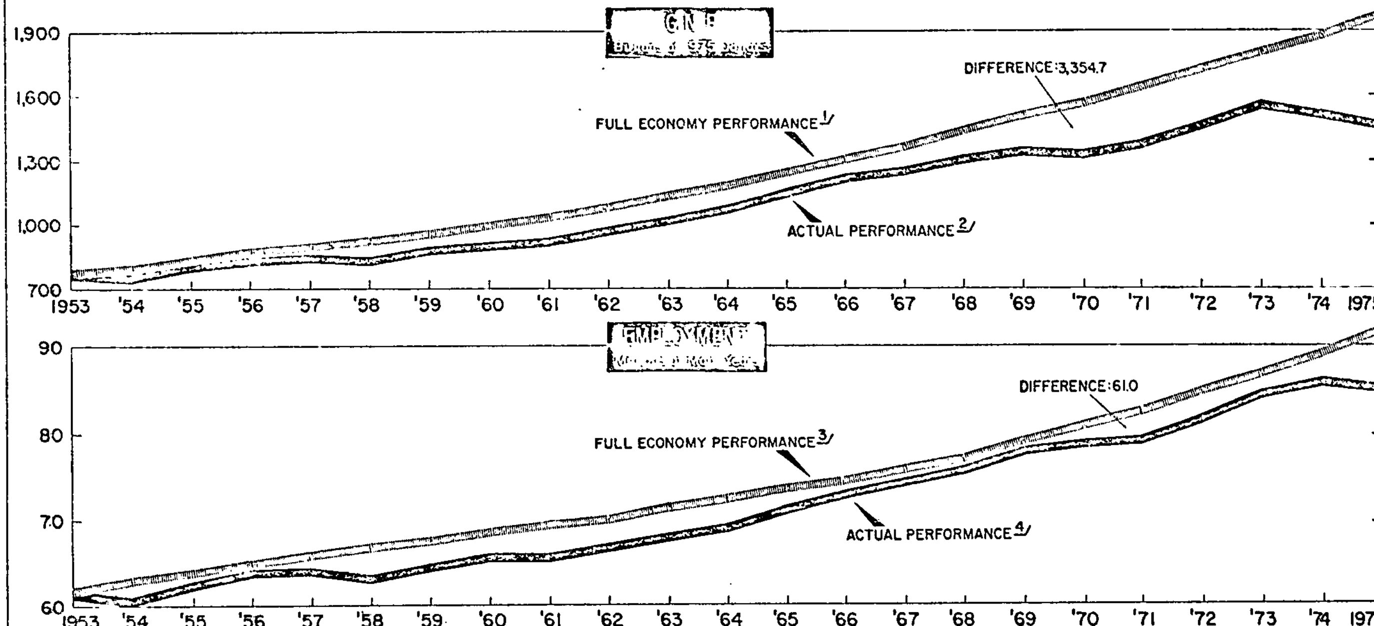
[1] All 1975 figures estimated.

[2] In deriving these percentages, the Civilian Labor Force is estimated as the officially reported Civilian Labor Force augmented by concealed unemployment. Thus, some of the percentage figures on full-time unemployment vary very slightly from the official reports, which do not take account of the augmented labor force. Full-time unemployment of 2.9% and true unemployment of 4.1% would be consistent with maximum employment. All data relate to persons 16 years of age and older. Components may not add to total, owing to rounding.

[3] Maximum production equates with average annual growth rate of 4.4%, 1953-1975.

Basic Data: Dept. of Commerce; Dept. of Labor

COST OF DEPARTURES FROM FULL ECONOMY, 1953-1975



1/ Real average annual growth rate of 4.4 percent.
2/ Real average annual growth rate of 3.0 percent, the 1953-1975 average.
3/ Average true level of unemployment of 4.1 percent, or 2.9 percent full-time unemployment.
4/ Average true level of unemployment of 6.8 percent; or 5.0 percent full-time unemployment.
Basic Data. Dept. of Commerce; Dept. of Labor

CHART 2

COSTS OF DEFICIENT ECONOMIC GROWTH
U.S. ECONOMY, 1953-1975
AND PROJECTED 1976-1980

CHART 3

(Dollar items in billions of 1975 dollars, except average family income)

1953-1975 1/

Total National Production (GNP)	Man-years of Employment 2/	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1953-1975: $3,354.7 1969-1975: 979.6 1975: 326.6	1953-1975: 61.0 Million 1969-1975: 22.8 Million 1975: 6.9 Million	1953-1975: $1,523.1 1969-1975: 372.2 1975: 137.7	1953-1975: $920.1 1969-1975: 276.0 1975: 61.0
Private Business Investment (Incl. Net Foreign)	**Average Family Income (1975 Dollars)**	**Wages and Salaries**	**Residential and Commercial Construction**
1953-1975: $911.5 1969-1975: 331.4 1975: 127.9	1953-1975: $29,470 1969-1975: 5,890 1975: 2,500	1953-1975: $1,865.0 1969-1975: 374.8 1975: 159.2	1953-1975: $369.6

1976-1980 3/

Total National Production (GNP)	Man-years of Employment 2/	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1976-1980: $1,112.2 1980: 333.8	1976-1980: 16.7 Million 1980: 4.3 Million	1976-1980: $449.0 1980: 148.9	1976-1980: $425.6 1980: 118.5
Private Business Investment (Incl. Net Foreign)	**Average Family Income (1975 Dollars)**	**Wages and Salaries**	**Residential and Commercial Construction**
1976-1980: $237.6 1980: 66.4	1976-1980: $8,330 1980: 2,570	1976-1980: $530.0 1980: 162.4	1976-1980: $95.0 1980: 25.4

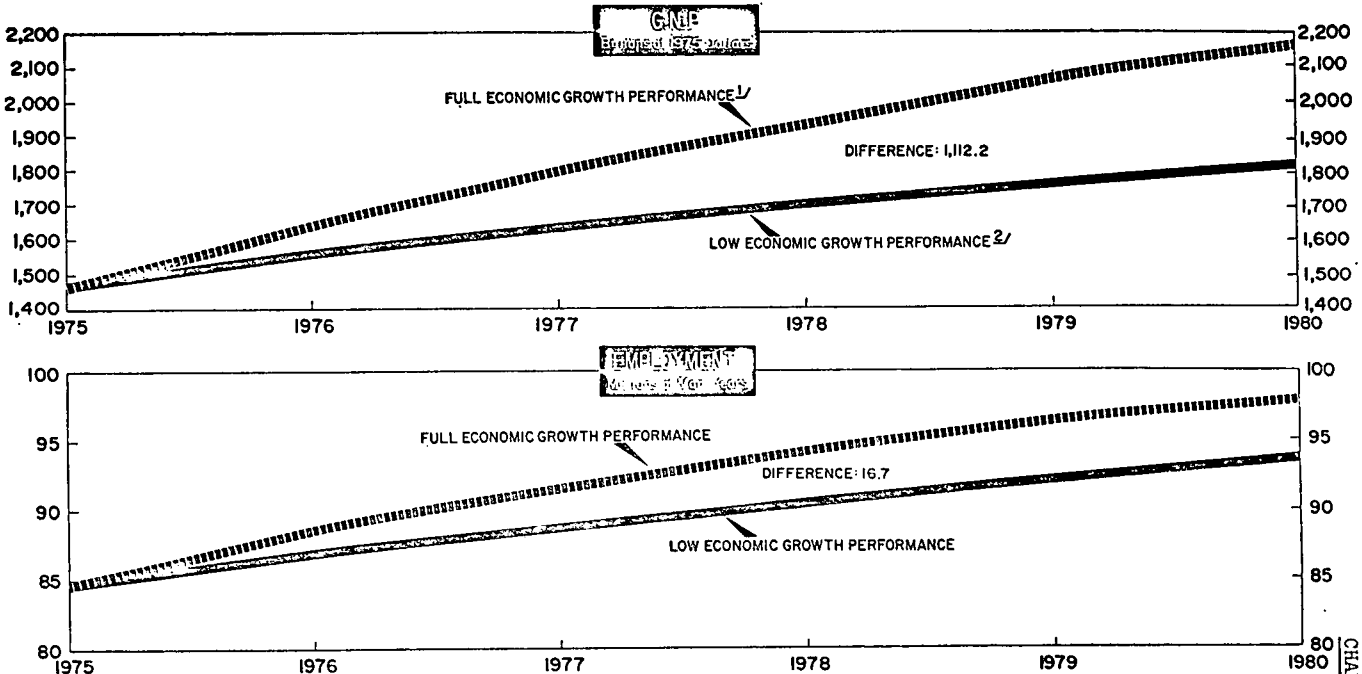
1/ Deficits 1953-1975 are calculated from a 1953 base, in that growth rates since then have averaged far too low. Deficits 1969-1975 and 1975 are projected from a 1968 base, writing off the cumulative deficits 1953-1968. 1975 figures are estimated. Residential and commercial construction deficits are calculated only from a 1953 base. In terms of what would have been needed, in 1975, to restore full production as of then, the estimated deficit was 250-300 billion dollars, at an annual rate.

2/ Based upon true level of unemployment, including full-time unemployment, full-time equivalent of part-time unemployment, and concealed unemployment (nonparticipation in civilian labor force) due to scarcity of job opportunity.

3/ These deficits are projected from a 1975 base, writing off the cumulative deficits 1953-1975.

Basic Data: Dept. of Commerce; Dept. of Labor

BENEFITS OF FULL ECONOMIC GROWTH, 1976-1980

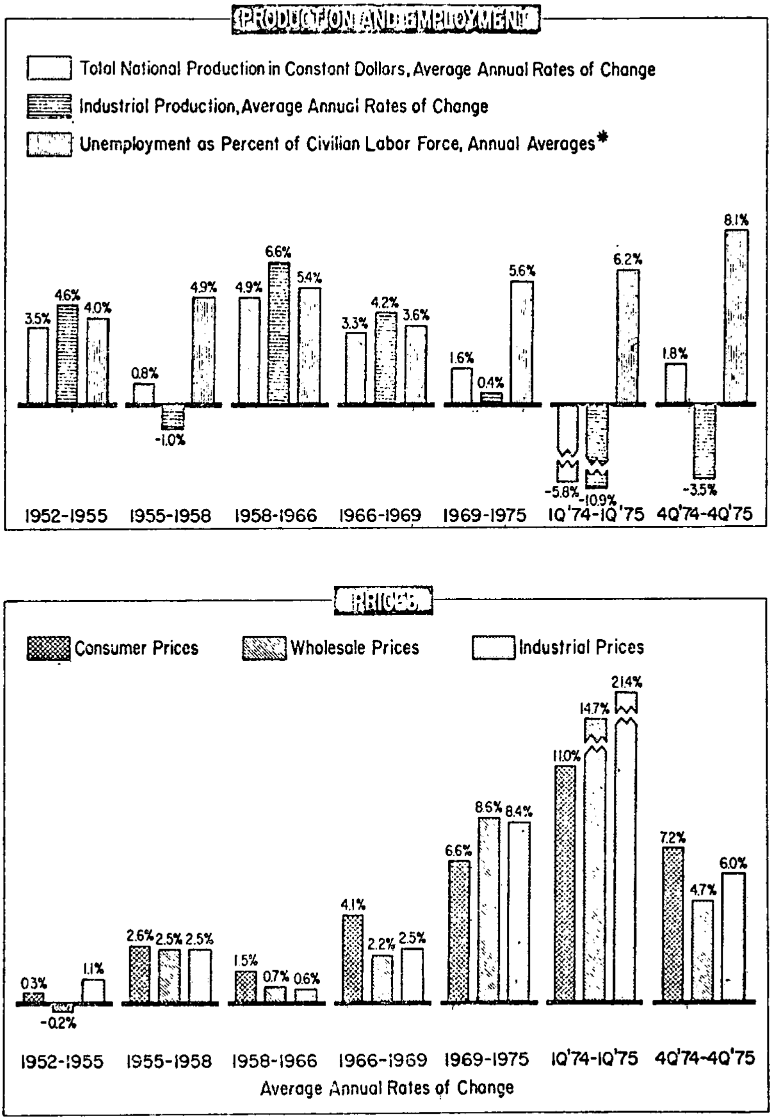


1/ Real average annual growth rate of 7.9 percent 1975-1980, to allow for full catch-up by end of 1978.
2/ Real average annual growth rate of 4.3 percent, or higher than during 1953-1975, due to very low level in 1975.

CHART 4

CHART 5

RELATIVE TRENDS IN ECONOMIC GROWTH UNEMPLOYMENT, & PRICES, 1952-1975 1/

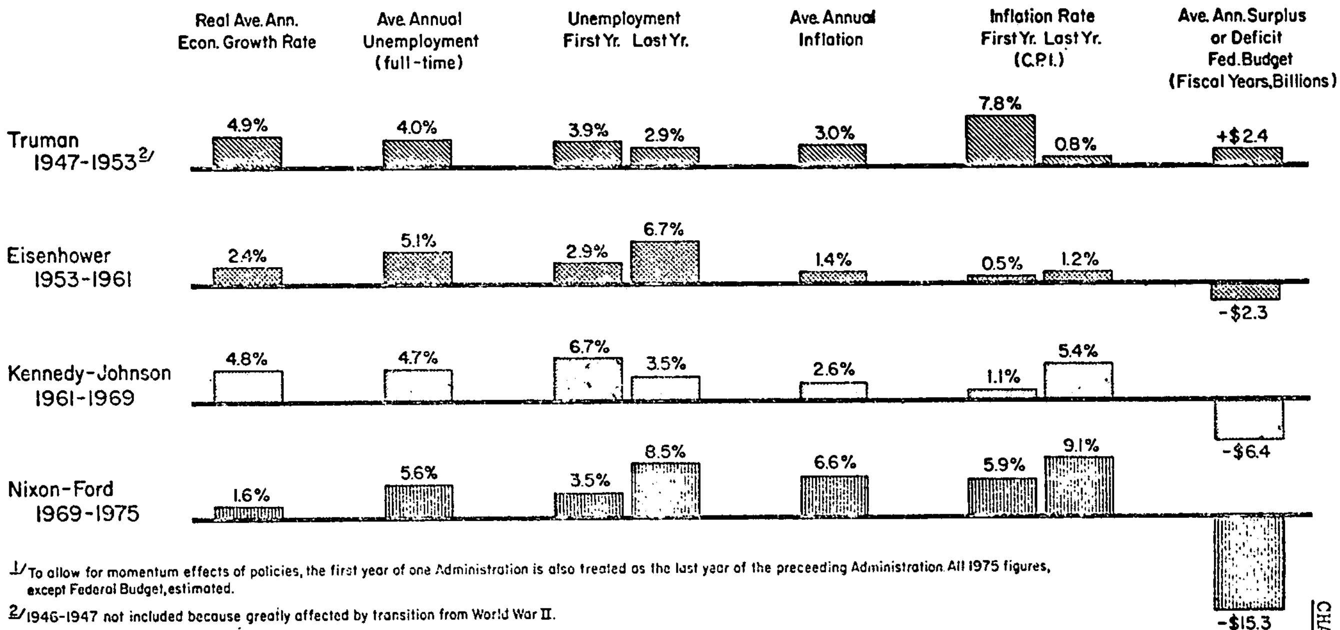


1/ All 1975 figures estimated.

*/ These annual averages (as differentiated from the annual rates of change) are based on full-time officially reported unemployment measured against the officially reported Civilian Labor Force.

Source: Dept. of Labor, Dept. of Commerce, & Federal Reserve System

U.S. ECONOMIC PERFORMANCE, UNDER VARIOUS NATIONAL ADMINISTRATIONS WITH VARIOUS APPROACHES TO NATIONAL ECONOMIC POLICY[1]



[1] To allow for momentum effects of policies, the first year of one Administration is also treated as the last year of the preceeding Administration. All 1975 figures, except Federal Budget, estimated.

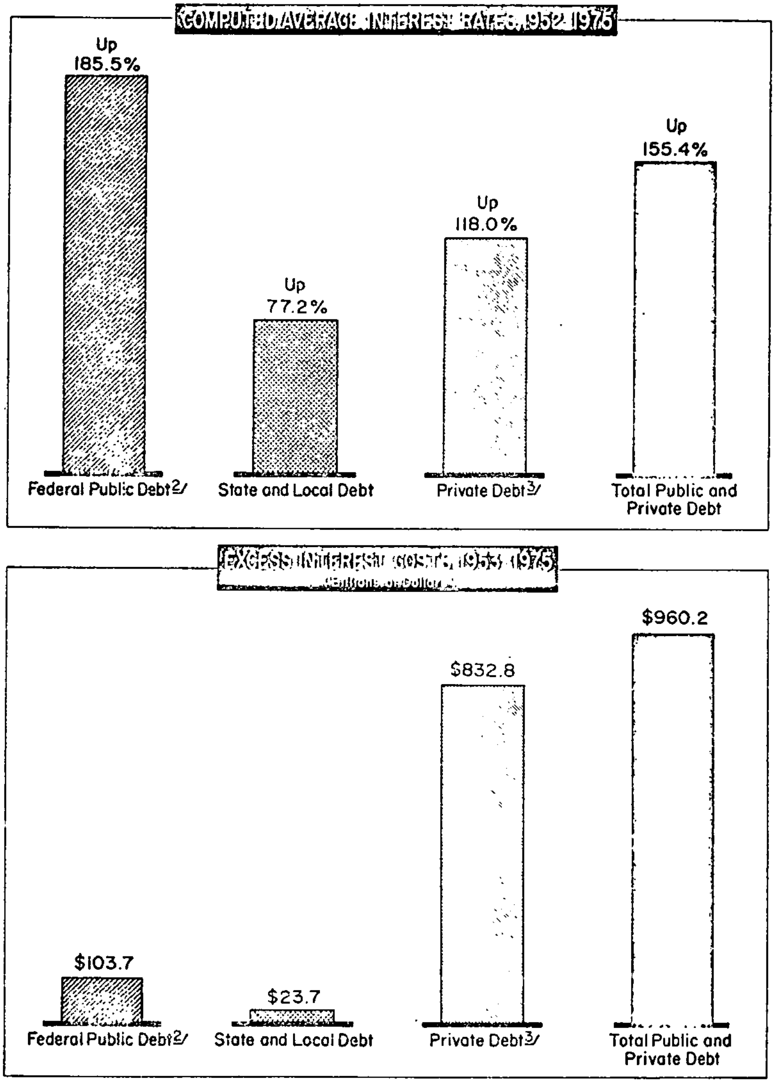
[2] 1946-1947 not included because greatly affected by transition from World War II.

Source: Economic Reports of the President, and Economic Indicators.

CHART 6

CHART 7

INCREASES IN AVERAGE INTEREST RATES, AND EXCESS INTEREST COSTS DUE TO THESE INCREASES, 1952-1975[1]



1/ 1974-1975 estimated.

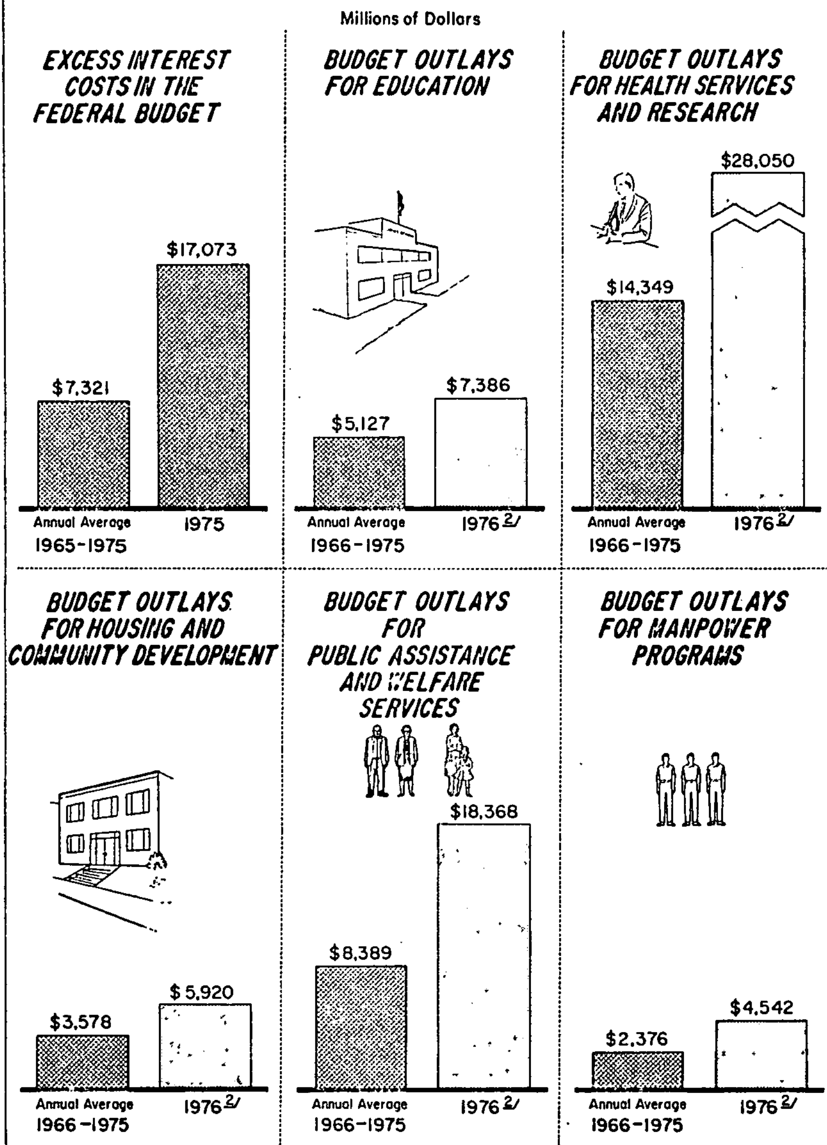
2/ Includes net foreign interest.

3/ Computed as a residual by subtracting Federal Public and state and local debt from total public and private debt.

Source: Dept. of Commerce; Economic Report of the President

CHART 8

EXCESS INTEREST COSTS IN THE FEDERAL BUDGET 1965-1975 CONTRASTED WITH OTHER COSTS FOR SELECTED BUDGET PROGRAMS 1/



1/ Interest costs, calendar years; budget outlays, fiscal years. 1975 interest costs and 1975 budget outlays estimated.

2/ Proposed in fiscal 1976 Budget.

GOALS FOR A MODEL FEDERAL BUDGET, FISCAL 1977 AND CALENDAR 1980 GEARED TO ECONOMIC GROWTH AND PRIORITY NEEDS

(In Fiscal 1977 Dollars)

	ALL FEDERAL OUTLAYS			NATIONAL DEFENSE, INTERNATIONAL AFFAIRS, AND SPACE			DOMESTIC PROGRAMS[1]			INCOME SECURITY, OTHER THAN VETERANS (Excluding Subsidized Housing)			MANPOWER PROGRAMS, INCLUDING PUBLIC AND PRIVATE SERVICE JOBS		
	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP
President's Budget, 1977	394.2	1,820.79	21.46	112.5	519.63	6.12	281.7	1,301.15	15.33	134.0	618.94	7.29	5.3	24.48	0.29
Goals for Fiscal 1977	432.2	1,996.30	21.64	114.3	527.94	5.72	317.8	1,467.90	15.91	142.2	656.81	7.12	13.1	60.51	0.66
Goals for Calendar 1980	505.3	2,276.13	20.75	118.3	532.88	4.86	387.0	1,743.24	15.89	161.3	726.58	6.62	7.5	33.78	0.31

	HOUSING AND COMMUNITY DEVELOPMENT			AGRICULTURE, NATURAL RESOURCES, ENVIRONMENT AND ENERGY			EDUCATION			HEALTH			TRANSPORTATION		
	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP	Total Expenditures ($ Billions)	Per Capita ($)	% of GNP
President's Budget, 1977	7.0[2]	32.33	0.38	15.5	71.59	0.84	7.6	35.10	0.41	34.4	158.89	1.87	14.9	68.82	0.81
Goals for Fiscal 1977	10.9	50.35	0.55	17.5	80.83	0.88	12.6	58.20	0.63	36.1	166.74	1.81	16.4	75.75	0.82
Goals for Calendar 1980	19.9	89.64	0.82	32.3	145.50	1.33	18.8	84.68	0.77	53.8	242.34	2.21	19.4	87.39	0.80

1/ Includes categories other than those listed in detail. Dollar goals would be higher in 1980, to extent of further inflation.

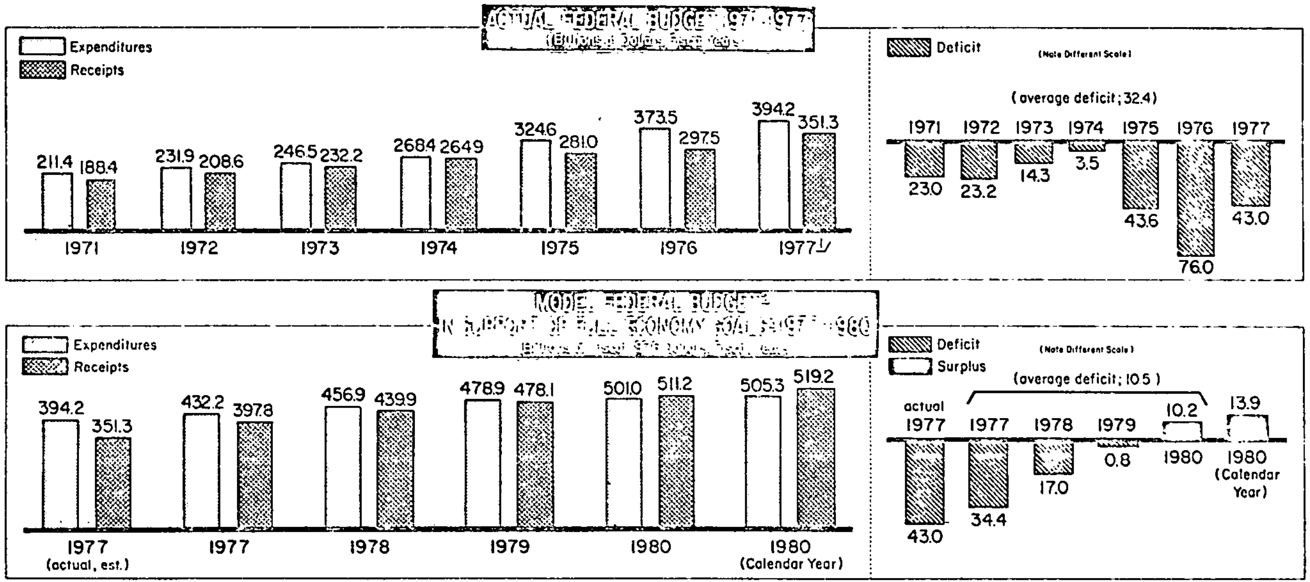
2/ The housing portion of this $7.0 billion in the President's Budget proposed for 1977, coming to $3.3 billion, appears in part in "income security" and in part in "commerce and transportation" in the President's Budget. The proposed goal increases for "housing and community development" includes $3.3 billion for housing for fiscal 1977 and $10.8 billion for calendar 1980.

Note: Population-- 216.5 for fiscal 1977, and 222.0 for calendar 1980. GNP (in fiscal 1977 dollars) -- $1,837 billion for President's Budget; $1,997 billion for fiscal 1977 goal; and $2,435 billion for calendar 1980 goal.

Basic Data: Office of Management and Budget for President's Budget; Dept. of Commerce for population

CHART 9

FROM FEDERAL DEFICITS IN AN UNHEALTHY ECONOMY TO A HEALTHY BUDGET IN A HEALTHY ECONOMY

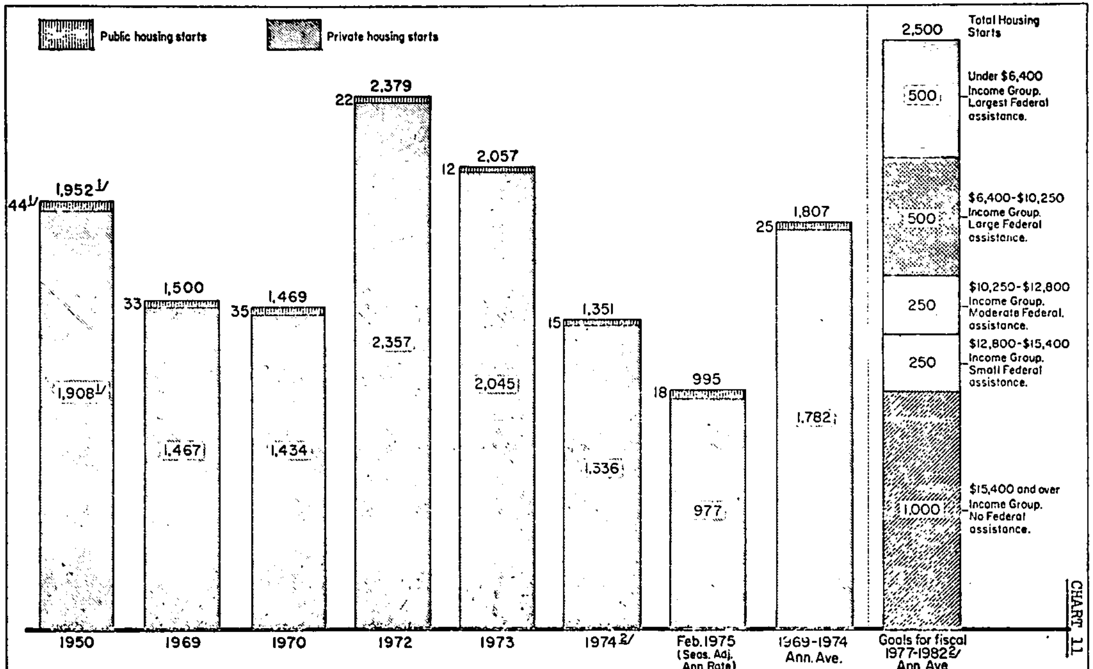


1/ President's Budget, as sent to the Congress on January 21, 1976.
2/ Model Federal Budget depicted in detail on another chart. Goals would be higher in each year's dollars to extent prices rise above fiscal 1977 dollars.
3/ Full economy goals shown on another chart.

Basic Data: Office of Management and Budget for actual Federal Budget

CHART 10

HOUSING STARTS, 1950-FEB. 1975, AND GOALS FOR FISCAL 1977-1982



1/ Non-farm only; farm not available.
2/ Inclusive. Based on earlier officially estimated needed annual average of 2.2 million during 1970-1980 inclusive.

Source: Dept. of Commerce, Bureau of the Census

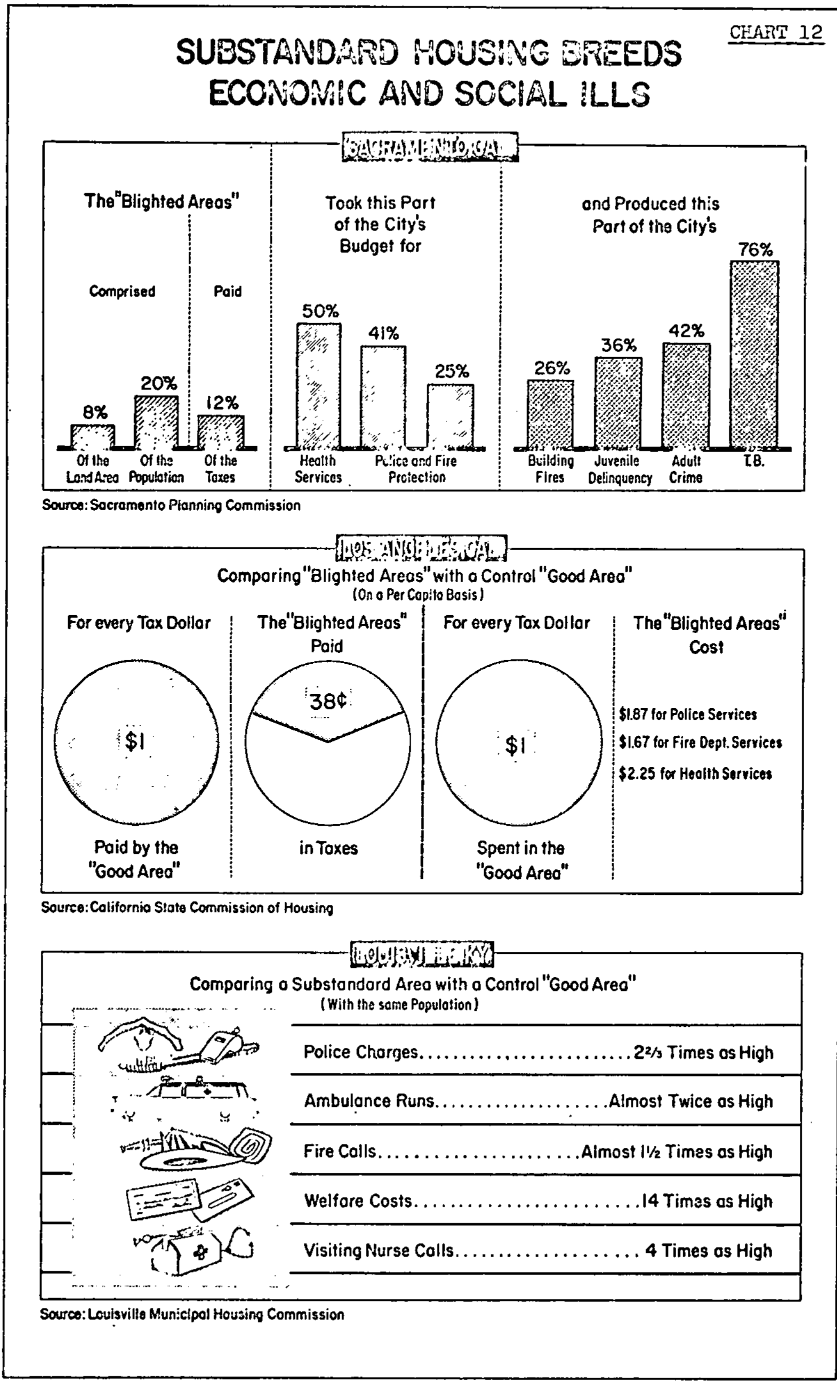


CHART 12
SUBSTANDARD HOUSING BREEDS ECONOMIC AND SOCIAL ILLS
SACRAMENTO, CAL.
The "Blighted Areas"
Comprised
Paid
8%
20%
12%
Of the Land Area
Of the Population
Of the Taxes
Took this Part of the City's Budget for
50%
41%
25%
Health Services
Police and Fire Protection
and Produced this Part of the City's
26%
36%
42%
76%
Building Fires
Juvenile Delinquency
Adult Crime
T.B.
Source: Sacramento Planning Commission
LOS ANGELES, CAL.
Comparing "Blighted Areas" with a Control "Good Area"
(On a Per Capita Basis)
For every Tax Dollar
$1
Paid by the "Good Area"
The "Blighted Areas" Paid
38¢
in Taxes
For every Tax Dollar
$1
Spent in the "Good Area"
The "Blighted Areas" Cost
$1.87 for Police Services
$1.67 for Fire Dept. Services
$2.25 for Health Services
Source: California State Commission of Housing
LOUISVILLE, KY.
Comparing a Substandard Area with a Control "Good Area"
(With the same Population)
Police Charges........................2⅔ Times as High
Ambulance Runs...................Almost Twice as High
Fire Calls.....................Almost 1½ Times as High
Welfare Costs.......................14 Times as High
Visiting Nurse Calls.................... 4 Times as High
Source: Louisville Municipal Housing Commission

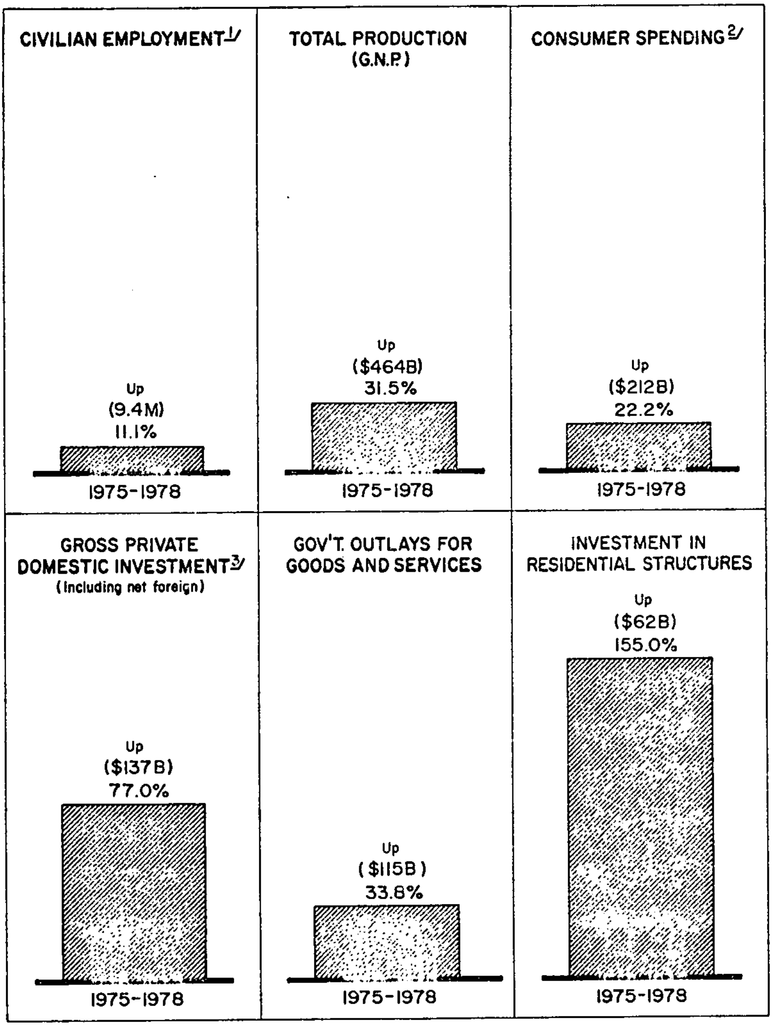
75-412—76——3

CHART 13

GOALS FOR THE U.S. ECONOMY, 1978 PROJECTED FROM 1975 BASE TO ACHIEVE FULL RESOURCE USE BY END OF 1978

Total Percentage Changes

(Dollar Items in 1975 Dollars, Absolute Data in Parentheses)



1/ Full-time unemployment down from 8.5% (7.9M) 3.0% (2.9M) by the end of 1978.

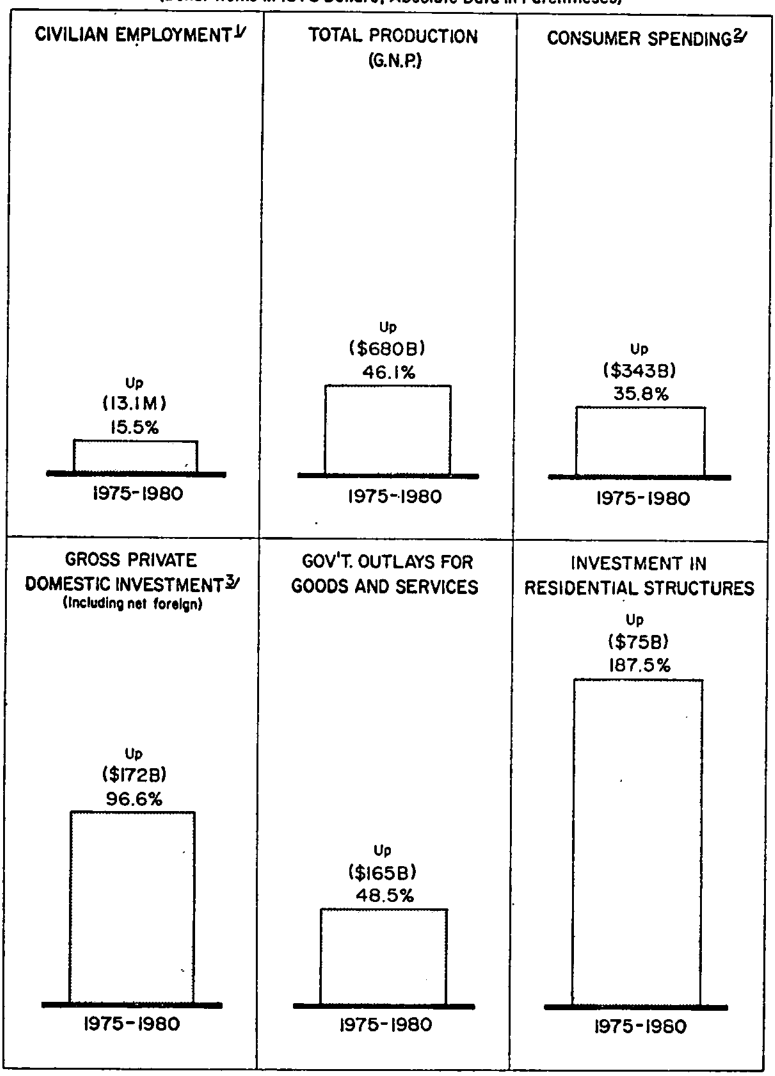
2/ Growth is less than growth of G.N.P. because of needed growth in public outlays to meet domestic priorities and needed growth in gross private domestic investment.

3/ Nonresidential and net foreign investment up 54.3% ($75B). Investment in residential structures up 155.0% ($62B).

CHART 14

FULL RESOURCE USE GOALS FOR THE U.S. ECONOMY, 1980 PROJECTED FROM 1975 BASE

Total Percentage Changes
(Dollar Items in 1975 Dollars, Absolute Data in Parentheses)



1/ Full-time unemployment down from 8.5% (7.9M) to 3.0% (3.0M).

2/ Growth is less than growth of G.N.P., because of needed growth in public outlays to meet domestic priorities and needed growth rate in gross private domestic investment.

3/ Nonresidential investment and net foreign up 63.0% ($97B). Residential structures up 187.5% ($75B)

Chairman HUMPHREY. Mr. Keyserling, every time I hear you I feel much better and also much more challenged. I don't know whether I feel better or whether I feel beefed up. But you speak with more sense in a short period of time than all the testimony we have heard around here for months. And I say that most respectfully and sincerely.

You touched on what I think are the ultimate necessities of having utilization of the budget to achieve purposes and to take a good look at what is the fountainhead of many of our social ills. And you have pinpointed very properly that unemployment is the very source of these ills.

Now we have some questions and we will want to share those questions with a number of you. I am going to take just a few minutes and then Senator Javits will be right back here. He had to step out. Mr. Murphy, you gave us rather vivid testimony about the correlation of the census tract data of high unemployment areas with explosive crime rates and concentrations of alcoholism and drug abuse and violence. Apparently you have personally observed instances which confirmed these tie-ins. Can you give us some examples from your experience in police work which more specifically identify these things?

Mr. MURPHY. Yes, Senator. In my experience in three of the four cities where I have headed police departments—Washington, D.C., Detroit, and New York City—I have made it a point to collect reported crime data by census tract throughout each city. In Washington in 1968, when I was Public Safety Director, the rate of crime in some of our inner city neighborhood areas was between 50 and 100 times the rate of crime among the same sized population areas in the Northwest section of Washington, D.C. I have observed similar comparisons in Detroit and New York City. The crime rate was that dramatic, Mr. Chairman, between 50 and 100 times as high in the FBI's Uniform Crime Reporting System of the seven crimes: Homicide, rape, aggravated assault, robbery, larceny, burglary, and auto theft.

Chairman HUMPHREY. We were in Georgia not long ago and heard testimony from a gentleman by the name of Mr. Ault, the chief corrections officer of Georgia. He has also done corrections work in other States and is apparently well recognized as an authority in his field. He was the regional chairman of the Corrections Officers Association. And he said that there exists: "A shadow economy" of unemployed people in our society and outside the stream of our society and they were engaged in illegal activities.

You have discussed the pool of teenagers and young adults in the urban areas where you said up to 50 percent of these young people are unemployed. How do these people live from day to day?

Mr. MURPHY. I am sorry to say that crime is almost a way of life in many of the neighborhoods I have observed. A frighteningly large portion of the population is willing to buy stolen goods, to trade in stolen property, to steal at every opportunity. As is well known, the victims of these crimes tend to be the people who live in the same neighborhoods as the criminals. So I agree with the analysis you have described, Senator. There are a number of people in areas most afflicted by unemployment and other social and economic ills who participate in crime in one way or another on a day-to-day basis. I should make reference to organized crime such as low-level gambling, prostitution, organized fencing amid the actual street sale of the stolen items in some neighborhoods. A burglar can take a television set on the street and sell it within 10 or 20 minutes to a citizen who is apparently willing to buy what he must know is hot property.

Chairman HUMPHREY. Why are there such unusually high rates of crime at this time and why wasn't the crime rate as evident in the Great Depression?

Mr. MURPHY. Trying to compare the Great Depression with the situation in the cities today is extremely difficult. There has been such an enormous change in urban populations with the flight to the suburbs of the middle class and the arrival of large numbers of poorer people from rural areas. That change has to be taken into consideration.

The comparison I would like to make, Senator, is with the Irish Catholics in New York City 100 years ago. Then, they were the people committing most of the crime in New York City. Most police chiefs today would say they are not having much of a problem with Irish Catholics committing crimes. When, like some minority groups today, the Irish were very poor and oppressed in New York City, the crime rate among the Irish was very high. At one point, the Irish rioted, and in 3 days more people were killed in that riot—1,300 people—than in all the riots this Nation has had in this century.

The situation during the Great Depression, when there was widespread unemployment, is not the same as today. For one thing there was not the contrasting affluence and poverty observed. Many observers have commented about today's great affluence having something to do with the Nation's crime problem. So many people are careless about their property these days——

Chairman HUMPHREY. Also don't we have the television that projects this affluence to everybody?

Mr. MURPHY. Yes.

Chairman HUMPHREY. When I think back to my experiences in the Great Depression—as a young man, living in South Dakota, and not knowing there was much else but what I saw in South Dakota——

Mr. MURPHY. I don't blame television but——

Chairman HUMPHREY. No; it is here and there is no need to blame it. But after all, there are people here today that are buying things because they see them on television. As a matter of fact, I think if you go in the average home, you would probably find more deodorants than anything else. [Laughter].

Mr. MURPHY. You are right, Senator. You may be aware that a decision in New York State recently held that a television set is a necessity of life. When a person is evicted, the television set cannot be seized. The poorest people have television sets.

Chairman HUMPHREY. Of course.

Mr. MURPHY. Young people who don't go to school or do not attend school regularly tend to sit in front of a television set. In our consumer society they daily are being urged to buy expensive cars, deodorants, and other things. That has an impact that did not exist in the Great Depression.

Chairman HUMPHREY. Yes; I am not picking on the technological advance. I think it has brought us many wonderful things such as education, entertainment, and a host of other things. It is here and it is here to stay. The point that I am making is we haven't adjusted our other attitudes and policies to the great technology we have today. Technological progress has just made it a different world. Our programs, both governmental and private, have not come to grips with the kind of social force that is at work in the world today and particularly in the United States.

I noticed an article in the New York Times last week about the French Government looking at their young people. And they call their young people "the lost generation." And of course everybody has called every young generation "the lost generation" somewhere along the line. But I think it is a fact that what we are beginning to see is the fundamental question of whether or not mankind can endure affluence.

The German youth of today and the American youth and the Japanese youth and the British youth and the French youth, they don't want to work so hard. They don't want discipline. I don't blame them, but they don't want them. And what is the reason for it?

Mr. MURPHY. I think it is very challenging, Senator, and I think——

Chairman HUMPHREY. The Russians, by the way, are having exactly the same trouble. As the standard of living has gone up in the Soviet Union, the crime rate has gone up. Not only does the crime rate relate to unemployment, but it is interesting to note as the overall standard of living goes up, the crime rate goes up.

Mr. MURPHY. Senator, you will recall very well that in the 1968 campaign much was said about permissiveness and crime.

Chairman HUMPHREY. Oh, yes. I remember very well, I was looked upon as one that was going to let the country fall apart because I didn't believe we should put everybody in jail.

Mr. MURPHY. Senator, I well recall that you came to the police chiefs convention that year—I was chief at that time. You told us to go home and tell our people about why we were suffering from so much crime. Permissiveness was then a code word, it seems to me. The kind of permissiveness I am most worried about—and I do believe we have a permissive society that is related to our affluence—is the problem of sexual morality, pornography, and so many other things that afflict our society and which ultimately relate to our affluence. You properly identify as a very critical problem, Senator. Man has not learned how to live in this kind of society. It is one of the reasons why I fear that our crime rate is not going to be brought under control unless we find more basic solutions.

Chairman HUMPHREY. This goes back to what so many people asked men in public life about. They say to me: "Well, your Government programs don't work." Mr. Keyserling addressed himself to this a moment ago and pointed out that for awhile they did work.

I hear the cry of the "new politics" of today. Well, we have always had new politics every 4 years. The new politics of today says that the Government is bad and that the programs are all failures and so on. Maybe there is something else more fundamental, though, than Government programs.

I noticed that families don't work too well today. I mean we have been using the family as an institution for social discipline and responsibility for centuries. And yet even in the more affluent neighborhoods I have noticed that the family structure is having difficulty.

Mr. MURPHY. I agree with that. I think our society is changing so rapidly that we just haven't found enough answers. The whole solution is not going to come from government, Mr. Chairman, although I do believe government has to do much more in developing a more effective crime control system. Until we can learn to live with rapid change, I am worried that we are going to have more crime.

Chairman HUMPHREY. Well, it is perfectly obvious we are not going to get at any of these problems simply by saying the Government ought to do less.

When I look over the checklist of the modern politician as he analyzes the society in which we live, it becomes one of checking off the negatives all the time and saying you cannot do this and you cannot do that and you ought not to do this. But I am looking around for somebody to suggest we might want to do something like even maybe calling up your son once in awhile or your daughter. And I have tried that. It works pretty good. It is just a little expression of love. It is just a little tendency to try to work together.

And maybe the people who are poor and down and out, maybe the only one they can look to is the Government. Who else can they look to? I don't know who else they can look to.

I will tell you what I think, Mr. Murphy. I think that a lot of this talk today is by some people who don't want to pay the bill. I think that is what the argument is over. And there is nothing wrong about arguing over money but I think we ought to know what we are talking about. You could put another 5,000 more police on the streets of Washington and you wouldn't change the crime rate in this city 5 percent or even 10 percent. You surely wouldn't cure it; would you, Mr. Murphy?

Mr. MURPHY. No; I think the police are extremely limited in what they can do about the matter.

Chairman HUMPHREY. So you could just add more and more police. But you wouldn't want to say by the same token, that if you take off 5,000, it would make it better. You are not asking for less policemen; are you?

Mr. MURPHY. No.

Chairman HUMPHREY. You are simply saying that that is only one element——

Mr. MURPHY. Exactly.

Chairman HUMPHREY. And it can't do the whole job.

All right, Senator Javits.

Senator JAVITS. Yes, thank you, Mr. Chairman. I was going to ask you, Mr. Murphy, what you think is the desirability of the summer jobs program? We are facing that again, as we always do every year. Last year we had about 850,000 summer jobs. Do you know what they are?

Mr. MURPHY. Yes.

Senator JAVITS. Teenagers work for 9 weeks at fairly minimum wages but the program does keep the kids employed. Perhaps we had as many as 40,000 kids and some in New York. Do you think well of that program? Are there any suggestions you might have for its improvement?

Mr. MURPHY. I think well of the program, Senator. I cite my experience with police chiefs. Perhaps because police chiefs were so close to the terrible problem of the riots that we had during the long hot summers, they still talk about the possibility of hot summers again. And one of their concerns since the late 1960's has been young people during the summertime. As a general proposition, it is very healthy and important to try to have a reasonable number of jobs for young people during the summer.

Senator JAVITS. Now in your experience both when you were chief of police and since then, Mr. Murphy, are there any leads or ideas you could give us concerning that program and what young people should be set to do or any other educational aspect which we could utilize on the job?

Mr. MURPHY. As one example, some summer jobs were within the police department and in other departments of city governments where serious effort was made by management to make summer jobs relative and productive. One recommendation I would make is that the jobs not simply be useless, time-consuming activities that don't give the young people some feeling they made a contribution in whatever work they are doing.

Senator JAVITS. On the whole you favor the program and find it useful?

Mr. MURPHY. I do.

Senator JAVITS. Thank you very much. I think your discussion on the limitations of additional policing with Senator Humphrey is very revealing. But could you give us an alternative? Asisde from what the Senator referred to as the parental responsibility and relationship with children, what else do you think about it? For example, a citizens' committee in New York, which I initiated and which is now functioning under Osborn Elliott of Newsweek, has just come out with a program to bring in thousands of volunteers to buttress the city services because of the serious cuts New York has taken due to its financial condition. My question: Do you think that kind of activity might be useful in curtailing criminal activities?

Mr. MURPHY. I do, Senator. I think it is very useful. You may recall the following, Senator, because we might have discussed it at one time. When I was commissioner in New York City, Benjamin Ward—who is now the commissioner of corrections in New York State—was a deputy commissioner in the police department. Commissioner Ward is an attorney and a black man. I asked him to try to enlarge the volunteer program that the New York City police department had. And within about 6 months we were able to recruit about 5,000 black and Puerto Rican citizens to be volunteers as auxiliary police officers, block watchers, and in a number of other capacities. I think it is absolutely essential that the police take steps to get that kind of cooperation from citizens. I believe the volunteer programs are one of the most positive ways in which this can be accomplished.

Senator JAVITS. Well, thank you very much. It has been very, very helpful. Any other positive suggestions you would like to make to us before we terminate this hearing?

Mr. MURPHY. I know what your position has been about some of the difficult social and economic problems and their relationship to crime.

Until we do address them, the terrible problem of crime will not be brought under control. I would urge that this committee focus attention on that aspect of the crime problem.

Senator JAVITS. I would just like to ask Dr. Jonas one question. And that is about the relationship of the economic situation to all of this which wou testified about in a very interesting way. But I wondered what you would think about the effect of having the Federal Government as the employer of last resort upon the individual who is unemployed, Dr. Jonas. Now that would mean—and I am going to ask Mr. Keyserling about that in a minute—a fairly low-paying job and in most cases probably not very high level work. Now if we could duplicate the WPA experience of many years ago, theoretically we can develop poets, artists, and performers in the theater, and other intellectuals like historians, et cetera. That may be the way to go. I just wondered if you can give us any advice on that subject? If we do make the Federal Government the employer of last resort—the ceiling on compensation will have to be quite low; as a matter of fact, we have an $8,000 ceiling in the Comprehensive Employment and Training Act. There is a lot of objection if the total figures get beyond $500,000 or $600,000, as they obviously would have to.

Well, I would just like your advice from your particular vantage point, doctor, as to what we want to be thinking about in that regard?

Dr. JONAS. Thank you, Senator. Let me make a couple of comments about that. I think if we are talking about the masses of workers, we have to be talking about the PWA approach rather than the WPA approach. However, I don't think that we want to have masses of people raking leaves. I think there are a lot of other tasks that can be done. Now this is not to say we should not also provide employment for intellectuals, but we have masses of ordinary skilled and unskilled workers who are without jobs.

Since I was particularly interested in discussing the isue of national health insurance because of the possible influence of any health insurance plan that might come along for the unempolyed on a general national health insurance plan, I did not really have the time to talk about the specific effects of unemployment on health. And I am going to get around to answering your question——

Senator JAVITS. Yes.

Dr. JONAS. But let me discuss this subject for a minute. I think that one sees when one works, for example, in a city hospital, as I have, or in a neighborhood health center in the ghetto, as I have, or in a city health department, as I have, what one sees in terms of health—both physical and mental—in relation to unemployment, is a very depressive condition. We know that poverty is related in a negative way to health levels; to physcial health levels as they can be measured.

We also know—well, this is probably less measured but I think the experience of us who have worked in such areas confirms this—the expressions on the face of people who are unemployed when they come to us when they are sick. The whole attitude toward one's existence and toward one's future life, the life perspective, is changed when one is unemployed, Senator. Unemployment creates people who are very depresed and very unhappy and very unuseful and who are simply sort of living on a dole of some sort or other. I think that to have the Federal

Government as employer as last resort would be a very useful program. I think it would have several positive results. One is, I think, that it is better to be employed at any job than it is to be unemployed in terms of one's feeling about one's life, about one's future, about making plans, and about looking further than where the next meal is coming from, looking further than the next trip to the unemployment office or lookink further than waiting on the unemployment line and answering the questions and filling out the forms and all of that.

So I think that in terms of being a human being, as Chief Crow so eloquently discussed, working is better than not working.

As Mr. Keyserling has pointed out, when people are employed, they are paying taxes and they are fueling the economy both in terms of the production which they are doing through their work and in terms of the taxes which they pay. Also, Senator, they are no longer draining the economy in terms of just having people pay out money.

So if you look at health as an overall state not just as the absence of sickness but as a positive state—to use Senator Humphrey's term, for example, the World Health Organization's definition of health as a state of complete social and physical and mental well-being—I think that the basis of that has to begin with a job. You have to have something to do and you have to have a feeling that you are making a contribution and being productive. So I would very strongly support such a program.

Senator JAVITS. Thank you Mr. Chairman, my time is up. I do have a question of Mr. Keyserling. May I just ask this one question?

Chairman HUMPHREY. Surely.

Senator JAVITS. Mr. Keyserling, how would you rationalize exactly the same thing in a budget sense? Suppose we had three categories: You have an unempolyment compensation category; you have a CETA category; and now, a third category we are running into is a terrible problem of expirees; that is, those whose unemployment compensation has expired. We certainly don't want to send them to the welfare rolls. Now how can we handle the budgetary impact of a final employment opening, which would be some job role the Federal Government would organize for the expirees.

Mr. KEYSERLING. Before I answer that question I want to say that I said earlier that Senator Humphrey was a leader in the battle for long-range planning so that we can know what we need to do and how to do it. I should have said, and I now do say, that my friend of many, many years, Senator Javits, has also been, and still is, a great leader in that. And more power to you, Senator Javits.

The trouble with talking about the Government as the employer of last resort is that so many people forget about everything else. I have been doing a great deal of preparation for testimony in the near future on the Humphrey-Hawkins measure, the Full Employment and Balanced Growth Act of 1976, and I have made projections, detailed projections assuming the kind of programs needed to get full employment within 3 or 4 or 5 years, Senator, and the kind of programs needed and what kind of jobs they would create. Now I am 1 million percent for the Government as the employer of last resort, but when I make the projections as to the employment needs, I find that 9.4 million new jobs should be credited in the private nonagricultural sector between 1975 and 1980, 3.2 million in the State and local sector, and only 0.5 million in Federal civilian employment sector. And only a very tiny fraction of those jobs—1 million at most if you have all the other elements in the needed program—only a tiny fraction of the 13.1 needed increase in civilian jobs between 1975 and 1980—only 1 million of these, at their peak, would be employed through the reservoir or last-resort jobs financed by the Federal Government under the Humphrey-Hawkins proposal; and most of these would be State and local and nonprofit private jobs aided by Federal outlays.

There are unanswerable reasons why the Federal Government should be the employer of last resort. Unequivocally, this has been a part of the American thinking since Franklin Roosevelt's economic bill of rights in 1944, which talked about the right to a job for every American able and willing to work. It is not the element of the responsibility of General Motors—and I am not criticizing that corporation—to see that everybody gets a job. It is their job to produce automobiles at a fair price.

The only entity which has the responsibility to fulfill the economic obligation and the moral good sense and the social purpose to see that those who do not get jobs elsewhere, get them at all is our Federal Government. I will again refer to Arthur Burns, who has done more damage to this economy than anybody in our Nation, but he said in a recent article that we must have full employment because it is better for people to work than not to work. He said it is better economically and it is better socially. And he said that we will never get it without having the Government being the employer of last resort. So we must have that.

Now I come to the mater of costs. Now this gets me back to my pet peeve——

Chairman HUMPHREY. I am going to have to interrupt to say that I am going to have to go down to a rollcall, but we will be back.

Senator JAVITS. Could you say it in a minute, Mr. Keyserling?

Mr. KEYSERLING. I can say it and I will say it in a minute. I have made projections of the costs of all the programs needed under a full-employment policy. It is, of course, imperative that the Federal budget be a little more realistically used—and this does involve increased public investment at a faster rate than this administration has been doing and at a faster rate than the Budget Office people have been proposing, because they have been trying to ape the administration with slight variations. Nonetheless, the higher Federal budget costs needed for a full-employment program would be just about one-fifth of the higher increases in the national product which broker budget would help to bring about. And the increased Federal taxes which would derive from the higher national product would in the themselves greatly exceed the higher Federal outlays. So the Federal budget would be the net gainer.

And we should not measure wealth and welfare by the transfer payments representing who is collecting the taxes and who is making them the outlays. We should be guided in our judgments by the increased employment, by the increased wealth, and by the increases in human services. It is economically imperative and it is socially sound and it is wise from the viewpoint of the Federal budget to follow this course.

Chairman HUMPHREY. You are a most persuasive man. I am coming right back. Mr. Keyserling, I am excited when I hear you talk. I have a lot of questions to ask you. Congressman Long, will you follow up? And may I say that we may have some questions here for Chief Crow. If you have to go, I don't want to keep you too long. If you have to leave for any reason, I want you to know you are at liberty to do so. I have a question or two I would like to ask but I don't want to hold anybody.

Representative LONG. Mr. Keyserling, would you talk a bit more on what you have been speaking about there? Would you follow up a bit about the long-range planning of which you speak and the Humphrey-Hawkins concept? I am over in the House of Representatives and Congressman Bolling and I have been doing a good bit of work on that idea. And as we all grasp here for the way in which to handle this, talk a bit, if you would, about what your studies have shown as to the possibilities of the means by which we may stimulate the creation of jobs in the private sector before we come down to the Government as the employer of last resort.

The reason I think this is important is because I agree with you that when we start talking about the Government as the employer of last resort, everybody tends to forget everything that is in between there, which would be created by the private sector. Talk on that for a few minutes if you would.

Mr. KEYSERLING. Well, as I have said, under the proposal to which you refer, I have projected its purposes carefully on the jobs side. That will be available in detail to everybody from the time of my testimony shortly on Humphrey-Hawkins. And under that, Congressman, the preponderance of the additional jobs that would be created between now and 1980 would be private jobs. I have already set forth my quantifications on this subject. There are many provisions of the bill which make it explicit that this is the main emphasis.

Second, most of the other jobs created would be State and local jobs. To be sure, the Federal Government must, in good sense, bear a somewhat larger share of the costs of local services, particularly those relating to unemployment and welfare.

And third, residually there would be last-resort federally created jobs, but even most of these would not occur at the Federal level.

Now, to get to your question as to how the Humphrey-Hawkins bill would stimulate the creation of private jobs. First of all, private enterprise operates partly on psychology and outlook. It operates on the kind of economy that it thinks it is going to be living in. And despite all the—well, I won't call it philosophical—but whatever you want to call it, despite all the haranguing that some people offer against Government planning and against Government getting into the picture, there is nothing on the basis of all our experience, Congressman, which does more to create private jobs and private investment than two things.

First is the awareness that the Government is in its proper role underpinning full employment. Now World War II is a good example. Sure, the conditions are different. We can learn a lot from World War II despite that fact. Now, at that time, a tremendous increase in private jobs was cretaed. They were not created by a mandate. Nobody was mandated to produce. They were created because they knew that the Government for the purposes at hand would assure that there would be full markets. So this is the first way.

The second way—and Senator Sparkman, I am talking about how the Government can stipulate the creation of private jobs under a proposal like the Humphrey-Hawkins bill or some such similar proposal—the second and more specific way is to improve the monetary policy. The monetary policy of Arthur Burns and unfortunately of McChesney Martin before him, wrecked havoc on the private industry. What has happened to housing? And why? The rate of home production is about half of what it ought to be.

The unemployment rate is 40 percent in the housing industry, and about 20 percent among all building trades workers. The basic reason is the money policy. There are other reasons, but that is the main reason. You cannot have a market for homes among middle- and low-income people—and they are most of the market after the top market gets staturated—when they have to pay an interest rate of 8, 9, 10, or 11 percent. The greatest single economic reform in earlier times, although not the most widely touted, was the effect of bringing down the interest rates to one-third of what they had been, and to an effective interest rate of about 4.25 percent on housing.

The prevalent money policy has nearly wrecked the utility industry. Everybody is complaining about the immense costs, about the increase in cost of fuel and power in the home and in industry. Well, I am not attempting to speak for that industry. But they finance a larger part of their investments with borrowed money than any other industry except housing. Their effective interest rates on borrowings are about twice what they used to be. And after they get through servicing on their debt, they haven't enough left, first, to do enough exploration for new services of energy, and second to build enough basic plant capacity. We hear much about all kinds of shortages. But most of these shortages have been created by the poor performance of the economy.

We have the capabilities for as far ahead as I can see, Senator, to meet our natural resources needs if we organize and plan to meet them. The utilities, over these years, under the tight money policy, have had a very low rate of growth. So there are shortages. And this is inflationary.

This means unemployment, not only in that industry, but in others. And it goes back to the wrongful money policy.

The money policy has saddled private public and borrowers with more than $900 billion of excessive interest costs since 1953. This is largely a subtraction from consumption. And a subtraction from consumption is a subtraction from private employment opportunity because most of the consumers spend their money for private goods and services—as indeed it should be.

A very important factor to bear in mind is that the perverse monetary policy has cost the Federal Government and the Federal budget more than $100 billion in excessive interest payments since 1953. This started in 1952, with the "accord" between the Federal Reserve Board and the Treasury, which President Truman sought to avoid, but he was betrayed by some in whom he placed confidence.

They saddled the Federal Government alone with more than $100 billion of excessive interest payments since 1953, and more than $17 billion in 1975 alone. That money could otherwise have been used to create private jobs by using that money in the kind of things that create private jobs and have a high multiplier effect.

A word now about "waste in government." I have worked for a lot of big private enterprises before I stopped that 4 years ago to devote myself entirely to public service. There is just as much waste in big business as in big government. I would go to a meeting to advise my clients on something, and I would go alone and I would notice they would have 40 people in the room: economists, lawyers, auditors, accountants, executives, and so forth. There is waste in every big enterprise. I am for genuine economy everywhere, including in Government. But let me say this. You cannot measure waste simply by the number of people employed per output. Even if the employment of people in health services or housing or transportation is a little more "wasteful" by some measurement than the employment of people in the production of superficial gadgets or the production of cigarettes—if I may use that example—or the production of noxious fumes, which type of production is really more economical for the Nation? The answer is obvious.

And the public jobs that would go into a full employment policy would result in two or more new private jobs for every new public job, because that is the multiplier effect. So if we have the Government adopt a policy through congressional action, Senator, of certifying that we are going to have a full employment economy, and if we take the monetary steps and other steps necessary to multiply private employment directly, and if we reformulate and reshape the Federal budget to train it more directly upon useful and productive things with a multiplier effect, we will get, as I say, an increase in private jobs several times as large as the increase in public jobs.

Representative. LONG. Thank you.

Senator Sparkman, why don't you take over? Dr. Jonas wanted to add a point, I think.

Dr. JONAS. I just wanted to make a brief comment following up on Mr. Keyserling's remarks on the relationship of capital to the health care industry.

The fact is that over the last 10 years the fastest rising segment of health care costs has been the cost of capital.

Senator SPARKMAN. Well, Mr. Keyserling, we have wrestled over these problems for many years.

Mr. KEYSERLING. We sure have.

Senator SPARKMAN. Do you remember the days of the Okies and the Arkies?

Mr. KEYSERLING. I sure do.

Senator SPARKMAN. We were working together then, weren't we? And we were working particularly with Mary Dublin, who many people think is as smart as you are. Do you remember back then?

Mr. KEYSERLING. Yes; she worked for your Subcommittee on Migration, didn't she?

Senator SPARKMAN. Yes, in 1940. And that was dealing with jobs. That was dealing with employment, wasn't it?

Mr. KEYSERLING. Yes, sir.

Senator SPARKMAN. Oh, I remember those days quite well and the hearings that we held around the country. And I think of it sometimes now when we run into this unemployment crunch.

But let me ask you a specific question. Are you familiar with the bill that Senator Griffin has just introduced?

Mr. KEYSERLING. I am not sure. Maybe if you told me about it.

Senator SPARKMAN. I think you should look it up because we are going to start hearings I believe on Monday—no, on Tuesday in the Banking Committee on this bill. Senator Griffin showed me this bill. In fact, he wrote one of those "Dear Colleague" letters and explained his bill. I talked to him at the time and told him it seemed to me to be a very good bill. The President, by the way, in his veto message gave it a word of praise. So it may be that we will be able to get some good legislation on this job situation.

I wish you would look it up.

Mr. KEYSERLING. I will very shortly. I can say now that I have some reasonably accurate impression of what it is about and I——

Senator SPARKMAN. It follows pretty closely to what you have been saying. Of course you mentioned housing. It is kind of a tender spot with me, as you know, because I have given more effort, I suppose, to housing than any other thing since I have been in the Congress.

Mr. KEYSERLING. Let me make a couple of additional comments.

First of all, John F. Kennedy shared your views about Mary Keyserling. He introduced us to some visiting king at the White House and said: "This is Mrs. Keyserling, one of the most famous economists in our country." And he waived his hand at me and said: "Here is her husband, and he is an economist too."

Senator SPARKMAN. That is what you call a left-handed compliment to you.

Mr. KEYSERLING. And also, Senator, I will say that you are just as effective and as progressive as when I first met you a long, long time ago. I am not like that. I told someone at a meeting the other night who asked me for my biography, I said: "Just repeat the song about Rosie O'Grady that I heard in camp 60 years ago." It went: "She ain't got no future, but oh, what a past." [Laughter.] That is me. I am glad you drew attention to some of that past.

Now it is a singular commentary—and the Senator will bear me out—that in all the train of economists who have appeared before this committee, I am amazed for the most part by the complete divorcement from a real look at the economy and what is really happening. They have a lot of mumbo-jumbo about fiscal and monetary policy and they make some forecasts. But how much do they really talk about housing?

They may say it is important, but how many of them point out that 40 percent or at least one-third of the whole $3.3 trillion 1975 loss of national product through high unemployment since 1953, that at least one-third of that is due directly to what has been happening to housing? How many can point out that it is one-third of the whole employment problem? How many say that if you want to get the economy moving, why don't you start there in housing? Not stop there, but start there.

Senator SPARKMAN. Well, of course, the housing was stagnated in January of 1973 when the President put the moratorium on any and all programs that involved any subsidy whatsoever. I am glad to know that the present Secretary has resumed the program.

But I agree with you we need to step up the production. I wonder if you could tell us just the impact on the economy of housing expenditures? I am talking about the people who work in building the houses, about the people who are out in the forests cutting the logs and down in the bowels of the Earth to bring out the metals and materials.

If you could run all of that through a machine and get the composite, I wonder what the stimulating of the housing program would be?

Mr. KEYSERLING. I spent about 8 months last year with the help of staff, Senator, in developing a detailed study of the relationship of housing to the economy, which is what you asked. I didn't only consider the employment and the production and the tax revenues derived from the housing production, but I went into the cement industry and the steel industry and the home furnishings industry.

Senator SPARKMAN. All of which are a part of housing?

Mr. KEYSERLING. Yes, and the utility industry which serves the home. I went into the 16 largest cities of the United States and figured out what they are losing in production and revenues and in employment opportunity because of what is happening in housing. So I looked at it from every viewpoint.

To capsulize that, in answer to your questions, I figured that if we got housing to where it ought to be, which is about 2.5 million units a year, give or take, and if this housing were properly distributed through national policy amongst the different income groups that need it—otherwise you can't get it at all, and otherwise you should not have it at all, you would just create another housing boom for a year or so and then have it come down again—but as I say, if we did that, if we did just that alone with all its ramifying effects, that would add more than $300 billion more to the national product than we otherwise are going to get between now and 1980. And this comes to about one-third of the more than the $1 trillion higher national product that we are going to get if we do the right things as against doing the wrong thing, between now and 1980.

You can take any economic problem—the amount of unemployment in the country or the production gap or the amount by which our production is below what it ought to be or almost any figure—and you can roughly divide it by three, and you will get the answers to what housing has to do. It is infinitely bigger than the proper figure for any other industry in this country.

Senator SPARKMAN. Do you remember the Housing Act of 1949? I am sure you do. Do you remember the promise we made to the American families that every American family was entitled to have hope of a decent home and a decent surrounding? Have we ever reached that goal?

Mr. KEYSERLING. We haven't reached the goal, but it is not because the promise was wrong. It is because the performance didn't live up to the goal. As a matter of fact, Senator, for a few years, as you know, we did pretty well toward getting to that goal.

Senator SPARKMAN. Well, you remember in 1968 we passed a housing bill in which we renewed that promise to the American families. The goal that we set, was what? It called for $2.6 million a year and $600,000 of which would be for low income.

Mr. KEYSERLING. Of course.

Senator SPARKMAN. Have we met that goal or are we meeting it?

Mr. KEYSERLING. I had a debate at the Democratic Club a few nights ago on some such question as "shall we abandon the New Deal" or "should the Democrats abandon the New Deal?" What they really meant is the old argument that is going around now, which Senator Humphrey referred to, that we promised too much and the people were disillusioned and we didn't perform. That is not what happened. Every great purpose involves a promise that goes beyond what you are going to do in a short period of time. This is true from Moses through Jesus on down to every important leader. You set a high goal and you move toward it. You move further if the goal is too high.

The real reason we have not gone ahead is not because we have promised too much, but because we abandoned the promise. We started saying we should not make the promise instead of saying that we should perform. We reverse the course.

Now, the same thing is true as to "big Government." Nobody knows better than I do that a lot of Government agencies are super staffed with an excessive number of people; but that is not the real issue with all this talk about "big Government" and "strong Government." The problem is not that the Government is too strong, but rather that it is too weak and too indecisive and it is not doing what it ought to do.

And this is nowhere more true than in housing. There is a lot of legislation on the books now, as nobody knows as well as you do. We have had long spans of years when we did not fulfill what was on the books. It was not that the Government was too strong or was trying to do too much. It was because it was weak and ineffectual and didn't believe in it and wasn't doing it.

Senator SPARKMAN. If we produced 2.6 million, which was the goal we set in the 1968 act over the next 10 years, if we produced at that rate now, would that be overproduction?

Mr. KEYSERLING. Of course it wouldn't be overproduction because that is a careful estimate of the real needs. Now you can have overproduction at 1.5 million units a year and you can have overproduction at 1 million units a year if you concentrate the building on too limited a segment of the economy. If you build only 1 million units a year or 1.5 million units, you can still have overproduction if almost all is built so that nobody can buy except the upper half of the income structure, because that gets saturated very soon.

Two and one-half million a year, Senator, rightly distributed would be 1 million miles further away from over production that 1 million or 1.5 million a year built for a narrow segment of the economy. That has been the philosophy you espouse, and I have tried to help with for a long time.

Senator SPARKMAN. Let me turn to our friends here for just a little bit.

Senator Humphrey is going to be back very shortly. He wants me to keep you talking until he gets back here.

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But let me digress just a little bit because I was very much interested in hearing from our friends from South Dakota. Or is it North Dakota?

Chief KING. South Dakota.

Senator SPARKMAN. Do you live on a reservation?

Chief KING. Yes.

Senator SPARKMAN. And what is the tribe?

Chief KING. The Sioux.

Senator SPARKMAN. The Sioux Indians?

Chief KING. The Lakota people.

Senator SPARKMAN. That is the Sioux?

Chief KING. Yes.

Senator SPARKMAN. Are the living conditions on the reservation what you would call good? Of course, I know you pointed out some of the shortcomings, but those are more or less shortcomings that we have throughout the economy.

Chief KING. If you call 70 or 80 percent unemployment in any group of people——

Senator SPARKMAN. Unemployment is your problem, just the same as it is the problem that Mr. Keyserling in his testimony has testified to. Is that right?

Chief KING. Yes.

Senator SPARKMAN. Well, I enjoyed the exchange with you. But as I said, I was holding you here until Senator Humphrey got back. We had a rollcall and we had to split our time. So, Senator Humphrey, I have kept the faith.

Chairman HUMPHREY. You certainly have and I thank you very, very much.

I just have a few more questions. I don't know if the chief has directed his attention toward the unemployment problem on the Indian reservation. I believe, I heard you say it was 85 percent?

Chief KING. 70 or 80 percent of the people are unemployed.

Chairman HUMPHREY. Are unemployed?

Chief KING. Are unemployed.

Chairman HUMPHREY. Yes.

And the chief feels that the best kind of work is agricultural work. Is that correct?

Chief KING. Yes.

Chairman HUMPHREY. Is that the view of most of the Indian leaders or is that Chief Crow's view?

Chief KING. I think I could answer that question better than the chief because in 1928 I used to contract big jobs and take the Indians off the reservation so they could be employed. You know, we would usually take about 1,000 or 1,200 Indians off the reservation.

I think I was one of the first to have the idea that the Indian could be relocated in some other section of the country where he would be employed, you know, to work.

Chairman HUMPHREY. Yes.

Chief KING. I have done that for over 40 years. I know the unemployment condition on the Pine Ridge Indian Reservation quite well. It is very serious because of the fact that many of the boys are drinking and shooting one another and shooting at houses and so forth. It happened just 2 nights ago that a couple of houses were shot up and my house was shot up quite a while back last March. They think they are having fun. It is because of the unemployment.

I employed different tribes from America when I used to contract work and I happen to know the Sioux Indians are the most ambitious and most——

Chairman HUMPHREY. Hard-working people, yes.

Chief KING. Yes; hard-working people.

Chairman HUMPHREY. And they are.

Chief KING. If you put them on a job, they will do it. They are good men, as far as work is concerned. It is a shame that when we asked the different companies to come in and bring a factory, you know, to hire the Indian people, but they are afraid to come in because of the little trouble we had out there. So they are kind of reluctant.

I know Reverend Bennett, of Ashland, Mont., wanted to transfer some of his factories to Pine Ridge at the time of Wounded Knee and he was kind of afraid to come in. I got to talk to him on that.

Chairman HUMPHREY. Let me ask you this. Are you saying that you can have the Indian people live on the land, as Chief Crow was talking about, with their cattle and their poultry——

Chief KING. Yes.

Chairman HUMPHREY [continuing]. And their hogs and so forth, I mean, as agricultural people?

Chief KING. Yes.

Chairman HUMPHREY. And at the same time supplement their income with jobs?

Chief KING. Yes.

Chairman HUMPHREY. Our Chippewa Indians are in the same predicament. Well, perhaps not quite as bad. There is about a 40-percent unemployment rate among adult Chippewa Indians. If you put the unemployed young people into that figure, it would be higher.

Chief KING. We have a lot of young people that are unemployed that could be working. The Indian relocation program is not fast enough to give employment to everybody.

Chairman HUMPHREY. Lots of the Indians, your youth, have gone to the city now?

Chief KING. Right.

Chairman HUMPHREY. Minneapolis, Minn., has a very large Indian youth population.

Chief KING. Yes; they have gone to San Francisco and different places like Arizona, Phoenix, to Chicago, and just relocated themselves. They are willing to work.

Chairman HUMPHREY. Do you see any Government programs now that are giving your young people jobs?

Chief KING. Very little, as far as I can see. No; not very much.

Chairman HUMPHREY. And the housing that is being built, is Chief Crow correct when he says that the Indian people do not like housing that is in close proximity?

Chief KING. That is right. They don't like that. I don't think anybody likes that.

Chairman HUMPHREY. That is what we have been saying. But nobody seems to listen to you.

Chief KING. No.

Chairman HUMPHREY. I don't know why it is. I mean I go up there to the reservations. We have Red Lake Reservation and White Lake Reservation and we have the same problems.

Chief KING. They always think that Indian people should be on their own allotment, just like they did way back in 1900 on up. Many of the Indians are not educated, but they know how to work and they know how to raise stock and so forth. They think that back in those days they got along a lot better than they do now.

In those days the Government never had to look after the Indian people because they were self-sufficient. They were a self-sustaining people.

Chairman HUMPHREY. And a proud people.

Chief KING. That is right.

Chairman HUMPHREY. Senator Sparkman.

Senator SPARKMAN. I just want to interject something.

You talk about them wanting the kind of house that they used to live in. They want to live in those type houses and they want houses that are relatively isolated—well, I won't say isolated, but separated from other houses.

It reminds me of something that happened a good many years ago. We extended our housing program to provide housing for the Eskimos in upper Alaska. We went up there and we built these nice little bungalows. I was told this is true but I did not see it myself. But sometime after that they went back to see how they were getting along with these new houses and found out they had accepted the houses, but they had moved their teepees right inside the living rooms. They were living inside the house with the teepee.

I cannot vouch for the truth of that, but I think it illustrates this very problem.

Chairman HUMPHREY. Yes, the lifestyle of the Indian is different.

Chief KING. Yes.

Chairman HUMPHREY. Dr. Jonas, you had something.

Senator SPARKMAN. Let me say, Mr. Chairman, I have greatly enjoyed this hearing this morning. I need to go. I have an appointment. I hate to leave you alone.

Chairman HUMPHREY. No; that is all right.

I have some questions I want to ask Mr. Keyserling.

Senator SPARKMAN [continuing.] But you have enough ammunition. Thank you, gentlemen.

Chairman HUMPHREY. Dr. Jonas, you had a comment you wanted to make.

Dr. JONAS. Right.

I just wanted to say that I want the chief's eloquent statements really draw a clear picture of the relationship between unemployment and health. Because what the Indians are talking about in terms of their way of life is what is a healthy way of life to them.

One thing that strikes me very sharply is that if one looks at congressional testimony from Indians 100 years ago when they were testifying before various congressional committees, one finds that they were saying exactly the same things 100 years ago as they are saying now. They were saying then that they don't want to live according to the white man's ways; they wanted to live according to their ways. They were protesting about alcohol and they were protesting about the lack of employment opportunities.

I think that is quite striking because you can look at the chief's testimony in the 1870's and 1980's and they were saying the same thing.

Let me just make one other comment. Since sickness is positively correlated with poverty and poverty is positively correlated with unemployment, unemployment produces increased sickness. This will have one of two effects. Unemployment will either lead to an increased use of health services, if that care is available to the unemployed in one way or another, either through public facilities or through medicaid or through some national health insurance program for them; or it will lead to increased suffering on the part of those people, if they are sick and cannot get care. It seems to me that either of those outcomes is a bad outcome. In other words, if we are saying that we have to create more care because people are unemployed, that means that we are wasting funds. We are wasting funds to pay for care that should not be necessary.

On the one hand, if those people were not unemployed, they would not need as much health care.

On the other hand, if they cannot get the care, they are suffering. So that by increasing unemployment or not reducing the unemployment rate, we are increasing human suffering.

Chairman HUMPHREY. I think this is maybe the first time that representatives of the Indian community have appeared before the Joint Economic Committee.

Chief KING. There is a meeting going on tomorrow or the next day and we want to try to get back over there so we can get their——

Chairman HUMPHREY. May I express to both of you distinguished gentlemen our profound thanks for your attendance here today.

Mr. Keyserling, I want to ask you just a few questions here. You mentioned the Fed's tight money policy. You and I have discussed this before. You said that pushes up interest rates. You mentioned the raising of the average interest charged on the national debt by almost 200 percent, which would cost in excess of $100 billion in higher taxes.

You also note correctly that these tight money policies have not held inflation in check. What specific steps do you suggest to take to rein in inflation?

Mr. KEYSERLING. First and foremost toward reining in inflation is the creation of a full-employment policy. I recognize that a lot of economists of note have persisted in adhering to the tradeoff idea; that is, full employment in the economy will bring more inflation. They have never looked, however, at the empirical evidence in the great laboratory of the American economy in action. It is just not so. Even if it were so, it is immoral and inhuman and un-American to tell unemployed people in the millions that they should suffer unemployment, which costs them much more than a rise in prices, in order that Leon Keyserling—I say this hypothetically but not actually—may be able to take another trip to Europe a little cheaper than if they were not employed.

Economically speaking, the first and foremost approach to getting rid of inflation is full employment. In the last year of the administration which I was honored to serve, we had unemployment down to 2.9 percent and inflation down to 0.8 percent. If you look at the record over the 7 years when I served on the Council of Economic Advisers, or if you look at various periods since then, they all illustrate that less unemployment means less inflation, and vice-versa.

Chairman HUMPHREY. I think this is important to emphasize because we have become so conditioned in recent years to believing that unemployment rates of 5 percent are very normal and acceptable. They say with respect to the high inflation rates, "Yes, you know, you will just have to get accustomed to it."

Mr. KEYSERLING. Well, during last year at the depth of the depression, that is, at its peak, we had an unemployment rate of 8.5 percent or something like that. And if you count it right, it was 10.5 percent. If you counted the dropouts, it was that high. At the same time, we had double-digit inflation. Now the economists rubbed their eyes and said "How come this is so?" They said "This is something new and strange." Well, it is not new and strange. If you go back to a pamphlet I put out in 1956 when we were in the Eisenhower administration, I said that the coming recession would mean more inflation. And just that happened.

The record has been just as regular as can be that when you have more unemployment, you then have more inflation. So the best way to reduce inflation is to move toward full employment. Full employment in itself reduces inflation.

One of the two main policies toward getting full employment is to affect a complete change in the current money policy. And at the same time, Senator, that money policy, as it is, is the most inflationary thing on Earth.

I sat across the table from Bill Martin and I said: "Bill, how can it be anti-inflationary to double the cost of money that a worker borrows to get to work in his car and to double the cost of the money that a family borrows to meet a catastrophic illness or to send a child to college or even for food in many cases, and to double the cost of money that the farmer pays? How is that anti-inflationary?"

And he said: "You don't understand. It causes unemployment. The unemployment is anti-inflationary." I said: "Well, I have got a good idea. If that is true, let us just double the price of food in every grocery store. People will buy less. More families will be malnutritioned. Let's stop inflation by doubling the price of food and steel and the price of everything. Let's double the price of food and of housing and that would be anti-inflationary." The whole idea is both ridiculous and tragic.

Higher interest rates are inflationary because they create a big housing shortage, and the cost of living in a house goes up. And it is inflationary to increase the price of food because the people will pay that price—that is, those that can will.

So how do you get rid of the prevalent monetary policy? You do it the same way we did it in the early 1930's. The most important economic reform in the early years when I was in Washington—and I had nothing to do with it—but the greatest reform, although it isn't so widely heralded, is what we did to increase the availability of credit and reduce the cost of money.

First of all, we recognized that the idea of an "independent" Federal Reserve Board, free of the Congress and free of the President and answerable to nobody, we recognized that this was not the American way.

But the Federal Reserve argues that this "independence" makes them nonpolitical. All right then, Senator, we should have the tax policy in the hands of a few banker-minded people, and we should have the wage and price controls in wartime in the hands of a few banker-minded people so that it will be "independent" and "nonpolitical." The whole idea is ridiculous. It is not done in any other important country in the world. It is an anachronism. And from the time when Woodrow Wilson led the creation of the Federal Reserve System in 1913 until 1952, not even under Harding, not even under Coolidge, not even under Hoover did they even dream of the idea that the central banking system of the country, which is established by the Congress and funded by the Government, should be independent of the Government and work counter to the Government.

This horrible thinking only emerged in 1952 and we have had it ever since, for whatever the reason. So the first thing to do is make the Federal Reserve Board more responsible to the President and the Congress by legislation.

The second thing to do is to mandate in a general way that if we have legislation, as I profoundly hope we will have, which sets targets for full employment and specifies the way to reach that, to mandate that the Federal Reserve Board shall follow a monetary policy broadly in accord with the fundamental objectives, with the fundamental human value judgments, that are established by the Congress and that make economic sense. That is the way to do it.

Now, in addition to that, we did some other things in the 1930's. We had some special legislation. We had the Home Loan Bank Act and the Farm Credit Act and various other acts which set ceilings on interest rates.

Chairman HUMPHREY. Yes.

Mr. KEYSERLING. And provided for differential rates.

Now, Arthur Burns swears that you cannot have differential interest rates. Well, we had them. All they represented was saying that we are all concerned about the interest rate that the farmer has to pay or the small businessman or the home borrower or the average or low-income family. So give that a priority.

We don't care so much what interest rates the mammoth corporations pay, because they don't borrow all that much money. They finance out of the price structure by raising the price of what you pay.

So these are the ways to get interest rates down. There is nothing very hard about it.

Chairman HUMPHREY. But the point is that there is a certain amount of propaganda that has been sold to the American people. The idea that the Federal Reserve Board should be independent and the idea that the interest rates have got to be raised in order to dampen down the fires of inflation, and so forth, have been repeatedly sold to us.

Mr. KEYSERLING. Well, I have never been gifted with the gift of silence.

Chairman HUMPHREY. Well, you are talking to another man who also has the same affliction.

Mr. KEYSERLING. I feel a certain affinity with you.

Whatever the reasons, I probably talk to about as broad a cross section of American audiences as almost anybody in America does. I get not just liberals and not just labor people. I get all kinds of people. Now, I cannot convince the Mortgage Bankers' Association, but I would bet cards and spades on the basis of experience, that if you put an opposing speaker on the other side of the table, I can convince almost any cross section American audience that the money and interest rate policy of the United States is economic nonsense and a social inequity. And this is a tremendous potential asset of anybody in public life. I have never been able to understand why the Democratic Party, which from the time of Andrew Jackson through the time of Harry Truman was the great exponent, not of inflationary money, but of money to meet the needs of the people and to meet the needs of the economy, why it has been so reluctant in recent years and so fearful about capturing what, to my mind, is the greatest potential political issue that anybody could have. It is a natural.

And Arthur Burns says: "Well, when the Federal Government tries to spend money to stimulate the economy, you have got to tighten up on the money supply." And then he tightens up on the money supply, then people say "Well, business can't get capital because the Federal Government is creating a deficit." They say, "When you create a deficit, there isn't enough money to go around, so business cannot get capital." Well, let me answer that.

In the first place, there wouldn't be a deficit if we had full employment. In the second place, what is money? Money is not a natural asset like skills or brains or brawn or iron or steel. Money is something created by public policy. Now, when I say that, people say, "Are you for printing press money?" I say: "Well, take the dollar bill out of your pocket and look at it. It is printed." The question is whether you print too little or too much. And you don't print it just in the mint: you print it in banks. Also, every bank that manages credit, in a sense, prints it. Money is printed by the Federal Reserve System. And when they don't print enough money to float the ship, you are in trouble. They would be printing too much money if you had so much money chasing so few goods that you had hypertension in the economy. But my goodness, we haven't had that since World War II. We certainly don't have it now, with one-quarter of the plants idle.

Now, take unemployment. When you consider the rotation of unemployment among different people within a year, and when you consider their dependents, in 1975 there were 60 or more million in the United States who were directly and seriously affected by the indignity, anxiety, injustice, and income loss generated by unemployment. And everybody was affected indirectly.

Although Arthur Burns says that we are creating a capital shortage by doing what the budget should do, he is creating the shortage: He is fighting the policy of the Government; he is being "independent."

The function of the Federal Reserve Board, Mr. Chairman, on the policy I am talking about, should be to provide the proper amount of credit, properly allocated and the proper interest rates would automatically follow, to float the ship both economically and socially. He is sinking the ship.

Chairman HUMPHREY. Well, we are going to have a good time on our full employment bill because that is going to be the instrument that we can use to put some sense of cohesion in domestic economic policy as well as our international economic policy.

We are indebted to you, Mr. Keyserling, for your valuable counsel and advice on the preparation of that proposed legislation.

What is your view about what they call an incomes policy for wage price stability?

Mr. KEYSERLING. In the first place, the astigmatism of so many economists have led them to consider an incomes policy as synonymous with a wage and price policy. It is not at all. An incomes policy is simply all those policies which conspire to produce or to destroy the balance of income distribution in the country, which will maintain private investment and consumption and public demand in balance at full employment.

This, they never talk about. They are afraid to talk about income distribution.

The Council of Economic Advisers not many years ago—and unfortunately it was under one of our administrations—said, "We are neutral on the subject of income distribution." Well, any of the great early economists would turn over in his grave at the thought that income distribution, which leads to the allocation of resources, is not the most important problem in any rich economy.

So an income policy does not just involve wage and price controls. It involves what you do about the 20-odd million old people, a majority of whom are living in poverty, through a progressively financed old age insurance system; what you are doing to help redistribute income through full employment, which is the biggest redistributor of income of all; what you are doing in an income policy through a proper farm policy rather than a horrible one, which is uprooting the American farmer and sending him to the cities where he goes on the relief rolls. So that is why full employment and balanced growth would develop a series of targets and a series of interrelationships which would get these people to realize for the first time what an income policy really is.

Now, let me come down to wages and prices specifically. My first point is that the issue is so divisive and so exacerbating that, when I couple this with my absolute conviction that the best road to a stable price policy is a full employment environment, I would not divert attention from the major elements of a full employment program by throwing before the Congress and the country now the divisive question of price and wage controls. This is not begging the issue. This is facing the issue because it is not the main problem.

Now, I know from—I hope I am not speaking too much on this, but it is so important—I know from experience about this issue. I had an experience during the Korean war where they said I dragged my feet on controls. I didn't drag my feet on controls. I said, "Let's get some production programs. Let's build the base of the economy and not distract ourselves at the beginning with the outmoded statesmanship of Bernard Baruch who said 'All we want to do is freeze everything.' "

I said that, if you build a base for full production, and build full employment, this is the first way to fight inflation, supreme above all others. And I said if you do this, you will soon come to the time when you don't need controls. We had them for a while. But by 1952, we didnt' need controls anymore.

But then they said, "Well, after the war, you will have overproduction." And that wasn't so. We used all that production after the war. We had a precious heritage that we used.

Now, I think in the very long run that we may need to consider—well, the question of wage and price controls is very thorny. One of the axioms of American economic performance is that generally speaking—and I'm not speaking about a few workers here and there in the construction industry or elsewhere—but one of the axioms that is clearest on the whole performance of the American economy is that you have never had excessive wage increases, in the overall, when the economy is healthy. You have always had wage increases lagging behind prices, and chasing prices, and lagging behind productivity gains for whatever the reasons may be. And I have documented this over and over again.

But one of the most common regurgitations of the establishment is that wage trends are a main source of the inflation. It just is not so.

As a matter of fact, I have been looking at what has been happening during the most recent period. There has been a positive surge of profits at a tremendous rate, and the average wage earner has a lower real income take than he had 4, 5 or 6 years ago. So Labor has not been a big factor in the inflation. But it is difficult, if not politically impossible, to try to enact a price control measure that does not include wages. It is just that way. That is one of the reasons why I do not think that controls should be attempted now.

Let's get on with the job of creating full employment. I think, in the long run, we have to educate the people to the point that if we don't have some kind of selective price controls on quasi-monopolistic corporations, they have so much power that they can almost negate the stimulative effects of other policies by excessive price hikes. So I think, in the long run, we have to consider that problem, but I don't think it is the top priority item right now.

Chairman HUMPHREY. I want to talk to you again about that. You know we have a little problem on that.

Mr. KEYSERLING. I know.

Chairman HUMPHREY. Well, I am not going to keep you any longer here today. This has been a fascinating discussion. By the way, Mr. Keyserling, I want to compliment you on your publication "Towards Full Employment Within Three Years." When did you publish this?

Mr. KEYSERLING. February 2.

Chairman HUMPHREY. Just recently, within the last few days? And our staff is looking it over. I think it is a very valuable piece.

Some of the professional staff wrote some questions for me to ask you, so let me just ask you this one.

You have long agreed that the so-called Phillips' curve which you cite in here, is an anachronism. Would you explain that Phillips' curve? And then let me ask you whether don't you feel that we have something to learn from the Federal Republic of Germany with respect to the compatibility of stable prices and full employment?

Mr. KEYSERLING. Well, first as to the Phillips' curve, it is a foul pitch.

Chairman HUMPHREY. It is a foul pitch?

Mr. KEYSERLING. The Phillips' curve was developed by a distinguished Englishman a whole ago on the basis of very limited and inadequate empirical observation even of what was happening under his eye. You know, Woodrow Wilson once said—

> The expert can always see what is happening under the microscope under his eye, but he can never see what is happening under his nose.

That is the expert for you. I think this Phillips' curve is the work of that kind of expert. But if you compare his limited examination with what has actually been happening—and I am not too much of a theoretician—but I think you will find that it is divorced from reality.

The Phillips' curve was of very limited value, even when formulated, because the example was too narrow. The theory of it is very simple; namely, that when you have anything approximating full employment, wages go up too fast and therefore you have inflation. And when you have high unemployment, wages don't go up too fast, and therefore you have a more stable situation as to prices.

Instead of theorizing whether or not this is true, I have charts in my testimony which examine it in detail on a pragmatic or empirical basis, and these charts show it is as untrue as the idea that the Moon is bigger than the Sun.

Germany, and many other advanced countries, have combined full employment with reasonable prices, and without controls. And when they started to increase unemployment as an avowed means of restraining inflation, the inflation actually increased.

Chairman HUMPHREY. You have presented some very significant information in your study here. We are going to study this very carefully. I gather this is going to be the basis of some of your testimony?

Mr. KEYSERLING. I think my testimony on Humphrey-Hawkins will be much more helpful to you, Senator, because it goes much more into some of these questions of costs and all that kind of thing.

Chairman HUMPHREY. Well, in your testimony today, you want to include——

Mr. KEYSERLING. Well, in the past hearings before the Joint Economic Committee, the committee has always included my charts as reproductions in the testimony.

Chairman HUMPHREY. We surely want those to be reproduced.

Dr. Jonas, do you have anything further you would like to add here? This is a chance for us to visit a little bit with you.

Dr. JONAS. Maybe I can just make a few random comments, Senator.

One of the things that struck me about Mr. Murphy's testimony was what he said about the relationship between the understanding the police have of the true causes of crime and the root cause of unemployment. And it seems to me that if we are talking about Federal programs, one of the things we might be concerned with are Federal programs which could improve the training of policemen.

I think that most people who go into police work are honest and well intentioned, but if, in the course of their development as policemen, they don't get the training to understand the relationship between unemployment and crime, there is no reason for us to assume that they are going to understand that.

What struck me specifically as a medical educator was the parallel between the problems of training police and the problems of training physicians. The major issues which I raised today concerned the problems that could be caused by a particular structure for national health insurance and the relationship between care for sickness and health. These are things which many physicians are completely unaware of and do not recognize. I think that they are fairly self-evident. I think I can prove that.

But physicians for the most part are not aware of these things. And there is no reason why they should be because these kinds of issues are not really included very much in our training.

I was struck by the parallel between the problem that Mr. Murphy raised on the training of police and the problem of the training of physicians.

Chairman HUMPHREY. All right.

Mr. KEYSERLING. I would like to get one short thought into the record, Senator.

I said the Phillips' curve was a foul pitch. It was a foul pitch that never crossed the plate, but it does not give the runner in the American economy a base on balls; it strikes him out. So it is unlike baseball, because it is a pitch that misses the mark and strikes him out at the same time.

Chairman HUMPHREY. Gentlemen, I have got to recess. I see my time has come to an end. I want to express to Chief Crow and Chief King, Mr. Keyserling and Dr. Jonas my appreciation. We also thank Mr. Murphy. We look forward to any additional information you may have. Thank you.

[Whereupon, at 12:35 p.m., the committee recessed, to reconvene at 10:30 a.m., Thursday, March 4, 1976.]

THE 1976 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, MARCH 4, 1976

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

The committee met, pursuant to recess, at 10:30 a.m., in room 318, Russell Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Javits, and Taft; and Representative Brown of Michigan.

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

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. Gentlemen, we will call to order the meeting of the Joint Economic Committee. Today and tomorrow will be the two final sessions of our hearings relating to the President's Economic Report for 1976. We have been trying to cover all segments of our economy and feel that we have gained a good deal of information hearings as we examined the recommendations given to the President in the Economic Report and as we examine the general economic outlook.

Today, we are hearing from people who are well qualified to speak on the employment outlook. We have two leaders of organized labor in the United States: Mr. Murray H. Finley, general president of the Amalgamated Clothing Workers of America and Mr. Robert Georgine of the AFL-CIO's building trades department. We also have two outstanding labor market economists: Prof. Barbara Bergmen of the University of Maryland and Prof. Charles Killingsworth of Michigan State University.

As I have said on other occasions, the prospect of continuing high unemployment in the range of 7 to 8 percent over the next several years is intolerable. I might even say unemployment of 5 and 6 percent is intolerable. And I hope today you will help us in the Congress and people across this Nation develop policies to get our unemployment rate down to tolerable levels in the very near future. The so-called "recovery" does not seem to get at the people recovery, namely, the provision of jobs and really good jobs to people who are anxious and desire to work.

More and more, economists and other experts are recognizing that the overall monetary and fiscal policies alone will not do the job and that we have to develop more specialized programs to reduce the high unemployment that exists in special areas, such as among women.

blacks, young people and might I also add, in the skills and the trades and in the inner cities and in special industries.

Tomorrow, we shall be hearing from prominent business leaders to get their views on how we can expand the private demand in such areas as business investment and production and consumption. And on the basis of these annual hearings, this committee will shortly report to the Congress our recommendations on how best to achieve more productive use of our resources—too much of which, in terms of both manpower and capital, are now idle by present inadequate policies.

I want to make note of an obligation I made this past Sunday to the National Association of Housing Officials. I was reading in the Report of the Industrial Conference Board that present plant utilization rate is 73.6—meaning that 26.4 percent of our industrial plant capacity is idle.

The present plant utilization of our utilities producing electrical power is 69 percent—meaning that 31 percent of the utility capacity of this country is idle. The present utilization of mining equipment for the production of natural resources is 76 percent—meaning that 24 percent of it is idle.

Now, you add to that an unemployment rate, a total unemployment rate of closer to 9 percent than it is to 7.8 percent, which is the official figure, and you will have more than 7 million workers unemployed; that is, workers that are ready, willing and able to work.

So, what is the picture? You have workers, many of them skilled, as Mr. Georgine knows, in the building trades in particular, who are idle with no jobs. You have many others, you have the semi-skilled, skilled people in other industries, who are just unemployed. You have unused plant capacity, which surely means that there is no overdemand or no excess pressure upon our industrial plants, on our utilities—and the utilities provide the fuel and the energy—and upon our mines, which provide the natural resources.

And then, to compound the difficulty, you have money in banks and in savings and loans that is piling up at an unprecedented rate. Savings and loan deposits have 65 percent more deposits in January of 1976 than they had in 1975.

So, you have the strange combination of unused labor, unused capital and unused plant capacity. Yet, we hear from people in high places that advise and counsel the President that we have to worry about stimulating the economy, because you are going to increase inflation. We have this, even though we have money lying idle, workers idle, and plant equipment idle.

I suggest that somebody ought to re-examine the basic data and then come to some conclusion and decision as to what can be done, because it is an ironical, unbelievable situation that a country that has unemployed workers, should have excess capital; that a country that still has a high rate of inflation, should have a high rate of unemployment and excess capital not being loaned, and unused plant capacity.

These facts, gentlemen, defy all known economic theory. I have come to the conclusion that the people who have been counseling us do not know what they are talking about half the time, because the facts speak for themselves. I think it is time that somebody is able to put those facts together and come to some judgment as to what ought to be done.

Now, when you have to have the Federal Reserve Board going out and nudging the banks to loan money, something is wrong. Ordinarily, the banks, under conditions such as this, would be finding plenty of customers.

I doubt that too many people have put these facts all together. That is why I recited them to you this morning. Most of us are aware of the unemployment. But, unemployed labor is compounded by unused capital. We have people talking about capital formation; and I am one of them. Banks and savings and loan institutions have plenty of money to loan out but loan demand is very low. The reason that the rates of savings are high is because the confidence of the people is low. And the reason that businesses are not borrowing money at the rate they should is because they are uncertain about the future. And every single statement and publication from the American business community says just what I said: That they hesitate to make the advancements, the improvements in technology and equipment and plant investment that they would like to make because they are not at all certain what the administration is going to do in terms of fiscal and monetary policy. I also take note of the fact that only this last week, when there seemed to be some improvement on the stock market, the Federal Reserve Board has started to clamp down again. They are never so happy as when they are unhappy; and they are never so unhappy as when they are happy. It is incredible.

Senator Javits, please proceed.

Senator JAVITS. Thank you, Mr. Chairman.

I would just like to welcome Murray Finley, who is a very distinguished labor leader in New York. I am torn, Mr. Finley, between two hearings; one on workmen's compensation, which is my own bill with Senator Williams, and this one. So, if I do have to leave, I hope you will understand and forgive me, and similarly, with Mr. Georgine.

Mr. Georgine, I would like to ask this. I made a speech before the National Housing Conference just the other day, in which I recommended some eight actions to improve the housing starts and housing rehabilitation starts. I would greatly appreciate it if you and your people could make your comments on that for the record, because, after all, your employment depends on how we stimulate housing. So, it would be very important, I think, to get labor and labor's economist to give us an idea where that stands.

And I would like to say also, Mr. Chairman, and I shall be very brief, but it seems to me that where we are at is this. We are not going to change the administration until January, and we are talking about this year. So, if we are going to have a gradual recovery, whether we like it or not and whether we agree with it or not—and we might be able to force some things, but not enough to change the order of magnitude—so therefore, it becomes extremely important to look after the unemployed so they do not become welfare cases and completely drop all their morale. So, I see a double function for this committee.

And I think the first one is the stimulation of the economy with the right policies. I am thoroughly in accord with that. Secondly, and very importantly, is what do we do about the 7 million people? That is a real hard one, as Professor Killingsworth's article points out, because there is a big price tag there. Also, we do not want just idleness. We are looking for things that these people can do.

We must bear in mind also even the conservative predictions of the administration—and I use "conservative" in its theological and not its predictive sense—even they include the fact that we probably take up 1 million of these workers within the next year. So, we have a transitional problem of 1 year, but that can be a real sticker because they are going off the unemployment compensation rolls. The estimate that Professor Killingsworth had is 1.8 million this year. Our estimate was not less than 1 million and not more than 2 million. But either is devastating.

So, I welcome very much this testimony. Thank you.

Chairman HUMPHREY. Thank you very much. We will proceed.

Mr. Finley, we ask you to open the testimony and then Mr. Georgine. Would you please identify your associates with you today?

Mr. FINLEY. Yes, Mr. Arthur Gundersheim.

Chairman HUMPHREY. Is he with the Amalgamated Clothing Workers of America?

Mr. FINLEY. Yes.

Mr. GEORGINE. And I have with me Mr. Victor Kamber.

Chairman HUMPHREY. We will get the proper spelling of all the names for the stenotypist. Go ahead, Mr. Finley.

STATEMENT OF MURRAY H. FINLEY, GENERAL PRESIDENT, AMALGAMATED CLOTHING WORKERS OF AMERICA, ACCOMPANIED BY ARTHUR GUNDERSHEIM

Mr. FINLEY. Mr. Chairman and Senator Javits, it is an honor for me to have this opportunity to appear before you to comment on the crucial economic problems and the policies we are currently facing and, in particular, the impact on jobs for people. And I am delighted to be joined here and to appear with the president of the Building and Construction Trade Department of the AFL–CIO, Mr. Robert Georgine.

Gentlemen, we have just passed the 30th anniversary date on the past February 20th of the signing into law of the Employment Act of 1946. That act contained a mandate that our economic policies "promote maximum employment, production, and purchasing power." This has been the labor movement's goal almost from its inception. But the Economic Report of the President, his proposed budget, and the policies prescribed by his Council of Economic Advisors seem determined to frustrate these objectives.

It is true that we are now seeing some modest improvements in the economic indicators from the very dismal figures of last year. But the fact is the American economy remains in a weakened condition, with a vast amount of slack, after the longest and deepest recessionary decline in 40 years.

The central situation facing the Nation—and what is of course the focus of this committee's actions and hopefully its report—is the sad acceptance by this administration of high levels of human and capital waste. This is not a problem that will be resolved by the modest economic recovery now underway, but is a problem that will remain with us for as long as it takes until we implement a policy of genuine full employment and reordered economic priorities.

Let me just state as briefly as possible some of the statistics you and Senator Javits have stated, Mr. Chairman.

The unemployment rate is 7.8 percent. That is the official one, with 7.3 million people jobless. The administration, of course, cites this decline from the high of 9.2 percent with great fanfare and pride. I want to say it reminds me a little bit about the old story of the fellow who shot his parents and then pleaded for mercy before the court on the basis of being an orphan. The administration forgets the fact that when they took office, unemployment was at the 4 percent figure. And to say proudly we have gone down from 9.2 to 7.8 is a little difficult to comprehend. But, the true measure of unemployment, if you add in the people who have been discouraged and are no longer seeking employment and are no longer counted, it is one million; and if you also look at the statistical fluke, by the way, that exaggerated the decline last month because of the revising of the standard for seasonal adjustment, and if you look at the rise in the number of people who are working part-time and who want to work fulltime, you are not talking about 7.8 percent; it is around 10.6 percent unemployment. And there you are talking purely about a level of people in the millions.

Now, to attain a little perspective on what these numbers represent, we should note that even the officially reported unemployment count for January was higher than in any of the earlier periods since 1941, when the economy was coming out of the Great Depression. And while statistics do not portray the human hardship, the fact is that some 60 to 70 million workers and their families were directly hit by unemployment in 1975.

Now, we know all too well that unemployment is a burden on everyone, not just on those who suffer its effects directly. No employed person can be secure in his or her work, knowing there are unemployed people walking the streets looking for a job. No possibility of real improvements in living standards for employed people is attainable unless there is work enough for all.

So, the tragedy of unemployment hits not only those who suffer directly, but it hits all people who work.

Now, the chairman pointed out the Federal Reserve Board's figures show, for the last quarter of 1975, 29 percent of industrial capacity was unused. This idleness of plants and machinery represents a loss of $221 billion on an annual basis—or $1,000 for every man, woman, and child in America. So, you have the loss of people who are unemployed and you have this potential loss of potential income and wealth for our people.

Now, let me just go into this a little further. Let me discuss for a moment that area that I am most familiar with and that is the textile apparel indusry, which happens, by the way, to be the Nation's largest manufacturing employment complex. It has not the glamour of some of the basic industries, because it is composed of thousands of relatively small employers. But, it does provide jobs for about 2 million people in this country. It is the largest employer of minorities and of women.

Now, in this sector, we have not been in a recession; we have been in a depression. Employment in the men's and boys' suit and coat industry declined from a prerecession high in April of 1973 of 101,700 production workers to a low in July of 1975 to 71,800, which is a decline of 29.4 percent. In the separate trousers industry, you had a decline of 21 percent. In the shirt and nightwear industry, you had a decline of 16.5 percent. You had a decline of 24.4 percent. In addition, for those who did retain their jobs, the average weekly hours of work declined from 36.9 hours in December of 1973 to 31.9 hours in April of 1975, which is a 13.6 percent decrease in less than 18 months.

If you add the decreasing hours for those working and the tremendous number of those laid off, you can clearly see that this was not a recession; this was a depression. And I may point out that the people who suffer here are those people who are just finding their entrance into the American economy; the Puerto Rican, the black population in New York or Philadelphia or Chicago; the women who are getting jobs because second wage earners are needed to survive. And there is no other employment for these people. You do not pick up an industry where there is 70 percent women and move the wives to some other part of the country for jobs and leave the husbands somewhere else.

These are not people who can get jobs in the nonexistent jobs in the building trades tomorrow. This is the port of entry for these people into American life and the door to that port has been slammed shut, gentlemen, as the result of the economic policies of this administration, of the Nixon and Ford administrations.

I can also add that in addition to the problems of the domestic economy, imports unfortunately had a boom year last year, also as the result of inadequate policies by our administration in handling the problems of international trade. I am for having trade, but not at the expense of American jobs.

Now, what is the current picture in this industry? There has been some improvement in employment and hours of work in the apparel industry from the low of the spring and summer of 1975. In the spring and summer of 1975, employment in the men's and boy's suits and coats have increased by 4.7 percent; shirts, 9 percent; workclothes, 18 percent, trouser employment, 13 percent. But these percentages are deceiving because they are figured from a lower base than the prerecession employment. Thus, for example, in the men's and boys' industry alone, you would need another additional 18 percent increase in employment to get back to the prior recession figures but this again does not give you the whole figure, because in addition to getting back the people on the jobs, Mr. Chairman, in order to go back to the average workweek that existed before—and 36.9 is not an exceptional one—you would need another 13 to 14 percent additional in terms of bundles and sales in units. So you need, in order to get back to the prerecession days, an additional 33 to 35 percent improvement in the unit sales of this industry.

And I will tell you this—the retailers have placed their orders. This is an industry in which you know 6 months in advance where you are going, because they place the orders early. They have placed their orders already for the fall of 1976 in the men's and boys' industry. And I tell you they are going to be up. The units will be up somewhere between 10 to 15 per cent. This still leaves them some 20 to 25 percent of what it was prior to the recession. And the way that the retailers are ordering shows the lack of confidence they have. They are not giving a complete order for the fall. They are giving it in short figures and they are holding back and waiting to see. They are doing this because they are afraid, gentlemen, to increase the inventories because of what happened at the end of 1974 and the beginning of 1975 when, like all others, they were caught with high inventories. So there is a psychology of caution and concern and pessimism which still pervades in this industry.

So it is imperative that the Nation knows and that Congress knows, and I am sure this committee and Congress recognize this, but it is imperative they know how fragile and unstable the so-called "recovery" is.

Then we come to the President's proposals and his budgetary framework and what he has offered to solve the problem. His proposal, gentlemen, would worsen the economic situation in fiscal 1977.

The President is proposing, as we know, a definite shift to economic restraint, including a $29 billion cut in Federal programs below this year's level of services, for the fiscal year beginning October 1, 1976, with spreading adverse impact—by the way—after the November elections. If the President's program were adopted, there would be cuts in Federal programs, concentrated in employment, education, health care, income security, and grants-in-aid to State and local governments. It will certainly result in rising unemployment during the latter part of 1977 and increase the possibility of a deeper recession. This is at a time when people are suffering and at a time, as you mentioned and we will hear later, that unemployment compensation will be running out for millions of people. At such a time, this administration, despite this, is proposing cuts in the program. The people who have suffered the most as the result of a record of failure, recession, unemployment, inflation and high budget deficits by this administration are going to be asked to suffer even more if the administration's proposals are enacted into law. So we face a serious time in the months ahead.

The AFL-CIO's executive council just completed its midwinter meeting. At that time, the Economic Policy Committee, of which I am a member, adopted a series of programs to create jobs and generate greater income. Gentlemen, I will not burden you but just recite them very briefly, because I know you are familiar with this.

The greatest tragedy of course was the closeness and the ineffectiveness of not overriding the veto of the accelerated public works bill, which would have created a few hundred thousand jobs. Gentlemen, I only can hope that you will reintroduce the bill and perhaps those few votes can be gotten the second time around. That is one bill that at least would give an additional impact of 600,000 jobs and these would be immediately. These are jobs that are on the drawing boards, ready to go to work if the funds are made available. And I would hope that the Congress would put this once again before the President.

Then, of course, the expanded public service employment program is going to be not only needed, but it will be even more needed as unemployment compensation runs out for some 1 million or 2 million people in the months ahead.

We are going to have to face the question of raising of the withholding tax rates on paychecks now scheduled for July 1, 1976. It is imperative, of course, that Congress prevent this from happening, because this will again be a great countermeasure to whatever little stimulus there is in the economy.

The Government's housing programs, which I am sure Mr. Georgine will go into, have to be implemented, with sufficient funds, to boost the construction that is so greatly needed.

The problem of the Federal Reserve being made more responsive, rather than counterresponsive, gentlemen, you are familiar with.

The minimum wage should be raised to $3 an hour, with an automatic escalator clause for the future.

The other programs, and especially the job program for the unemployed and the minorities and women, gentlemen, are essential.

Gentlemen, you know and are familiar with the programs that are needed and can be done and can, I think, be put through, regardless of the possibility of a veto, so that we can stimulate our economy, not to full employment, as Senator Javits pointed out, this coming year, but at least to prevent a very unhealthy and dangerous situation. The dangerous situation is sinking once again into the recession that we are just beginning to come out of.

But one of the more hopeful things is that there will soon be introduced, as I understand, a full employment bill. This is a bill that Senator Humphrey and Senator Javits and Representative Hawkins and others have been working on. This legislation will be introduced shortly into the Congress of the United States.

Chairman HUMPHREY. That is correct. It will be very shortly, possibly within the next week.

Mr. FINLEY. Within the next week? And I tell you this, gentlemen, this, in my judgment, will be one of the greatest landmark pieces of legislation that Congress will ever have created, because at long last, we will now have before us the great issue of a universal recognition that a person is entitled to a job at a decent wage as a matter of right and the total community must assume this responsibility or must guarantee its fulfillment.

The bill that will be introduced will, and this is for the first time in our history, address itself in a total way so that the Executive and the Congress and the whole community will be involved so that programs will be developed—both fiscal and budgetary and economic—with goals and methods in which this country will have jobs and a guarantee of jobs for all who are able and want to work. If this is done, full employment will no longer be a statistical figure that can be stated as 4 percent or 5 percent or 6 percent, but we will recognize that there is no real unemployment. There should be the goal of getting it down to 3 percent within a short time.

Gentlemen, let me just close with one statement that was issued by the Catholic Bishops of the United States some 45 years ago. It is amazing how appropriate it is today. They said then:

> This unemployment returning again to plague us after so many repetitions during the century past is a sign of deep failure in our country. Unemployment is the great peacetime tragedy of the 19th and 20th centuries and both in its cause and in the imprint it leaves on those who inflict it, those who permit it, and those who are its victims, it is one of the great moral tragedies of our time.

And gentlemen, 7.8 or 7.3 or 6.7 percent is of little real significance. Unemployment in the years ahead is a moral tragedy. I do not think our country needs to afford this kind of a hardship on so many millions of people. You have, within your hands, the possibility of introducing legislation which I think is politically possible.

Perhaps it will not do the full job, but at least would stimulate the economy and prevent it from worsening and very possibly going back into a recessionary spiral that threatens us unless you stimulate the economy and unless you look into the problems of these people who are unemployed and for whom unemployment compensation will run out.

We look to you for some measure of understanding of the great moral problem of our time, of the great test of our society; can this free society of ours provide jobs for every man and woman who seeks a job? And if we do not meet that test, gentlemen, we will fail in the great yardstick upon which we must be measured.

I thank you.

Chairman HUMPHREY. Mr. Finley, we thank you very much. There were certain parts of your prepared statement relating to the resolutions and the policies recommended by the executive council of the AFL–CIO. We will include all of that as a part of our record, because some of those recommendations are very important to us.

[The prepared statement of Mr. Finley follows:]

PREPARED STATEMENT OF MURRAY H. FINLEY

Chairman Humphrey and members of the Committee:

I am pleased to have this opportunity to appear before you to comment on the crucial economic problems and policies we are currently facing.

We have just passed the 30th anniversary date (on February 20th) of the signing into law of the Employment Act of 1946. That act contained a mandate that our economic policies "promote maximum employment, production, and purchasing power." This has been the labor movement's goal almost from its inception. But the Economic Report of the President, his proposed budget, and the policies prescribed by his Council of Economic Advisors seem determined to frustrate these objectives.

It is true we are now seeing some modest improvements in the economic indicators from the very dismal figures of last year. But the fact is the American economy remains in a weakened condition, with a vast amount of slack, after the longest and deepest recessionary decline in 40 years.

The central situation facing the Nation—and what is of course the focus of this Committee's report and actions—is the blithe acceptance by this administration of high levels of human and capital waste. This is not a problem that will be resolved by the modest economic recovery now underway, but is a long-term problem that will remain with us for many years as long as we delay implementing a policy of genuine full employment and reordered economic priorities.

The officially reported unemployment rate is 7.8 percent, representing 7.3 million jobless people. The Administration cites this decline from the 9.2 percent level of last May with great fanfare. Like a person who kills his parents and then pleads mercy because he is an orphan. A truer measure of unemployment would place the figure for January at about 10.6 percent. This is because the official number ignores the million discouraged people who no longer are seeking employment, the statistical fluke that exaggerated the decline that resulted from revising the standard for seasonal adjustment, and ignoring a rise of 240,000 in the number of workers compelled to work part-time because full-time work was not available.

To attain perspective on what these numbers represent we should note that even the officially reported unemployment count for January was higher than in any earlier period since 1941, when the economy was coming out of the great depression. Moreover, the Labor Department also reported that 131 of the 150 major labor markets still suffer substantial unemployment, as do 1,046 of the smaller job market areas. This means that nearly four-fifths of the Nation's labor market areas are still in bad shape. While statistics don't portray the human hardships, a truer statement of the fact is that some 60 to 70 million people, workers and their families, were directly hit by unemployment in 1975.

The labor movement knows all too well that unemployment is a burden on everyone, not just on those who suffer its effects directly. No employed person can be secure in his or her work knowing unemployed people are walking the streets looking to take their jobs. No possibility of real improvements in living standards for employed people is attainable unless there is work enough for all.

At the same time the Federal Reserve Board reports that in the fourth quarter of 1975 29 percent of industrial capacity was unused. This idleness of plants and machinery represents a loss of $221 billion on an annual basis—or $1,000 for every man, woman and child in America. To continue this great cost of billions of lost Gross National Product and shattered personal lives is a tragic commentary on our nation.

To gain further insight into the economic situation and trends we see, let me discuss for a moment the sector I know best. The apparel, textile and fibers industry is the nation's largest manufacturing employment complex. It provides jobs for over 2 million people. For this sector the "recession" has been of depression level dimensions.

For example, employment in the men's and boy's suit and coat industry declined from a pre-recession high in April 1973 of 101,700 production workers to a low in July 1975 to 71,800, a decline of 29.4 percent. In the separate trousers industry, employment fell from 83,400 in April 1973 to a low of 65,900 in April 1975, a decline of 21 percent. In the shirt and nightwear industry, employment went from 111,300 in June 1973 to 92,900 in March 1975, a decline of 16.5 percent. In work clothes 84,500 were employed in March 1973, while only 63,900 were employed in March 1975, a drop of 24.4 percent. In addition, for those who did retain their jobs, the average weekly hours of work declined from 36.9 hours in December 1973 to 31.9 hours in April 1975, which is a 13.6 percent decrease in less than 18 months.

The domestic recession has been primarily responsible for these depressing figures. But an additional force has contributed to them—that of clothing imports. The President has rightly pointed out the dangers to our economy of being dependent upon foreign supply sources, especially in energy. But he contradictorily pushes for a so-called freer, unrestrained trade policy that does similar economic and employment damage.

While clothing manufacturers in the United States struggled through the difficulties of 1975, clothing imports enjoyed a boom year. The persistent growth of imports stands in sharp contrast to the declining domestic production as can be seen from the following tables:

	Imports			U.S. production		
	1974	1975	Percent change 1975 versus 1974	1974	Projected for 1975 [1]	Percent change 1974 versus 1975 [1]
Men's and boys' suits	1,933,914	3,164,073	+63.6	19,684,000	16,141,000	−18.0
Men's and boys' sportcoats	4,989,370	5,509,834	+10.4	21,764,000	12,841,000	−41.7
Men's and boys' separate trousers	40,009,471	55,008,148	+37.5	199,374,000	149,531,000	−24.5

IMPORTS AS A PERCENTAGE OF U.S. PRODUCTION [1]

	1974	1975
Men's and boys' suits	9.6	19.8
Men's and boys' sportcoats	22.5	42.9
Men's and boys' separate trousers	20.0	36.8

[1] Projection for 1975 U.S. production is based on a compilation of January–November, 1975 monthly cuttings reports for men's tailored clothing, obtained from the U.S. Department of Commerce.

These figures show how imports have eroded employment in the clothing sector, and the pace is accelerating. The U.S. has tried to control this trend somewhat by negotiating a number of bilateral agreements under the terms of the Agreement Regarding International Trade in Textiles. Unless imports are restrained quickly and in a more effective manner, jobs in our sector and in many other manufacturing industries won't exist, irrespective of the prosperity of our domestic economy.

While the import problem is becoming greater, there has been some improvement in employment and hours of work within the apparel industry. From the low points of Spring and Summer 1975, employment in men's and boys' suits and coats has increased 4.7 percent, shirt and nightwear employment 9.5 percent, work clothes employment 18.3 percent and trouser employment 13.6 percent. But these percentages are deceiving because they are figured from a lower base than pre-recession employment. Thus, for example, for the suit and coat industry, the percentage increase in employment has to be an additional 18 percent added to the moderate increase stated above to reach the employment level of April 1973. Still more is needed to cover the lost hours of work—of about 13 percent so that the total increase needed is 30 percent.

Retailers are now placing their order for the Fall selling season. Reports thus far show a continuing reluctance to show confidence in improving sales and, in fact, inventories are being kept to a bare minimum. Yesterday's New York Times confirms most retailers are operating on smaller inventories and are limiting their array of merchandise to minimize risks. The psychology of caution and pessimism pervades very strongly.

Thus it is imperative that the Congress recognize how fragile and unstable the so-called "recovery" is. The President's proposal and budgetary framework ducks responsibility for the nation's continuing economic problems, offers no proposal for solving them, and would worsen the economic situation in fiscal 1977.

The President proposes a very definite shift to economic restraint, including a $29 billion cut in federal programs below this year's level of services, for the fiscal year beginning October 1, 1976 with spreading adverse impact—by the way—after the November elections. If the President's program were adopted, there would be cuts in federal programs, concentrated in employment, education, health care, income security and grants-in-aid to state and local governments. It will certainly result in rising unemployment during the latter part of 1977 and increase the possibility of a deeper recession.

For seven years, the Nixon and Ford Administrations have given the nation the exact economic medicine once again being proposed by the President. The record is one of failure, recession, unemployment, inflation and high budget deficits.

My differences with the Administration's economic policies can be enumerated at length. More constructive would be to outline the direction this Committee should report to the Congress and help seek its ultimate implementation.

The AFL–CIO Executive Council just recently concluded its Mid-Winter meeting. At that meeting the Economic Policy Committee, of which I am a member, offered a series of recommendations to create jobs and generate greater income. The labor movement strongly urges the following actions:

1. The Congress should have overridden the President's veto of the accelerated public works bill which would create jobs and provide aid for those states and local governments, hard-pressed by unemployment. Perhaps it is not too late to introduce another such bill.

2. The Senate should join with the majority of the House to support an expanded public service employment program for the unemployed.

3. Congress must act to prevent a rise of withholding tax rates on paychecks—now scheduled for July 1, 1976.

4. The government's housing programs need to be fully implemented, with sufficient funds. to boost residential construction and prevent the further spread of today's housing shortage.

5. Congress must direct the Federal Reserve system to provide sufficient growth of the supply of money and credit at reasonable interest rates to promote rapid expansion of the economy and job opportunities. Lower interest rates are absolutely essential to revival of the depressed housing industry in particular and construction in general. Congress should also direct the Federal Reserve to allocate available credit for such high-priority purposes as housing,

state and local government needs and business investment in essential plant and equipment, while curbing the flow of credit for land speculation, inventory-housing and foreign subsidiaries.

6. Congress should increase the federal minimum wage to $3.00 an hour and provide an automatic escalator for the future. A minimum wage increase, along with a higher penalty for overtime work, would provide a needed boost in the purchasing power of the lowest-paid workers and generate new job opportunities.

7. Job programs especially designed for unemployed youth, minorities and women are essential.

8. America needs a comprehensive energy policy and program to rapidly reduce the nation's dependence on imported oil and to establish U.S. energy independence.

9. A new government agency, along the lines of the Reconstruction Finance Corporation, should be established to provide long-term, low-interest loans in the private sector, as well as to assist state and local governments.

10. Federal funds must be provided for the restoration of railroad track and roadbeds.

11. The outmoded unemployment insurance system badly needs basic improvements.

12. Major loopholes in the federal tax structure must be closed—to raise as much as $20 billion annually of additional federal revenue and to take a giant step towards achieving tax justice.

Many of these actions will serve the immediate need. But in the long run a more comprehensive and permanent system must be established to prevent our continuing to operate from crisis to crisis. As the President noted, "Inflation and unemployment are not opposites but are related symptoms of an unhealthy economy." We need a program to achieve a stable, full employment economy with balanced growth, clearly set forth goals, and responsibilities to implement them.

Such a measure is the soon-to-be introduced Full Employment and Balanced Growth Act of 1976. Senator Humphrey, Senator Javits, Representative Hawkins and Representative Reuss are to be commended for their initiative and creativity in sponsoring this legislation. This proposed legislaton would be the approach I advocate in solving our major economic problems.

At long last, we must attain universal recognition that a person is entitled to a job at a decent wage as a matter of right, and the total community must assume this responsibility and must guarantee its fulfillment.

A statement issued by the Catholic bishops of the United States 45 years ago said it best:

"This unemployment returning again to plague us after so many repetitions during the century past is a sign of deep failure in our country. Unemployment is the great peacetime tragedy of the nineteenth and twentieth centuries and both in its cause and in the imprint it leaves on those who inflict it, those who permit it, and those who are its victims, it is one of the great moral tragedies of our time." (The Bishops of the United States. Unemployment 1930, as quoted in Statement of the Catholic Bishops of the United States, United States Catholic Conference, Washington, D.C., November 20, 1975).

Chairman Humphrey. We will proceed next with Mr. Robert Georgine, and after the two of you have completed your testmiony, we will take the opportunity to ask questions.

Senator Javits. I am going to have to go. Mr. Georgine. I will have to leave shortly. You know why. This is a workmen's compensation bill that we have hearings on in the Labor Committee, and I am the ranking minority member.

Chairman Humphrey. Would you like to ask him questions now?

Senator Javits. No; fine. Just go right ahead. And we will ask you what we want to about housing, Mr. Georgine, in writing. I thank Murray Finley so much for his testimony. And I will join with Senator Humphrey and Representative Hawkins. Senator Humphrey and Representative Hawkins and I are working very closely together on this bill.

Chairman Humphrey. Thank you very much.

Mr. Georgine.

STATEMENT OF ROBERT A. GEORGINE, PRESIDENT, BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL–CIO, ACCOMPANIED BY VICTOR KAMBER, DIRECTOR OF RESEARCH

Mr. GEORGINE. Thank you, Mr. Chairman.

It is an honor to be here this morning to appear before you and Senator Javits and Senator Taft, and it is good to be with my teammate, Murray Finley.

With your permission, I would like to submit for the record a detailed statement on the "Profile of the Construction Industry in America in 1976."

Chairman HUMPHREY. Surely. We appreciate having it. It will be included in the record.

[The "Profile of the Construction Industry in America in 1976" follows:]

PROFILE OF THE CONSTRUCTION INDUSTRY IN AMERICA IN 1976

THE ECONOMY—1976

The recession which began in 1973, the deepest and most prolonged since the 1930's, has resulted in the highest unemployment of the post-World War II period and an economy that is weak and vulnerable to the adverse effects of events both at home and abroad.

The Administration's focus on the size of the federal budget deficit, rather than on creating employment and stimulating the economy, has produced a long series of presidential vetoes of urgently-needed measures to create jobs. In the first half of 1975, Presidential vetoes cost the American worker an estimated 638,500 jobs. As a result of Administration negativism, the public's confidence in the economy remains low. Consequently consumer buying power is still below the level required to bring real per capita after-tax income back to where it was two years ago, before the recession started.

The vast number of unemployed and under-employed workers has been accompanied by idle plants and machines. Industry is operating only about two-thirds of its productive capacity. Under these conditions, the real volume of business investment in plant and equipment, which started to decline after mid-1974, has fallen about 10 percent in 1975. Home-building remains in a depression, under the impact of continuing high interest rates.

The Administration's 1976 budget predicts a continuation of high joblessness through the remainder of the decade. Unemployment, under the President's budget, will average 7.7 during 1976 and decline to the unacceptably high rate of 5.6 by 1980.

These predictions are a clear abandonment of our nation's commitment to full employment. They, more than any other fact or argument, demonstrate the need for a bold fiscal policy. Yet the President has managed to produce a budget which will create neither private nor public jobs and which, by his own forecast, will not reduce inflation in 1977.

Instead of a comprehensive national manpower program to confront the employment crisis head on, the President proposes nothing but retrenchment and retreat in this crucial area.

Faced with a long period of recession level unemployment, one would have hoped to see adequate provision in the budget for unemployment compensation and job creating programs. Yet these are the areas that this administration has chosen to cut most severely.

More than 450,000 unemployed workers will lose unemployment insurance benefits in 1977. Of this number 110,000 will be Building Tradesmen.

The Social Security and Unemployment Insurance tax increase proposed by the President would discourage employment growth and be inflationary.

Both proposals increase costs to employers and make it more expensive to hire new workers. These proposed tax increases would eat up more than half of the new income tax cuts.

The budget is an out-right disaster for state and local governments, offering plently of rhetoric, but no money on the bottom line.

Our states and cities are currently mired in the worst budget crisis since the Great Depression.

Taxes already have been raised, expenditures have been cut drastically and capital projects have been cancelled.

These governments don't need rhetoric about local control. They need relief from the consequences of a mismanaged economy.

The budget calls for a five percent reduction in real grants in aid to states and localities. Program after program has been systematically slashed.

The Administration offers state and local governments more discretion, but less money. Discretion won't operate the city's schools. Discretion won't meet out nation's housing needs.

The Administration proposed to consolidate 59 Federal programs into four block grants.

A closer examination indicates that this is nothing more than a cruel shell game in which vital programs in the areas of health, education, social services and child nutrition are significantly cut back.

In the process of this so-called consolidation, total outlays in education and manpower, are slashed from $21 billion this year to $18 billion next year.

The Administration's budget proposal is politically calculated and socially destructive. It fails ot recognize that a true "people's recovery" is a long way off. It will not put America back to work.

In fact, the President's budget lays the groundwork for further economic disaster. Our budget deficits, actual and officially predicted, are the result of the recession in 1969–1970, the present recession and high unemployment. It is estimated that each one percent rise in the unemployment rate costs the Federal government $16 billion in lost tax revenues and the additional costs of unemployment. Inadequate fiscal stimulus only leaves us further mired in the vicious circle of a deteriorating economy and increasing deficit.

We now enter 1976, the Bicentennial Year, with the Administration trying to forget the recession and ballyhooing past achievements. The celebration of past glories during the Bicentennial Year must not be allowed to obscure the urgent need for solutions to today's problems.

We must avoid, at all costs, the temptation in this Bicentennial Year to use nostalgia as a nostrum for our neglect. What we must guard against is becoming so engulfed in waves of nostalgia and self-satisfaction about how great we have been, that we fail to face up to what we have become, and, without proper care and attention to our responsibilities, what we may become in the next decades.

Despite the justifiable pride Americans feel in the Nation's past accomplishments, it is doubtful that the American people in this year of our Bicentennial sense any real national purpose—any positive direction in our national life.

If this great Republic, that has reached across the frontiers of time, space, and knowledge, is to continue to make its invaluable contributions toward the ultimate salvation of mankind, we who have the privilege and the opportunity to be a part of it must be honest about our shortcomings, and correct them. We must honor the eagle, and despise the ostrich.

The full potential of this Nation will never be realized until we provide gainful employment for every citizen who can and will work.

We must insure non-discrimination in all aspects of American life, especially in employment.

We must insist, whatever the consequences, that the laws of this land be applied to every American equally.

We must attempt to meet public investment needs at all levels of government.

We must rejuvenate our cities, and restore to those of our citizens who are condemned to live in filth and poverty, and hope for their future lives.

Men and women in public life, and those in positions of leadership in every facet of national endeavor, must by their example of public and private behavior, restore to the mass of American citizens, a respect and a trust in their system of government and its institutions.

We must engrave in our hearts Victor Hugo's dictum that: "The greatness of a nation lies in the education of its people." For, to be sure, that dictum has not been so engraved in the past.

In this Bicentennial Year, while we look back with pride on where we have been, we must take an even harder and totally honest look at where we are, and judge from what we see how we can best prepare ourselves for where we are going.

One area we must give a long and hard look is construction. The health of America's construction industry is vital to a strong and prosperous national economy.

With residential and industrial construction activity accounting for about 10 percent of our national input, a $135 billion industry, and nearly five percent of our Nation's employment, it is very clear why this sector of our economy is of such great importance.

In recent years, the construction industry has been in serious trouble and all America has suffered as a result. Throughout 1975, the recession and inflation took a heavy toll on all segments of the industry. By the end of the first quarter, constractor failures had climbed 46 percent to their highest level since 1967 and by the end of June had reached 1,302, the highest since 1962.

New housing starts, a key economic indicator, fell in June to an annual rate of 1,070,000 units, the lowest June level in 28 years, and by the end of the year had chalked up only 1.2 million units. The construction market generally continued to fall apart. By the end of the year, bidding volume was down 10 percent and new plans down 12 percent from their 1974 levels.

Construction unemployment, which reached 15 percent in January, soared to 21.8 percent in May and closed out the year with a December rate of 16.2 percent, almost twice the national average.

The American Institute of Architects, and the National Association of Home Builders, joined the AFL–CIO Building and Construction Trades Department, and other industry groups in lobbying vigorously for federal action to stimulate the industry and the economy. But President Ford vetoed the only major housing and emergency public works bills to emerge from Congress. The peripheral action he and Congress took proved only of marginal value. Included in this was an investment tax credit increase and a temporary tax credit for homebuyers written into the April tax reduction law.

Still casting a dark shadow over the industry are not only the fiscal restraint of the Ford administration and the new spending ceilings of Congress, but also an erosion of confidence in the financial integrity of state and local governments. This confidence was severely shaken last year when New York City and several New York state construction agencies teetered on the edge of bankruptcy and halted or canceled hundreds of millions of dollars worth of construction projects and plans. It is estimated that 25 states and 71 localities will cut over $1 billion from their capital budgets during the fiscal year that began July 1. In November elections, voters rejected 93 percent of the $6.4 billion in bond proposals on the ballots.

Finally, business and investor confidence in the economy remains low. Capital spending plans which will show no real growth in 1976 continue to reflect an underlying caution and unwillingness to commit funds for buildings projects which may be caught short by a faltering recovery or another recession.

We must keep clearly in mind that 30 percent of our Nation's industrial capacity and equipment is not being used and that 8.3 percent of our Nation's labor force—almost 8 million workers—is out of work.

We need national economic policies and programs that will put these resources back into production quickly. With the current slack in the economy, the Administration's obsessive fear of inflation is unreal and quite remote.

We should all keep in mind that jobs and economic expansion increase profits, increase purchasing power, provide "home grown" capital, and decrease unit costs of production. These benefits result in greater productivity, increased efficiency and can result in reducing pressure on prices.

One of the most widely accepted economic myths of our time, endorsed by many liberals as well as conservatives, is that the achievement of full employment must bring price inflation. This so-called "Phillips curve" even calibrates the connection—the lower the rate of unemployment, the higher the rate of inflation, and vice versa.

It is upon these kinds of faulty propositions that Gerald Ford rationalizes his vetoes of legislation, from jobs to housing to public works. Obviously, he believes the voters will choose an "inflation fighter" over a "spender" this year, even if the spender's stated purpose is to put the unemployed to work.

The belief in an inflation-unemployment trade-off also is at the root of the relative timidity of many Democrats in pushing for measures to reduce unemployment, and the relative weakness of the measures they have supported. And the fear of inflation is no doubt a major reason why far-reaching legislation—which should be aimed at firmly committing this Nation to producing true full employment, not just 4-to-6 percent unemployment—does not have much chance to pass, and would surely be vetoed if it did.

Given such consequences, is the belief in the inflation-unemployment trade-off really valid? A number of economists, possibly a growing number, do not think so. Their general case is set down lucidly by Peter Barnes in the Fall 1975 issue of Working Papers—a special issue devoted to "politics and programs for 1976."

Actually, full employment would not necessarily cause inflation and might even promote price stability. Contrary to the Phillips curve proposition, "prices no longer fluctuate in accordance with supply and demand in the American economy." Instead, as evidenced recently with automobiles, falling demand leads to higher prices. Major industries can "administer" prices, they can raise them to compensate for lower volume and higher costs, and preserve their profits.

Unemployment or laying off workers does not curb inflation. It feeds it. It reduces demand even further, encouraging price increases to compensate for lowered volume. Putting the unemployed back to work would fight such price inflation. Employed workers have purchasing power, and they produce goods and services which promote price stability.

As for the Federal budget deficit, since it is the direct result of the drop in tax revenues attributable to unemployment, a full-employed economy would eliminate the deficit, as well as ease pressure on interest rates and the money markets. Even President Ford conceded that "if the economy were to be as fully employed in 1976 as it was in 1974, we would have $40 billion in additional tax receipts, assuming no change in tax rates, and $12.7 billion less in aid to the unemployed."

We have a President who talks about the work ethic in America while using the veto to keep millions of Americans unemployed who desperately want to work. Seven years of the Nixon-Ford economic mis-management has engineered a recession that is taking a heavy toll among American working men and women.

The current 8 percent level of unemployment means we are losing $180 billion a year in production and salaries, but the real cost is the tremendous human suffering that this means for millions of Americans. It is the loss of their life's savings, the loss of health insurance, the loss of self-esteem, and the loss of confidence in America. It is a whole generation of workers left out of the mainstream of American society because there are no jobs.

In 1946, the Federal government made a pledge to seek to provide every able-bodied American with a decent job at a fair wage. Not only has that promise been unfulfilled, but we now have an Administration that plans for high unemployment.

We need a frontal attack on unemployment. We need programs, policies and the funds needed to turn the economy around now, and a recommitment to the goal of full employment set thirty years ago. This is not an impossible dream. It can and must be done.

COLLECTIVE BARGAINING

The bargaining structure in construction is quite possibly the most complex of any industry, owing in large measure to the diversity and numbers of both unions and employers. The checkered nature of the industry has given rise to its peculiar structure of bargaining.

Construction is an industry characterized by a large number of firms, most of them being relative small enterprises. In 1972, there were 920,806 establishments in the U.S. operated primarily as general contractors, special trade contractors, operative builders or subdividers and developers. Of these, 437,941 establishments had a payroll, employing an average of 9.5 employees. (Even this figure understates the industry's dispersion, since it does not include the hundreds of thousands of proprietorships and partnerships without payrolls). Of the establishments with payroll, fully 80 percent employed nine or few employees, and only 20 percent employed ten or more.

Many contractors specialize in a particular kind of construction work. General contractors tend to specialize more than special trades contractors, most commonly in residential building. The Bureau of the Census defines specialization as having over half of the firm's receipts from a given type of construction. By this definition, about 90 percent of all general contractors had an area of specialization, and about half of them specialized in one type of project to the exclusion of all others. Firms which specialize in residential building, especially the construction of single family homes, are most likely to do that type of work exclusively, while firms specializing in other kinds of construction tend more often to have some receipts from outside their area of specialty.

A large majority of construction contractors perform their work in the locality where they are headquartered. In 1972, for example, over 92 percent of all contractors operated exclusively in their home State. Moreover, even those contractors working in more than one State obtained the preponderance of their receipts from work within their home State. Not surprisingly, it is the largest contractors who tend to operate over multistate areas. While representing only 7 percent of all establishments, such firms nevertheless accounted for 29 percent of all construction receipts in 1972.

Despite the atomistic structure of the industry, there are a number of large engineering and contracting firms whose annual receipts run into the billions of dollars. These establishments typically operate on a nationwide or even worldwide basis and are called upon to undertake such massive construction projects as dams, power plants, and skyscrapers. Only 9,575 construction establishments comprising less than 2 percent of all firms reported receipts of more than 2.5 million in 1972. Yet, these same establishments accounted for $72 billion in total receipts or 44 percent of all construction performed in 1972.

There are more than 8,000 collective bargaining agreements in the construction industry, reflecting the large number of small operators. In some metropolitan areas, there are scores of agreements where negotiations may be at most loosely coordinated. This year alone 3,500 of these agreements will be negotiated.

Agreements are usually negotiated with contractors' associations at either the local, regional, State, or national level, although in some cases contracts are executed with individual employers who are not members of an association. Each trade usually negotiates on its own, although in a few areas some of the unions (especially those in the "basic" trades) have elected to bargain on a multiunion basis.

In the most typical instance, a single local union bargains with a contractors' association which covers a limited geographical area. Several of the trades—most notably carpenters, bricklayers, iron workers, cement masons, teamsters, and laborers—negotiate with a local association of general contractors which itself may be affiliated with a national employer group (such as the Associated General Contractors) or may not. These same trades may also have dealings with specialty contractor groups: the carpenters with drywall contractors and the bricklayers with masonry contractors, for example. In a few instances, there may also be separate contracts with specialized groups of general contractors, such as home builders' associations. In addition, there are other associations of specialty contractors which have contracts with one or more of the other building trades. Thus, local groups of painting contractors bargain with the painters, electrical contractors with the electricians, mechanical contractors with the steamfitters and sheet metal workers, and so forth. In many areas, however, these various contracts will expire at or about the same time, one element of uniformity in an otherwise highly fragmented structure.

Not all bargaining is strictly local in character. In a few sections of the country, the West in particular, certain agreements are regional, Statewide, or even interstate in scope. In some sectors of the industry—most notably highway construction—bargaining is frequently carried on by Statewide employer groups, with contracts differing in a number of important respects from those negotiated by other units of the same trade.

In spite of the aforementioned conditions—construction settlements as a whole were moderate in 1975 and 1974, when many new agreements provided for recovery of portions of negotiated increases that had been denied by the Construction Industry Stabilization Committee during the period of wage and price controls.

Several facts emerged from the 1974 and 1975 negotiations: (1) although wage increases in construction rose slightly after the end of controls in the spring of 1974, they did not soar to extreme highs as had been predicted by the big-business, anti-union faction of the industry; (2) increases were higher in construction than manufacturing and all industries as a whole prior to controls, lower than both during the controls period, and remained lower than both in

1975; (3) first-year increases exceed life-of-contract increases for both construction and the overall private nonfarm economy, but the gap is relatively smaller in construction than for all industries. The presence of such a gap in construction, even though it is small, is note-worthy, however, because of the general absence from construction contracts of cost-of-living clauses which would automatically increase the size of the second and third year increases at a later date.

ECONOMIC PROFILE OF THE CONSTRUCTION WORKER

The highest pay levels in the construction industry, as is commonly noted, are usually for the journeyman crafts, especially the electrical and certain mechanical trades. The following table for union workers spells out the average hourly rate for seven occupations as surveyed by the Bureau of Labor Statistics in 70 cities.

TABLE 1

	Wages per hour	
	Without benefits	With benefits
Bricklayers	$9.42	$11.07
Building laborers	7.05	8.52
Carpenters	9.26	11.13
Electricians	9.81	11.33
Painters	8.76	10.00
Plasterers	8.98	10.58
Plumbers	9.93	12.19
All trades average	8.93	10.67

It has become something of a habit for persons to examine these rates and then protest the high wage rates of construction workers. Crucially, these criticisms overlook the fact that the construction industry suffers from an extremely high amount of seasonality, more so than most other industries.

According to a Department of Labor study completed in 1970, for 13 occupations in four areas, most workers labored less than 1,200 hours during the 12-month period surveyed. Generally, the less skilled occuptions reported a higher proportion of workers with 1,400 hours of work. When workers with less than 700 hours of work in the industry were removed from the sample, thereby eliminating workers not firmly "attached to the industry" the median number of hours reported for all crafts in all areas was 1,535.

Even if one employs the higher figure of 1,535 hours, the following table demonstrates that the average yearly earnings of the various crafts, rather than being extreme, are extremely modest. The three figures are estimated annual earnings for a building tradesman who might work 1,200, 1,400 or 1,535 hours a year. These earnings should be compared to the national median income of $12,836 or the standard intermediate budget for a family of four, $14,333, as derived by the 1974 Census.

TABLE 2.—AVERAGE ANNUAL WAGE

	1,200 hr	1,400 hr	1,535 hr
Bricklayers	$11,304	$13,188	$14,460
Laborers	8,460	9,870	10,822
Carpenters	11,120	12,964	14,214
Electricians	11,772	13,734	15,058
Painters	10,512	12,264	13,447
Plasterers	10,788	12,572	13,784
Plumbers	11,916	13,902	14,243
All trades average	10,716	12,502	13,708

The construction worker has also been the object of much criticism concerning the average anual rate of contract gains as negotiated in collective bargaining agreements. An examination of the past four years[1] demonstrates that the

[1] See Table 3.

wage gains in the building industry have not only failed to keep pace with the cost-of-living but in 3 of the past 4 years they even lagged behind those of other sectors.

CONSTRUCTION ACTIVITY

For most of the postwar period, new construction activity has accounted for about 11 percent of the Nation's gross national product and about 5 percent of its average annual employment. In 1974, however, the $134.4 billion of construction work represented only 9.6 percent of GNP, a dip occasioned largely by the combined effect of recession and high interest rates on residential building. Historically, privately-owned construction has accounted for two-thirds to three-quarters of the total, with residential building normally constituting over half of all private work.

TABLE 3

Year	Average 1st yr increase			Average over life-of-contract			Average rate of inflation
	Construction	Manufacturing	All industry	Construction	Manufacturing	All industry	
1972	7.5	8.5	8.5	6.6	6.3	6.1	3.7
1973	5.8	7.0	7.1	5.6	6.0	6.1	8.8
1974	10.8	8.8	10.7	9.2	6.7	7.8	12.2
1975	8.0	9.9	10.2	7.4	8.1	7.8	7.0

Source: BLS data for settlements covering 1,000 or more workers.

UNEMPLOYMENT

Unemployment in the construction industry currently stands at 15.4%, a figure which represents nearly 700,000 idle building tradesmen. This means the nation's largest industry, the one industry unanimously singled out as being central to any viable economic recovery, is still in the depths of a deep depression. Currently unemployment in construction is the highest of any major industry. In some areas of the country unemployment ranges so high as to be scandalous. For example, Tucson registers 30%, Chicago 27%, Bridgeport, Connecticut 37%, Minneapolis-St. Paul 32%, Rochester, New York 49%, Philadelphia 34%, San Antonio 33% and Charleston, West Virginia 47%.

The industry's depression has not only laid off hundreds of thousands of our most skilled tradesmen. It has also put many of them on shortened hours. Results from a national survey conducted by the Building and Construction Trades Department indicate that on the average 15% of all employed tradesmen are working less than a 40-hour week.

Although no accurate estimates exist, many tradesmen are laying down their tools and quitting the industry. These workers constitute some of this country's most skilled workers; many of them have spent up to six years learning their trades. The loss of such valuable human resources and the suffering experienced by the workers and their families is irreparable.

Equally as tragic will be the consequences our entire nation faces in the not-so-distant future when we once again begin to face up to our tremendous needs in the areas of housing, mass transit, energy-supply facilities, etc. All of these projects will require vast numbers of skilled tradesmen, craftsmen who are being driven from the industry and incoming apprentices who are being discouraged from seeking work in the industry.

In every year since 1948, construction's unemployment rate has exceeded that of every other major industry group and has regularly been approximately twice as high as the economy-wide average. Although the industry accounts for only about five percent of the total labor force, over the years it has represented between 9 and 12 percent of all unemployed workers. Furthermore, when we add the multiplier effect of unemployment in related and other industries caused by the depression in construction, the percent of unemployment due to our industry rises to over 20 percent.

The disproportionately-high levels of unemployment in construction are attributable to a number of factors. The industry is especially sensitive to cyclical changes in the general level of economic activity and has traditionally been used by national policymakers as this nation's economic shock absorber. The construction industry is subject to being used for this task because of its natural counter-cyclical nature. Typically, during the late stages of an economic expansion construction begins to tail-off, slump more heavily during a recession than the rest of the economy and then pick-up again before the next recovery. Using this cycle to stabilize the economy only forces the industry and its workers to bear the brunt of such policies. This type of policy only further de-stabilizes an already erratic industry in search of certain and security, rather than instability and chaos in the name of fighting inflation.

Building tradesmen have suffered tremendously under policies directly aimed at "cooling-off" the economy by depressing construction. Thus, between 1973 and 1975, while the all-industry unemployment rate was rising by 4.3 percentage points, the rate for construction rose by 13 percentage points.

Some intermittence of employment in construction is inevitable because of the nonrepetitive nature of construction projects and the continuous changes in the locale of the work site. However, beyond the actual construction process, the volatile demand for construction results in widely fluctuating manpower needs. In construction, the labor force bears a large share of the cost of uncertainty and fluctuations in demand.

In the 1974–75 recession the industry's unemployment rate was over 20 percent at its peak compared to 9 percent for the remainder of the labor force. An examination of comparative unemployment rates for contract construction workers and for the total civilian labor force indicates how severely the recession has hit the construction industry:

UNEMPLOYMENT RATES—CONSTRUCTION AND ALL WORKERS

	Contract construction (percent) (1)	All workers (percent) (2)	Ratio (1) to (2)
1971	10.4	5.9	1.76
1972	10.3	5.6	1.84
1973	8.8	4.9	1.80
1974	10.6	5.6	1.89
1975	18.7	8.5	2.20

Not only is the construction industry subject to wide fluctuations in employment due to the business cycle, but it is also the victim of a high degree of seasonality. Poor planning of projects, inattention to scheduling and weather conditions and several other factors have given rise to seasonal fluctuations in building activity. This, in turn, has resulted in needless increases both in building costs and unemployment.

Research indicates that in the last 25 years, an average of 247,000 man years nationally has been lost to the industry annually due to inefficient allocations of manpower resources. America's construction tradesmen are open prey to the twin ravages of the business cycle and seasonality, two problems which responsible policy could more than ameliorate.

The following table presents the results of a survey the Building and Construction Trades Department conducted on a random sample of 41 cities. Unions representing the various crafts were polled to determine their unemployment rates, from which the city-wide averages were calculated.

Construction unemployment—Random sample of cities and selected crafts, December–January, 1975–76

	Percent
Tucson, Ariz	30.0
Sheet metal workers	33.0
Painters	45.0
Operating engineers	30.0
Electrical workers	22.0
Lathers	90.0
U.A.	37.0
Carpenters	38.0
Laborers	35.0
Millwrights	61.0
Iron workers	50.0

Construction unemployment—Random sample of cities and selected crafts, December–January, 1975–76—Continued

	Percent
Los Angeles, Calif	21.3
Asbestos workers	18.0
Lathers	33.0
Plasterers	46.3
Sheet metal workers	27.6
Elevator constructors	25.0
Bricklayers	45.5
Carpenters	19.6
U.A.	17.7
Laborers	25.0
Iron workers	17.4
Roofers	40.0
Operating engineers	20.0
Sacramento, Calif	18.0
Iron workers	20.0
San Diego, Calif	27.0
Laborers	20.0
Carpenters	37.0
Plasterers	75.0
Iron workers	18.0
Lathers	23.0
San Francisco, Calif	17.0
Painters	21.0
Carpenters	17.0
Lathers	50.0
Laborers	34.2
Plasterers	45.0
Marble polishers	24.0
U.A.	21.0
San Jose, Calif	22.6
Painters	20.0
U.A.	28.0
Operating engineers	20.0
Laborers	25.0
Stockton, Calif	18.3
Carpenters	20.0
Boilermakers	66⅔
Bridgeport, Conn	37.0
Painters	25.0
Electrical workers	40.0
Lathers	47.0
U.A.	35.0
Carpenters	35.0
Marble polishers	35 .0
New Haven, Conn	30.0
Bricklayers	45.0
U.A.	40.0
Iron workers	38.0
Wilmington, Del	28.0
U.A.	10.0
Electrical workers	21.0
Laborers	50.0
Chicago, Ill	27.0
Iron workers	23.0
Tile layers	20.0
Lathers	22.0
Laborers	60.0
Carpenters	29.4
Painters	19.0
Bricklayers	20.0
Champaign, Ill	20.0
Painters	22.0
Bricklayers	40.0
Carpenters	17.3
U.A.	20.0

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Construction unemployment—Random sample of cities and selected crafts, December–January, 1975–76—Continued

	Percent
Terre Haute, Ind	19.7
Laborers	35.0
Plasterers	75.0
Painters	30.0
South Bend, Ind	22.0
Carpenters	35.0
Plasterers	35.0
Sheet metal workers	17.0
Electrical workers	20.0
Painters	20.0
Roofers	95.0
Witchita, Kans	17.3
Operating engineers	20.0
Iron workers	40.0
Carpenter	20.0
U.A.	25.0
Topeka, Kans	17.0
U.A.	44.4
Sheet metal workers	30.0
Paducah/West Kentucky	61.0
U.A.	28.3
Iron workers	25.0
Operating engineers	75.0
Carpenters	50.0
Detroit, Mich	27.0
Iron workers	20.0
Laborers	35.0
U. A	28.3
Electrical workers	29.0
Lathers	18.0
Bricklayers	30.0
Roofers	20.0
Tile layers	35.0
Minneapolis-St. Paul, Minn	32.0
Painters	30.0
Electrical workers	45.0
Laborers	33.0
Operating engineers	60.0
U.A.	20.0
Lathers	60.0
Plasterers	45.0
Poughkeepsie, N.Y	56.0
Tile layers	25.0
Carpenters	43.0
Bricklayers	50.0
Electrical workers	35.0
Laborers	70.0
Painters	85.0
Rochester, N.Y	49.0
Asbestos workers	50.0
Carpenters	54.6
Operating engineers	60.0
Electrical workers	30.0
Lathers	55.0
Iron workers	26.0
Painters	70.0
Tile layers	50.0
U.A.	33.0
Bricklayers	33.0
Buffalo, N.Y	19.0
Bricklayers	20.0
Electrical workers	25.0
Asbestos workers	50.0

Construction unemployment—Random sample of cities and selected crafts, December–January, 1975–76—Continued

	Percent
Dayton, Ohio	18.7
Bricklayers	20.0
Electrical workers	25.0
Asbestos workers	50.0
Cleveland, Ohio	27.0
Asbestos workers	25.0
Lathers	42.0
Plasterers	30.0
Bricklayers	45.0
U.A.	23.5
Painters	33.0
Sheet metal workers	17.5
Boilermakers	20.0
Warren, Ohio	18.0
U.A.	20.0
Sheet metal workers	20.0
Electrical workers	30.0
Lathers	30.0
Columbus, Ohio	27.0
Sheet metal workers	22.0
U.A.	33.0
Operating engineers	19.0
Carpenters	19.3
Lathers	47.0
Bricklayers	24.0
Boilermakers	40.0
Cincinnati, Ohio	20.0
Carpenters	25.0
Plasterers	27.0
Iron workers	19.0
Lathers	40.0
Sheet metal workers	24.0
Youngstown, Ohio	26.0
Iron workers	30.0
Carpenters	19.0
Electrical workers	30.0
U.A.	45.0
Erie, Pa	21.0
Operating engineers	75.0
Laborers	48.0
Scranton, Pa	23.0
U.A.	20.0
Roofers	20.0
Carpenters	20.0
Painters	30.0
Electrical workers	26.0
Laborers	35.0
Bricklayers	20.0
Philadelphia, Pa	34.0
Boilermakers	45.0
Bricklayers	60.0
Carpenters	40.0
Electrical workers	26.0
Elevator constructors	23.0
Operating engineers	40.0
Iron workers	35.0
Laborers	40.0
Lathers	50.0
Painters	20.0
Sheet metal workers	38.0

Construction unemployment—Random sample of cities and selected crafts, December–January, 1975–76—Continued

	Percent
Memphis, Tenn	20.2
Operating engineers	30.0
Elevator constructors	95.0
Painters	17.0
Tile layers	20.0
Sheet metal workers	25.0
Plasterers	50.0
Knoxville, Tenn	23.0
Painters	30.0
Sheet metal workers	80.0
Iron workers	25.0
San Antonio, Tex	33.0
Bricklayers	80.0
U.A.	30.0
Iron workers	60.0
Sheet metal workers	20.0
Roofers	18.0
Asbestos workers	18.0
Operating engineers	40.0
Electrical workers	25.0
Bellingham, Wash	48.0
Carpenters	40.0
Plasterers	75.0
Iron workers	70.0
Laborers	45.0
U.A.	60.0
Operating engineers	70.0
Sheet metal workers	24.0
Electrical workers	45.0
Seattle, Wash	20.0
Plasterers	35.0
Laborers	25.0
Painters	25.0
Iron workers	23.5
U.A.	17.0
Takoma, Wash	18.0
Roofers	19.0
Laborers	21.0
Boilermakers	50.0
Bricklayers	40.0
Plasterers	25.0
Operating engineers	19.0
Painters	20.0
Charleston, W. Va	47.0
Iron workers	20.0
Carpenters	79.3
U.A.	75.0
Boilermakers	25.0
Tile layers	87.0
Laborers	40.0
Parkersburg, W. Va	36.0
U.A.	27.0
Laborers	34.0
Iron workers	40.0
Tile layers	60.0
Carpenters	30.0
Milwaukee, Wis	22.0
Lathers	30.0
Roofers	35.0
Plasterers	21.0
U.A.	20.0
Carpenters	20.0
Laborers	38.0
Bricklayers	45.0

Construction unemployment—Random sample of cities and selected crafts, December–January, 1975–76—Continued

	Percent
Madison, Wis	19.0
Laborers	60.0
U.A.	20.0
Glaziers	20.0
Bricklayers	25.0
Sheet metal workers	20.0
Electrical workers	25.0

NOTE.—These figures do not reflect the members who were forced to seek other work nor those who are working shortened hours.

Mr. GEORGINE. I have confined my remarks to a few observations and highlights from this more extensive report that I am submitting.

Last year, on March 19, before this very committee I started my statement by saying:

America is in a depression. When the unemployment rate is 8.2 percent, representing nearly 7.5 million people without jobs, it is time that the administration stopped fooling itself and trying to fool the people. It is time that appropriate policies be adopted to reverse the decline; time for measures more immediate and far-reaching than any the administration is contemplating.

The Building Trades Department of the AFL–CIO proposed an affirmative action program, including tax cuts, allocating credit, expanding the money supply, lowering the interest rates, releasing impounded funds, and launching public works programs. Every word of my statement applies with equal force today.

Never before in our history has our economy been so poorly managed. Economists have been prompted to come up with a new word to describe our economic plight. The word they hit upon was "stagflation." It simply means that we are in a period of high inflation at the same time we are mired in a crippling recession. This kind of economic mess is unprecedented in the history of our Nation.

During the Nixon administration, we witnessed an inflation that ravaged the economy and brought hardship to every man and woman. Prices for food, clothing, housing, gasoline and virtually every other product needed by the American consumer skyrocketed.

Housewives have been forced to buy cheaper cuts of meat, less expensive produce, and cut back on all other parts of the family budget in order to survive economically.

Little did the working people of this country know, as they were making these sacrifices, that this administration's apparent solution to inflation was to create a recession which, we know by now, did not halt inflation. The cure turned out not only to be worse than the disease but the disease didn't go away either. Today we have both high prices and high unemployment. The administration keeps assuring us that the economy is beginning to turn the corner, that it's about to improve, but it is abundantly clear that the economy is not turning around, but appears to be worsening. Because of this, millions of American families find themselves struggling with inflation at the same time they are out of work, or cut back in hours. It is a devastating situation.

In the face of this huge loss of revenue for the Government and, in the face of the untold human suffering because of the recession, the administration's policies seem all the more misguided and thoughtless. For instance, recently the President vetoed a public works bill.

This bill, which would have created some 600,000 jobs, was passed by substantial majorities in both Houses of Congress. Yet the President vetoed it on the grounds that it was an example of excessive spending. It is clear that his veto was dreadfully shortsighted.

First, there is no evidence whatsoever that deficits in a recession are inflationary.

Second, with nearly 8 million American people out of work, this program was vitally needed to involve people in summer youth work, public works and other similar jobs.

Third, this bill would have removed people from the unemployment rolls and placed them in jobs. It would have been good for their morale, good for the morale of the country, and good for the economy. These people would have been wage earners again, active participants in the economic recovery of this Nation. Now that chance is lost. The President's veto of the jobs bill was a clear example, if any more are needed, that his economic policies are not geared to the needs of the working families of this country.

The same can be said of other administration decisions, such as the proposal to raise the cost of food stamps. This would bring undue hardship to the elderly and the poor.

The administration, either by its action or its inaction, seems not to care deeply about what happens to the elderly, the poor and the working people. If that is not the reason, then the administration is so poorly managed that it cannot devise a policy which will control inflation and restore full employment.

Look at the Consumer Price Index over the past few years. This is our best indicator of prices. Between January 1961 and January 1969, the index increased an average of 2.4 percent a year. The price of food during this period increased only 2.3 percent a year.

Now compare these figures, which were recorded for the Kennedy/Johnson years, to the increases during the Nixon/Ford administrations. From January 1969 through January 1975, the index rose 7.7 percent a year. The price of food alone rose an astonishing 10.2 percent. Every major item in the index rose, on the average about twice as fast as it did under the Kennedy/Johnson administrations.

It isn't that our economic situation is beyond control. Rather, it appears that the Nixon/Ford administrations actually devised policies which encouraged this inflation. Remember the Russian wheat deal, which some now call the "great grain robbery." Because we shipped so much grain to the Soviets—at too low a price—serious grain shortages in this country resulted. This caused sharp increases in the price of many grain products, poultry and meat. Under the Nixon/Ford administrations, the price of one pound of bread has increased by 300 percent.

Of all the industries who have suffered under the Nixon/Ford years none have suffered as much as the construction industry.

Beyond doubt, the construction industry has borne an unfair and disproportionate burden in the administration's discredited policies.

In short, the construction industry—the Nation's largest industry—its bellwether of prosperity—has been the victim of a reckless course of governmental action, designed to halt inflation, which has not only failed to bring inflation under control, but has brought the entire economy to the brink of a depression.

Unemployment is rampant. While the overall unemployment figure is nearly 8 percent, the construction industry unemployment rate is a staggering 15.4 percent, double the national average.

The construction industry has been laboring under double-digit unemployment for 22 consecutive months.

These figures, however, are only an average. They do not fully portray the enormity of the problem.

In Detroit, for example, unemployment is 27 percent. The bricklayers are 30 percent, laborers 35 percent and painters 55 percent unemployed. In Rochester, N.Y., unemployment is 49 percent. The engineers, 60 percent, painters 70 percent and lathers 55 percent unemployed. I could go on—Cleveland 27 percent, Chicago 27 percent, Boston 28 percent, San Diego 27 percent, Philadelphia 34 percent and Bridgeport, Conn., 37 percent.

A table which lists unemployment by crafts in a random sample of cities is shown in the paper I have presented for the record.

Unemployment is also a lengthening problem. The number of construction workers idled for 20 weeks or more is over 200,000.

Underemployment is an equally grave problem. The results of a recent survey conducted by the Building Trades Department indicate that an additional 15 percent of those fortunate enough to still be working are working shortened hours.

High construction unemployment is a tremendous cost to the entire economy. Because of high unemployment, the deficit of the Federal Government and Federal agencies will be well over $50 billion in 1977. The large deficits we have been experiencing are attributable to the depressed economy and not to irresponsible and wasteful spending. When people are out of work, Federal spending on unemployment compensation, food stamps, welfare, and other income support programs spirals quickly. Such increases are recession related. At the same time, and in even larger measure, tax revenues fall. Thus recessions are a cause of big deficits. If the unemployment rate were at the 3.6-percent level of 1968, we would have a budget surplus of over $9 billion in fiscal 1977, rather than the $54 billion deficit of the Ford budget—including Federal agencies. The President's budget projects that if we had a 4-percent rate of unemployment we would have a $3 billion "full employment" surplus in 1977.

The human cost of unemployment is incalculable and cries out for more attention.

For all, unemployment is a constant, demeaning, ego-eroding worry.

We believe that, as in the past, the construction industry, if only given the chance, can lead this Nation out of the recession.

This country will not come out of a recession until the construction industry does.

We call upon the administration and the Congress now to respond to our program.

I listed here a program which Murray spelled out a little earlier, so I will not repeat it. I would just echo it.

First, Congress must act to prevent a rise of withholding tax rates on paychecks now scheduled for July 1, 1976.

Second, the Government's housing programs need to be fully implemented, with sufficient funds, to boost residential construction and prevent the further spread of today's housing shortage.

Third, Congress must direct the Federal Reserve System to provide sufficient growth of the supply of money and credit at reasonable interest rates to promote rapid expansion of the economy and job opportunities. Lower interest rates are absolutely essential to revival of the depressed housing industry in particular, and construction in general.

Congress should also direct the Federal Reserve to allocate available credit for such high-priority purposes as housing, State and local government needs and business investment in essential plant and equipment, while curbing the flow of credit for land speculation, inventory-housing and foreign subsidiaries.

Fourth, we call upon the Congress to launch immediately a vigorous public works program. This goal could be attained by increasing appropriations for existing programs and by passage of a new accelerated public works program.

Fifth, we call upon the Congress to develop a rational environmental procedure instead of the present crazy quilt pattern. The Building Trades Department, AFL-CIO supports fully the notion of a safe and healthy environment both on the job and in our society in general. For example, we vigorously supported the strip mining legislation containing environmental safeguards, which was vetoed last year.

But currently tens of billions of dollars of potential construction—public and private—are either stymied or halted by environmental litigation, administrative proceedings, and so forth, with no possibility for early resolution. Such haphazard activity prohibits rational and systematic planning, makes for unnecessary delays, and vastly increases costs. We call for a rational, stabilized system for environmental and other planning, under which full consideration is given from the outset, while at the same time due regard would be accorded to the necessity for reaching a final decision without endless delays.

Sixth. America needs a comprehensive energy policy and program to rapidly reduce the Nation's dependence on imported oil and to establish U.S. energy independence.

Seventh, a new Government agency, along the lines of the Reconstruction Finance Corporation, should be established to provide long-term, low-interest loans in the private sector, as well as to assist State and local governments.

Eighth, Federal funds must be provided for the restoration of railroad track and roadbeds.

Ninth. Major loopholes in the Federal tax structure must be closed—to raise as much as $20 billion of additional Federal revenue and to take a giant step toward achieving tax justice.

And lastly, we call upon the administration to set up a Cabinet post to coordinate all construction activities within the Government so that a repetition of the present intolerable situation can be avoided.

We are in troubled times. Inflation, recession, high interest rates, high energy costs, and dependence on foreign energy imports are urgent and pressing demands that must be squarely faced, and solved. As we approach our 200th birthday as a nation, we are in need of thoughtful and strong national leadership to develop and follow through with sound policies that will see us through these troubles. We can no longer indulge in policies that favor the few at the expense of the many, or policies which attempt to correct one problem only to create a more serious one.

When we fight inflation, we cannot create a recession and call it a solution. When we seek new energy sources, we cannot make the environment the scapegoat. I am especially mindful of this because of the many scenic wonders of our country. Only those policies which seek to benefit all of us will succeed in restoring our country's vitality and strength.

Chairman HUMPHREY. Thank you, very much.

All right, gentlemen, we thank you very much.

Chairman HUMPHREY. I want to particularly thank Mr. Finley and Mr. Georgine for their bringing to our attention once again the basic recommendations of the executive council of the AFL-CIO. Those recommendations are very worthwhile. I just noticed, for example, that one of them calls for a new Government agency along the lines of the RFC to provide long-term, low-interest loans to the private sector as well as to the State and local governments. I have long advocated what we call a domestic development bank, which we ought to have; just as we have a World Bank and the Inter-American Development Bank. We need a better system of financing State and local governments long-term projects.

Mr. Georgine, I am sure you noted that in the construction field frequently local governments get started on a project and then the Federal funds do not come through or the local funds are not available and the project is held up at great cost to the local government, and of course, with great dismay and suffering to the worker. It is a very foolish and uneconomical way of doing business.

The average municipal bond is around 12 to 14 years. You have a hard time financing capital projects on such short-term money. And even if it is a 15-year bond or a 20-year bond, many of these projects have a life that is far beyond that period of time and ought to be financed on longer terms and obviously at a much lower rate of interest.

The other point that you mentioned here is that funds should be provided for the restoration of railroad tracks and roadbeds. I had the experience last Sunday morning of coming back from Philadelphia on Amtrak to Washington. Now, they tried to do a good job. They've got good people running those trains. Much of the equipment is very good, but the roadbed is a national disgrace. When I stop to think of the number of people that are unemployed between Philadelphia and Washington, particularly young people—who are healthy and could be working on these projects at a good wage. I find it disgraceful that we have not done something about it. The governments—Federal, State and local—own all the highways and the roadbeds for the trucks and cars. The local governments, the State governments, and the Federal Government own the airports on which the planes land. Private planes and commercial planes land at our airports. They pay a user's fee like a truck pays a user's fee for the highway and like you and I. with our cars pay a license, which goes into the State trust funds. The gasoline tax money goes into the Highway Trust Fund. We are never going to get these roadbeds fixed until they become publicly owned and maintained as a utility and as a necessity in this country.

When I see the Pentagon coming in here and wanting billions of dollars for defense, which they may very well need, but then I ask what is national security? We've got to have national security and it includes transportation. We simply cannot get by with what we have. The roadbeds on many of the railroads, not all, but on many of the railroads, are nothing short of a disaster operation.

You have listed many other things which I will not comment upon, except to tell you that I find your recommendations are very desirable.

Now, just a few pertinent questions. Let me go to Mr. Georgine first. Am I correct that there are about 650,000 workers that are unemployed in the construction industry?

Mr. GEORGINE. Actually, Senator Humphrey, the true figures are closer to 1 million. Now, the Labor Department says there are 700,000. In the construction industry we have a way of working where many of our people who are unemployed will stay unemployed in order to get that 1 day or 2 days, which is, you know, quite common in the construction industry. In our studies, we used our health and welfare and pension plans which have checkoffs and we determined that somewhere in the vicinity of 1 million workers are unemployed.

Chairman HUMPHREY. These are mostly skilled workers?

Mr. GEORGINE. All skilled workers.

Chairman HUMPHREY. Just think of the tragic loss of the finest skills that this country has. We have the best skilled workers in the world. We can argue over these figures, but three-quarters of 1 million to 1 million are idle. And that would mean between 9 and 10 percent of the total unemployment is in your industry.

Mr. GEORGINE. That is exactly right.

Chairman HUMPHREY. In just one industry. And you suggested that one approach to help solve this situation would be the Federal Reserve allocation of credit for housing. I am sure that you have outlined a number of specific provisions on housing. I have worked on this. Senator Proxmire, who could not be with us today, is deeply involved in this.

The Federal Reserve Board always says that that is very difficult for them to do. Do you have any comments you would like to make?

Mr. GEORGINE. Well, Senator Humphrey, I addressed the National Housing Conference the other day. I got there the day after you did. I read your remarks and I said to them:

"I wish I had said that."

But, let me just say that the interest rates for housing today are ridiculous. The cost of money has pushed housing far beyond the ability of people, who work with their hands and work for a living, to buy housing. They just cannot do it. And until we do something about the interest rates and until we make money available at a much lower rate of interest for the average working person, the housing industry is not going to flourish. And until the housing industry flourishes, this country is not going to get out of its economic morass.

Chairman HUMPHREY. Is not it also true that if the building tradesman knew that he had full work, that he had work year-round and had some stability in employment, that this would in itself lower unit labor costs because of the increased productivity of the worker?

Mr. GEORGINE. We used to get a higher rate of pay because we were a highly seasonal industry. That is not true today, Senator. As a matter of fact, in the last 3 years our increases have averaged around 8 percent, which is far below the increase in the cost of living.

Chairman HUMPHREY. Yes.

Mr. GEORGINE. So the building tradesman who was once known as having a very high hourly rate, well, that is no longer true. That gap is shortening up now. The average worker in construction in the last 3 years has only worked 1,200 hours. That is an average out of a possible 2,200 hours. So that is the nature of the industry.

Chairman HUMPHREY. Yes, what I was really getting at in part is the start-up time and the close-out time on these projects. A lot of times when money is tight, it tends to raise the cost because there is not the even flow of labor and construction activity.

Mr. GEORGINE. That is exactly right.

Chairman HUMPHREY. The administration predicts housing starts—and they are just "predicting" and that is all—of about 1,700,000 units by the end of 1976; not as an average but they hope to get up to that. Well, let us assume they did. What level of unemployment would that leave in the construction industry at the end of the year?

Mr. GEORGINE. Well, if it reached 1.7 million, I do not know exactly what level of unemployment that would leave, but that would help appreciably. But, 1.7 million is not going to come anywhere near the need, Senator. Right now we need about 2.5 million in order to keep up with what the needs of the country are. So 1.7 million is just falling further and further behind, like we have fallen behind the last 2 years. We had, last year, 1.3 million, when we needed 2 million.

Chairman HUMPHREY. Yes.

Mr. GEORGINE. So, every year we just keep having a shortfall. That multiplies it and makes the situation worse.

Chairman HUMPHREY. Is not it also true that as your new housing starts are limited or they are below the needs, then the cost of available housing goes up. So that you not only have the unemployment, with all of its troubles and costs, but you also have an inflationary factor in housing costs because there is the tightness in the market.

Now the answer I get frequently is "but there are houses that are not sold and there are houses that are not occupied." Well, those are spotty. But, the real truth is that most housing costs have been going up in the available housing—that is in the trading and selling of homes. Additionally, you have the fact that the low and middle-income person does what we call "trade up." They get maybe a used house or something that is not too good and, as their income comes along, they trade up the latter, so to speak. That has become ever more difficult, has it not, with this crimp in housing construction?

Mr. GEORGINE. Certainly it has. The shortage in housing, of course, makes existing houses more valuable. What a lot of people do not understand is housing costs have gone up tremendously. In relation to the total sale price of the house, the on-site labor costs—and many people do not understand this—have been reduced. In 1949, the on-site labor costs on a house were 33 percent of the total cost. In 1975, the on-site labor cost was 15 percent. We cut the on-site labor costs on housing by 50 percent.

Chairman HUMPHREY. And very few people know that, Mr. Georgine. And I hope that whatever further documentation you have on that statement—and I have no reason not to accept it on its face value—but I wish you would give it to us for the record. I ask you for this information because most people think the minute I say that one of the reasons for the decline in construction and in housing sales is the high interest rates, I am immediately told: "Oh, no, it is not that at all. It is the labor costs."

But, what you are saying is the percentage of the on-site labor costs of the house has appreciably dropped in the last 5 years.

Mr. GEORGINE. It has been cut in half. But, on the other hand, interest has doubled. The cost of land has tripled and quadrupled.

Chairman HUMPHREY. And I think it also ought to be noted that the interest cost compounds as it goes on up. I mean, it is a continuing rising cost and the labor cost is a one-shot cost. I mean, whatever the labor cost is, then that is what it is when it happens.

Senator Taft.

Senator TAFT. I was going to suggest to Mr. Georgine that I think it would be helpful in that information he provides us on the on-site labor costs—Mr. Georgine, if you would also indicate what the pre-fab off-site labor cost is now and take into account the changes that have been made. And I commend your union for having worked to bring them about to try to bring down housing costs, but there has been a shift of some of the on-site labor costs and off-site labor costs.

Now, I realize I am not talking about labor cost going into the cost of raw material for the house. I am talking about actual fabrication type of labor costs and figures of that sort. If you do have those figures, I think it would make a better comparable figure, and it would make your case very well without what would otherwise be, I think, an omission.

Mr. GEORGINE. Senator, we would be glad to supply that information. As a matter of fact, a recent study by the Home Builders, which is a management organization, shows that particular cost that you are talking about has remained constant over the past 15 years.

Senator TAFT. Well, I would like to see it.

Chairman HUMPHREY. Fine, and that will be placed in the record.

[The following information was subsequently supplied for the record:]

RESPONSE OF ROBERT A. GEORGINE TO SENATOR TAFT'S QUERY REGARDING ONSITE LABOR COSTS

The following table demonstrates the relative proportions of a home's cost due to various factors (e.g. land, materials, etc.). The cost for onsite labor has consistently decreased over the past 25 years, relative to all other costs. The cost of materials has likewise declined proportionately, although only slightly. This component includes the cost of off-site labor. Consequently, it would be incorrect to claim that the decline in on-site labor costs has been due to their shift of off-site, pre-fabrication work.

SHARE OF MAJOR COSTS ITEMS FOR A TYPICAL SINGLE-FAMILY HOUSE

[In percent]

	1949	1969	1974
On-site labor	33	17	16
Materials	36	37	33
Land	11	22	21
Overhead and profit	15	13	12
Financing	5	7	10
Other		4	8

Source: National Association of Homebuilders.

This chart demonstrates that two factors have in comparison to all others risen faster in cost, land and financing. The proportion of a home's cost due to land and financing doubled between 1949 and 1974. During this period, building materials have consistently represented the single largest component cost. The relative weight of the cost of on-site labor has shown the only significant decrease, declining about 50 percent; much of this decline is due to the increased productivity at the worksite.

Chairman HUMPHREY. Mr. Finley, I want to just direct a question or two to you and then I will turn the questions over to Senator Taft. My time is expiring.

The unemployment rate for the apparel and textiles industry is, as I understand it, about 13.5 or 13.4 percent in 1976. Do you agree with that figure?

Mr. FINLEY. Well, Senator, it is a deceptive figure. If you are talking about the shrinkage in the number of jobs, it depends. Because in the textile industry you have lady's and men's. So, if you take it overall, it was around close to 15 percent. But, if you look in terms of total man-hours in the industry, you have a different figure, because, as I pointed out in the specific ones, you had a sharp droppage in the number of hours.

Chairman HUMPHREY. That is the important thing.

Mr. FINLEY. And I will tell you why. Ours is an industry, Senator, where we traditionally have divided work. This is in our contracts. This goes back to the early 1900's. So when there is a droppage, before there are layoffs, there is first a reduction in the average workweek, and the same number of people are employed. If you put the two together—that is, the drop in the workweek and the reduction in the number of people—you are going to get close to 20 to 25 percent total shrinkage in man-hours in the industry. So, I mentioned that because one without the other does not give the whole picture.

Chairman HUMPHREY. Of course. The hourly wage rate is what counts, is it not? It is the number of hours that you work.

Mr. FINLEY. Well, you pay your bills not out of the hourly wage, but what you make in a week. That is correct, Mr. Chairman. If I am working 37 hours and I drop down to 32, there is no way I can reconcile that. If I lose 5 hours, Senator, that is $20 or $24 or $25 a week less.

Chairman HUMPHREY. What has your average wage rate been in these last few years?

Mr. FINLEY. The average wage increases?

Chairman HUMPHREY. Yes.

Mr. FINLEY. Well, it varies again because you cannot take it overall. In certain segments it went one way and in other segments it went another. Last year, for example, in the one area involving 100,000 people, we negotiated a 1-year agreement at the bottom of a recession. Now, that 1-year agreement was in the shirt and work clothing industry. There were about 100,000 people involved in that segment. And the increase was around 9 percent. That is what we negotiated for a 1-year agreement.

And then what with the inflationary aspect, why our people fell behind. There is no question about that. They did.

Chairman HUMPHREY. What is the duration of your general contract? Is it 3 years?

Mr. FINLEY. This was a 1 year. The basic contracts are for 3 years. The major ones coming up—well, we've got one coming up this September, and that is the 1-year one. Next year is the basic men's and boy's clothing, which comes up in June 1977.

Chairman HUMPHREY. Now, is the unemployment concentrated in any one particular area?

Mr. FINLEY. No; it fell all over. It hit the major cities and the small communities.

Chairman HUMPHREY. Out in my county, as well?

Mr. FINLEY. Well, in Minnesota, you had a work garment industry that did not suffer quite as badly. The outer garment work garments industry did not suffer quite as badly. For certain reasons, you had certain ones that had a droppage.

In Richmond, Va., there was a shop with 1,100 people and 40 some years ago it was organized. Now, that plant closed last year. Those people are out of work. That plant is done. It was an old and fine plant. It was very modernized, by the way. You had a big shrinkage in cities like Philadelphia. You had shrinkages in Chicago. And here, as I mentioned, there is the concentration of the minorities; the blacks, Puerto Ricans, and so on. This is a chance for them to have jobs. The chance is just gone.

So the unemployment was not merely in one area. Unemployment was spread throughout. We had shirt plants closed in the South, Mr. Chairman, in Georgia and Alabama. So you had closings in small communities and you had closings in big communities.

Chairman HUMPHREY. You are faced with an import problem, where the cutting is done here and shipped overseas and processed there and brought back here under the special tariff arrangement.

Mr. FINLEY. Yes, that tariff arrangement. Senator, that is strictly a job sending-away-type thing. Let me just elaborate one moment on that.

Under the Tariff Code, you can manufacture in this country and assemble across. Now what this means in the apparent industry is that you can cut it here and you send it to Mexico or Haiti or someplace else for the so-called assembly. Now, the "assembly" means the sewing and pressing. Ninety-three percent of the work is on the so-called assembly. The manufacturing end of it employs 7 percent. The only duty that is paid is on the value added. And the value added is of the low cost of labor—and I am talking about 20 to 50 cents an hour labor. So, you have a whole border industry set along the Mexican border. The Mexican Government established a 12-mile zone. Now this is strictly a place where you cut it up in Texas or cut it in Arizona and you move it across the border for the low labor cost and, finally, the work is brought back to this country and sold. By the way, it does not even show that it was made in Mexico or somewhere else. It does not even carry that imprint. So all that was paid was the duty on the so-called value added, which is the low cost of labor. The idea was strictly to move it 12 miles away to escape our industry. And ours is not a high wage industry, as I am sure you are all aware.

Chairman HUMPHREY. I hope that we will be able to correct this, and I pledge myself to try to correct that.

Mr. FINLEY. I think it is something that should be repealed. Senator, it has nothing to do with trade at all, because those goods must come back here. It is merely a way to pretend the products will be sold there and just ship it over there because of cheap labor, and then send them back here. It is strictly done for that purpose. It has nothing to do with so-called free trade or anything else.

Chairman HUMPHREY. It has had a very adverse effect on your employment?

Mr. FINLEY. On us and the electronic industry and a number of other industries.

Chairman HUMPHREY. Thank you. Senator Taft.

Senator TAFT. I want to thank the witnesses for their testimony. It has been said that money is lying idle in the savings and loans and in the banks. This seems to be true. I just wonder at the outset why it is true. It seems to me that you have to agree that it reflects a low degree of confidence and uncertainty about the future. I wonder if half of that uncertainty is not due, as much as anything else, to government. For instance, let us take section 167(k) of the Internal Revenue Code, which is the accelerated writeoff of money spent on rehabilitation of housing under section VIII of the Housing Act. That expired in December. I have written to the chairman of the Finance Committee, asking if this provision could not be pulled out for prompt passage, instead of waiting for a tax bill to come out of Finance. As yet, though, nothing has happened on that.

Moreover, wage and price decisions of Government unfortunately seem to foster inefficiency and uncertainty. When will a firm's price be frozen? That is a question that is continuously asked. When will the price of raw materials be frozen? These are inflationary factors. The lack of knowledge about them is frustrating.

The energy uncertainties have been mentioned by Mr. Georgine, and I certainly agree strongly with his view that we do need a national energy policy. The fact that we do not have one seems to me to relate to a failure of leadership here in the Congress to come up with meaningful energy policies that will really have some effect, rather than just giving lipservice to the problem. For instance, in Ohio, in many areas, our industries are simply not going to have any plant construction unless we get some assurance of getting increased natural gas flow into the State. This winter, happily, was a light winter, and we did not face the crisis that we anticipated, but I am already warned that there are going to be crises even next summer and never mind next winter, insofar as the supply of natural gas is concerned.

Tax uncertainties are certainly discouraging, I think, to investment. And inflation is another uncertainty. But, I wonder if inflation and high, long-term interest rates do not go together? No one will lend at 4 percent if the value of money is falling at 6 percent. The lender will demand 8 percent. This is historically true and explains why the demand for mortgage money is so low today.

So, unlike what has been said, the facts of the last 2 years are in precise conformity with modern economic theory—post-1960. Look at Germany and Switzerland in the 1960's and the United States in the late 1950's. There was very slow money creation and very low interest rates, because of very low inflation. Look at South America during that period with 100-percent inflation and 105-percent interest rates. Look at the United States today with 7-percent inflation and 9-percent interest rates on mortgages. It all seems to me to fit.

Interest rates have fallen as money creation has plummeted. Inflation has fallen also. But, if it rises again, rates will rise and then undo the market for housing and expansion of our economy.

I wonder, in this regard, Mr. Georgine, what do you think of the two pending bank reform bills, the Financial Institutions Act? They are designed to allow the savings and loans to pay higher and more flexible interest rates to retain money during Government deficits and credit crunches in order to prevent financial disintermediation. That is what I think really killed construction in the 1967 period and the 1969 period and the 1970 period and this time, too.

Do you have an opinion on those pieces of legislation?

Mr. GEORGINE. As a matter of fact, Senator, we are studying those bills right now. We do not have any problem with the goals, but we do have some problems with specifics in the bills. And I would be glad to submit that to you.

Senator TAFT. We would be very glad to have it. I would ask it be put in the record.

Chairman HUMPHREY. Yes, we will keep this record open. If you could give us your evaluation of those proposed pieces of legislation, we would include it as part of our testimony.

[The following information was subsequently supplied for the record:]

RESPONSE OF ROBERT A. GEORGINE TO SENATOR TAFT'S QUERY REGARDING THE FINANCIAL REFORM ACT OF 1976

The Building and Construction Trades Department's position on the Financial Reform Act of 1976 is:

(1) Although the purposes of the Act are noteworthy, they may not be achieved under this legislation as it is presently written.

(2) The Act may actually open the door for the transfer of investments by banks from home mortgages to higher yielding consumer loans, corporate debt securities and commercial paper. Recent experience in New York has demonstrated this possibility.

(3) Tax provisions to encourage mortgage investment by banks will fail because the basic problem remains unresolved; households will invariably be outbid for funds by speculators and large corporations who can afford increasingly higher interest rates.

The Building and Construction Trades Department supports the notion of giving thrift institutions additional means for improving their earnings. Yet, we also believe that this must not be performed at the expense of the already badly troubled housing industry.

Senator TAFT. Thank you, Mr. Chairman.

Now, Mr. Georgine, in your testimony you mentioned business investments as an activity worthy of an allocation of credit. Could not we do the same thing, perhaps, with a lot less redtape and bureaucracy, which is something we all worry about a good deal these days, by improving the tax credit provision for capital formation by providing a rise in the investment tax credit?

Mr. GEORGINE. We have supported that, Senator.

Senator TAFT. I know you have.

Mr. GEORGINE. But that does not really do it all, though, especially insofar as housing is concerned.

Senator TAFT. You stated that—well, in general, the impression I got was that you think that the recession that we suffered the last couple of years is still here and is getting worse all the time, yet, I am advised recently that unemployment is down and housing starts are up and the average workweek is up. M_2 and M_3 are up at a 9- to 12-percent rate. In the M_3 with regard to money growth, of course, that includes the savings and loan area, which is vital to housing.

Finally, retail sales are up, even after Christmas. Payrolls are up, even adjusted for inflation. Leading indicators are resuming an upward trend. Unemployment claims are down. The total number of jobs have gone up in the last month or so, certainly. Capacity utilization is still low, but it is rising and order backlogs seem to be strong. Inventories are down sharply.

In view of all these factors, what statistics do you rely on to indicate that we are slipping further into a recession?

Mr. GEORGINE. Senator, I have seen all of thoses statistics, but I still have close to 1 million people out of work. And that, to me, is a recession. Now, insofar as all of those factors are concerned, I do not really see our industry picking up at all. We have not had a pickup in construction in the past couple of months. There is nothing moving now that was not moving before. We have job stoppages all over this country because of a lack of money.

We have Government programs that provide 75 percent of the funds if the local municipalities can come up with 25 percent. We do not have local municipalities that can come up with that 25 percent. Because of that, we are not building the water and sewage plants that are needed in order to support additional housing. So all of these things depend upon one another. Those factors may show a turnaround and may show the economy slowly picking up, but it is certainly not picking up in construction.

Mr. FINLEY. May I respond?

Senator TAFT. Please do.

Mr. FINLEY. You know, it depends on what you mean by recession and so forth. You can go from what it was in 1968 to 9.2 percent and then, as I said earlier, then drop to 7.8 percent and say, "Look, the signs are good." Now, let us look at what the picture is and how you define a healthy and unhealthy economy. In 1968, the unemployment rate was 3.6 percent. I should point out the true unemployment figure was closer to 3.6 percent, because when you have a relatively full employment economy, you do not have the discouraged worker and you do not have the people working part time. Then when you go to an official 7.8, you have—as I think everyone accepts today—you have at least 1 million people who are not in that figure because they quit looking for work; you have an additional 240,000 people who wanted part-time work. So, if you look at the additional figures that went into the unemployment, and then if you look at the fact it dropped to 7.8 from 8.3, because of the statistical change in the seasonal adjustment factor then you end up with a figure that is close to 10.5 to 10.6 percent unemployment. That is the true figure.

Now, when you take that simple figure to tell us when you've got 10.6 unemployment, "Look the figures are better," well, Senator, you go and talk to these people who are laid off and you go and talk to these people who have been out of a job for a year and you go talk to these people who are working 32 hours, but not 40, and see what they have to say. And if you can tell these people that the figures are better and things are better, well, they won't buy it.

Senator, you are talking about some 10 million Americans. And if you add their families, Senator, you are talking about numbers that are just tragic.

Now, let me say one other thing. You mentioned earlier Japan and Germany. Now what is unemployment in Japan? When Japan goes from one-half of 1 percent to 1 percent, it is a national tragedy. When they go to 1.2 percent unemployment, the Government is ready to fall.

In West Germany, when it went to 3½ percent, the same thing happened. And even the bill Senator Humphrey is talking about is just talking about getting down to 3 percent. Now, in Japan they would be out of office if you made that offer to their people.

Senator TAFT. And it is private employment in both those nations that kept that employment up.

Mr. FINLEY. West Germany has more social-welfare programs than this country. West Germany has a social-welfare program that this administration could not even conceive. They do more by law for national health insurance and other such programs, than we could even——

Senator TAFT. But that is still private insurance.

Mr. FINLEY. Pardon?

Senator TAFT. That is still private insurance. Well, my time is up. I do just want to mention a couple of items here. I was very interested in your comment, Mr. Georgine, on the environmental area and the necessity for getting some rationalized stabilized system. I certainly welcome that comment. I think all of us over the country would welcome any suggestions you might have along that line.

Also, I was interested in the suggestion for a Cabinet post to coordinate construction activities. Are you suggesting a new Cabinet post or are you trying to assign it to one of the ones that are already there? I think maybe we've got too many Cabinet posts dealing in this area, rather than needing one more.

Mr. GEORGINE. We have suggested that there has to be something—and not necessarily a Cabinet post, Senator, but perhaps something short of that—but there has to be some way to gear this system. Construction in this country has to be better programed and spread out. The left hand does not know what the right hand is doing. There is just too much waste.

We think that all of these things can be centralized and you would have a much more efficient system. And, Senator, if I may add one more point in regard to your question about the economy picking up? When I appeared before this joint committee last year, we had 15.6 percent unemployment in the construction industry. When I appear before you today, according to the Labor Department, we have 15.5 percent unemployment in the construction industry. It has gone that high. These are Labor Department statistics and not my own. Our own are higher. So I just mention that to show you that I do not see any turnaround in employment. We have gone from 22 percent back down to 15 percent where we were last year.

Senator TAFT. Thank you very much.

Chairman HUMPHREY. Congressman Brown.

Representative BROWN of Michigan. Thank you, Mr. Chairman.

I know there are other witnesses, so I shall be most brief, especially because I apologize for the lateness of my arrival, but we are starting the hearings on the House side today on the Financial Reform Act.

Chairman HUMPHREY. There were some questions about that.

Representative BROWN of Michigan. We have given it a little different name. That is all, Mr. Chairman.

Mr. Georgine, I am pleased to have a chance to sit across the table from you again. I did not get a chance to read your statement but I have scanned it. I am likewise concerned about the unemployment in the construction industry, Mr. Georgine. I know that you were very displeased with the veto of the public works bill, but as an alternative, or at least a partial alternative, I have introduced legislation—and Senator Griffith has on this side—which directs Federal financial assistance into high unemployment areas and uses the community development program. This plan permits communities to accelerate their projects or initiate ones that are already planned under the community development program. It seems to me in this way you could have funds going primarily into the construction industry and you could have that right now.

Now, I know that you do not want to accept a $1 billion bill, when you've got a $6.4 billion bill in the wings, but I would respectfully suggest that you look at it. And I wonder why we just don't go ahead with that now? And I would like to see the construction trades behind this, because they are the greatest beneficiaries of it. And if you are really concerned with unemployment in your trades, then I think you ought to look at this bill, because even if you do get something more, this is still a heck of a good start and if you could have funds flowing by the first of April.

Have you had a chance to look at it?

Mr. GEORGINE. I have not had a chance to look at it, but I certainly have been briefed on it. I understand it is about $700 million.

Representative BROWN of Michigan. Well, it starts out at a $900,000 million funding level for the first quarter. Then like the title II of the public works bill, it is countercyclical; as unemployment goes down, the funding goes down. I estimated that the authorization level would have to be $780 million for a full year, but that would be starting at a $900 million level at the first quarter.

Mr. GEORGINE. Let me say at the outset——

Representative BROWN of Michigan. Especially for a person in Detroit where title II of the public works bill depended on other factors, and not just unemployment, we found that there were many areas that would get money under that program if they only had 6.5 percent unemployment, or 7 percent, at the expense of Detroit, with 21 percent. When you have a finite number of dollars, Detroit would, in effect, be paying for the relief of unemployment in other areas less hard hit. But, go ahead.

Mr. GEORGINE. I would say that I would support any bill that is going to create jobs and do the kinds of things that I said have to be done. Now, just off the top of my head——

Representative BROWN of Michigan. I appreciate your endorsement of my legislation.

Mr. GEORGINE. Without seeing your bill, I want to say that it seems to me just on its face or from what I have been briefed about it—and I really do not know the details about it—it seems like it is too little and too late. If you had done something on public works a year ago, when I begged you to do it, we would have had a lot of this unemployment taken care of. We would not be in the morass we are in now. But, I would like to look at your bill.

Representative BROWN of Michigan. Mr. Georgine, it is not this administration or this Congressman that did not get a public works bill passed in a year—and it started in May of last year in the House, I know—and it is not the minority in the Congress that is responsible for the delay in that legislation. So, let us make sure that we put the blame where the blame lies.

Chairman HUMPHREY. Oh, come on.

Representative BROWN of Michigan. What I am saying though, is that this measure could be ready to go. The bureaucracy is already there. The plans are there and the funds could start flowing.

Mr. GEORGINE. Well, if the funds flow——

Representative BROWN of Michigan. I do not think I would want to sit in your chair and say to my membership, which has 27 percent unemployment, for instance, in Detroit, and say:

> We do not want just a little. After all, this is going to create maybe just 60,000 jobs in the construction industry. Instead, we want to wait until we get a program that will give us 120,000 or 200,000 jobs, even though it is next year.

I do not think that is a very good posture for you to be in. So, I think you ought to look at my bill and I think you will support it.

Mr. FINLEY. Mr. Congressman, let me just say there are some other unemployed people in this country besides construction workers. And I tell you how we are going to talk about that bill, Congressman. We only missed it by three votes. And we are not ready to settle for 600,000 jobs down to 60,000 jobs on the theory that you guys will go along with it and the President will sign it. I would rather go back and see if we can convince those three people to change their mind between now and November. And we are not going to tell our people this administration vetoed a bill for 600,000 people and now we've got a bill that will give 60,000 people in certain areas of the country, so let's take it with a dropper. We are not ready, Congressman, to take a dropper out of the goodness of Congress' heart. I would rather go back and sit with you guys and with the three Senators and ask them once again to either go up or down on this one in November. And our people will understand that. I guarantee you that. They are not going to get fooled with this dropper.

Representative BROWN of Michigan. Mr. Finley, I do not think this Congress is going to be satisfied with a $900 million bill either, but I am saying that it is one that can be doing something as of April 1. Now, if you want to take your time and go up and down the line with these three Senators, then you go right ahead and do it, but I thought you were interested in getting people back to work.

Mr. FINLEY. 600,000 people and not 60,000 people.

Representative BROWN of Michigan. Well, the Congressional Budget Office does not even agree with that 600,000 figure and you know it.

Mr. Finley, just one final thing, because the chairman wants me to conclude here quickly. You talk about unemployment in Japan. In Japan, do they count women in their unemployment figures?

Mr. FINLEY. Yes.

Representative BROWN of Michigan. Do they count people under 21?

Mr. FINLEY. Sure they do. There are mostly young people working in some of those shops.

Representative BROWN of Michigan. Do they use the same criteria for determination of unemployment in Japan as we do here: Part-time people seeking work, elderly people seeking work, et cetera?

Mr. FINLEY. I don't know of a different one.

Representative BROWN of Michigan. I do not think they do. I would like to have you go back and look it up.

Mr. FINLEY. Now, I have been there and they do count women, because in the industry I am involved in women are the majority of the workers. And when those plants are closing, those women are unemployed. They are counted as unemployed. They use relatively young women, 15 year olds, and they count them as unemployed when they do not have a job. Now, I do not know about part time, but I do not know that they don't.

Representative BROWN of Michigan. Mr. Chairman, you have been most tolerant. Thank you very much.

Chairman HUMPHREY. Mr. Finley and Mr. Georgine, I want you to know that there will be another attempt at making the emergency public works and counter-cyclical assistance bill a law. I have talked to some of my colleagues. We intend to see if we can pass that legislation. However, I hope you will take a look at the proposal being offered by Congressman Brown. I do not believe we ought to take anything and just dismiss it out of hand. But, frankly, as an old pharmacist, I want to say that there is very little good in taking a little 25,000 units of penicillin when you need one-half a million in order to get even half-way well. What my friend over here is saying is why don't you try peppermint gum drops with a little antibiotic on them. What Senator Humphrey says is you ought to take the full dose of antibiotic and get well.

Representative BROWN of Michigan. But, in the process of waiting for the full dose, you may die.

Chairman HUMPHREY. In the process of taking the minor dose, you can become immune and you will surely die.

Representative BROWN of Michigan. You are a better politician than a physician.

Chairman HUMPHREY. All right. Thank you, Mr. Georgine and Mr. Finley. We are very grateful for your presence here today and for your fine testimony. We will let you go now and we will bring up our next two witnesses.

I will just say to you, Congressman Brown, you are working very hard to get those converts and you are doing all right.

We have next Barbara Bergmann, a professor of economics, at the University of Maryland; and Charles Killingsworth, a professor at Michigan State University, and chairman, National Council of Employment Policies. We will proceed in alphabetical order and we will ask Ms. Bergmann to go first, and then to be followed by Mr. Killingsworth.

STATEMENT OF BARBARA BERGMANN, PROFESSOR OF ECONOMICS, UNIVERSITY OF MARYLAND

Ms. Bergmann. Thank you, Mr. Chairman. I very much appreciate the opportunity to address the committee which is doing an excellent job in bringing the issues into the open. Let me start by saying 2 or 3 years ago, the major controversy on unemployment concerned an appropriate target for the unemployment rate; that is, what rate constituted full employment. And whatever people thought about that, they understood that if the labor market got very tight and if capacity utilization got very tight, we would have inflationary pressures. Now, that argument has drifted away—for example, one sees very little mention of it in the economic report—and instead, we have a discussion about the pace of the recovery. The economic report forecasts that our real output will be growing at 6.5 percent and seems to imply that that is satisfactory.

Now, although we are fairly sure that too tight a labor market and too high a rate of capacity utilization brings in its wake inflationary pressures, there has been very little research that I know of on the question of the inflationary results of the speed of the recovery.

For example, let me be specific. Suppose, God forbid, unemployment had gone to 12 or 15 percent. Would we then still be saying that a 6 percent rate of growth is reasonable? I would argue that the deeper the recession the more reason to accelerate recovery. First of all, in deep recessions the inflationary pressures are relatively far away in terms of pressure on capacity and pressure of labor shortages; and second, because the misery is worse and the urgency of getting out of it is greater. This, of course, has been the deepest postwar recession.

I would, urge the Joint Economic Committee to sponsor some research on the issue of speed of recovery and its effect on inflationary pressure. I think that a lot of people are taking for granted assumption of the administration that a relatively vigorous recovery would be inflationary.

Chairman Humphrey. I think that is a very good idea. As a matter of fact, I think all of us accept certain so-called conventional wisdom about these matters and there may be an area here that needs exploration and research. We would appreciate any counsel and guidance on this you might want to give us. I would not quite know myself just offhand where we could turn, or what kind of a model we could use, but maybe, Ms. Bergmann, you could talk to our committee staff about that.

Ms. Bergmann. It is intolerable to have millions of people idle because of an untested assumption that slow recovery from unemployment rates and capacity rates is necessary and that a relatively rapid recovery rate is going to hurt you on the inflationary side. Simply to accept that is unjustified.

As to the remedies, we need a broad spectrum of policies. We certainly need counter-cyclical aid to the cities. An adequate program could include some public works which can be done rapidly, such as accelerating Washington subway construction and day-care centers.

We ought to consider a cut in the payroll tax, which would have the effect of making it more profitable for employers to hire labor and would also tend to reduce the most regressive tax we have. We ought once and for all to dispel the myth that social security depends on a certain trust fund. Social Security is secured by all the revenues of the United States. It is a promise. We should, once and for all, break the myth that social security checks can only be paid legitimately out of a fund which is labeled the "Social Security Fund," a fund financed by the most regressive tax we have. A cut in the payroll tax would increase aggregate demand, might possibly do some good on the inflation side, would encourage hiring and would improve the justice of the tax system.

I would include some additional public service employment in the recovery package. I am not as convinced as some others that this has to be a large component. There are a lot of details that need to be worked out. But we could use more of it than we now have.

We certainly should create programs to take care of, in an honorable way, people whose unemployment insurance is running out.

Finally, I would like to comment briefly on the chapter in the Economic Report relating to welfare and transfer payments. The chapter is informative and moderate. However, it fails to get at a major problem: Even in prosperous times we have this great mass of people who do not do well and who have to be on the public dole. This problem cannot be solved by tinkering with the welfare system. We obviously do need welfare reforms of all kinds, but tinkering with the formula, improving the work incentive, and so on, while perhaps desirable, does not get at the basic problem. The major answer is labor market reform, so that the people of this country who are of sound body can be taken care of by working and getting paid for it. The only way that is going to happen is if we reduce the amount of discrimination in this country, that is, if we end the situation where only white males really have good chances for getting good jobs. There is a lot of talk from conservative politicians that the Government is too big and is doing too much and the Government has to get off the backs of business. If we look around and see what needs to be done in this country, we would have to conclude we need more of some kinds of Government action. We need a lot more vigor in enforcing the Civil Rights Act, which was passed 10 years ago and is virtually unenforced. Forty-six percent of the labor force—women and minorities—is suffering from that nonenforcement.

And when you look at the number of recipients in the welfare chapter of the Economic Report, that is the result of that neglect. We ought to go in the direction not of less government, but of more efficient government, and more government intervention where it is needed. The public clearly wants enforcement of the antidiscrimination laws—along with the antipollution laws, occupational safety, and consumer protection laws—this means more Government action, not less.

Thank you, Senator.

Chairman HUMPHREY. Thank you very much. I asked one of the staff members to bring over a copy of the morning paper. I will come back to that in a little while, because the morning press carries a very informative story about the amount of government services presently being provided by State and local government. The mythology of it is that it is all Federal. But, in fact, the Council of Economic Development, the businessmen's organization, through Mr. Cisleono, the former Under Secretary of Labor of the Eisenhower administration and the Assistant Secretary in the Nixon administration, who wrote the article, brings to our attention that 90 percent of all of the services are carried out by local and State governments. And the report indicated that you cannot burden them any more; that they are already overloaded and there are certain services they cannot take care of. But, we will get into that as we go along.

Mr. Killingsworth, you may proceed.

STATEMENT OF CHARLES C. KILLINGSWORTH, PROFESSOR OF ECONOMICS AND LABOR AND INDUSTRIAL RELATIONS, MICHIGAN STATE UNIVERSITY, AND CHAIRMAN, NATIONAL COUNCIL ON EMPLOYMENT POLICIES

Mr. KILLINGSWORTH. Thank you, Mr. Chairman.

I call to the attention of the committee a problem which, in my judgment, has been neglected. I think it was neglected in the Economic Report. I have seen relatively little attention given to it in the press and in discussions of our economic problems of 1976. I refer to the prospect that a great many people, who are now depending upon unemployment compensation benefits to keep them out of poverty, are going to run out of eligibility for those benefits during 1976. And given the trends that seem to be well established, and in the absence of major new legislative authorizations, Mr. Chairman, it seems perfectly clear we are going to have very substantial numbers of people who will simply have nowhere to go.

Chairman HUMPHREY. That has been relatively obscured.

Mr. KILLINGSWORTH. I believe that is right. I think that it is important to emphasize certain points.

I have a prepared statement, which I submitted to the committee for the record. I am simply going to summarize some of the principal points in that.

As you know, around 6 million, something in excess of 6 million workers are now receiving unemployment benefits under various programs. It is very hard to get any estimates of the rate or number of exhaustions. I am told that the best you can do is to look at what is the program of last resort, which is Federal supplementary benefits. Now, if you take that number—and it is probably an understatement of the exhaustion numbers, but at least this gives us a bottom figure that we can work with—we see during 1975 the exhaustions under the FSB program came to 1.1 million. And the estimate for 1976 is 1.8 million workers.

As I say, these figures are probably an understatement.

It is interesting, and I think quite important, to try to trace through what happens to people who exhaust their unemployment compensation benefits. There were some studies of that made back in the 1950's when we had a fairly high level of unemployment, although nothing comparable to what we have now. Very little work has been done on this and——

Chairman HUMPHREY. I lost track of your comment.

Mr. KILLINGSWORTH. It was on what happens to people who exhaust their unemployment benefits.

Chairman HUMPHREY. Yes; where do they go?

Mr. KILLINGSWORTH. The Department of Labor has been foresighted enough—well, in one case it was with a nudge from the Congress and in the other case it was on their own initiative. The Department of Labor is undertaking to make a longitudinal study, a study over a period of time of a group of exhaustees and to find out what does happen to them and what their characteristics are and what their fortunes are in the labor market. I think that the findings, necessarily preliminary, of one of these studies—and that has now become available—are of considerable interest. I think they should be called to the attention of the committee. And I have tried to summarize them briefly in this statement.

Now this is based on a sample study. It is a random sample of 2,000 individuals, drawn from four large cities across the country: Baltimore, Chicago, Atlanta, and Seattle. They are a little older than the average unemployed person—Ms. Bergmann will be interested to know this—that there is a larger percentage of females than males among the exhaustees.

To me, one of the most interesting and significant findings is that these exhaustees appear to have regular work histories and a firm attachment to the labor force—90 percent of these people had not received any unemployment benefits in the 3 years immediately prior to the time that they lost their last job, which did land them on the unemployment benefit rolls. At the time that their benefits ran out, 46 percent of the exhaustees dropped below the poverty line. When they had the benefits, only 15 percent were below the poverty line. This, I think, is an indication——

Chairman HUMPHREY. That is a very revealing figure.

Mr. KILLINGSWORTH. I think it is an indication of the contribution unemployment benefits have made to preventing the further development of poverty in this country as the result of the recession.

Chairman HUMPHREY. I don't think anybody has really made a calculation, Mr. Killingsworth, as to what the so-called "stabilizators" have meant to domestic tranquility, so to speak, if you would imagine what would happen in this country without food stamps, without unemployment compensation, without extended welfare benefits, and what would be happening in some of our major cities, well, I predict without those there would be open violence. These economic and social stabilizers have not only provided a modicum of assistance so that people can live and have some clothing and have some food and some medical care and so forth; but in a real sense, they have tempered the emotions. They have calmed people down somewhat. But, when they run out of these benefits—and I gather you feel the figure to be substantially larger than what was projected in the President's report—but when they run out, then I think you are looking forward to some real not only heartache and suffering, but some potentially dangerous problems, particularly with the administration's plan to end the summer youth employment program. For the life of me, I cannot understand why they would be doing something like that at a time when there is so much unemployment in our core cities. Go ahead.

Mr. KILLINGSWORTH. There is a suggestion, I think, in one section of the economic report, Mr. Chairman, that a great deal of unemployment is voluntary and is prolonged by unemployment compensation benefits. I think some light was thrown on that by this study that I am quoting from. There was a set of interviews made 4 months after the exhaustion of the benefits of these people and only 25 percent of them 4 months after exhaustion had become reemployed. Fourteen percent had dropped out of the labor force. Sixty-one percent were still unemployed 4 months after they ran out of benefits. The most important factor in determining whether or not these people got jobs was not how much effort they put forth, according to this study, but rather the state of the labor market in which they found themselves; in those areas in which there were more jobs available, they had a better chance. It is a perfectly obvious point, but I think it is one that needs reemphasis in view of this implication that so much unemployment today is voluntary.

Now, data have just become available this week about interviews that were made 1 full year after the exhaustion of benefits. And by the great courtesy of the Department of Labor, I am permitted to cite some of these figures today.

Now, this is significant, I think, because some of these people were picked up under the new programs that were enacted at the end of 1974 and early 1975. But, by October and November of 1975, these people would have exhausted any benefits under these new programs and would have been without benefits for some time.

It is interesting to consider the numbers that have qualified for welfare payments by this time of October or November. And I think the figures are surprising. I was quite surprised. Only 7 percent of the whites and 24 percent of the blacks were receiving food stamps under which the eligibility is probably the most generous. Two percent of the whites and 9 percent of the blacks were on the AFDC rolls. Two percent of the whites and 8 percent of the blacks were on general assistance payments. A negligible number, something under 2 percent, were receiving the SSI benefits.

There is also some interesting data concerning the loss of health insurance, which was a big subject of discussion last year. I have the figures in my prepared statement. I am just going to limit myself, Mr. Chairman, to the most significant human aspect of this loss of health insurance. Forty percent of the people in this sample had totally lacked health insurance coverage for more than 40 weeks during their period of unemployment.

Chairman HUMPHREY. And those are the people that had had health insurance prior to that?

Mr. KILLINGSWORTH. That is right. And in those families 24 percent of those who had lacked a health insurance plan for some time, in 24 percent of those families, some family member had postponed medical care or had gone without medical care that otherwise would have been obtained.

Now, the point that I try to make is that we speak of unemployment compensation as the first line of defense against unemployment. And

I raise the question: Where is the second line? What is the second line?

If the second line is welfare, then it seems to me that these figures show there is a big no-man's land between that first line and the second line.

And the reason for that, I believe, is that in order to be eligible for welfare, you have to be destitute in most States. If you have a little savings account, if you have a car, if you have an equity in a home, if you have some kind of asset or something that can be converted into a liquid asset, then in a great many States you simply cannot get on welfare. So what we are likely to see with a great many of these exhaustees is a process by which they fall farther and farther into the state of destitution. Many of them are below the poverty line, as is shown, but they are not poor enough. They have to be really poor.

Chairman HUMPHREY. And some of them just do not want to apply.

Mr. KILLINGSWORTH. Yes, it is a matter of pride. But pride will not stand up forever when the children are hungry, to put it in somewhat emotional terms. So there will be increasing reliance on welfare, but only obviously at the cost of large numbers of people being pushed down into destitution.

Now, these numbers will be larger than the number of the exhaustees. That number indicates, of course, the wage earners and usually principal wage earners, though not exclusively.

If you count in the members of families that will be affected by this process, then you come up with several million people that we are condemning to destitution by the economic policies that we are following in the year 1976.

I am not going to try to give you a long list of recommendations. You have had some excellent recommendations already in this hearing and others. I would like to put in a little plug for a report which has been put out by an organization that I am connected with, the National Council on Employment Policy.

Chairman HUMPHREY. Do we have that report?

Mr. KILLINGSWORTH. I would be very glad to submit a copy of it for the committee's consideration.

Chairman HUMPHREY. Yes, I would like to have it for the committee. If you have two, I would like one for the chairman, because I find one of the real problems in Government is being able to get anything out of the record, once we get it in there.

Well, you give us that one and I will see that I get ahold of it.

Mr. KILLINGSWORTH. I can provide copies this afternoon from our office.

Chairman HUMPHREY. Thank you, I would appreciate that. I would like to see that each member of the committee gets a copy, if you have some copies. Will the staff see to it that each member gets one?

I have heard so much about your report. It is new. And I want to say that we welcome it. It is a most timely report. We are just now going to move into our 30th anniversary conference. We are looking at the whole employment problem and the unemployment problem and all the relevant facts to it. So, this will be very helpful.

Mr. KILLINGSWORTH. I am very flattered by your interest and you can be sure you will be flooded with copies by this afternoon. I want to add just one final personal thought. This document was prepared in a way to represent a consensus of a number of members of that group. And speaking solely for myself—well, there are some other members who agree with me, but I am not speaking for this Council on Employment Policy—let me say that I am looking forward very much to seeing the revised version of the Humphrey-Hawkins full employment bill.

Chairman HUMPHREY. You are going to like it.

Mr. KILLINGSWORTH. Mr. Chairman, I had some real reservations initially about any attempt to guarantee full employment. But, as I have seen what has been happening, and as I have thought about various alternatives, I have become convinced that the Humphrey-Hawkins bill represents what I call the straight line between two points. And it is my feeling about that bill, that that approach would have a large direct affect and also a large indirect affect. I think it would stimulate many efforts, a multiplicity of efforts on the part of government and the private sector as well. And I think that your bill would give us, as I say here, a fairer society and a more compassionate society and a sounder society and a more prosperous society.

I thank you very much.

Chairman HUMPHREY. Well, thank you. That is a splendid endorsement. We are going to unveil the revised bill here very shortly, and I think that it will project a formulation of policy on the part of government that will have substantial benefits.

Mr. KILLINGSWORTH. Needless to say, if that bill were in effect, this would solve the problem I have spoken about; namely, the problem of exhaustion of unemployment benefits. It is too much to hope that it is going to be in effect instantly, so I think we still have that problem for the year 1976.

Chairman HUMPHREY. We will have that problem for a couple of years or more, I am sure.

As I say, your prepared statement will be printed in the record.

[The prepared statement of Mr. Killingsworth follows:]

PREPARED STATEMENT OF CHARLES C. KILLINGSWORTH[1]

UNEMPLOYMENT IN 1976

I wish to thank the Joint Economic Committee for the invitation to present my views on some aspects of the Economic Report of 1976.

What is left unsaid in this Report is in some respects more significant than what is said. I see one major gap, in the form of a question which is not even asked: What is going to happen this year to the millions of unemployed workers who will exhaust their eligibility for unemployment benefits and will still be unable to find jobs?

The Report recognizes—as everyone must—that the chief means of alleviating some of the financial hardships of unemployment in this recession has been unemployment compensation. During most of calendar 1975, between six and seven million unemployed workers were drawing benefits. As of the first week in February (1976), 6.2 million workers were still receiving benefits under seven major programs, the Department of Labor reported.

The Economic Report emphasizes that recovery from the recession will be gradual, and it recites many reasons why the Council of Economic Advisors regards such gradualism as desirable, perhaps the most important one being the perceived need to avoid any revival of inflationary expectations. The immediate consequence of slow recovery is prolonged high unemployment, and the CEA forecast is that the national unemployment rate will still be approximately 7.5 percent at the end of 1976. The large reported drop in the national unemployment rate from December to January (from 8.3 percent to 7.8 percent) and

[1] University Professor of Economics and Labor and Industrial Relations, Michigan State University; Chairman, National Council on Employment Policy.

the large reported increase in employment (800,000) have not prompted Chairman Greenspan to revise that estimate. Mr. Greenspan's comments imply that he may share the view of many informed persons that the seasonal adjustment process may have caused a substantial overstatement of the real improvement in the labor market from December to January. The report on the February survey is likely to suffer from the same seasonal adjustment problems. My own conclusion is that, in the absence of major new jobs programs, the reported unemployment rate is likely to be closer to 8 percent than to 7 percent by the end of calendar 1976.

The Report gives some emphasis to the supplements to and extensions of unemployment compensation that were passed in late 1974 and 1975. But the Report fails to recognize and deal with the other side of this coin. I refer to the virtual certainty that millions of the unemployed will exhaust their eligibility for even the extended and supplemental unemployment compensation during 1976. It is difficult to find solid information concerning exhaustions in the recent past, because a claimant who is dropped from one program may be picked up by one of the other extensions or supplemental programs. Perhaps the best available indicator of what might be called "final" exhaustions is the number dropped from the Federal Supplemental Benefit program, which is the program of last resort for those who have used up their eligibility under Regular and Extended benefits programs. The number of FSB exhaustions in 1975 is 1.1 million. The estimate for 1976 is 1.8 million workers. These figures are probably an understatement, but they give some approximation of the magnitude of the problem.

The policies recommended by the Administration which are expected to result in very slow reduction in the national unemployment rate during 1976 will virtually guarantee that large numbers of these exhaustees will have neither benefits nor jobs in 1976. The hardships and deprivations of unemployment have been eased for many workers, probably a majority of the jobless, by the various unemployment benefit programs. These programs more than anything else brought about the development to which President Ford pointed with satisfaction in his portion of the Economic Report: "We did not experience corrosive social unrest as a consequence of our economic difficulties." Simple inaction may change this outcome during 1976. As unemployment seems to be declining, its bite may become sharper.

The Economic Report addresses the subject of UC exhaustions only indirectly and by implication. On page 81, we find the following passage:

"There is now considerable research suggesting that a longer maximum duration of unemployment benefits tends to lengthen the duration of actual unemployment by discouraging some from withdrawing from the labor force and some from accepting reemployment in a less attractive job. While the exact magnitude of any increase in measured unemployment is unclear, these studies suggest that interpretation of unemployment statistics has become more complex."

This passage appears to imply that many workers simply postpone taking another job, or only pretend still to be looking for a job, in order to continue to draw UC benefits. A further implication appears to be that, as UC eligibility is exhausted, a large number of those affected will be induced to take a job—perhaps not as good a job as they might like, but certainly enough of a job to remove such persons from the unemployment count. (The employment survey, broadly speaking, counts as "employed" anyone who has one hour or more of paid employment during the survey week.) The quoted passage also seems to imply that an additional large number of exhaustees will simply drop any pretense of looking for a job when their benefits run out, and will thereby become labor force dropouts. If matters developed in line with these implications, one might expect the reported unemployment rate to drop by considerably more than a fraction of one percent in 1976. The basic implication of the quotation seems to be that a substantial portion of current unemployment is voluntary.

To the extent that the "considerable research" referred to in the *Report* rests upon actual observation rather than assumption and inference, the data are from periods quite different from the current situation, which involves recovery from a recession unprecedented in the post-war period for severity and duration. One might reasonably expect to find some differences between earlier and current behavior of the unemployed.

Studies are now being made of the experience of UC exhaustees in the current recession. The Employment and Training Administration of the Department of Labor is sponsoring two major studies, and others may be under way under different sponsorship. Findings from one of the DOL studies will not be available until sometime in 1977. Preliminary findings from the other study are now becoming available, and a complete report will be available in the near future.[2] The study rests upon data from a random sample of 2,000 individuals, in four widely-separated cities across the country, who had exhausted benefits in October and November, 1974. These persons were interviewed at the time of exhaustion, again four months later, and a final time one year after exhaustion. (In the intervening time, some had become eligible for extended or supplemental benefits, which has somewhat complicated the analysis of some facets of the study.)

I believe that some of the key findings of this study, analyzing current experience, deserve the attention of the Joint Economic Committee. The exhaustees covered by the study are somewhat older than the average unemployed person, and there is a larger proportion of females among the exhaustees. Regular work histories, with firm attachment to the labor force, appear to characterize the exhaustee; 90 percent of them had not received *any* unemployment benefits in the three years immediately prior to losing their last job. When benefits ran out, 46 percent of the families of the exhaustees dropped below the poverty line; with the benefits, only 15 percent had been below the poverty line.

Four months after exhaustion, 25 percent of the exhaustees had become reemployed; 14 percent had dropped out of the labor force; and 61 percent were still unemployed. There may be some ambiguity in these findings, because (as noted) some of the exhaustees had apparently begun to receive benefits under new programs. However, the report states that the most important factor affecting the individual's chances for reemployment was the condition of the labor market in which he was looking for a job. Those who did find new jobs generally had substantially lower earnings than before becoming unemployed—but generally because of shorter working hours rather than lower wage rates.

A full year after exhaustion of regular benefits, most of these claimants would have exhausted their rights under the new programs as well. In view of the large number who fall below the poverty line without benefits—nearly half—it is significant that very small percentages had qualified for welfare payments of some kind by October or November, 1975. Only 7 percent of the whites and 24 percent of the blacks were receiving food stamps. Two percent of the whites and 9 percent of the blacks were on the AFDC–U rolls. Two percent of the whites and 8 percent of the blacks were receiving general assistance payments. Only negligible numbers were receiving SSI benefits.

Last year at about this time, there was considerable discussion of the problems faced by unemployed workers who had had some form of health insurance on their former jobs, but who had lost their coverage when laid off. This study throws some light on this matter. In this sample, 59 percent of the workers had had such health insurance coverage on the job. Less than half of this group had had the option to continue coverage when laid off, and more than half of the sample had had no coverage of any kind at some time during their period of unemployment; about 40 percent had lacked coverage for more than 40 weeks. And 24 percent of those who had lacked health insurance coverage for some portion of the time reported that someone in the family had postponed medical care that would otherwise have been obtained.

We commonly speak of unemployment insurance as a first line of defense against recession-caused joblessness. The time has come to ask, what is the second line, and the third? The studies just summarized suggest that if welfare is the second line, there is a big no-man's land in between the two lines. More specifically, the data suggest that, despite the majority of exhaustees who fall below the poverty line without unemployment benefits, most of them are still not poor enough to qualify for most kinds of welfare. They must wait to sink to a lower level of destitution to qualify for that kind of assistance. Many of the exhaustees have small savings, or cars, or they have an equity in a house; in many states, these small assets must be sacrificed before the applicant is considered for welfare. Many of those who are pushed down to this lower level of destitution will probably never make it back up above the poverty line, if past

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[2] The study is being made by Mathematica, Inc., and the W. E. Upjohn Institute for Employment Research. It is entitled "A Longitudinal Study of Unemployment Insurance Exhaustees." A summary of key findings was published in processed form under date of October 1, 1975. Additional findings, from interviews conducted in October and November 1975, have just been submitted to the Department of Labor. I have been authorized to quote some of these findings by officials of the Employment and Training Administration, for which I am most grateful.

experience is any guide. Please recall that we are talking about a minimum of 1.1 million exhaustees in 1975, another 1.8 million in 1976, and another unknown number in the remaining years of abnormally high unemployment projected by the Economic Report. When we take families into consideration, we multiply these figures by approximately three. There seems to be a reasonable basis to conclude that, in the name of inflation control and balanced economic expansion, we are condemning millions of Americans to lives of destitution.

What policy conclusions emerge from this analysis? I find it impossible to accept a set of national policies which seems to contemplate increasing destitution for millions of our citizens so that the rest of us can enjoy stable prices and "reasonable" economic growth. Surely we can do better than that. What we are offered by the policies outlined in the Economic Report, it seems to me, is a conscious withholding of job opportunities from persons who have demonstrated by their firm attachment to the labor force their readiness to work for a living for themselves and their families. Other witnesses before this Committee have exposed the fallacies which underlie the policies advocated in the Economic Report. I will not undertake to duplicate their analysis. Neither will I try to review the relative merits of various approaches to the solution, or amelioration of the unemployment problem. The National Council on Employment Policy, which I have the honor to serve as its chairman, has recently published such an analysis entitled, "How Much Unemployment Do We Need?" I wish to submit a copy of that analysis for the consideration of the Joint Economic Committee.

That document was written to achieve a consensus among a substantial number of manpower experts. I have a final word to add, speaking solely for myself. I look forward to the unveiling of the revised version of the Humphrey-Hawkins Full Employment Bill. I must confess that initially I had reservations about any attempt to guarantee "full employment." The events of the past 18 months have gradually convinced me that the Humphrey-Hawkins Bill represents the straight line between two points. I believe that the approach set forth in this bill would activate a multiplicity of efforts in government and in the private sector which would give us a fairer society, a more compassionate society, a sounder society, and even a more prosperous society.

Chairman HUMPHREY. The problem that we have in the public mind is as follows. The cost to the Treasury of doing anything to meet the unemployment crisis is substantial and sometimes almost alarmingly high. People can focus on that because we get Mr. Greenspan and other people up here and they get on this tube, and they've got the television cameras here. So it just flashes out to the country.

But, to piece together the little segmental costs of what happens when people are unemployed—such as the social costs, the loss of income costs, and the loss of revenue, the loss of skill costs and the incredible costs of health and everything else—to piece that all together and add it all up is a monumental task. So the people of my persuasian on this issue are attacked—and it does not bother me, frankly, because I feel very strongly about where I stand—but my position is always attacked as being a budget deficit type of position. But, of course, the answer to the deficit, as has been said by 1,000 witnesses before this committee or similar committees, is to end the recession. But, we never can get that projected. And part of the reason is that a large number of our people live rather comfortably. And I think that it is very difficult for those people to understandably appreciate what is happening to others. And I am not being critical. It is just that until you have suffered, you will never know what pain really means.

Now, your statement here analyzes it beautifully, Mr. Killingsworth. You spoke of the economic report and said—

What policy conclusions emerge from this analysis? I find it impossible to accept a set of national policies which seem to contemplate increasing destitution for millions of our citizens so that the rest of us can enjoy stable prices and reasonable economic growth. Surely we can do better than that. What we are offered by the policies outlined in the economic report, it seems to me, is a conscious withholding of job opportunities from persons who have demonstrated by their firm attachment to the labor force, their readiness to work for a living for themselves and their families.

You have said it beautifully. And this is exactly what tears at my heart and mind. I have called this unemployment and recession our economic Vietnam. It was just like that war; as long as it was over there 10,000 miles away, we were able to tolerate it and, not only that, to support it. Finally, the stench of it worked its way through the whole body politics. That is exactly what is going to happen under this prolonged unemployment.

This prolonged unemployment is going to gut our cities. I read an article in the Washington Post this morning on the editorial pages of the plight of our cities. Several mayors testified before us recently. I wonder how many people understand what is really happening to our cities.

We hear all this about this great recovery we are having. And there is some recovery of a kind, but city after city is ready to go down the tube. And there are billions of dollars of investment in these cities, even if you want to ignore the human value. But the people who are living in those cities today are having fewer and fewer opportunities. Services have to be cut. The mayor of Detroit, bless his heart, is struggling with these problems of that great city.

But, the people of the upper income and the middle income, have moved out of the city. As a result, you leave it filled with the poor and the elderly and the unskilled and some of the work force that cannot leave, or does not want to leave. It is sort of like in the early days of our Republic when we abused the land. We kept moving west. One day we had to enter into soil conservation at a huge cost because our land was being eroded by wind and water and weather. Nobody was taking care of it. Our economy today is being eroded. It is privately rich and publicly poor.

You have said it here beautifully, and I am very grateful to you. I want to say also to Ms. Bergmann that I sensed in your testimony and in yours Mr. Killingsworth, a displeasure with the conclusions of the Economic Report. Am I correct in that, Ms. Bergmann? I am speaking of the President's Council on Economic Adviser's report.

Ms. Bergmann. Yes; I think we have to say that the growth rate the report accepts is just not good enough. And what has not been explored is the tradeoff between growth rates and inflation. If a more rapid cure for our economic ills would bring inflation—maybe it will maybe it won't, as I say, we need research on that—but if the best estimate is that it will, then we have to prevent inflation some other way than by having 17 percent of the construction workers unemployed. We have to prevent inflation some other way than by keeping 20 or 30 percent of industrial capacity unutilized. No economist likes to contemplate wage and price controls, but to me, wage and price controls are better than accelerated destitution.

Chairman Humphrey. Well, I think you've made a very valuable point. What has been going on here is an acceptance of not even a theory, but of a policy that the way that we slow down the fires of inflation is by suffering through the ravages of recession. However, it is a select group that bears more of the ravages of recession and it is the group that can least afford to do so. We listened to Mr. Finley this morning, of the Amalgamated Clothing Workers, and he pointed out that the people who lose jobs in his industry are basically low-income people. These are minorities. These people are women and young people. And this may be their first opportunity to come into the job market. They come in and then, bingo, somebody pulls the chute and out they go. There is a kind of insensitivity in that Economic Report that has bothered me no end.

Ms. BERGMANN. I think it likely that we are going to have inflationary troubles for the next 10 to 20 years. Maybe it will get worse and maybe it will get better, but the stage may have been set; the equilibrium, which kept us at low rates of inflation, seems to have broken. We have to face the fact that inflation is very painful to a lot of people and a lot of very importantly placed people. We have to find some way of dealing with those inflationary problems when inevitably they show up, some other way than the way this report says to deal with them—which is to make beggars of millions of people.

Chairman HUMPHREY. And then to criticize them besides.

Ms. BERGMANN. Professor Killingsworth spoke of the hints in the report that a lot of the unemployment is voluntary. A number of economists have come over to that rather peculiar point of view. There used to be a data series put out by the Labor Department on job vacancies. And in my view, one should not say people are voluntarily unemployed unless one can point to the vacancies they can go into. The Labor Department discontinued publishing the vacancy data because they said it was always so low and did not show anything. To me, it showed a great deal; namely, that in this country we have forced unemployment because of frightful economic policies.

Chairman HUMPHREY. I would think it is fair to say that there are always some people that will abuse any program of assistance. We know that. I do think we must not draw a general rule from a few specific circumstances.

Also, there is a feeling on the part of people today of not always wanting to move to chase the job. This is understandably so. I remember when I was a very young man in the New Deal days, when they decided out in South Dakota they were going to move the people from what we call the Bad Lands. We had some planner who was going to do that. And they came out there and these young folks were quite upset because their theory said that these people could not make it there and they ought to get out of there and it was a poor place to live, so they felt these people should move. Well, the trouble is people are not objects. And these people said: "Drop dead. We are not going to move. And if you think you are going to move us, why get your guns out." In those days, there was almost vigilante action.

And I recall I said to my father—I was a young man at the time—I said: "You know, the Government people make a lot of sense. These people ought to move." And he said: "Son, children were born out there in those little towns and mothers and fathers and grandfathers and uncles and aunts are buried out there in the cemeteries. There are memories that these people have and they are not about ready to move out just because somebody told them to."

And you know, it is one thing to deal with statistics and objects that you can pick up, but it is another thing to deal with people who have emotions and feelings and memories and have loved ones and who don't want to move.

So today, I hear many people say, "Well, there are jobs elsewhere." You can say that to somebody up in Bagley, Minn. that there is a job down at Mobile; but suppose they do not want to go to Mobile?

And unlike somebody who said here awhile ago that: "They can vote with their feet," they are not about ready to get up and leave. And there is no necessity for a society to push this on people. It is just a coldblooded attitude. It is something that is being perpetrated in this country that is just coldblooded. I wanted to say that to the two of you, and I think you indicated it yourselves. I think there is a very serious amorality problem—I don't want to call it "immorality" but "amorality"—a real problem where we deal with the victims of things who have no control over what is happening, where we deal with these people as if somehow or other they really did not matter, except as a statistic. And that is the difference between some of us.

I read in the paper this morning that I had an overdose of compassion, which is not the worst complaint I have had against me. As a matter of fact, I will settle for that, if they rub out all the other mistakes I have made.

Now, I call to your attention the newspaper article I mentioned earlier, which reads:

"The study of the transfer plans is called misguided." This goes on to state: "States and localities are held as already doing too much."

This is a study, as I said, by the Committee for Economic Development and was presented by Mr. Cisleono, who is the former Under Secretary of Commerce in the Nixon administration and Assistant Secretary of Labor in the Eisenhower administration. What the gentleman said in this report is quite interesting. He said: "Few realize that States and localities, not the Federal Government, are now primarily responsible for administering most of the tax dollars used to deliver public services."

I mention that for one reason. Above all, there is this big hue and cry about the mismanagement all the time of our Federal programs. And I have been trying to say—without too much impact—that most of these programs are at least cooperatively administered at the State and local level. Take, for example, food stamps. Those are administered by the county welfare offices. The entire welfare program is administered locally. So that maybe sometimes the political oratory does not always relate to the administrative facts.

Mr. KILLINGSWORTH. May I bring to your attention one memorable statement that was made by Gunner Myrdal, our friendly critic from Sweden, some years back in a book that he published. I think the statement is more applicable today than perhaps it was 12 or so years ago when he published the book. He said: "An ugly stench is arising from the basement of the stately American mansion." I think that puts it very well.

Chairman HUMPHREY. I spent a rather pleasant evening with Gunnar Myrdal over in Stockholm. And I want to tell you that was an exciting evening.

Ms. Bergmann, just a final question of you. How fast should real GNP grow during 1976 and 1977 without, in your opinion, creating serious inflationary pressures?

Ms. BERGMANN. I would say that 6 percent is way too low. Eight or nine percent would be far more reasonable.

Chairman HUMPHREY. When we had the Council of Economic Advisers here, there was considerable discussion about the public jobs program—not only the public service but the emergency public works programs. Some of us have been talking about the kind of public works at a local level that you can phase in and phase out without too much dislocation. There are a number of projects that can have quick startups. And also, as unemployment falls, you can phase out some of your public works.

The advisers were very, very critical of any kind of public employment program. I got into quite an argument with them. Frankly, I figured if they did not have any better ideas than they had, they ought to quit, but that was just my personal point of view. They said it cost as much as $90,000 per job. I don't think or I have not seen any factual evidence to support that.

Now, I happen to be one that is not too pleased with just public service jobs. I think there are limits. I have always felt that way. But I often have felt that the alternatives have to be looked at.

As I think Ms. Bergmann has pointed out, there is a gap period. There is a gap between the best of the economic conditions in terms of the absorbtion of the unemployed and, as you said, Mr. Killingsworth, there is a period of time where people are not going to receive their benefits. They are not going to be absorbed into the private market and they are not going to have unemployment compensation. So, the question is what happens to them during that period of time. That is, of course, the central question.

Now, what is your reaction to the administration's criticism of the public jobs program? I want you to be very free in giving us your views on it.

Now, Ms. Bergmann, let's start with you.

Ms. BERGMANN. The Congressional Budget Office estimates that the most bang from the buck comes from public service employment. That is to say, if you view cost efficiency in terms of jobs per dollar spent by the Government, that is the program which gives you the most.

As I said, I think that there are real problems with it. We haven't really decided whether we want it to be a sheltered workshop program for those who have the most difficulties with the regular labor market, or whether we want to have it have a countercyclical emphasis. But surely at this time, it is one of the things we can do and do rapidly. We can find useful work for those people. We used to say that in a period like this, with unused resources, the real costs are zero. Those people are going to eat some way or other. They ought to have the feeling that they are contributing.

One cost of unemployment is the feeling that people get that they cannot contribute, they are not useful. From that point of view, public service employment is a worthwhile program, but I think we can do other things too.

Chairman HUMPHREY. Mr. Killingsworth.

Mr. KILLINGSWORTH. As it happened, I had a letter in the New York Times a couple of weeks ago commenting on the testimony that you commented on.

Chairman HUMPHREY. The Council of Economic Advisers?

Mr. KILLINGSWORTH. Yes, sir.

Chairman HUMPHREY. Hearing no objection, we will place it in the record.

[The following letter was subsequently supplied for the record:]

[From the New York Times, Feb. 16, 1976]

IN DEFENSE OF PUBLIC SERVICE EMPLOYMENT

To the Editor:

In hearings before the Joint Economic Committee on Jan. 28, an Administration spokesman attacked the Public Service Employment (P.S.E.) program as a remedy for unemployment. According to your news story, he said: "We have found * * * after three years only one or two net new jobs remain out of ten supposedly created originally."

Most readers probably believe that some kind of nose-counting operation underlies this assertion, which has become one of the standard conservative excuses for doing nothing about unemployment. The fact is that the studies which provide the basis for this kind of estimate make assumptions concerning state and local government behavior under quite different kinds of Federal grant programs and then infer that state and local government behavior under the P.S.E. program would be identical, despite statutory provisions specifically constraining such behavior.

This kind of "study," piling inference upon assumption, is evidence of such poor quality that it would be inadmissible, or at least not entitled to any weight, in almost any judicial or quasi-judicial proceeding. The standards of "evidence" in economic policy-making are evidently much lower.

If hard evidence of widespread "substitution" of federally funded employees for laid-off state and local employees is ever developed, there would be an obvious remedy: Federal administration of the P.S.E. program. The alleged substitution effect is simply a consequence of state and local administration of the current P.S.E. effort. The W.P.A. program of the 1930's was federally administered. It was accused of many sins by its conservative critics, but "substitution" of Federal for state and local employees was not one of them.

CHARLES C. KILLINGSWORTH,
East Lansing, Mich., Jan. 30, 1976.

The writer, professor of economics at Michigan State University, is chairman of the National Council on Employment Policy.

Mr. KILLINGSWORTH. My point was that evidence on which these statements rest is very shaky, is extremely questionable. It simply piles assumption on inference. It is not a matter of following through the programs that we are actually carrying on today, and in some rational and accurate way counting up the costs. They take entirely different kinds of programs and make assumptions about them and on a rather macrobasis arrive at estimates as to what the behavior of State and local governments will be.

And in many ways, these earlier studies relate to programs that are not like the public service employment program. But, even more importantly, I think that these criticisms fail to take into account that they are criticizing a very particular kind of public service employment program with grants almost exclusively to State and local governments.

I might just shortcut this a little bit by saying that the new bill for expansion of public service employment, which has come out, I believe it has been reported out by now——

Chairman HUMPHREY. Yes, the Daniels bill.

Mr. KILLINGSWORTH. Yes, the Daniels bill meets head-on a great many of these objections by requiring contracting out. There are claims about "substitution." That is one point. But you know there is another point that is overlooked here, which is that if there is substitution, as alleged in your hearings, then you have to ask—and this is a form of leakage—you have to ask: Where does the money leak to? Who ends up with the money? And when you go through that, then I think you come up with the conclusion that at the very worst this leakage is not any less beneficial to the economy than tax cutting.

Chairman HUMPHREY. That is right.

Mr. KILLINGSWORTH. Or revenue sharing, direct grants to the States. So that to imply that substitution or leakage is synonymous with loss is, I think, highly misleading and most unfair to the program. But the basic point is that the reasons for the possibility of substitution are very easily corrected.

Chairman HUMPHREY. Well, if you had the countercyclical antirecession grants to State and local governments, along with your public jobs' program, you would prevent some of the so-called substitutions on the one hand.

Mr. KILLINGSWORTH. That is right.

Chairman HUMPHREY. Isn't it ridiculous to permit people, that you subsequently feel you have to rehire, to drop off from a payroll? I will never forget being up in New York when we were having our hearings there and listening that we were going to have to drop 75,000 city employees and then CETA was going to come in and train and hire 16,000. You know, it just does not make any sense.

Well, thank you very much. We appreciate your patience here. Your testimony has been most helpful to us. Thank you.

[Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 10 a.m., Friday, March 5, 1976.]

THE 1976 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, MARCH 5, 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 318, Russell Senate Office Building, Senator Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Proxmire, Javits, and Fannin; and Representative Moorhead.

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

OPENING STATEMENT OF REPRESENTATIVE MOORHEAD

Representative MOORHEAD [presiding]. The Joint Economic Committee hearing is the last this year of our annual series to evaluate the President's "Economic Report." Two weeks from today we will be in a conference to celebrate the 30th birthday of the Employment Act of 1946 and the creation of this committee. As we discuss the business outlook in today's hearing, there is another birthday this month we ought to note, a 200th, and I am sure you gentlemen will especially want to join me in highlighting this one—it is the 200th anniversary of the publication of "The Wealth of Nations" by Adam Smith.

In some ways Adam Smith is the godfather of our Nation. And, I am sure entrepreneurial blessings would be bestowed on both of our witnesses on the current business outlook.

Mr. Bludhorn is the chairman of Gulf & Western, Inc., one of the largest and most successful corporations in the United States. While many businesses were suffering reverses during the recession, this corporation managed to continue to increase its sales and profits which is no small accomplishment.

There are a lot of spring flowers blooming in Mr. Needham's garden, too. The New York Stock Exchange has broken all records for volume and strength in its rise during the first 2 months of this year. The Standard & Poor's 500 Composite Price Index has gone from 72 in January 1975, to 89 at the end of the year, to 101 today.

Mr. Needham, I hope the stock market is as good as forecaster of overall economic conditions as some people think. Because a lot of people in this economy have been left behind and need help, and they need it soon. Unfortunately, according to the administration's forecast, they are not going to get it. They have no program for getting unemployment or inflation down quickly. They are predicting over 7 percent unemployment at the end of this year and 6 percent inflation in 1976 and 1977. They want to go slow on the recovery—they don't want to "rock the boat."

Looking at the Wall Street figures one can well hope that, as President Kennedy used to say, "A rising tide lifts all boats."

But if that tide does not come in as strongly for some of the little boats soon they will never be afloat again. The outgoing tide of the worst recession in 40 years will have left them permanently beached.

I find the administration's projected rate of over 7 percent unemployed unacceptable. It is more of a "cop out" than a plan of action.

Mr. Needham, you want to make it easier for the private sector to tap the capital markets. You say in your written statement that individuals have become net sellers of stock since 1958. You also say that you support the concept of developing a plan to increase individual ownership of common stock. I assume that support would extend to a plan to increase stock ownership by middle-income individuals.

Senator Humphrey will join us as soon as possible. Meanwhile I welcome the witnesses on his behalf. I will ask them to begin their testimony in a moment, but first, I recognize Senator Fannin for a statement, which the committee looks forward to hearing.

Senator FANNIN. Well, thank you, Congressman Moorhead. I appreciate very much the privilege of being with you here this morning. I will just take a very short time. I would like to have my prepared statement be made a part of the record.

Representative MOORHEAD. Without objection, your prepared statement will be made a part of the record at the conclusion of your opening statement.

OPENING STATEMENT OF SENATOR FANNIN

Senator FANNIN. I would like to make some introductory remarks on what is clearly the Nation's principal economic problem—the lack of adequate capital resources. I am very pleased this morning that we have Mr. Needham and Mr. Bludhorn with us.

Certainly what I have to say, I think is in line with their thinking. I certainly hope so. We must all be concerned about the increasing financial weakness of the private sector of our economy. We are encouraged, but we still have problems as we know.

Only by maintaining free capital markets can we expect to assure a vigorous economy and the most efficient rate of economic growth.

The cornerstone of our capital markets has been, and must continue to be, freedom. This means freedom for the investor to select his investments without tax laws allocating investment along certain politically expedient lines. This also means freedom for issuers to raise capital in the most efficient and expeditious manner. Finally, there must be freedom for our economy both to grow and to protect itself from economic phenomena from outside our markets, and outside our free economy; to protect against the inevitable consequences of Government planning gone awry, foreign government cartels, and the refusal of past administrations to impose the costs of war and welfare when the bill came due.

The causes of the shortfall of capital resources have developed over a period of years. Our Federal fiscal and tax policies have contributed directly to this pressing problem. Federal deficits have required the Government to borrow massive amounts from the private sector, thereby depleting the resources available for private endeavors and at the same time stimulating inflation.

The key to our future policies must be to strike a delicate balance—providing enough fuel to the economy to continue the recovery and yet avoiding measures which would propel us into another spurt of inflation.

A basic answer lies in developing policies that will encourage savings and investment as opposed to consumption. Unfortunately, in the past, the opposite has been the case—we have discouraged investment. The results were really predictable. The United States has had the poorest record of investment as a percent of real national output and hence of real growth of the major industrialized countries of the world for over a decade now.

Productivity gains in the United States during the last 7 years have been averaging only one-half of the gains in the preceding two decades.

The United States ranks last in a list of seven major nations in productivity growth.

Our capital markets, which serve as barometers of Government and private sector economic activities, also show what has happened: Rising government deficits requiring giant new borrowings, the virtual disappearance of the new issues market until just recently, the alarming increase in debt to equity ratios; and the emergence of the two-tier debt market.

If we are going to solve our economic problems, we will do so only by giving our business and industry, large and small, the means to expand. And to accomplish this, it is essential that we make some major changes in the tax structure. Our present tax structure clearly encourages consumption, as I stated, and discourages investment by placing a heavier tax liability on dollars saved or invested than on dollars spent. This misdirected policy stifles needed capital formation which is the fundamental prerequisites for sound economic growth. A new tax policy must be adopted to counter this trend and renew the interest and ability of individuals and corporations to invest in our Nation's future economic well-being.

Regardless of the economic system employed by a society, the ability to employ its citizens in constructive jobs and improve the well-being of all its people is directly related to its savings and investment policies.

Believing that Congress must address this problem in the immediate future, I introduced S. 2909, the Investment Incentives Act of 1976. That bill is designed to bring new savings and investment incentives to individuals and to corporations, both small and large. It is my belief that a carefully designed series of tax incentives must be adopted in order to stimulate investment throughout our complex economy. No single tax incentive would achieve this objective. S. 2909 is drafted to reach broadly across the private sector to create new jobs for our expanding labor force, increase productivity, improve environment and working conditions and achieve energy independence.

As with so much today, in the area of capital investment, I believe that the time has come for some fundamental changes and for more imagination about what we can accomplish if we stop worrying about what is politically attractive. The claim that politics won't allow it is a poor substitute for developing sound solutions to our problems. The question I leave you with is relevant to the policies we develop in energy, or the economy or commodities, or investment—do we or do we not have the will and courage to act on our convictions? The answer will determine the course of this country in the future.

Thank you, Congressman.

Representative MOORHEAD. Thank you for an excellent statement. I made a note of S. 2909 and will take a look at it myself.

Your prepared statement will be included in the hearing record at this point.

Without objection, I also would like to place Mr. Harper's prepared statement in the record at this point. He was regretfully unable to be present, as invited, for the hearing today.

[The prepared statements of Senator Fannin and Mr. Harper follow:]

PREPARED STATEMENT OF HON. PAUL J. FANNIN, A U.S. SENATOR FROM THE STATE OF ARIZONA

Mr. Chairman, I would like to make some introductory remarks on what is clearly the Nation's principal economic problem—the lack of adequate capital resources. We must all be concerned about the increasing financial weakness of the private sector of our economy.

Government has increasingly affected the conduct of both borrowers and lenders to such an extent that lenders find it less profitable to lend and borrowers find it less profitable to borrow. The inevitable result is that government has become an end in itself instead of a means to an end. Government intervention, even when expertly planned, has failed. A policy of more government intervention is clearly not the answer. What government must do is extricate itself from the economic machinery and allow the nation's productive sector to function freely. Only in this way can we ever hope to strengthen our market economy for the future demands of a growing world. Only by maintaining free capital markets can be expect to assure a vigorous economy and the most efficient rate of economic growth.

The cornerstone of our capital markets has been, and must continue to be freedom. This means freedom for the investor to select his investments without tax laws allocating investment along certain politically expedient lines. This also means freedom for issuers to raise capital in the most efficient and expeditious manner. Finally there must be freedom for our economy both to grow and to protect itself from economic phenomena from outside our markets, and outside our free economy; to protect against the inevitable consequences of Government planning gone awry, foreign government cartels, and the refusal of past Administrations to impose the costs of war and welfare when the bill came due.

The causes of the shortfall of capital resources have developed over a period of years. Our federal fiscal and tax policies have contributed directly to this pressing problem. Federal deficits have required the government to borrow massive amounts from the private sector, thereby depleting the resources available for private endeavors and at the same time stimulating inflation. Deficit spending has never carried with it more precarious consequences than it does at the present time. There continue to be serious questions as to how much money can be drained out of the economy to meet federal spending extravagances without stifling the economic recovery presently underway.

The key to our future policies must be to strike a delicate balance—providing enough fuel to the economy to continue the recovery and yet avoiding measures which would propel us into another spurt of inflation. As we do this, we must focus not on what may be politically expedient for the moment, but on what will be economically sound for the long-term. A basic answer lies in developing policies that will encourage savings and investment as opposed to consumption. Unfortunately in the past, the opposite has been the case—we have discouraged investment. The results were really predictable:

The United States has had the poorest record of investment as a percent of real national output and hence of real growth of the major industrialized countries of the world for over a decade now. (Figure I.)

Productivity gains in the United States during the last seven years have been averaging only one-half of the gains in the preceding two decades. Additional supporting evidence can be gathered by examining the investment and growth patterns of the United States economy with those of the other leading industrialized countries of the world. These comparisons are provided in the next three graphs. In Figure II we see that the United States ranks last in a list of seven major nations in productivity growth. Figure III shows us an almost perfect correlation between the proportion of GNP spent on fixed investment and the growth in productivity. Figure IV documents the extent to which increases in output/man-hour in the United States have fallen behind growth in the rest of the world.

In 1973 clear evidence of absolute shortages existed in many basic industries such as chemicals, steel, paper, and fertilizer which served to exacerbate the inflation and hinder growth in the economy.

Our capital markets, which serve as barometers of government and private sector economic activities, also show what has happened; Rising government deficits requiring giant new borrowings, the virtual disappearance of the new issues market until just recently, the alarming increase in debt to equity ratios; and the emergence of the two-tier debt market.

If we are going to solve our economic problems, we will do so only by giving our business and industry, large and small, the means to expand. And to accomplish this, it is essential that we make some major changes in the tax structure. Our present tax structure clearly encourages consumption and discourages investment by placing a heavier tax liability on dollars saved or invested than on dollars spent. This misdirected policy stifles needed capital formation which is the fundamental prerequisite for sound economic growth. A new tax policy must be adapted to counter this trend and renew the interest and ability of individuals and corporations to invest in our Nation's future economic well-being.

Regardless of the economic system employed by a society, the ability to employ its citizens in constructive jobs and improve the well-being of all its people is directly related to its savings and investment policies. Capitalist, Socialist, and Communist societies share this economic reality. A fundamental difference between these economic systems is the manner in which resource allocation decisions are made. Socialist and Communist economies utilize a central decision-making system in which the government determines what portion of the national income is invested and what is available for consumption. Capitalist societies depend upon the free market mechanism to allocate financial resources. National policies affect those market allocation decisions, but they do not mandate them. Individuals and businesses maintain the prerogative to invest or consume. Mr. Chairman, it is tragic that current rhetoric labels as tax loopholes any federal policies which encourage and strengthen the private sector. The plain facts are that in October, 1975, 83% of the labor force was employed in the private sector with the remaining 17% working for various levels of government. An 8 percent unemployment rate cannot be reduced in any significant way by enacting massive temporary public employment jobs. The only way to provide sufficient number of permanent jobs to meet our employment needs is by strengthening the Nation's private sector.

Mr. Chairman, the United States retains a position of economic leadership because it has enjoyed an adequate combination of several economic variables, along with political stability and improving social mobility. This ability to exert economic leadership has waned in recent years due to a comparatively inadequate investment in productive capacity.

The Congress must face up to the harsh economic facts confronting the Nation. The United States lags behind most industrial societies both in capital investment and productivity growth. We ranked seventeenth among the twenty OECD nations in the rate of real economic growth during the decade of the 1960's. Treasury Department figures indicate that total United States fixed investment as a share of national output during the period 1960 through 1973 was 17.5 percent which ranked the United States last among a group of eleven major industrial nations. These facts disturb me greatly.

Believing that Congress must address this problem in the immediate future, I introduced S. 2909, the Investment Incentives Act of 1976. That bill is designed to bring new savings and investment incentives to individuals and to corporations, both small and large. It is my belief that a carefully designed series of tax incentives must be adopted in order to stimulate investment throughout our complex economy. No single tax incentive would achieve this objective. S. 2909 is drafted to reach broadly across the private sector to create new jobs for our expanding labor force, increase productivity, improve environment and working conditions and achieve energy independence.

My bill takes action in six specific areas:

1. There is an exclusion of $500 of interest income from savings accounts and similar savings devices with savings institutions.

2. There is an exclusion from income of the first $1,000 ($2,000 if a joint return) of net capital gain on sales or exchanges of securities. This applies only to the extent that an equivalent amount is invested in securities of a domestic corporation within the same taxable year. The provision would result in a deferral of tax, but not in an elimination of tax.

3. The corporate surtax exemption would be increased to $100,000 and the surtax rate would be reduced from 26 percent to 22 percent over a five-year period. The normal tax rate of 22 percent is replaced by a series of rates ranging from 18 to 22 percent.

4. The investment tax credit rate is increased to 10 percent on a permanent basis for all taxpayers, including public utilities. The used property limitation is to be set at $100,000 and any unused credits may be carried over to future years without limitation until fully utilized. Except in the case of utilities, no more than 50 percent of tax liability may be offset by the credit in any one year.

5. The double taxation of corporate earnings is addressed in two ways. First, individuals may exclude from gross income dividends which are reinvested in common or preferred stock—but not debt instruments—with the limitation that no more than 25 percent of an individual's taxable income could be reduced by use of this exclusion. Second, domestic corporations may deduct dividends paid on preferred stock issued after enactment.

6. The cost of required but nonproductive pollution control facilities and equipment may be written off in one year.

Mr. Chairman, the Joint Committee on Internal Revenue Taxation has calculated the revenue impact of the various features of S. 2009. In addition, Chase Econometrics has placed the provisions of S. 2909 into its econometric model. The resulting figures provided by Chase are very encouraging. While the Joint Committee estimates that the potential revenue loss to the Treasury is as much as $10.2 billion in 1976 and $24.2 billion in 1981, the Chase figures indicate a potential net gain to the Treasury by 1978 of $5.7 billion, increasing to $9.8 billion in 1981. Therefore, while the various provisions of the Investment Incentives Act may be viewed as costing the Treasury specified sums, this type of isolated analysis does not take into account the new revenues resulting from an expanded economic base which these investment incentives would foster. I believe this comparison between the Joint Committee's figures and those resulting from an econometric analysis are important to consider. The Joint Committee's figures are not accurate, they simply do not reflect the effect these various tax measures would have on the economy in total.

Mr. Chairman, as with so much today, in the area of capital investment, I believe that the time has come for some fundamental changes and for more imagination about what we can accomplish if we stop worrying about what is politically attractive. The claim that politics won't allow it is a poor substitute for developing sound solutions to our problems. The question I leave you with is relevant to the policies we develop in energy, or the economy or commodities, or investment—do we or do we not have the will and courage to act on our convictions? The answer will determine the course of this country in the future.

FIGURE I

INVESTMENT AS PERCENT OF REAL NATIONAL OUTPUT, 1960–73[1]

	Total fixed[2]	Nonresidential fixed
United States	17.5	13.6
Japan	35.0	29.0
West Germany	25.8	20.0
France	24.5	18.2
Canada	21.8	17.4
Italy	20.5	14.4
United Kingdom	18.5	15.2
Average for the 6 foreign countries	24.4	19.0

[1] OECD concepts of investment and national product. national output is defined as "gross domestic product," rather than the more familiar measure of GNP.

[2] Including residential.

Source: U.S. Department of the Treasury.

FIGURE II

PRODUCTIVITY GROWTH, 1960–73

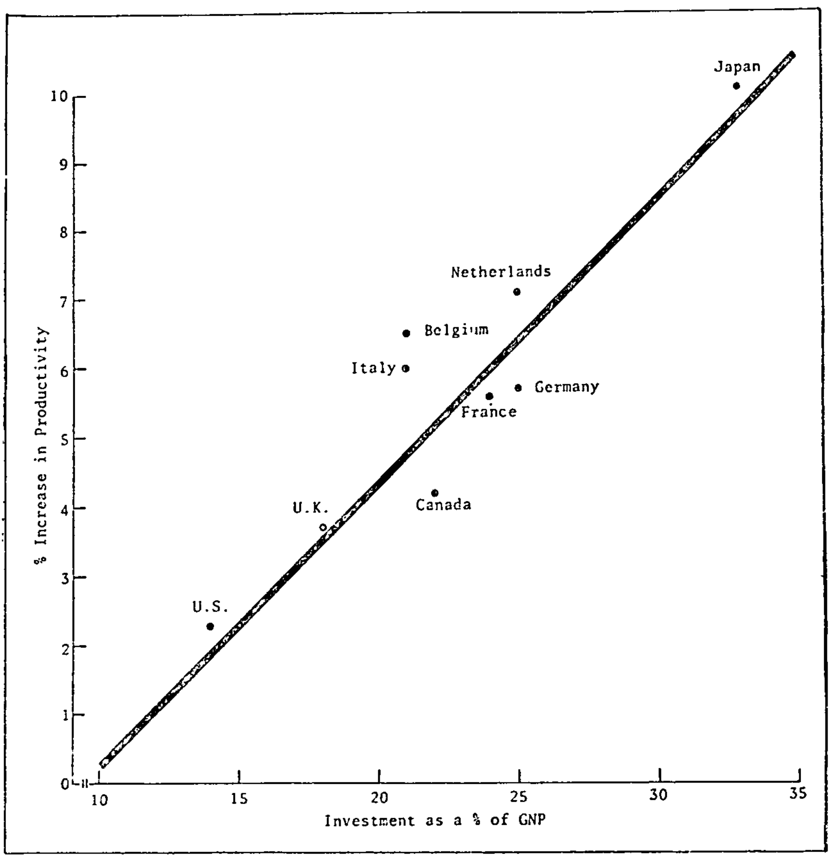
[Average annual percentage rate]

	Gross domestic product per employed person	Manufacturing output per man-hour
United States	2.1	3.3
Japan	9.2	10.5
West Germany	5.4	5.8
France	5.2	6.0
Canada	2.4	4.3
Italy	5.7	6.4
United Kingdom	2.8	4.0
Average for the 6 foreign countries	5.1	6.2

Source: U.S. Department of the Treasury.

FIGURE III

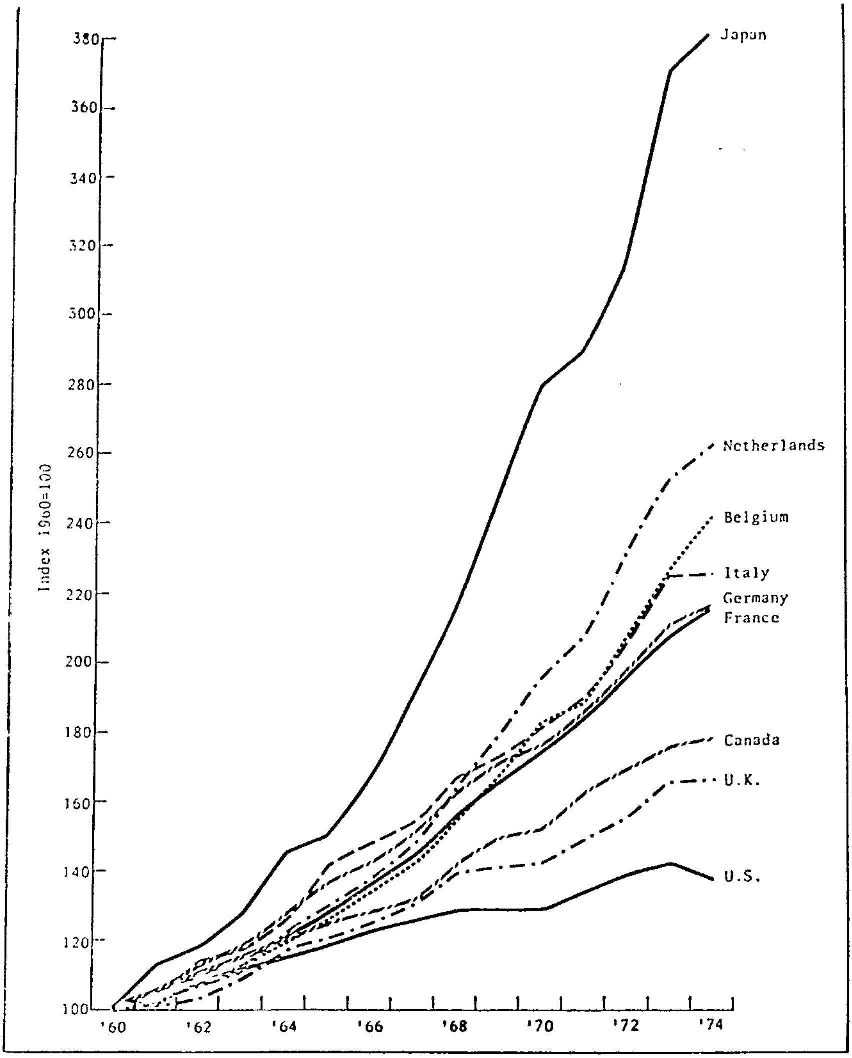
CORRELATION BETWEEN THE PROPORTION OF GNP SPENT ON FIXED INVESTMENT AND THE GROWTH IN PRODUCTIVITY



Source: Chase Econometrics.

FIGURE IV

EXTENT TO WHICH INCREASES IN OUTPUT/MAN-HOUR IN THE UNITED STATES HAVE FALLEN BEHIND GROWTH IN THE REST OF THE WORLD



Source: Chase Econometrics.

PREPARED STATEMENT OF JOHN D. HARPER, CHAIRMAN OF THE EXECUTIVE COMMITTEE, ALUMINUM COMPANY OF AMERICA, AND CHAIRMAN, THE BUSINESS ROUNDTABLE

Leading the list of public concerns these days are two in the economic field: "Too Few Jobs" and "Soaring Prices." It's not that so much is known about them as national problems; it's just that nearly everyone agrees that "something must be done." Precisely what should be done is one of the goals of this committee, and this is the reason I appreciate so much being invited to provide some input.

I'd like to state at the outset that I have unshakeable faith in our basic economic system—the profit system—and have seen nothing yet in its response to recent pressures that would weaken that faith in any way. The self-correcting capacity of the free market is already at work. Recovery is clearly under way. One thing is certain, however; there is no magic formula for jobs; there are no quick cures for inflation.

If you tend to doubt that our economy is fundamentally sound, just consider the shocks it has taken in the past two years. There was the OPEC cartel action and the resulting U.S. gasoline crisis; there was frantic commodity speculation; there were droughts which curtailed crop production and sent food prices soaring. Interest rates climbed to unprecedented high levels. Serious financial problems threatened the nation's largest city. Bankruptcy overtook one of the country's biggest retailers and several financial houses. Mandatory controls hampered production and distorted the demand and resource allocating signals of the free-market price system.

In spite of this terrific pounding, the economy has come through without mortal injury and is showing signs of recovery.

The solid, genuine progress so far is a credit to the President, Alan Greenspan and other Presidential economic advisors who warned against refueling inflation with overstimulative programs and who shaped monetary and other policies that have produced a moderate, durable rate of recovery.

Forecasts I have seen agree in general that the economy during this year will continue to grow, that inflation will diminish, that employment will rise, and that unemployment will decline. There are differences over the degree of improvement. Yet the central message is clear. The economy has sustained a series of crushing blows, and is now in the early stages of recovery. This is reassuring. But we can't afford to rest in our efforts. As rapidly as possible, we must expand employment while maintaining acceptable price stability.

As I said earlier, there are no quick and easy answers. But if America is to achieve solid, long-term recovery, the business sector must be allowed to reach its full potential for the creation of productive, worthwhile jobs. This plea may seem self-serving, but I can assure you that it is not. In a free society operating under the private enterprise system, permitting business to operate at optimum efficiency in fulfilling its social role of job formation is the only way to ensure long-term economic health. Two specific possibilities are to offer stimulating incentives and to improve the investment climate. In contrast, public works projects, public service employment and other forms of government-sponsored job schemes are often make-work programs that temporarily relieve, but do not dispel, unemployment pressures. Such programs also take time to get under way and usually impact at the wrong point in the recovery process.

America needs real jobs, not make-work programs. Our nation's army of unemployed is the immediate problem but there is more to be taken into consideration. A Treasury Department official recently estimated that the economy will need to create almost 20 million jobs by 1985; by contrast, we created about 13 million jobs in the past decade.

The Government can accelerate employment by sponsoring and continuing carefully planned training programs which will qualify people for jobs and for upgrading. This will help us make sure that we do not suffer from lack of mobility in the work force and that we do not have unemployment due to lack of qualification.

This offers help for long-term permanent employment and is, therefore, in my judgment, superior to short-term government work programs.

A pertinent question at this point is "What can the government do to promote the development of real, long-term job opportunities?" A close look at capital formation—one of the economy's biggest problems—will suggest several possibilities. Capital formation is so related to our unemployment question that it is increasingly being called the key to job formation. I believe the subject is being covered in detail in other testimony being filed with the committee by Reginald H. Jones. However, I want to describe and comment on it briefly.

Manufacturing industries and utilities desperately need capital to finance their ability to satisfy the demands of a growing population. We must stimulate capital formation, or there is no way we can expand production sufficiently to overcome basic shortages, provide substantially full employment, improve our productivity, relieve upward price pressures, and maintain or raise our overall standard of living.

The entire process of capital formation has been progressively weakened over the past decade. Government policies have caused both borrowers and lenders to find it less profitable to conduct normal business. The result has been underinvestment for U.S. industry in general and obsolescence or inefficiency for many U.S. companies as compared with their foreign competitors. Since 1960, the United States has recorded both the lowest level of capital investment (as a share of Gross National Product) and the lowest real growth of any major industrial nation with the sole exception of 1974, when the United Kingdom dropped below the U.S. by a small margin.

In broad terms, there are four main sources of funds for business investment—two internal and two external.

The first internal source is depreciation, which is intended to recover capital used up in the production process; that is, to pay for the wear and tear on plant and equipment. In the early 1960's depreciation provided 55 percent of total corporate funds for capital investment. In the five years ending in 1974, only about 46 percent of the total funds came from depreciation. The current allowable depreciation does not equal inflated replacement costs of plant and equipment. And, despite recent depreciation adjustments, American business is put at a competitive disadvantage with other major industrial nations. Official government figures demonstrate that virtually all of the competing countries permit more liberal depreciation than the United States, particularly in the short-term periods. For example, while U.S. companies can recover only 55 percent of their investment in the first three years, Canadian and British firms can recoup 100 percent and French firms can write off 90 percent.

The second internal source of funds, the heart of the entire capital formation process, is retained earnings—that portion of new profit which a prudent businessman sets aside, after paying dividends, to modernize and expand productive facilities. For years, retained earnings have shown a steady decline in providing funds to the corporation. Throughout the Sixties, retained earnings accounted for 22 percent of total funds. This dwindled to only 15 percent in the five-year period ending 1974.

In the ten years ending 1969, more than 75 percent of corporate capital sources were generated from retained earnings and depreciation, but by 1974, the five-year average for the contribution of internal sources to total funds had decreased to 61 percent.

Corporations, therefore, have become increasingly more reliant on external sources of capital funds. The two external sources are corporate stock and borrowing through such vehicles as bond offerings and bank loans. These sources are highly dependent on the expectation that the overall business climate and the risk-premium balance will be favorable.

In recent times, the equity (stock) market has not been particularly attractive due to low price-earnings ratios. However, despite diminishing individual buyer interest tempered in part by institutional investors, the contribution of stocks to total capital funds has risen from 2 percent in the 1960's to about 6 percent.

The equity portion of external financing has not kept pace with the debt portion. During 1975, corporate debt equity ratios reached a new high level. Indeed, corporate debt has nearly tripled since 1965 to an estimated 1.25 trillion dollars—or about two times what the Federal Government owes. Corporate borrowings accounted for about 21 percent of total corporate funds in the early 60's; today such borrowings make up over 33 percent—two times that accounted for by retained earnings. As business has moved in the direction of a higher share of debt relative to equity, borrowing became more constrained and credit ratings were tested. As a result many corporations were weakened by heavy reliance on high-cost, short-term financing as longer-term financing became less accessible.

It is highly doubtful that corporations can continue to substitute external financing for real retained earnings. Unless corporate savings capacity can be restored to its preinflation ratio, capital expenditures are likely to come under increasing restraint, implying less economic growth and less job creation.

Essential to a sound capital formation climate are government policies favorable to strong, profitable enterprise—such as fair tax laws designed to stimulate savings and investment, reasonable administration of business-related legislation, a minimum of costly regulatory harassment—in short, a government recognizing the needs of the private company and responsive to its problems.

Instead of government policies favorable to investment and expansion, we have policies which restrict, regulate and control business. Instead of laws that encourage savings and investment, we have programs that encourage spending and drain away capital. Instead of agencies that seek to aid and encourage development, we have regulatory harassment.

Just what are the dimensions of the government regulation problem? A few facts will illustrate. The Office of Management and Budget estimated last October that the number of employees in regulatory agencies, and workers with regulatory jobs in other agencies, totaled over 100,000. As of 1974, there were 5,146 different types of approved public use forms, not counting tax and banking forms. It is estimated that individuals and business spend over 130 million man-hours filling them out. A firm employing not more than 50 people is required to fill out as many as 70 to 80 different types of forms in the course of one year.

I do not mean to suggest anything as utopian as the elimination of all paperwork. Some of it is essential. These comments are merely intended to call attention to the scale of the regulatory and reporting problem as business experiences it.

The paperwork burden is one of the most annoying aspects of regulatory controls over business, but other aspects can be even more costly. I am referring especially to the new order of socially motivated agencies established, for example, to protect the environment, broaden occupational health and safety standards and conserve energy. According to the McGraw-Hill Department of Economics, already-planned industrial investments in health and safety equipment are estimated to rise from $2.5 billion in 1972 to $3.4 billion in 1977. A study commissioned by the Occupational Safety and Health Administration in 1974 estimated that it would cost American industry an aggregate of $13.5 billion to to bring existing facilities into compliance with the then-current OSHA noise standard.

I am certainly in favor of the fundamental objectives these projects represent. But I am opposed to the type of project which costs far more than the benefit ever to be derived from it, thus needlessly adding inflation pressures. U.S. Council on Environmental Quality has announced only a few days ago that pollution control will cost the nation's public and private sectors nearly $218 billion over the decade 1974–83. It is certainly hoped that the various elements of the programs will first be subject to thorough cost-benefit analysis.

People who are not familiar with business economics frequently seem to feel comfortably dissociated from the extravagance of over-regulation, and overlook the ways in which the public pays for it. Supporting an army of government inspectors and regulators means higher taxes as well as higher prices and a much lower rate of capital formation—capital which could generate higher income levels, expand employment and meet the needs of a growing world population.

One incredible example of government intrusion into business affairs is the "Line-of-Business" reports sought by the Federal Trade Commission from some 450 firms. The "Line-of-Business" program calls for companies to report data according to the government's definition of lines of business, even if this definition does not conform to the way the companies operate and keep their records. The resulting reports are therefore neither comparable nor meaningful as received from different companies. The participating companies are understandably concerned about the requirement because of the apparent defects in economic theory on which it is based, because they have doubts that the information will be kept confidential, because of the expense in compiling the artificially structured data and because erroneous conclusions could be drawn from the non-

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comparable data obtained in this manner. In addition, the man-hour cost will be astronomical both to the business sector and to the government collectors and disseminators.

The Wall Street Journal analyzed "Line-of-Business" reporting as "one of the most frightfully expensive, totally worthless, bureaucratic boondoggles ever conceived in Washington." The Journal's editors estimate that the cost of doing the paperwork alone would be a minimum of $145 million a year. They add that, just for a start, the system would call for education and training of another 6,500 accountants plus the construction of several new law schools. With accounting practice so diverse. it is apparent that the data collected would be of little use unless the entire private sector converted to one standard system and its use could be enforced.

An equally threatening intrusion into confidential business affairs is the FTC's Corporate Patterns Reports Program. Applicable to 1000 concerns, it requires data broken down in 1300 manufacturing classes. The purpose. according to the FTC, is to provide the Commission with a comprehensive data base for enforcement efforts. The Corporate Patterns Reports ask for corporate relationships and sales activity by product classes in detail matched only in part by data provided to the Bureau of the Census under strict Congressional rules against disclosure. The Federal Trade Commission has announced that it plans to publish individual company data obtained under the CPR Program after a few years. The Bureau of the Census and the Office of Management and Budget are both on record as vigorously opposed to this program, and both are seriously concerned with the damage it could do to the voluntary reporting arrangements now maintained by the business community. The practicality of the program is in doubt, and the legality of the FTC order is being challenged in the courts.

If we are seriously concerned about inflation and the unemployment problem—and I'm sure we are seriously concerned—a good place to start corrective action is in cutting the excessive cost, for both government and business, of nonproductive government programs. These are certainly among the inflationary forces. No doubt with the best of intentions, government places an increasingly heavy burden of regulation on the economy which stifles normal functions and restricts normal growth. Many objectives of regulatory activity are good and proper, but they should be readily achievable without a complex maze of government policies.

One practical way to avoid unnecessary regulations is by making it standard practice to require the proposing agency to perform a full cost-benefit analysis of each rule before its adoption. This is the way to ensure that the expense incurred by everyone concerned is justified by the expected results. This procedure would enable those people who formulate the rules to be aware of their economic impact, while those to whom the rule applies would have an opportunity to be heard.

I'm afraid that too often there is simply an adversary relationship between business and government. In recent years, government seems to have taken an increasingly negative stance toward business and has accelerated probing. inspecting, regulating and punishing. These are sometimes necessary functions. But equally compelling are positive obligations to support the free market and to maintain a climate in which business can thrive and better contribute to a healthy America by creating vitally needed new jobs.

To ensure that business is adequately represented in formulating national economic policy, I would urge that provisions be made for continuing dialogue between government and business. Both Congressmen and businessmen need firsthand communication as economic policy is being forged. There is no satisfactory substitute for a face-to-face exchange on matters affecting the stability and economic soundness of the nation. I refer not only to hearings such as these, but also to person-to-person encounters. In an absolutely vital area such as economic policy, there is no danger of being too well-informed. But there is great peril in making decisions of national significance with only an imperfect understanding of the situation. As cooperation is gradually substituted for an adversary relationship, the business sector will regain its economic vitality and embark once more on job creating programs.

Representative Moorhead. The committee would now like to hear from Mr. James Needham, chairman of the board and chief executive officer, of the New York Stock Exchange.

STATEMENT OF JAMES J. NEEDHAM, CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER, NEW YORK STOCK EXCHANGE, INC.

Mr. NEEDHAM. Thank you. I appreciate the opportunity to appear before this committee and discuss the outlook for business in the years ahead.

Representative MOORHEAD. Could I interrupt you for just one moment? I have to preside at another subcommittee of which I am chairman. So, in the middle of your statement, I am going to leave and turn the gavel over to Senator Fannin, if Senator Humphrey has not arrived, but I want you to know that I will read both of your statements.

Mr. NEEDHAM. Well, that is very thoughtful.

Representative MOORHEAD. I just did not want to leave and let you think I was angry or something. That is not the problem. Please proceed, sir.

Mr. NEEDHAM. I appreciate the thoughtfulness of your bringing that out. I have had people leave before.

Representative MOORHEAD. It has happened to me, too.

Mr. NEEDHAM. So, I am really not totally insensitive, but I appreciate all the more your statement.

Representative MOORHEAD. Yes.

Mr. NEEDHAM. Thank you.

Senator FANNIN [presiding]. Please continue, sir.

Mr. NEEDHAM. I would like to focus on what the Exchange views as the major long-term problem facing the business sector—and the economy as a whole: The prospect that, in the decade through 1985, the demand for capital in this country will exceed the supply of savings needed to meet it.

To be sure, this Nation has many more immediately pressing and urgent economic problems. Unemployment is still unacceptably high, even though the one-half-point drop in the unemployment rate in January is a welcome improvement. I was delighted that unemployment declined another two-tenths of 1 percent in February. Inflation is still with us, though here, too, gratifying progress has been made. The country still does not have a comprehensive energy policy, or a viable program to deal with the financial and social problems of our major urban areas.

However, a shortage of investment capital in the years ahead could readily thwart the long-term solutions needed to help create millions of permanent new jobs to keep an expanding labor force actively and productively employed; to keep recession and inflation from taking larger and larger bites out of everyone's standard of living; to make it possible for America to achieve self-sufficiency in energy—and excellence in environmental control; and to bring our cities back from the brink of bankruptcy.

At present, there is considerable slack in the capital goods industries. Needed investments are being deferred because of adverse economic conditions and disincentives to productive investment. If we are to meet our long-term investment goals, we must begin now to promote increased capital formation and economic growth. "Later" and "too late" can prove to be the same thing.

Recent events suggest that a willingness to accept slower economic growth rates may ameliorate somewhat the impact of prospective capital insufficiency. This is another way of saying that if we agree to settle for less, our goals will be easier to attain. However, the attractiveness of this alternative is considerably dimmed by the realization that lessened growth means reduced employment opportunities, rising social pressures, and reduced living standards for most Americans.

THE NEED FOR EQUITY CAPITAL

While the threat of a general capital shortage is of long-term concern, the continuing critical shortage of equity capital requires immediate attention. Corporate growth cannot continue to be supported and sustained by piling new debt on the volume of debt already outstanding. Interest payments are already claiming a disproportionate share of corporate profits—and, overall, the corporate financing structure becomes increasingly shaky with each new decision to rely on more debt financing.

Corporations today have precious little incentive to issue common stock—even at relatively high price-earnings ratios. The reason is simple enough: Stock dividends must be paid out of after-tax income—while interest payments are deductible expenses.

Moreover, present capital gains taxes unduly hamper the mobility of capital. What may seem to be an attractive investment switch can lose its appeal to an investor when the tax cost of the transfer is considered. The illogical treatment of capital gains and losses further reduces incentives to take risk. And the double taxation of corporate profits distributed as dividends significantly reduces potential after-tax yields, especially for those in the higher income brackets. The lack of effective incentives may be one reason why individuals have been net sellers of common stocks in every year since 1958.

Because of high debt totals and inadequate supplies of equity, corporations are now looking to the quality of their assets and the adequacy of their cash flow. They are budgeting to conserve assets, to reduce short-term debt, and to increase their equity base by retaining profits. This new climate has reduced the venturesomeness of new as well as old businesses—and I would like to emphasize, Senator, small businesses, too, and they are the backbone of American industry. And these events promise to restrain our rate of economic growth.

What then can be done to encourage saving and investment? What policies are needed to promote increased levels of equity financing—for issuers and purchasers alike?

The most direct way in which this Nation can increase the flow of savings in the economy is for Congress and the administration to join together to hold down the rate of growth in Government spending. The Exchange strongly supports the President's efforts to hold the fiscal 1977 budget deficit to $43 billion. The mushrooming growth in Federal outlays—up 39 percent in just 2 years—and the alarming increases in privately held Federal debt—up $138 billion in this same period—suggest that the fiscal problems facing the Nation are fast approaching a crisis stage.

To be sure, deficit spending in periods of recession may well be necessary as a means of stimulating economic activity and reducing unemployment. However, huge deficits in periods of economic expansion only serve to fuel inflationary fires and make it more difficult for the private sector to tap the financial markets.

Congress could make a second useful contribution toward insuring the efficient use of available capital resources by closely reexamining the regulatory investment requirements now imposed on many corporations. These mandated investments—many in the environmental area—have not been subjected to rigorous cost/benefit analysis. The result is a significant diversion of scarce funds into activities which do not generate more productive capacity. It is difficult to justify expensive Federal regulatory requirements when their costs demonstrably exceed their value to society.

Clearly, one of the ways to help overcome deficiencies in domestic saving is to stimulate foreign investment. Foreign inflows would help put the full productive capacity of the country to work, creating additional jobs and economic opportunities. In order to stimulate foreign capital inflows, the exchange has been recommending—it seems forever—repeal of the present withholding tax on foreign portfolio investment in U.S. securities. This tax now acts as a disincentive to such investment, especially where the 30-percent withholding rate has not been modified by treaty agreements. Significantly, no such treaties have been negotiated with the capital-exporting Middle East nations. Elimination of the withholding tax would have only a minor impact on tax revenues which would be more than offset by increased revenues resulting from higher domestic incomes and profits generated by added foreign investment.

In the area of domestic tax reforms to promote additional saving and investment, the exchange has recommended to Congress a number of basic modifications to U.S. tax law, ranging from a complete overhaul of capital gains taxation to partial deductibility of dividends as a business expense to issuing corporations. I described the exchange's proposed tax program at hearings held some months ago by the House Ways and Means Committee.

Another useful suggestion for increasing the flow of saving in the economy—and directing those savings into equity capital—is embodied in President Ford's plan to provide up to a $1,500 tax deferral for investment in common stocks. Since the details of the President's plan are still under study by the Treasury Department, it would be somewhat premature to venture any specific comments about it. On the whole, however, we endorse the general purpose of the President's proposal.

Let me conclude on an optimistic note. Over the past several years, the stock market has had deep concerns about inadequate supplies of capital, about mounting corporate debt and deteriorating balance sheets, about sharply rising interest rates and inflation, and about declining real profits. Suddenly, the stock market has surged ahead, undoubtedly for many reasons. But, above all, there seems to be great optimism that we will not push economic expansion too hard and too fast, and that we will not tolerate another round of escalating inflation and interest rates. Inflation is down from 12 to 6 percent, and interest rates have fallen far faster than had been predicted just a few months ago. I was pleased to see the report of the declining wholesale prices in February. Investors now seem increasingly confident that inflation and interest rates can be held down and that the recovery, although gradual, will prove to be durable.

What is needed now is positive action to support our national economic policy with adequate capital investment. The National long-term economic growth will depend on whether capital investment and equity financing are stimulated by appropriate incentives. That is the road to less inflationary and more sustainable economic growth, to more jobs, and to rising longer run prosperity.

Thank you, Mr. Chairman.

Senator FANNIN. Thank you for an excellent statement. Without objection, your prepared statement will be inserted in the hearing record at this point.

[The prepared statement of Mr. Needham follows:]

PREPARED STATEMENT OF JAMES J. NEEDHAM

My name is James J. Needham. I am Chairman of the Board of Directors and Chief Executive Officer of the New York Stock Exchange, Inc. I appreciate the opportunity to appear before this Committee to discuss the outlook for business in the years ahead.

I would like to focus on what the Exchange views as the major long-term problem facing the business sector—and the economy as a whole: the prospect that, in the decade through 1985, the demand for capital in this country will exceed the supply of savings needed to meet it.

To be sure, this nation has many more immediately pressing and urgent economic problems. Unemployment is still unacceptably high, even though the one-half-point drop in the unemployment rate in January is a welcome improvement. Inflation is still with us, though here, too, gratifying progress has been made. The country still does not have a comprehensive energy policy, nor a viable program to deal with the financial and social problems of our major urban areas.

However, a shortage of investment capital in the years ahead could readily thwart the long-term solutions needed to help create millions of permanent new jobs to keep an expanding labor force actively and productively employed; to keep recession and inflation from taking larger and larger bites out of everyone's standard of living; to make it possible for America to achieve self-sufficiency in energy—and excellence in environmental control; and to bring our cities back from the brink of bankruptcy.

At present, there is considerable slack in the capital goods industries. Needed investments are being deferred because of adverse economic conditions and disincentives to productive investment. If we are to meet our long-term investment goals, we must begin *now* to promote increased capital formation and economic growth. "Later" and "too late" can prove to be the same thing.

THE CAPITAL SHORTAGE ISSUE IN PERSPECTIVE

As many members of this Committee know, the New York Stock Exchange was among the first to warn that the nation's economic and financial resources are limited, and that unless we, as a people, either scale back some of our loftiest aspirations or consciously re-design some key saving and investment patterns, we must face the reality of a serious capital shortage. Exchange economists have projected a "capital gap" of $395–$690 billion, with $650 billion emerging from alternative scenarios as the "most likely" dimension.

Our initial study was followed by three others focusing on the financing needs of American corporations—particularly in terms of future requirements for equity capital—and the international implications of a United States capital shortage. Copies of all four reports will be submitted for the record.

Several prestigious research organizations—among them Data Resources, Inc. and the Brookings Institution—and such widely respected academicians as Benjamin Friedman and Andrew Brimmer—both at Harvard University—have independently examined the capital shortage issue in some detail. Their findings tend to support the thrust—though not necessarily all the particulars—of the Exchange's research.

In recent testimony before the House Committee on the Budget, Henry C. Wallich, Member of the Board of Governors of the Federal Reserve System, expressed concern that America's capital needs may outstrip the nation's saving capacity.

"The financial and real resources needed to bring about higher rates of private investment in an economy approaching high capacity utilization will have to come from higher rates of saving. It is not certain that private saving will be adequate, particularly if saving rates return to more traditional levels. The Federal Government thus may be called upon to play a vital role in bridging the gap between private saving and desirable levels of investment." [1]

The Annual Report of the Council of Economic Advisers gave unprecedented attention to the question of capital sufficiency. The Council's analysis indicated that, to meet national goals for environmental protection and energy self-sufficiency, and to keep up with technological innovation, a decided upward shift in the ratio of business fixed investment to Gross National Product will be required between now and 1980. Specifically, over the next four years, this ratio would have to be well over 12 percent, as compared with 10.4 percent during 1971–74. The Council indicated that "to achieve this goal, increased savings incentives may have to supplement increased investment incentives once the economy's resources are utilized more fully." In other words, the Council of Economic Advisers has also concluded that, unless positive actions are taken to promote increased saving and investment, America may not be able to meet its capital requirements.

It is not really germane to these warnings that the nation experienced no symptoms of a capital shortage in 1975. As we all too well know, last year was a period of depressed economic activity. Recession years typically cause curtailment of business loan demands to finance inventories, working capital, and capital investments. Housing activity also drops sharply, and weakness in consumer demands limits the expansion of installment loans. Indeed, capital shortages will not occur in every year between now and 1985. The Exchange's projections simply point to the distinct likelihood that major financial disruptions will occur over the next decade—similar to and perhaps worse than the severe capital shortage situations experienced in 1966, 1969 and 1974.

Recent events suggests that a willingness to accept slower economic growth rates may ameliorate somewhat the impact of prospective capital insufficiency. This is another way of saying that if we agree to settle for less, our goals will be easier to attain. However, the attractiveness of this alternative is considerably dimmed by the realization that lessened growth means reduced employment opportunities, rising social pressures and reduced levels of living for most Americans.

Recent economic disruptions seem to have prompted new attitudes of caution. The discussion of prospective capital shortages itself has alerted some users of funds to the risks involved in taking on excessive debt obligations, quite apart from a growing reluctance among lenders to provide the funds.

The evils of inflation are more clearly perceived today than they were as recently as two years ago. The devastating impact of double-digit inflation has led to more conservative practices. The "growth at any price" syndrome is disappearing from the national scene, in terms of both government policies and business objectives.

State and local expenditures are coming under increasingly searching scrutiny. The debacle in New York City and New York State has awakened the conscience of citizens around the country and pointed up the advantages of fiscal conservatism.

At the Federal level too, the notion that we can deficit finance almost without limit seems to be losing adherents. Blind dedication to Keynesian economic policies is no longer the rule. It seems likely that in the future, government policymakers will give closer attention to the possibility of slowing economic growth as a means of avoiding surging inflation.

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[1] Statement by Henry C. Wallich, Member, Board of Governors of the Federal Reserve System, Before the Committee on the Budget, House of Representatives, Washington, D.C., February 6, 1976, p. 10.

Does all this mean we can ignore the prospect of future capital shortages? Certainly not. But if awareness of a problem is the first step toward its solution then we at least have taken that first step. A fundamental economic principle has been rediscovered: there is no such thing as a free lunch. It takes work, sacrifice, and savings to generate economic growth.

THE NEED FOR EQUITY CAPITAL

While the threat of a general capital shortage is of long-term concern, the continuing critical shortage of equity capital requires immediate attention. Corporate growth cannot continue to be supported and sustained by piling new debt on the volume of debt already outstanding. Interest payments are already claiming a disproportionate share of corporate profits—and, overall, the corporate financing structure becomes increasingly shaky with each new decision to rely on more debt financing.

The continuing deterioration of key financial ratios underscores the precariousness of the financial situation at many corporations. The debt-equity ratio for manufacturing corporations rose to 43.7 percent in 1975, compared with 42.3 percent a year earlier and 30.1 percent just ten years ago.

Interest coverage—the measure of a corporation's ability to meet interest payments on its debt—fell to a record low of only 4.6 times pre-tax profits in 1975, compared with 5.8 for 1974 and 11.8 a decade ago.

Clearly, the accelerating reliance on debt financing must be braked—and ways must be found to attract the unprecedentedly large amounts of equity capital that will be needed in the decade ahead. In this regard, Exchange economists have projected that, on average, $23 billion in net equity funds will have to be raised in each year between 1975 and 1985. That amount is roughly twice the record of $11.7 billion raised by non-financial corporations in 1971. In 1975, net new issues of corporate stock totaled approximately $9.2 billion, up significantly from the depressed level of $4.3 billion in 1974. The excellent performance of the market, to date, suggests that corporate stock offerings may further increase in 1976. But I would not want to predict that the total—all other things remaining equal—is likely to reach $23 billion this year.

While recent developments are certainly to be welcomed, they do not suggest that the equity problems of America's corporations are on the verge of being resolved. Unfortunately, the dearth of equity in the capital structure of many corporations—and in the portfolios of individual investors—stems not from transitory cyclical factors, but rather, from basic structural deficiencies in this nation's tax laws.

Corporations today have precious little incentive to issue common stock—even at relatively high price-earnings ratios. The reason is simple enough: stock dividends must be paid out of after-tax income—while interest payments are deductible expenses.

Moreover, present capital gains taxes unduly hamper the mobility of capital. What may seem to be an attractive investment switch can loses its appeal to an investor when the tax cost of the transfer is considered. The illogical treatment or capital gains and losses further reduces incentives to take risk. And the double taxation of corporate profits distributed as dividends significantly reduces potential after-tax yields, especially for those in the higher income brackets. The lack of effective incentives may be one reason why individuals have been net sellers of common stocks in every year since 1958.

Because of high debt totals and inadequate supplies of equity, corporations are now looking to the quality of their assets and the adequacy of their cash flow. They are budgeting to conserve assets, to reduce short-term debt, and to increase their equity base by retaining profits. This new climate has reduced the venturesomeness of new as well as old businesses and promises to restrain our rate of economic growth. This may be good in the sense that it moderates the claims on our financial resources and reduces the magnitude of a potential capital shortage. But, as I suggested earlier, reliance on this alternative is almost certain to produce a disappointing rate of new job creation, and force postponement of some of our social goals.

POLICY RECOMMENDATIONS

What then can be done to encourage saving and investment? What policies are needed to promote increased levels of equity financing—for issuers and purchasers alike?

The most direct way in which this nation can increase the flow of savings in the economy is for Congress and the Administration to join together to hold down the rate of growth in government spending. The Exchange strongly supports the President's efforts to hold the fiscal 1977 budget deficit to $43 billion. The mushrooming growth in Federal outlays—up 39 percent in just two years—and the alarming increases in privately held Federal debt—up $138 billion in this same period—suggest that the fiscal problems facing the nation are fast approaching a crisis stage.

To be sure, deficit spending in periods of recession may well be necessary as a means of stimulating economic activity and reducing unemployment. However, huge deficits in periods of economic expansion only serve to fuel inflationary fires and make it more difficult for the private sector to tap the financial markets.

Related to the need to hold down government spending is the necessity of bringing the capital requirements of the off-budget agencies under some control. These quasi-governmental entities have borrowed, on average, more than $11 billion a year during 1970–1975. Though it appears that their borrowing may have declined during 1975—as a consequence of the recession—in 1974, the amount raised in the credit markets by sponsored agencies was a staggering $22.1 billion. Clearly, every dollar these agencies borrow places additional strains on the ability of the private sector to secure needed funds.

As I pointed out to this Committee at hearings several months ago on the problems of small business, it is generally the newer and smaller businesses, rather than the larger and better established companies, that are squeezed out of the credit markets during periods of financial stringency. If these companies are forced to the wall for lack of capital, the competitive fabric of our economy will be weakened, and its innovative capacity eroded. And, in large part, the innovative spirit of small business is what creates new jobs, boosts productivity, and helps America maintain its position as the world's premier economic power.

Congress could make a second useful contribution toward ensuring the efficient use of available capital resources by closely re-examining the regulatory investment requirements now imposed on many corporations. These mandated investments—many in the environmental area—have not been subjected to rigorous cost-benefit analysis. The result is a significant diversion of scarce funds into activities which do not generate more productive capacity. It is difficult to justify expensive Federal regulatory requirements when their costs demonstrably exceed their value to society.

Clearly, one of the ways to help overcome deficiencies in domestic saving is to stimulate foreign investment. Foreign inflows would help put the full productive capacity of the country to work, creating additional jobs and economic opportunities. In order to stimulate foreign capital inflows, the Exchange has been rcommending repeal of the present withholding tax on foreign portfolio investment in U.S. securities. This tax now acts as a disincentive to such investment, especially where the 30% withholding rate has not been modified by treaty agreements. Significantly, no such treaties have been negotiated with the capital-exporting Middle East nations. Elimination of the withholding tax would have only a minor impact on tax revenues which would be more than offset by increased revenues resulting from higher domestic incomes and profits generated by added foreign investment. A fact sheet, detailing the major reasons for elimination of the withholding tax on foreign portfolio investment, is attached to this statement.

In the area of domestic tax reforms to promote additional saving and investment, the Exchange has recommended to Congress a number of basic modifications to U.S. tax law, ranging from a complete overhaul of capital gains taxation to partial deductibility of dividends as a business expense to issuing corporations. I described the Exchange's proposed tax program at hearings held some months ago by the House Ways and Means Committee. A copy of the material submitted at that time will be provided to this Committee.

Another useful suggestion for increasing the flow of saving in the economy—and directing those savings into equity capital—is embodied in President Ford's plan to provide up to a $1,500 tax deferral for investment in common stocks. Since the details of the President's plan are still under study by the Treasury Department, it would be somewhat premature to venture any specific comments about it. As a general observation, however, I believe it would be ill-advised to require a holding period as long as seven years for securities purchased under such a program. That would tend to lock capital into established firms and make it more difficult for emerging companies to tap the equity markets. On the whole, however, we endorse the general purpose of the President's proposal.

CONCLUSION

Let me conclude on an optimistic note. Over the past several years, the stock market has had deep concerns about inadequate supplies of capital, about mounting corporate debt and deteriorating balance sheets, about sharply rising interest rates and inflation, and about declining real profits. Suddenly, the stock market has surged ahead, undoubtedly for many reasons. But above all, there seems to be greater optimism that we will not push economic expansion too hard and too fast, and that we will not tolerate another round of escalating inflation and interest rates. Inflation is down from 12 percent to 6 percent, and interest rates have fallen far faster than had been predicted just a few months ago. Investors now seem increasingly confident that inflation and interest rates can be held down and that the recovery, although gradual, will prove to be durable.

The President's Council of Economic Advisers expects a prolonged period of measured economic growth with a lessened pace of inflation. Specifically, the Council expects both real growth and inflation to stabilize at around 6 percent per annum. More stimulative policies, the Council argues, would restore the stop-go cycles which gave us boom and recession, high inflation and unemployment, and peak interest rates. I agree with that assessment. Apparently, the stock market does too. The expectation that the economy will break away from the inflationary, high interest rate patterns of recent years explains much of the present bullish mood of the market.

What is needed now is positive action to support our national economic policies with adequate capital investment. This nation's long-term economic growth will depend on whether capital investment and equity financing are stimulated by appropriate incentives. That is the road to less inflationary and more sustainable economic growth, to more jobs, and to rising longer-run prosperity.

MAJOR REASONS FOR ELIMINATION OF THE WITHHOLDING TAX ON FOREIGN PORTFOLIO INVESTMENT

1. Elimination of the withholding tax would help meet America's urgent need for capital by stimulating foreign investment. The tax now acts as a disincentive to such investment, especially where it is not modified by treaty agreements. Significantly, no such treaties have been negotiated with the capital-exporting Middle East nations.
2. The direct revenue loss from eliminating the withholding tax would be slight and would, in any case, be more than offset by increased tax revenues resulting from greater domestic incomes and profits generated by added foreign investment. In addition, employment would be stimulated and the nation's overall balance-of-payments position would be improved.
3. Elimination of the withholding tax would erase the discrimination between countries with which the U.S. has tax treaties and those with which it does not. It is an accepted principle of international taxation that individuals should be subject to tax in their own country of residence/nationality. Moreover, tax treaties already in effect reduce or eliminate U.S. taxes for foreign residents in most major industrial countries.
4. The withholding tax has been used by other nations to influence foreign investment flows. For example, Canada has recently announced plans to stimulate foreign investment through selective exemption from its withholding tax on foreign portfolio investment.
5. Elimination of the withholding tax would enhance the ability of U.S.-based multinational corporations to raise capital from abroad, reducing their demands on domestic sources of funds. Repeal of the tax would improve the United States' position as the center for international finance, as U.S. securities would become more competitive with Eurodollar and Eurobond instruments.
6. Elimination of the withholding tax would not stimulate tax evasion by Americans sending their money overseas. Appropriate legislation could be drafted so that the withholding tax would be reapplied to countries unwilling to exchange relevant tax information with the United States.

Senator FANNIN. Mr. Needham. I am very pleased that you end your testimony on an optimistic note. I feel, as you do, that we have the opportunity to go forward as far as investment is concerned and as far as the economy of this country is concerned. It depends really on whether we have the will to do it.

I just hope that we can follow some of your suggestions. Government spending is, perhaps, one of the most drastic problems facing us. The problem that we have had recently, as I see it, is the average maturity of the Federal debt. Five years ago we were averaging about a 5-year turnover on debt as far as the average is concerned. Today it is about a 2-year maturity average.

Mr. NEEDHAM. Well, Senator, I am not an expert in that field, but my observation, as a nonexpert, but with some familiarity with the subject, is that the Treasury Department has managed the debt reasonably well, given the circumstances. If the Treasury Department had utilized longer maturities, 2 years ago, let us say, the Nation then would have been committeed on a longer-term basis to very high interest rates, whereas by utilizing shorter term maturities, Mr. Chairman, it has been able to stay current, so to speak, with fluctuations in the interest rate. So that, while I am not expert in the field, I do have the impression that the policies adopted and pursued by the Treasury Department have been appropriate.

I am more concerned, Senator, with the amount of debt and its impact on the private sector.

Senator FANNIN. Yes, certainly, I agree with you. I am very pleased with the work that has been done by the Treasury in managing the debt. Many were vitally concerned about it and had predicted almost chaotic times, but we have come through a period that has been a very difficult one.

Do you feel, as far as the future is concerned, and we are talking about an upturn in our economy, so in what you have projected this morning and what many others are projecting, do you feel that we will be making additional capital investments of greater magnitude? Do you feel that the Federal borrowing is even going to be a more serious factor?

Mr. NEEDHAM. Well, Senator, may I just take a moment? I have just returned from a meeting of the United States-Iran Business Council, which was held in Iran this week. Surprisingly enough, that OPEC country has a capital formation process problem. Their problem is that all of their debt is short-term and most of it is issued by the Iranian Government and its affiliates granted to the private sector. And because of the fact that there is no long-term debt market in the country of Iran, they are trying to change that.

Now, in order for us to have a substantial recovery in the private sector—and I would like to make the point simply for the record because I know you are aware of it—the Federal Government really does not create the wealth of this country; it just allocates it. So, therefore, we must stimulate that part of the economy which does create the wealth of this Nation. And that happens to be the private sector.

If the Federal Government is going to continue to incur substantial deficits which will mean the issuance of an additional debt by the Federal Government and its agencies, and still have the ability to park that debt with a captive audience, such as the Fed and the various Federal instrumentalities that have assets to invest. Senator, there is going to be a crowding out in the market place in the private sector. That will restrain growth and also inhibit the liquidity of companies to the point where management will continue to spend too much time on asset or liability management, rather than turning their energies and efforts to the development of new products and new markets.

So, I would say this. That if I were asked what is the critical factor, in addition to the matters I mentioned here, for the Congress of the United States to focus on, it must make a decision here. And it is going to be difficult, but I know that Congress is capable of the task and intellectually adequate to understand the problem. So, it must determine that an increase in the Federal deficit beyond the point suggested in the $40 billion range is unacceptable on a longer term basis. And what we must commit ourselves to Senator, is that as soon as we can get to a point where the revenue flows to the Government are adequate to cover the expenses and, perhaps, exceed it— and that event will come— that we then utilize that excess revenue to reduce the outstanding debt. I say that because, as you know, Senator, a good portion of the Federal budget is devoted to debt service. And that money is really a waste of resources in this country.

Senator FANNIN. One of the great problems we have as far as Congress is concerned is to do what is necessary to give confidence to the American people. I think our future in relation to what you are talking about and what I was talking about earlier, Mr. Needham, is dependent upon the confidence of the people in their Government, as well as the future economy of the country.

Here we are talking about $4 trillion to $5 trillion or $4 trillion to $4½ trillion, which is what the Treasury has said will be needed in the next decade for capital formation. This is three times what was raised in the prior decade.

Then we have talked in that breakdown of as much as $1 trillion for capital formation involved in the energy programs. It seems to me that what we need to do more than anything else—and I think it is in line with what you are saying—is to start getting to a balanced budget and to see if we can hold the budget, as you have stated today, to the amount that has been contemplated now and seems to face a very difficult problem of being able to be maintained.

So, I do hope that the Government can work almost as a partner with industry in accomplishing these objectives.

Do you have any recommendations to make that would greater stimulate the issuance of new corporate issues to the public?

In 1969 companies coming into the public stock exchanges raised over $1.4 billion. During the past year only $16 million was raised each year. Would you care to comment on that?

Mr. NEEDHAM. I am not quite sure that I understand how you would like me to comment, Senator.

Senator FANNIN. Well, in 1969, companies coming into the public stock exchanges raised over $1.4 billion. That was during the 2 years, and that was the ones that came into the market then. Only $16 million was raised—well, actually, the way this question is written——

Mr. NEEDHAM. Oh, I understand what you are getting at now, Senator. I believe the answer can be explained in rather simple terms. The period that you are referring to until recently was—well, let us put it this way. That was the beginning of the so-called "bear market" when the price-earnings ratio started to deteriorate, which made the issuance of capital stock or common stock a more expensive investment vehicle for the issuing corporation than the issuance of debt. That is the point I tried to make in my testimony; that, is, that the tax law favors the issuance of debt because the interest payments on debt are deductible. And, of course, during a "bear market" a company, whose price-earnings ratio has deteriorated, is diluting the value of its shares to the detriment of existing shareholders.

Now, despite what some people think—and I do not really believe they are a large group in number—corporate managers, at least the ones I know in America in both large and small corporations, are very concerned about protecting the financial and other interests of their shareholders. So, therefore, Senator, for a company to issue stock in a bear market, would dilute the value of the outstanding shares and could be construed by the shareholders as not in their best interests. Therefore, corporate managers are reluctant to do it.

Senator FANNIN. Well, it just seemed like the relationship of 1969, of the $1.4 billion, then during the past few years, only $16 million each year was raised, well, it certainly does pose a very serious question.

Mr. NEEDHAM. Senator, if I may take it beyond the current year? We have prepared—and it will be made a part of this record by consent of the committee—a series of capital studies. And for the next 10 years our estimates show a capital shortage of $650 billion, assuming we pursue the national goals that the Government has established. Now, part of that, of course, will have to come from foreign sources. That is why we put this emphasis on making America an attractive place for foreigners to invest.

And the other side of it——

Chairman HUMPHREY [presiding]. Excuse me——

Mr. NEEDHAM. It is always a pleasure to see you, Mr. Chairman.

Chairman HUMPHREY. Mr. Needham, excuse me, modern aircraft is great but the schedules are not as good as they should be. I am sorry that I am a little tardy. Please proceed.

Mr. NEEDHAM. Thank you very much. I was making the point, Mr. Chairman, that I believe we discussed before in another hearing. My point was about the exchange's capital forecasts for the next 10 years. As part of the $650 billion shortfall, which is a substantial number and presents serious problems, we anticipate that American industry is going to have to raise $23 billion a year through net new issues of common stock. That is approximately twice the amount ever raised in any 1 year, even in the highest year in American history.

So, we have substantial problems.

And the reason why we are anxious to change the tax laws with respect to the treatment of dividends and also capital gains transactions is to attract more equity capital into corporate America so that balance sheets would become more liquid and we would not have to worry about widespread failures, as we did in the late 1960's when we had the credit crunch with Penn Central going under and a number of other companies And I am not saying that the quality of management is not a fact here either.

But, nevertheless, those are our statistics. Not everyone agrees with the numbers, but everyone seems to agree that this country does face a substantial capital shortage in the years ahead.

Senator FANNIN. Just one additional question. Those who oppose capital formation urge that with corporate profits up, there is now no longer need to stimulate business through tax incentives that will relieve the double taxation of corporate earnings and increase the corporate surtax exemption to further capital exchange tax on sales or exchange of securities, and they feel there is no need to increase the investment credit. These same individuals would advocate public works jobs to alleviate the unemployment problem today, rather than stimulating business so that they can employ more people. What do you think about this and what would your answer be to this?

Mr. NEEDHAM. Well, the statement I would make to these people is probably the same statement I would have made when I was in high school, Mr. Chairman. I believe in the strength of the private sector. I have never been an enthusiastic supporter of a large centralized government. I think that the primary function of the Federal Government is to do the things that are set forth in the Preamble of the Constitution of the United States, which, among other things, includes things that are for the common good. These people, obviously, do not agree with my definition of what is the common good.

Now, that does not mean we turn our backs on the unemployed. We have many social programs that could be of assistance to them. Perhaps, some of them need to be combined or eliminated or expanded, but that is a subject for another day.

I just am not one of the people who believes in that statement. And I think to try to debate it only gets me into a political discussion.

I would point out for the benefit of the committee's record, an article on the last page of today's "Wall Street Journal" that deals with this question of capital expenditure by American industry and the restraints that have been imposed on it because of the illiquidity of their balance sheets. I think the other is more political than it is economic.

Senator FANNIN. Thank you.

Chairman HUMPHREY. Thank you, Senator.

Mr. Needham, I have a couple of questions I would like to ask you. I regret my late arrival here this morning. My plane arrived late and I had to meet some of my constituents on the way over. They are rather important to me.

Was a question asked of you relating to "The New York Times" story this morning under the title of "Stock Slip and Uncertainty Over Federal Monetary Policy?"

Mr. NEEDHAM. Have I seen that story?

Chairman HUMPHREY. Did anyone ask you about it?

Mr. NEEDHAM. No one has asked me about it.

Chairman HUMPHREY. The headlines this morning in the New York Times, I believe, highlighted the very tight monetary policies being pursued by the Fed right now. In the last few months the money supply, M1, increased around 2 percent. I do not seem to have the story.

Mr. NEEDHAM. Unfortunately, Mr. Chairman, I spent the night in Washington and "The New York Times" did not arrive.

Chairman HUMPHREY. Well, it is a good story on the Fed about the rate change in the money supply, in M1 and M2, but primarily it was about the one that we generally speak about, which is the M1, the checking accounts and the currency. This showed a 1- to 2-percent increase. I noticed lately several stories that the Fed has been tightening up on money.

Now, I say this story this morning that said: "The stock market turning somewhat jittery over the uncertainty of the Fed monetary policies, slumped again yesterday despite encouraging signs on the inflation front."

I guess what I should ask is why is it that everytime there looks like there might be some improvement in the stock market, the Fed decides to slam on the brakes? Do you sense they may be just against people being happy? Do you feel we ought to have eliminated the phrase from the Declaration of Independence "The pursuit of happiness?"

Mr. NEEDHAM. I am glad to have you here, Mr. Chairman. I was quoting from the Preamble to the Constitution a few moments ago.

No, I really do not believe the Federal Reserve Board—and I appreciate the spirit with which you make the inquiry is——

Chairman HUMPHREY. Both in jest and seriously.

Mr. NEEDHAM. Yes, I understand that. We can reach some very serious matters sometimes in jest. In fact, I understand that is a good way to start a speech.

My observation of the Fed has been one of admiration during this period of time. I have not always understood exactly what they were doing. I think that includes a good many Members of the Congress. But on balance they seem to have been right.

Now, the decision of last Friday, which brought some turmoil, relatively speaking, into the bond market, was somewhat of an unsettling factor. There is a strong correlation between interest rates and stock prices. Absent all other considerations, when interest rates go up, stock prices go down. So that when there is an uncertainty about the direction in which the Fed is moving, then investors in stocks are going to pause. That will be reflected in stock activity, as well as in stock prices.

Now, whether the Fed's action is correct or not, I would have to spend more time examining it. On the surface, It seems to me that by increasing—well, you are referring to the decrease in the money supply, I assume?

Chairman HUMPHREY. I certainly am.

They pushed the Federal funds' rate, the basic interest rate in the money market that sets the tone for all rates up from 4¾ toward a 5-percent trading level.

Let me just ask, Mr. Needham, if you feel they may have been doing what is right? Let me just tell you what I think they have been doing. I just picked up the New York Times this morning. It says, "Housing starts in New York are as low as they were in 1932." Is that all right with you?

You know housing requires money and credit and interest. And the Industrial Conference Board Report last Saturday, which is not exactly a radical organization—I think it is considered actually to be a rather conservative group—shows plant utilization capacity at 73.4 percent; utility utilization capacity at 69 percent; mining machinery capacity utilization is 76 percent; housing is down; unemployment in the building trades is about 15 percent. I heard today that the so-called national unemployment rate is down. I don't know where they are getting these figures. The unemployment rates is high in every city I have visited.

I just came back from Binghamton, N.Y. What has happened up there? Unemployment has gone up another 1 percent. In my own State of Minnesota, it went up over 7 percent in St. Paul. Unemployment in Minneapolis was 5 percent. There are thousands more people on the unemployment rolls. And I still keep hearing these general national figures. I don't know where they are all coming from. They are certainly not coming out of Boston or New York or Detroit or Miami or Washington, D.C., or Minneapolis or St. Paul or San Francisco or Los Angeles. For the life of me, I can't understand why people say the Fed's policy, which has kept 7 million to 8 million people jobless, or at least has contributed to it, is a workable policy. Now, it may be workable for some people, but as a witness said here the other day, what right do some of us have to ask for price stability and gradual recovery at the cost of keeping millions of Americans destitute? It is all right for me. Hubert Humphrey has no complaint about the Fed's policy. I am doing all right. But what about the fellow who walked into my office just yesterday—a man 55 years of age. He was a successful businessman and is now unemployed. He has been looking for a job 6 months and now he is crying to me. The fellow used to be a neighbor of mine in Chevy Chase. He is a competent man, but cannot get a job.

Mr. NEEDHAM. Mr. Chairman, may I answer your question?

Chairman HUMPHREY. Yes.

Mr. NEEDHAM. We are going to have to get a little bit out of the stock exchange field of expertise in the minds of some people in order, at least, to lay on the record a response to your question. Let me take them one step at a time.

First of all, you mentioned a number of cities that are in the Northeast. I ask you, Mr. Chairman, whether the Lester Hill's method of allocating Federal revenues to the States is fair to the northeastern sector of the United States?

Chairman HUMPHREY. I don't think so.

Mr. NEEDHAM. I submit to you that it is not. That is one of the major reasons why the Northeast has not recovered as rapidly as other sectors of the country.

Now, with respect to housing in the city of New York, let me say to you, Mr. Chairman, I have been, as you well know—and I am merely saying this for the record—I have been a resident of the State of New York all my life. I wouldn't invest 1 cent in housing in New York City if I had to live with rent controls. There is no return on investment. And if you want to see the proof, the reason the urban centers of the United States are deteriorating is because the politicians in those cities have pursued social politics and policies which are not conducive to economic growth and strength. And that is one of the major reasons New York City has a problem.

Chairman HUMPHREY. I am not talking about rental housing. I come from the Midwest and we prefer to own our own homes.

Mr. NEEDHAM. Let's put it in a different way. A few years ago, one of the great fads in this country was the hoola hoop. Now if we made 50 million hoola hoops, we probably would have a large inventory of them today. In other words, we would have built more than the consumers were ready to purchase. No one thinks of supply and demand in that context.

In other words, management had made a mistake in judgment in their production.

Now, in the construction trade, the idea of having a viable construction industry is not to keep a lot of people employed, but to provide adequate housing for as many Americans as we can. If, in Florida, they produced too many condominiums, is that the result of national policy or is that the mistake of management in making determinations as to whether there was a need for those units? I think you have to take that into consideration.

Chairman HUMPHREY. It is only because of my profound respect for you and my spirit of personal friendship I don't get a bit angry. I am not talking about condominiums. I am talking about two-bedroom homes for ordinary American families. And I am here to tell you that the housing industry is a disaster area.

Mr. NEEDHAM. That is because——

Chairman HUMPHREY [continuing]. And I am here to tell you that one of the reasons it is a disaster area is because of tight credit and high interest.

Mr. NEEDHAM. I don't know if it is tight credit as much as it is high interest, Mr. Chairman. I know something about the housing market in New York State and people don't have the money to make the monthly payment. That is what it comes down to.

Chairman HUMPHREY. That is correct. And one of the reasons for that is the high cost of money.

Mr. NEEDHAM. And why do we have the high cost of money, sir?

Chairman HUMPHREY. I wish I knew.

Mr. NEEDHAM. Well, I don't profess to be the most expert person in Washington on this subject, but one of the reasons is because we are trying to reduce the rate of inflation, which has existed in this country and which has driven the prices of those houses up. And the price you have to pay for that, Mr. Chairman, sometimes is to reduce activity and employment——

Chairman HUMPHREY. But my good friend, if the economy was working at 90 percent of capacity, I might agree with you. I am not totally sure, but I might. If our labor force was only 3 or 4 percent unemployed, I would tend to agree with you. But, I am here to tell you that in an economy that has operated at 73 percent of capacity and an economy that has not 7 million but closer to 10 million people unemployed, that economy is not an economy in which there is what we call a demand push on supply.

Mr. NEEDHAM. Mr. Chairman, may I respond?

Chairman HUMPHREY. The fact of the matter is that the inflation rate is not due to that at all. By the way, even labor costs have not compelled the inflation rate to go upward. American labor has had the lowest wage increases of any of the organized unions in any of the industrialized countries. Business Week magazine ran a feature article only a short time ago that tells us the American labor movement, in terms of its wage demands has been relatively responsible. And I am simply saying that when I see stories like this—"U.S. Money Supply Shows Big Drop"—and everybody knows that the only way you are going to get out of this recession and get people back to work is if the money supply is kept up—I get angry. And I look around here and see the housing industry is in trouble.

I am just amazed that big business people, people in the business world, don't seem to understand that there has got to be enough blood in the economic system to bring the oxygen to the body politic.

Mr. NEEDHAM. Mr. Chairman, you and I have never disagreed on goals. We may have had disagreements on techniques, which should be employed at a particular moment in time. I would just like to make a point that interest rates in themselves are not the major factor. The supply of money is not the major factor that will resolve the problems that you set forth. Other things have to be done.

I think you have inadvertently omitted from your discourse the fact that the price of energy has increased substantially in the United States.

Chairman HUMPHREY. I understand that.

Mr. NEEDHAM. And that enters into this as well. I testified before your Committee on Small Business just a short time ago, and we covered some of this same ground. It may very well be that in order to get the energy program off the ground, that we have to find another instrumentality of getting that done. We have to have perhaps a Manhattan type project. That may resolve this energy problem faster, marshal assets faster, and give people more employment.

Mr. Chairman, you know I just cannot get terribly disturbed over the fact that on 1 day the money supply, according to the New York Times as you read it, has been decreasing.

Chairman HUMPHREY. It is not 1 day. The fact of the matter is that it has been for the last 6 months.

Mr. NEEDHAM. Mr. Chairman, you are going to have a person from the Department of Labor tell you that unemployment is down this month.

Chairman HUMPHREY. I heard that and I don't believe it.

Mr. NEEDHAM. Well, I am sure you know how to find out the truth.

Business is recovering. Corporate profits are higher. You know you singled out Minnesota and Binghamton. You might have included Buffalo and Rochester. Those are bad cities in the State of New York.

Chairman HUMPHREY. You bet. You can go right on up the coast.

Mr. NEEDHAM. Go back to Detroit now. They are employing more automobile workers than——

Chairman HUMPHREY. The mayor of Detroit recently testified before this committee and he said his city is ready to collapse and that the rate of unemployment is over 18 percent. I don't think you can call that particularly good.

Mr. NEEDHAM. Well Mr. Chairman——

Chairman HUMPHREY. All I am saying, if I may repeat it, is that I want the economy to really move. My point was that you said the Fed was doing a good job.

Mr. NEEDHAM. Yes; I did.

Chairman HUMPHREY. All right, and I am saying it is doing a poor job in keeping a steady growth rate. We have been told constantly that one of the problems of business is lack of confidence. What are they saying? Every news story is saying business is frightened and business is concerned about these fluctuations.

I see where there was an increase in capital outlays. There was a story about the increase in the capital investment, about plans for investment; but in terms of real investment, it is down.

Mr. NEEDHAM. Yes, and one of the reasons is because of the recession we have been through for the last few years. Corporate America has had to set aside their expansion plans. So what we are doing now is dusting them off and taking a look at them. But assuming a board of directors met this morning and decided to build a new plant or new facilities. That could involve, in today's world of high technology and sophistication of products, a completion date maybe 2 or 3 years from now.

Chairman HUMPHREY. I agree. Then we have the Council of Economic Advisers coming in here and telling us that private industry will absorb all of these people that are unemployed. You have just answered that. It will be a couple of years before we get that capital investment which ultimately would create new jobs.

Mr. NEEDHAM. Yes, and that——

Chairman HUMPHREY. And what this Senator is saying to you is that that couple of years is a terribly long time for the 1.1 million that are going off their unemployment compensation benefits this year and the 1.8 million that are going off their benefits next year. Who is to take care of these people?

Mr. NEEDHAM. Well, Mr. Chairman, we, the American people, are going to take care of them and not the Federal Government, because you don't have any money that we don't give you.

Chairman HUMPHREY. Look, that is an old argument. After having said that, how do they get the jobs?

Mr. NEEDHAM. We may have to extend the period of payment for benefits to those people to make sure they are able to live well during this period of adjustment, because——

Chairman HUMPHREY. Did you come down on the railroad from New York?

Mr. NEEDHAM. Not today, I haven't.

Chairman HUMPHREY. Have you ridden the Metro?

Mr. NEEDHAM. Yes; I have ridden the Metro.

Chairman HUMPHREY. Do you think it might not be better to give people jobs fixing up that roadbed, rather than giving them unemployment compensation? Which would you rather have, Mr. Needham?

Mr. NEEDHAM. I think in terms of the attitudes of the American people—and knowing some American people as well as you do, you probably think so, too—that they would rather be actively and gainfully employed——

Chairman HUMPHREY. Right.

Mr. NEEDHAM [continuing]. Rather than sitting home and collecting checks.

Chairman HUMPHREY. Right. And wouldn't you think the Government would have enough sense to do something about it?

Mr. NEEDHAM. Well, the last time I testified before you, Senator, I suggested I would like to see some type of innovation in that area. I am not prepared to endorse some of the programs. I am familiar with the bill you and Senator Javits and Senator Muskie—is it?

Chairman HUMPHREY. Yes.

Mr. NEEDHAM. That you introduced. I think you are going in the right direction. I think we ought talk about these things. I think it is unfair to impose on one segment of the economy the hardships that are not distributed equally.

Chairman HUMPHREY. Now we are on the same wavelength.

Mr. NEEDHAM. Well, Senator, you and I have never disagreed on the goals that this country has set out to do. We have had some difficulty on some of the details and machinery in the process.

Chairman HUMPHREY. I have used more than my time—Senator Fannin.

Oh, here is Senator Javits. We have to get him up here, too.

Senator FANNIN. Just one question. If we move toward employing our labor force by Government public works jobs, would that fire our inflation rate so that it will create even more problems for those on fixed incomes and small businesses trying to secure investment capital?

Mr. NEEDHAM. I think that is a distinct possibility, Senator. And I just feel that is a subject where, if you would like to get the stock exchanges' opinions on it because we are concerned with increasing the Federal payroll because that has got to increase the Federal deficit. That has to create additional problems in capital markets. It is going to raise interest rates some more. It is going to deny corporate America the funds they need and want. So, it is not a simple yes or no answer.

Unfortunately, the daily press, because of space limitations primarily, sometimes mislead. If you take the time to read the Sunday sections, you get a better feel for this matter. But the press tends to oversimplify this into the old question of black and white and it just isn't that way.

Chairman HUMPHREY. They tend to give the old conventional answers, which are not true. For example, simply saying that putting people to work will fuel the fires of inflation is not true. If you put people to work, you will get some revenue. If you put people to work, you will get some business. If you keep them on the dole, you get nothing. And I think the time has come to put people to work in this country. And I am not going to listen any longer to this kind of talk that if you get people doing something, it means inflation. If you get people doing nothing, I think it means recession and inflation.

Mr. NEEDHAM. Mr. Chairman, let's put that in human terms, if you don't mind, because as chairman of the New York Stock Exchange, I am kind of sensitive about the way people read my statements. When we talk about these subjects, let's talk about what we are really after here. What we are really after here is for America to remain a democracy and to provide the kinds of opportunities that people characteristically and traditionally identify with this country and that will provide people with the opportunities to move up in society and achieve a standard of living which is acceptable to them—all of which will fulfill the pursuit of happiness.

Chairman HUMPHREY. I couldn't agree more with you. We just happen to have a little disagreement.

I am disturbed about what gets to be the businessman's jargon that if you do these things, that somehow or another you will fuel the fires of inflation. I don't agree with that and I wouldn't be true to my position if I said I did.

Mr. NEEDHAM. Mr. Chairman, I hope you will accept this in the spirit in which it is offered, but let me say this, I recognize that the business community uses a vernacular that isn't entirely familiar to many

American people. I could expand on that for many hours. I suggest to you that sometimes the Federal Government and other levels of government don't give us enough recognition for the fact that we are concerned.

Chairman HUMPHREY. I think you are concerned.

Mr. NEEDHAM. And we may not be saying it the way you would like to hear us say it, but measure us by our actions; measure us by the things we have done and what we have accomplished in this country for the last 200 years. Compare us with other countries around the world and see how we are doing. Don't just disregard our opinions because we don't express them in words that——

Chairman HUMPHREY. Mr. Needham, I have a high regard for business. I am a profit man. I believe in investment. I believe in free enterprise from the beginning to the end. I do want to tell you something. I think this country is only as properous as its people. And I am fed up with Government programs that do not get the people back on the job. I think this country needs work. I think it needs jobs.

And I think we are copping out. I think all we are trying to do is use the computer to write checks. I am opposed to it. I think there is a time for it. I think it is a gap that has to be filled. But ultimately I think——

Mr. NEEDHAM. Mr. Chairman, you and I need more time together.

Chairman HUMPHREY. Thank you.

Senator Javits.

Senator JAVITS. Well, there is no reason why you shouldn't spend it together, but not on my time.

I hope you both have a good time.

Mr. NEEDHAM. Well, maybe we could do it on a golf course. I would have better results there.

Senator JAVITS. Mr. Chairman, I am sorry that I, too, was late for somewhat the same reasons as your own. I would like to welcome first two very distinguished New Yorkers; the chairman of the New York Stock Exchange and the president or chairman—I don't know what job he has now—of one of our most enterprising companies, Mr. Bluhdorn.

I heard the discussion with great interest. It touches a very critical point. The point is well taken, Mr. Needham, that business is afraid of Government partnership. That is really what the fear is all about. Business needs it, but is afraid of it.

I would like to start by asking you this question. Your analysis indicates that for the next 5 or 10 years a capital gap is projected. You state: "Exchange economists have projected a capital gap of $395 billion to $690 billion—and I gather that is investment—with $650 billion emerging from alternative scenarios as the most likely dimension."

Now, what period of years does that represent?

Mr. NEEDHAM. Ten years.

Senator JAVITS. Ten years. Now, is that money available? Let's assume all the stars were in the right configuration. Do your economists say—and Exchange economists are very good—that capital is available? Whether it will be invested or not is another question; but is it available?

Mr. NEEDHAM. We think a good part of it will be made available, Senator. I can't quantify it for you. We think a good part of it will be though increased profit opportunities. As you know, a number of our major multinational corporations today receive most of their profits from their operations abroad. We think we can be more competitive internationally and bring those profits back to the United States and fill that capital gap. We feel, too, that America should adopt a more liberal attitude with respect to portfolio investments by foreign governments and/or individuals and/or institutions. Now that, too, I think is a major source of capital to fill this gap to which you are referring.

So I would say to you the possibility and the potential for filling this gap is there. It will be necessary, on the other hand, that we adopt some new policies to encourage saving and investment.

Senator JAVITS. But, your answer to the question "Is the capital available" is yes, Mr. Needham?

Mr. NEEDHAM. I think fundamentally, yes.

Senator JAVITS. And you have given us, either in this testimony or in other testimony, the stock exchange's views as to how that capital may be flushed out for investment purposes?

Mr. NEEDHAM. Yes, Senator.

Senator JAVITS. And if, as an element of that capital, if the credit of the U.S. Government is required, is there any reason why, Mr. Needham, in terms of the security of our country, why that credit should not be sought? In other words, if the makeup is $650 million—and let's take your figure—the credit of the United States is necessary. Now is there any reason why business should not seek it?

Mr. NEEDHAM. Senator, that reaches the question of the partnership.

Senator JAVITS. Right.

Mr. NEEDHAM. I don't really believe that American industry is nervous about a partnership with the Federal Government under the proper terms. I am sure the proper terms could be arranged. I think what the business community and the American people, I might add, are concerned about is extensive involvement by the Federal Government in their personal and business affairs. I do think there comes a time when the full faith and credit of the Federal Government is necessary to accomplish certain goals, for example, space development which led to the development of many products and materials that we just did not even know about 10 or 6 years ago. The Manhattan project was another example where the Federal Government's guarantee made possible the achievement of the great goal, namely, the development of atomic science. I think perhaps we could do that in the energy area, as well, with a partnership between the private sector and the Federal Government.

In many ways now we do it. We do it in personal savings accounts and checking accounts and through the insurance of customer's funds left with brokerage firms. So, it is not a new concept. I think it is something manageable. It is just a question of deciding what that project ought to be and what is the best vehicle to design to accomplish it.

Senator JAVITS. Don't you think the time has come when we ought to have a declaration of inter-dependence between business and government? Don't you think the business community should state what it is afraid of?

For example, I won't say I know a good deal, but I know something about business, because I was a high-priced lawyer before I became a politician. The Senate still uses me at my usual fee, which is zero. But, at that time, years ago, I recognized very clearly the concerns of business about having any government or labor people on their boards of directors, yet the Germans, who have had a fantastic economy, broke new ground with a 50–50 labor/business in the board iron and steel industry. And that did not seem to hurt them at all. It did a lot of good.

Now, what is the hangup in your judgment, Mr. Needham, among the American management people? The question concerns the representation of either or both government and labor on boards. The working people own stock and the government a kind of a government partnership interest.

Mr. NEEDHAM. Well, let me speak about the labor side first.

If I were a labor leader in the United States, I do not think I would want that arrangement. Our social structure is entirely different from the German structure. The relationship between management and labor in the United States involves playing out of two different roles: One of cooperation in getting the job done, and the other in an adversary relationship and a determination of the workers' fair share of the profits generated by the business entity.

The presence on the board of the labor representative to me would present some substantial conflict of interest for that labor representative and might interfere with the discharge of his responsibility to his constituents, who would be the members of his union.

Now, with respect to the representation of Government on the board, Senator, I really find that entirely distasteful philosophically. I think that the Government is a part in business already through the Federal tax laws and through its agents. And I am sure if you had been examined by the Internal Revenue Service agents, you will find out that that is probably the greatest unarmed police force in the world. And to put on the board of directors, to put the Government on that board, well, I do not think that necessarily would be looking at the totality of our judicial system. We have laws that regulate the conduct of business. The Securities and Exchange Commission has been very active in the last 5 or 6 years in dealing with the problem of the responsibilities of directors and holding them accountable for their actions in ways they had never been held accountable before. It seems to me we should rely on the law and the judicial system of the United States to implement or to see to it that the goals of our Government, as set forth in the laws established, are pursued diligently by corporate America. I just find the other entirely distasteful.

Senator JAVITS. If the Government does go into partnership with the business, you can always have joint ventures or project corporations. So, it is not necessarily a pragmatic alternative.

Mr. NEEDHAM. Senator, did I misunderstand you? Excuse me, but I thought you were talking about existing corporations.

Senator JAVITS. I understand. I do not mean just Government officials on boards.

I am very interested on the labor side for this reason. One of the big sources of capital in the future has got to be mutualization of the ownership of American business. Indeed, the stock exchange, has been very active in trying to increase the number of shareholders. And I believe you will find within the next few years a great deal of interest in the Congress in profit sharing with tax benefits flowing to the employer for setting up either profit sharing or stock ownership. As for me, I very much prefer the latter. Now, when you get into an enormous source of capital, you have got to make a very fundamental decision. Do not worry about the labor leader. The labor leader will do what his constituents want him to do. If they want him to sit on a board, he will sit on a board. He may try to discourage them because he thinks he does better politically by having an adversary role, but if the labor constituents will not be discouraged because they have their money in the business, then the labor leader will serve on the board or they will get a new labor leader. That has happened lots of times.

We are going to attract the workingman to stockownership—and the Marxian dream was the ownership of the means of production by the worker which can be done in the capitalist system with freedom through the corporation. So we are on the threshold of an ownership revolution and not just, as we already have had for the last 50 or 100 years, of an industrial revolution. And the question is whether the business community is ready for it. This represents real big money. Labor is not talking about the capital gains tax or some other things which can produce some fractional interest. We are talking here about the biggest thing there is: The pool of the workers' resources.

The pension funds, for example, have $210 billion. That is the kind of money we are talking about—when you talk about workers' participation.

So, my question: Is American business ready for it? Is it really ready to admit the worker to a share in business?

In answer to your question about the adversary relationship, I do not see any president of a large corporation, who is getting $800.000 a year, think that is an adversary relationship. The executives do not think it is an adversary relationship. They all sit on the board. They are workers. That is the trusteeship system. They have relatively little interest other than their labor power. So what is the difference?

Mr. NEEDHAM. Well, Senator, if you are suggesting that as the result of acquiring particular shares of a particular company—and following the proxy rules set forth by the Securities and Exchange Commission—that a labor group would propose a member for the board of directors, utilizing the existing democratic process we have in corporate America today, and if that person were elected, I would have no objection to that.

Senator JAVITS. OK.

Mr. NEEDHAM. What I do object to is, perhaps, a misunderstanding of your question, Senator Javits, is a Federal law that says that labor has to be on the board.

Let it happen in the democratic process with which we are more familiar.

Senator JAVITS. Well, we agree then.

Mr. NEEDHAM. I think so.

Senator JAVITS. And bear in mind that this could be another Sears & Roebuck with a majority of the board being the workers.

Mr. NEEDHAM. Senator, the reason why we want more individuals to invest in America is because we feel it will get greater production and a more stable social system as the result of that.

Senator JAVITS. I thoroughly agree with that. Therefore, may I respectfully suggest one of the big campaigns of the New York Stock Exchange ought to be to get its listed members to develop profit-sharing and stock ownership plans. If they really want to expand the capital market, they got to make these two fundamental decisions: One, that they are really going to go enthusiastically for the broad participation by the worker. He has the most immediate interest. The worker has payroll plans, et cetera, and we can easily coordinate stock ownership in terms of tax treatment the same way we treat pensions; that is, a deferred tax treatment.

By the way, that is an infinitely bigger tax bite than the President had in mind, rather than the minor—and I think properly described as minor—$1,500 special treatment.

And, second, business must be ready to go into business in given projects if necessary, with the United States. And the biggest one is energy.

In conclusion, Mr. Needham, one of the biggest defects in American business in my mind is in management. Management has lost its sense of boldness. It is no longer willing to take risks. And risks today can be done except full information has to be shared with the public. That is the only difference. The only thing the public says is "tell us". It is just like Senator Humphrey and I told the President today about foreign policy, namely, to tell us. And if you tell us so we know what we are doing, then it is OK.

After all, risktaking is what made our country and will continue to make it.

Mr. NEEDHAM. Senator, I feel I must respond.

Senator JAVITS. Please.

Mr. NEEDHAM. First of all, if you and I agree that the tax program that the New York Stock Exchange has advanced for the last 2 years could be adopted by the Congress, I would not be concerned about committing to you the total dedication of our resources to expand stock ownership among individual employees, workers, because it would follow naturally as a result of economic forces.

Second, in order to help American business to eliminate its nervousness and it unwillingness to take risks—and I think that is not an unfair characterization at this time—the Federal Government has to do two things. First, it must manage its fiscal affairs better and leave some room for the private sector. Second, it must work out with the foreign governments arrangements—agreements—where American interests are being protected so that when an American shareholder invites in Standard Oil of New Jersey or General Motors or XYZ company, there must be understanding between governments that those properties and investments will remain in the name of the person who made them and not be confiscated by those governments. And those are things that the Federal Government could do to insure a healthier and more prosperous economy here in the United States.

Senator JAVITS. Well, thank you. My time is up. As an immediate sequal to your answer on multinational corporations, I would ask, Mr. Chairman, unanimous consent that my comments regarding a report of the United Nations Committee of Twenty Eminent Persons on Multinational Corporations be made a part of the record at this point.

Chairman HUMPHREY. Indeed.
Senator JAVITS. Thank you.
[The comments follow:]

COMMENTS OF HON. JACOB K. JAVITS, A U.S. SENATOR FROM THE STATE OF NEW YORK, REGARDING A REPORT OF THE UNITED NATIONS COMMITTEE OF TWENTY EMINENT PERSONS ON MULTINATIONAL CORPORATIONS

The Report of the Group of Eminent Persons represents a great effort by talented and diverse individuals, who bring to this report substantially different perspectives on the role of multinational corporations in world development. In such a group it would be utterly unrealistic to expect unanimity of views or overwhelming agreement on the report produced.

The report seeks to limit the scope of disagreement by expressing several viewpoints, even if these may be somewhat contradictory, while it also attempts to strike a balance among the views expressed. This format, however, permits the expression of fears voiced by various groups about the adverse effects of multinational corporations without thoroughly examining the charges and assumptions to determine whether there is substance to the fears. Hence, the report proliferates the initial error by skipping from the expression of a particular fear, based upon various hypothetical situations, to proposing a recommendation—but without an adequate factual basis. Thus, I find that the report contains a significant number of recommendations from which I must dissent.

My other fundamental reservations regarding the report are caused by its high level of generalization—unsupported in numerous cases as I have said, by documentation or even argumentation, its bias in favour of governmental as opposed to private decision making, its lack of a clear definition of the problems resulting from multinational corporation investment, and its inability to set out a reasonable list of priorities for action to be taken to deal with them.

The major priority recommendation of the report is to provide a continuing role for the United Nations through a Commission on Multinational Corporations and an Information and Research Centre under Economic and Social Council auspices. I am in full agreement with this recommendation of the Group. It is important that the United Nations effort be conducted in harmony with work on the multinational corporations also being carried on by the OECD, the World Bank, the EEC and others and will give consideration to parallel national inquiries like those of the United States Congress.

The report assumes that the central problem is a conflict between the economic power of the multinational corporations and the political power of the host Governments and sets out various concerns expressed about multinational corporations by various groups, without any attempt to assess their validity. Nevertheless, from these generalizations, the report concludes on page 8: "fundamental new problems have arisen as a direct result of the growing internationalization of production as carried out by multinational corporations. We believe these problems must be tackled without delay".

This type of easy conclusion could undermine the authority of all of the Group's recommendations.

Because the report sees the central problem as one of conflict between the economic power of multinational corporations and the political sovereignty of nations, the fundamental solution advocated by the report is to increase the bargaining power of host countries. Furthermore, the two implicit assumptions of the report are that governmental involvement is preferable to private initiative, and that Governments know best and will act always in the long run in the interest of their citizens. Based on long experience, I seriously question both assumptions.

Although witnesses before the Group clearly testified that there is no direct equivalence between the power of a multinational corporation and the power of a sovereign State, the report nevertheless proceeds to devise various ways by which host countries can strengthen their bargaining position, or power, against multinational corporations. However, since many of the recommendations are concerned with exercising greater political control over multinational corporations without taking sufficient account of the economic realities—for example, why multinational corporations choose to invest in less-developed countries—the result is likely to be a suffocating surveillance of multinational corporation activities by the host country Government and discrimination against multinational corporations compared with indigenous private enterprise. Excessive regulation and control will actively discourage multinational corporation investment, and therefore deprive less-developed countries of capital and technology, which for all practical purposes, may well be unavailable in adequate amounts except from multinational corporations. This is clearly in the interest of neither the multinational corporations nor the developing countries.

Nor am I convinced that there need to be any conflict of interest between multinational corporations and host countries. Private foreign investment plays a crucial role, along with public aid flows, both bilateral and multilateral, in providing critically important inputs to developing countries and both are needed.

Multinational corporations as a group have played more of a major role in creating a more prosperous world economy, to the benefit of all nations, and therefore have been more of a major force for progress and peace than is generally recognized. This need not and does not beg their deficiencies or the political machinations of some multinational corporations.

Indeed, Arnold Toynbee finds multinational corporations have a major historical role to play in an increasingly interdepenent world; in fact, he asserts that most of our global economic problems "are due to the misfit between the antiquated political setup of local states and the real, global economic setup".[1]

Also many corporate multinational corporation leaders have shown an interest in co-operating with the United Nations and other international agencies studying the multinational corporations. But it is essential that the rules of the game be clearly stated; nothing discourages private investment more readily than frequent changes in government policy and consequent uncertainty regarding the policy to be expected. A large number of multinational corporation executives testified before the Group, and many of the suggestions they made have found their way into the report. However, since multinational corporations exist as profit-making enterprises, Governments cannot continually diminish their profit-making capacity and expect them to continue to invest in these circumstances. The important point is to be sure that it is in the public interest of the host countries to have multinational corporation investment, while allowing sufficient profits to make their continued existence worth while.

I deplore as strongly as the other members of the Group, political interference by multinational corporations, i.e. ITT's attempts to interfere in the internal affairs of Chile. Probably, other multinational corporations have engaged in similar abuses, which must also be condemned and their repetition prevented. However, the report as a whole represents a reaction to highly atypical behavior by a few multinational corporations, and glosses over entirely a number of examples of serious abuses by developing country Governments of multinational corporations, such as vindictive nationalization, arbitrary and capricious rule making and procedure, abrogation of contracts and other discriminatory treatment (as against indigenous enterprise). The report would have been far more valuable had it achieved such a degree of balance, and had it sought to bring about a harmonization of interests between multinational corporations and developing countries.

Raymond Vernon of Harvard University has stated a view of multinational corporations which I find revealing and lucid:

"It is not the chosen instrument in an international conspiracy for grinding the faces of the poor; neither is it mankind's salvation in a parlous world of hostile nation states.

"It is one more Human institution, at the same time fallible and useful, whose benefits can be increased and drawbacks reduced by appropriate public policies."[2]

It is in the long-term interest of developing countries to welcome foreign private investment that will provide infusions of capital and technology on terms suitable for the host country and that will accommodate indigenous aspirations for participation in management and ownership. It is possible to devise policies that will establish a harmonious relationship between private

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[1] "Arnold Toynbee: Are Businessmen Creating a New Pax Romana?" Forbes, Apr. 15, 1974, p. 68.

[2] Vernon, Raymond. "Multinational Enterprises: Performance and Accountability." (Unpublished paper), November 1973, p. 14.

foreign capital and internal development needs. A number of countries have succeeded in developing such policies, and more effort should have been expended in identifying these policies. It would be regrettable in a world of decreasing aid and sharply increasing oil and other resources prices to shut off flows of private capital in the guise of regulating multinational corporations.

There follows a more detailed analysis of the report, with my comments on individual chapters. Although I am not necessarily in total agreement with all parts of the report not mentioned specifically below, I have limited my comments to the more important points.

Finally, I am conscious of the genuine efforts of the Group to reach a unanimous report, and to accommodate all the various opinions expressed. Because of the complexity of the subject and the differing perceptions of the persons comprising the Group, it was not possible to reach a unanimous report. While the report is deficient in the respects stated below, I have joined the other members of the Group in submitting it to the Secretary-General. I do this in the expectation that deficiencies in the report will tend to come under review in the further work of the United Nations on multinational corporations and that the publication of the report will develop public discussion of the subject in a way that will be further self correcting.

CHAPTER I. IMPACT ON DEVELOPMENT

1. On page 38 the report recommends that host countries give precise instructions to multinational corporations regarding the conditions under which they should operate and what they should achieve. Although the objective sought—maximum understanding between the developing country Government and the multinational corporation on the conditions of investment and operation—is clearly worth while and to be encouraged, it may be both impractical and even counter-productive to give precise instructions on every aspect of multinational corporation operation. Certainly, it is entirely appropriate for the developing country Government to establish general guidelines for the multinational corporation to follow, and to work out a mutually agreed set of guidelines for the more detailed aspects of the multinational corporations operations.

2. On page 38 of the report, the third recommendation is somewhat unclear regarding the role of the United Nations in assisting the host country Government in negotiations with multinational corporations. The recommendation states:

"That the United Nations should strengthen the capacity to assist host countries, at their request, in such negotiations with multinational corporations, as well as to train their personnel in the conduct of such negotiations (see chapter III)."

The United Nations should not be a party to adversary negotiations between a host Government and a multinational corporation; such a role is highly inappropriate, and also unrealistic, considering the wide spectrum of expertise that would be required.

3. The fourth recommendation on page 38 of the report suggests that: "in the initial arement with multinational corporations, host countries should consider making provision for the review, at the request of either side, after suitable intervals, of various clauses of the agreement".

The recommendation would have been improved by the addition of the 10-year period, mentioned on page 38 of the report. This would ensure that the host country would not ask for re-negotiation after a very short period of time.

4. The recommendation on page 39 of the report is acceptable in principle. It states: "that developing countries should consider including provisions in their initial agreements with multinational corporations which permit the possibility of a reduction over time of the percentage of foreign ownership; the terms, as far as possible, should also be agreed upon at the very beginning in order to minimize the possibilities of future conflict and controversy".

Developing country Governments and citizens are certainly entitled to participation in the ownership and thus the profits made by multinational corporations in their countries. However, it should be recognized that a requirement ab initio for phased disinvestment can work to discourage many investments, particularly in high technology areas. Such stringent initial terms might encourage multinational corporations to attempt to amortize all their investment during the early years of the investment, resulting in higher prices and more wasteful development of resources.

5. I object to the poor logic represented by the paragraph at the top of page 43 of the report which calls attention to: "the possible role of multinational corporations in the volatile short-term movements that have occurred (in the international monetary system) in addition to the fundamental disequilibria in the balance of payments of several major industrial countries".

Even though the report agrees that the convulsions in the international monetary system were probably not caused by multinational corporation activities, the report nevertheless finds that the potential movement of funds is sufficient to require vigilant monitoring by central banks.[3] Policy recommendations, even in a form other than "The Group recommends", should be reached with greater attention to the basic facts.

CHAPTER II. IMPACT ON INTERNATIONAL RELATIONS

1. The issues discussed in this chapter are central to the report, and therefore it is most important that the issues be examined with great impartiality and care. I do not feel that the report has achieved the appropriate degree of objectivity. For example, it is stated on page 45 of the report that in a number of cases: "multinational corporations have actively promoted political intervention in the domestic affairs of host, particularly developing, countries".

Since ITT is the only example mentioned in the report, is it not fair to require that other examples be documented to substantiate this charge?

As another example, the report rather vaguely charges, without substantiation, that multinational corporations, being close to domestic groups favouring foreign investment, can "rally against groups advocating social reforms". On page 47 of the report the report states that: "governments, especially home country governments . . . have on occasion used the corporations as instruments of their foreign policy and even for intelligence activities".

Again the charge is not substantiated, although on the contrary the world has recently been treated to numerous examples of oil-producing countries forcing their foreign policy objectives on oil-consuming countries through multinational corporations headquartered in those same consuming countries.

Again, this chapter represents a reaction of the Group to the activities by ITT in attempting to intervene in the affairs of Chile rather than a case strengthened by adequate examples. While ITT's action in Chile was a reprehensible affair that resulted in the denial of ITT's claim for OPIC insurance compensation for its expropriated Chilean properties, it has not been established that it is the norm for multinational corporations. Therefore, the report tends to feed the fears of those who believe that multinational corporations are subverting Governments of developing countries, without the faintest shred of evidence beyond the ITT example to prove that this fear is justified.

2. The report correctly points out on page 47 that it is clearly necessary for host Governments to pledge themselves to pay fair compensation. For compensation to be fair and adequate, it must also be prompt and effective. Compensation long delayed will be often of little value.

3. The report states on page 47 that while compensation for nationalization should ideally be determined by mutual negotiation, the host country Government, by failing to agree to this, can force recourse to the host country legislative and judicial processes. No reference is made to the requirements of international law that nationalization be non-discriminatory, for a public purpose, and that prompt, adequate and effective compensation be paid. UNCTAD resolution 88 (XII) is cited, but not United Nations General Assembly resolution 1803 (XVIII), which affirms the obligation required by international law to pay fair compensation for expropriated property.

4. The report on page 48 suggests that, in cases of countries with serious balance-of-payments problems: "international lending agencies should consider making soft long-term loans available to countries facing this difficulty".

While one may sympathize with the plight of countries having balance-of-payments problems, their very condition ought to cause them to proceed with great caution before using their limited capital resources to acquire ownership over existing assets. Developed countries are not likely to approve the use of

[3] For an analysis of multinational corporation activities in the international money markets, see "How the Multinationals Play the Money Game," an interview with Sidney Robins and Robert Stobaugh, Fortune, vol. 88, No. 2, August 1973, pp. 59–60.

soft. long-term loans, which should be used for the development of new productive capacity or infrastructure, for purposes of nationalization of multinational corporation properties.

5. The report is deficient in its treatment of international arbitration on page 48. Most developed countries accept international arbitration, and the majority of the 65 countries which have joined the World Bank's Center for the Settlement of Investment Disputes are developing countries. In this particular case the Group erred on the side of caution in not making a recommendation that would encourage international arbitration.

6. On page 49 of the report, the Group recommends that: "home countries should refrain from involving themselves in differences and disputes between multinational corporations and host countries. If serious damage to their nationals is likely to arise, they should confine themselves to normal diplomatic representations. No attempt should be made to use international agencies as a means of exerting pressure".

This recommendation is not realistic. It is entirely proper for a home country to review its aid programme, for example, in the case of a country that has expropriated unfairly the property of home country nationals. No Government should be asked to accept the principle that it should limit itself exclusively to "normal diplomatic representations" in the case of serious damage being inflicated on their nationals by the host Government.

I should point out that I have worked in the United States Senate to remove the mandatory character of United States law requiring the termination of United States foreign aid to a country expropriating a United States national's property without fair, adequate and prompt compensation. This amendment has been achieved with respect to bilateral aid, and it is my hope that it can now be achieved with respect to multilateral aid. However, the President should retain the discretion to cut off aid if he thinks the situation warrants it. I should also point out that the United States business community clearly opposes the mandaory nature of United States law requiring aid termination, and supports the position I have outlined.

CHAPTER III. INTERNATIONAL MACHINERY AND ACTION

1. I have previously stated my agreement with the recommendation of the Group that a Commission on Multinational Corporations be established under the Economic and Social Council. This is a most worthy objective. The Commission should work in the closest harmony with other international bodies engaged in similar activity.

2. On pages 53–54 the report suggests that: "advisory teams . . . should be made available to requesting governments to assist them in evaluating investment proposals, and in analysing proposed contracts and arrangements, and, if desired, to provide technical advisory support to governments related to their negotiations with multinational corporations".

I have previously stated—comments on chapter I—my objections to United Nations advisory teams providing technical support to developing countries' Governments related to their negotiations with multinational corporations. The training efforts proposed are to be commended.

3. The discussion of a code on conduct on pages 54–55 of the report is rather unsubstantial for so important a subject. A code of conduct should be developed from the widest possible variety of sources over a period of time and the task of preparation cannot be entrusted alone to the Commission on Multinational Corporations.

4. The report notes on page 55 the serious lack of both financial and nonfinancial information on multinational corporations, but the Group seems to have no clear idea of what information should be sought, or in what order of priority. It is possible to innundate the United Nations with flows of information without any of it being reduced to a comprehensible form of use to developing country Governments. It should be recognized that careful standards of confidentiality would have to be devised, as in the case with "confidential" corporate data collected by the departments of the United States Government, for example. Multinational corporations are reluctant to release some kinds of information because it is developed at considerable cost to the individual multinational corporation and could be useful to competitors. Without the greatest care and mutual co-operation in this sensitive matter, Governments will regard failure to release certain types of information as evidence of wrong doing rather than

the legitimate preservation of corporate know-how and financial data. On the other hand, there is growing pressure on multinational corporations from all Governments to provide more data for public policy purposes, and the multinational corporations must be prepared to co-operate in this definite trend.

CHAPTER IV. OWNERSHIP AND CONTROL

1. On page 62 of the report, the example of ADELA as a corporate model for other multinational corporations to follow is misleading, because ADELA's aims are those of an investment bank, taking minority equity participations in new ventures for development purposes, with a view of revolving the investment once it has reached the stage of maturity. This is not the ordinary intent of a multinational corporation, and cannot be held up as an example to the average multinational corporation. But it shows a need for a global ADELA for private enterprise just as the International Bank for Reconstruction and Development has a soft loan International Development Association.

2. The recommendation on page 62 of the report, that multinational corporations gradually switch from involvement in well-established projects to reinvestment in new ventures seems to be fairly impractical; it would exclude the multinational corporation from the benefits of a ripening situation, while leaving it only with all the costs and the risks of the initial stages of a new enterprise.

CHAPTER V. FINANCIAL FLOWS AND BALANCE OF PAYMENTS

1. This chapter takes a sound over-all approach to the question of financial flows. The report makes the proper point on page 65 that developed countries should provide greater access to their markets for the manufactured and processed goods of the developing countries. I agree on the necessity for a scheme of generalized preferences for the developing countries.

2. On page 64 the report states:

"Because of their concern with the balance-of-payments problem, developing countries sometimes restrict remission of dividends, royalties and so on. Nevertheless, multinational corporations are often able to circumvent such restrictions through transfer pricing and other devices.

The second sentence implies that multinational corporations in fact do circumvent dividend restrictions through transfer pricing mechanisms, although there is little information on this subject and none before the Group.

CHAPTER VI. TECHNOLOGY

1. Chapter VI contains much useful material on technology. There is no doubt that it has been largely the ability of the multinational corporations to generate and apply technology which accounts for their rapid growth, as each affiliate may draw upon the knowledge of the entire organization. The real problems stem from the fact that the market for technology is an oligopolistic one and the bargaining position of the developing countries is obviously weak. While developing countries would like to create and strengthen their own national technological capabilities, it is not clear how this may be accomplished in a practical way. A major concern should be to encourage the transfer of technology, but this is unlikely to be accomplished through the highly simplistic formulation contained in the last paragraph beginning on page 70 of the report. After stating that "there is no formula by which the fair price of technology can be determined", the paragraph concludes with the statement that "the transfer to the developing countries does not entail any significant extra cost." Although this presumably is an argument advanced by the developing countries, the reader is left with the implication that technology transfers should be a virtual gift.

2. In the section entitled "The Choice of Products", the report recognized that the interest of developing countries is often that of having labour-intensive methods of production used, as well as having national tastes and needs recognized in designing the product to be sold to domestic customers. The usual position of multinational corporations, based on costs, is often in favour of internationally standardized products. On this issue, not enough weight has been given to the positive effect of standardization the world over, in order to achieve economies of scale at a global level and to use them for the purpose of raising the standards of living in developing host countries.

3. On page 69 of the report, the Group recommends that developing countries set up "machinery for screening and handling investment proposals by multinational corporations . . . for evaluating the appropriateness of technology." This recommendation is both impractical and unworkable. Government officials are likely to be unqualified to pass judgment on multinational corporation technology, and may opt for a labour-intensive technology for domestic political reasons, thereby shutting off more advanced technology inflows. This is even more likely in the case of the more technologically advanced multinational corporations.

4. It is certainly worth examining alternative means of acquiring technology as outlined on pages 72–73 of the report, although it should be pointed out that what is actually reinforcing the position of the multinational corporations is two facts. First, technology becomes obsolete fairly rapidly and a constant supply of fresh technology is essential. Second, know-how concerning the capability of producing efficiently is much more than the technology which patents protect. Nevertheless, it is proper for host countries to consider ways other than foreign direct investment for acquiring technology and to favour these alternative solutions: management contracts, joint ventures, and turnkey operations which permit ownership and control to remain at least partly in indigenous hands.

CHAPTER VII. EMPLOYMENT AND LABOUR

1. On page 76 the report recommends that: "home and host countries, through general budgetary support, the normal working of the social security system or the establishment of social funds, provide for full compensation to the workers displaced by production decisions of multinational corporations. Recognizing that some developing countries do not possess adequate means for that purpose, the Group recommends that consideration should be given to the creation of an international social fund, including contributions by multinational corporations, which would supplement the resources available to such countries."

Adjustment assistance for workers under certain conditions, such as those contemplated in the proposed United States Trade Reform Act of 1973, is quite important. Moreover, the Government of each developing country can properly give adjustment assistance for whatever purpose it chooses. However, it is improper to attempt to compel a private company (multinational corporation) to pay for such assistance. Such a recommendation is discriminatory against multinational corporations as compared with other business enterprises. To the extent that a State can afford adjustment assistance measures, they should apply equally to national and multinational enterprises. Otherwise the displaced workers formerly employed by the multinationals would receive more favourable treatment than their fellow countrymen. The idea of an international social fund would entail very difficult questions of distributive fairness.

2. In an environment of under-development and chronic unemployment, developed countries should favour the upgrading of their domestic production through appropriate restraining of their workers and should leave the doors open to imports of labour-intensive and low-skill products manufactured in developing countries. This can also be an effective way to restrain inflation in the developed countries. One must, of course, recognize the political obstacles to such a policy.

3. The report recommends on page 80 that: "through appropriate means, home countries prevent multinational corporations from going into countries where workers' rights are not respected unless the affiliate obtains permission to apply internationally agreed labour standards, such as free collective bargaining, equal treatment of workers and humane labour relations."

This seems to invite home countries to interfere in the affairs of sovereign nations. Although such policies may have worthy objectives, multinational enterprises should not be used for the purpose of imposing one Government's attitude upon another. International standards of behaviour, applicable to both national and multinational enterprises, can only be arrived at and implemented by the consent of sovereign Government.

CHAPTER VIII. CONSUMER PROTECTION

1. My only comment on this chapter concerns its underlying assumption that Governments have the wisdom necessary to prohibit the importation or local production of socially undesirable products. For example, on page 81 the report states:

"We believe that governments have the right to discourage, or even prohibit in some cases, the importation or local manufacturing of certain products which they consider socially undesirable."

While one can understand the desire of Governments to control the abuses of certain types of advertising, the suggestions contained in this chapter are likely to lead to the development of yet another developing country bureaucracy aimed at maintaining the social purity of its citizens—a path more likely to lead to totalitarianism than freedom.

CHAPTER IX. COMPETITION AND MARKET STRUCTURE

1. A substantial portion of this chapter constitutes an explicit endorsement of a report to UNCTAD by the *Ad Hoc* Group of Experts on Restrictive Business Practices (document TD/B/C.2/119), which contains various allegations of multinational corporation misconduct without sufficient factual proof. Both the UNCTAD report and the Group's report focus on various types of "possible" multinational corporations' misconduct, without a factual base or examination of the behaviour alleged.

2. On page 84, the report states that: "one of the means at the disposal of host countries, which should be internationally accepted, is to relate profit available for remittance by an affiliate to its export performance".

Many multinational corporations invest in a country in order to serve the local market, while others investing in raw material extraction may export their entire production. Thus export performance may be completely irrelevant to the object and size of the investment and hence irrelevant as a criterion for profit remittance.

CHAPTER X. TRANSFER PRICING

1. Transfer pricing is a real problem. It has been used largely for reducing taxation, and sometimes to decrease profits in less than 100 percent owned subsidiaries, through the shifting of the profit from one country to another. Other reasons include protecting the multinational corporation from risks of currency depreciation, and taking advantage of different rules of exchange controls regarding various types of remittances. Section 482 of the United States Internal Revenue Code is an example of an attempt to regulate transfer pricing, in order to prevent tax evasion, based on arm's length prices.

2. On page 90 the report suggests that: "the transfer prices at which a multinational corporation deals with or among its affiliates, as well as the prices in transactions with outside suppliers or customers, should either be publicized or made known to the interested parties upon request".

While full disclosure of information on transfer pricing is a worthy principle, it should be recognized that for multinational corporations selling hundreds of products in dozens of markets, this would be extremely difficult to do. Also quite legitimate questions of business confidentiality are involved. Often such information is highly competitive and may involve confidential proprietary information.

CHAPTER XI. TAXATION

1. The question of taxation is extremely important and deserves the highest priority for study. It would indeed be useful if international agreement could be reached on essential tax matters, such as the use of tax incentives and inducements. The report recognized that tax reform in the treatment of multinational corporation earnings could be a powerful tool in a concerted strategy for development.

2. On page 93, the report calls for: "taxation by home countries of the global profits of their multinational corporations as if they were earned within their borders, while providing full relief for taxes paid to other countries. In other words, the principle of taxation of world profits would apply on an accrual basis and would not be deferred until such time as earnings abroad are remitted to the home countries".

There are undoubtedly strong arguments for the elimination of tax havens, but this proposal would require a complete reworking of the international tax system. This proposal requires far more study, and cannot be accepted on the basis of the facts before the Group or the Group's arguments in the report.

3. The recommendation on page 94 states that: "the various schemes which are or may be applied for the taxation of multinational corporations should be sup-

plemented by the provisions which it has suggested in each case to meet the various objectives which it has analysed".

This recommendation is extremely vague and should not have been included in the report in so imprecise a form.

CHAPTER XII. INFORMATION DISCLOSURE AND EVALUATION

1. The inadequacies of existing information on multinational corporations and information gathering and evaluation systems are a frequent theme of the report. The convening of an Expert Group on International Accounting Standards, as recommended on page 95 of the report, is a sound suggestion which should be implemented. It is important to recognize the legitimate confidential character of much of the information sought about multinational corporation activities. The United Nations needs to define more precisely the type of information needed and develop safeguards necessary to preserve its confidentiality.

Chairman HUMPHREY. We are going to wind this up with you, Mr. Needham. May I say to you very personally that my exchange with you is not to be in any way interpreted as any lack of respect for your ability. I think you are a great asset to the country and an outstanding director of the stock exchange. I think both of us look to the expansion of the stock exchange activities, the ownership of stock in a wider range, as not only desirable but absolutely necessary. So, I just do not want any misunderstanding as to my position. There are some things that I feel creep into our respective statements that begin to resemble a litany, depending on which side of the political spectrum one is in. I am sure that is as true of myself as it is of others. But I noticed, for example, in your statement the following remark:

> The mushrooming growth in Federal outlays, up 39 percent in just 2 years, and the alarming increases in privately held Federal debt, up $138 billion during this same period, suggests fiscal problems facing the Nation fast approaching a crises stage.

I only want to make one comment about that. I do not in any way underestimate the problems we have, but I want to say the main reason for that debt increase and the main reason for those mushrooming growths in Federal outlays is the recession. Every 1 percent of unemployment costs the Federal Government some $15 to $17 billion in lost revenues and increased social costs and State and local governments lose nearly $5 billion. It is just a waste.

And the answer to the deficit, as I have been trying to say, is lowering the unemployment rate. That is what really ultimately determines the prosperity of this country.

I also noted that you talk about big government spending—and there is lots of spending. I might say all of it, however, ultimately gets back into the private sector. You also talk about what we call offbudget outlays—and I noticed that you noted that the amount raised in the credit markets sponsored by agencies was a staggering $22 billion. These are Federal agencies that are what we call the offbudget or quasi-governmental entities.

But those are agencies that really fortify the private market. Those are lending institutions that in turn loan that money back into the private market. And the only reason the Government is part of it is because the Government has got a way of getting it out into the private market. This is not borrowed to socialize the country. This is borrowed for the private sector.

Again, I point out that it gets right back to this crowding-out theory that we have. And I have been listening to it from Mr. Simon and others here. First it was predicted that crowding out would take place in 1975 and then in 1976 and now some time in the next few years. Crowding out will take place if the economy does not show some improvement. But at the present time with excess liquidity in our banks—and I believe I am right when I tell you that there is more money on deposit in our banks today and more money on deposit in our savings and loan institutions than at any time in our history and——

Mr. NEEDHAM. What does that tell you, Senator?

Chairman HUMPHREY. That tells us that people are not borrowing and it tells us there is a lack of confidence in the economy.

Mr. NEEDHAM. That tells you the American people are holding back for a reason.

Chairman HUMPHREY. Right.

Mr. NEEDHAM. And what we need to do is set a tone in the country, both politically, socially, and economically which will give them the self-confidence to feel that they can spend that money. Because the recovery in 1976 will not be achieved, as we hope it will be, unless people in America feel that they can spend those savings.

Chairman HUMPHREY. All right. Let us just look at it. Consumer spending is up but investment spending is not up to the level where it should be. And who is it that is lacking the confidence? Auto sales are up and retail sales are up. Sears & Roebuck and J. C. Penney say they are doing well. The little folks out there in Wright County, Minn., are buying. But the problem is that the big companies that ought to be investing in this country are not investing. And I think one of the reasons is they never know what the interest rate is going to be from 1 week to another. They never know what the conditions are going to be in terms of Government policy.

Mr. NEEDHAM. I really have so much respect for this body that I do not like to disagree with anyone here. It is a matter of personal pride and privilege to have the opportunity to be here. But if business is not spending the money, it is because what they are trying to do is strengthen their financial position. Take a look at the combined balance sheets of corporate America. They are debt heavy. And you do not want to risk the failure of major industries because they set off on expansion programs and increase their debt load, too. We must, and I am sure you and Senator Javits support this—have a way of encouraging people to invest directly in the equity of American industry.

Chairman HUMPHREY. Right.

Mr. NEEDHAM. And that is the question. That is what I tried to stay with this morning. We need your help because we do not write the tax laws in the private sector. All we can do is demonstrate to you the need. And, frankly, I will walk away from these hearings this morning encouraged because I have the impression that both the committee and the stock exchange have the same goals and now it looks to me as though we have finally agreed on a proper way of resolving this great national economic dilemma. It is a matter of mechanics from here on in.

Chairman HUMPHREY. My concern is basically this. I think prominent leaders of business and Government are frightening the living daylights out of people.

Mr. NEEDHAM. Let me say——

Chairman HUMPHREY. When they come in here and talk about crowding out and claim that the social security program is bankrupt and that the country is spending itself into bankruptcy, they are frightening the daylights out of people. And this is what we hear from prominent people.

Mr. NEEDHAM. You never heard that from me.

Chairman HUMPHREY. I did not say you, but I hear this continuously and it scares the living daylights out of people.

Everything is relative. Here, for example, on the matter of the public debt, the debt has dropped in terms of percentage of GNP. And that is really what is relevant. Let us face it, a businessman who has an income of $1 million a year in gross receipts and has a debt of $250,000. is a whole lot better off than a businessman who has an income of $250,000 and has a debt of $25,000. He is a whole lot better off. The debt must be related to the production, to the GNP. And I think what we have had happen here is an attempt to be overly symplistic, to appeal to what they think is the essential rural attitudes of America, the old-fashioned attitudes.

The biggest business in America today is agriculture. And the people in agriculture are big borrowers. They also are big investors. The people out in my part of the country, many of them have one-half a million dollars invested in their little business. They call it an independent business. Those people understand the difference. They are not stupid. They know that they have to borrow larger sums of money today in order to have bigger production tomorrow. They know that and they are willing to make the risk.

And I am simply saying it does not help our country to have prominent people, not you, sir, but many prominent people frightening the living daylights out of folks. I have a lot of confidence in this country.

Mr. NEEDHAM. Well, in conclusion then, let me say for the record that I, personally, have the greatest conviction that this is the greatest country in the world and that the economy of this country is the strongest economy in this world. I also believe that we have the greatest social and political system in the world. And I believe that despite these aberrations that we run into every 4 or 5 years, this country will move forward, will retain supremacy in the economic and political areas, and that the American people have the opportunity to move upward, to change their status in life in the future to the same extent that their predecessors had. And I believe there is no reason that I am aware of why any American should have any hesitancy about having confidence in this country's future.

Chairman HUMPHREY. I agree with that. I am bullish on the country. I am a little pessimistic about some of its spokesmen, but I am very bullish on the country. I just do not believe we have leaders that can stop us from going ahead. I am convinced we will overcome.

Mr. NEEDHAM. Mr. Chairman, the Government is a government of laws and not people.

Senator FANNIN. Mr. Chairman, I just have a couple of comments.

Chairman HUMPHREY. Go ahead.

Senator FANNIN. When you were talking about having workers on the board of directors, I just think back to my own business experience. I was in business for 25 years and I had some of these high-priced lawyers that the Senator was talking about, the Senator from New York, in fact I was in a lawsuit with the Federal Government with the Department of Justice. I do know what he is talking about. But I also know that when you talk about having people on the board of directors and about the workers, I would have no objection to having a representative of our working people, of our employees; but I would have objection to having a representative who would just represent the union. And I think that is one of the great problems we have in this country. And we have to recognize it. I feel very keenly about that and have no objection to unions, but I certainly have objection to the unions being represented on the board of directors.

Chairman HUMPHREY. Not if they put in their money.

Senator FANNIN. Of course, if they are investors in it and, as Mr. Needham clearly brought out, he has no objection if they follow the procedures that are set up by the Securities and Exchange Commission. But I just wanted to make that comment because I think it is important.

Now, another matter, we are talking about why people are not buying homes. And in my State they are not buying homes because homes have been priced out of the market. And I am very sorry about that. The cost of labor has gone up tremendously. Now, I do not say that when you compare what has been happening in our country in the last few years or the last few months in many cases, that those increases have not been commensurate with what has happened in other nations in the world, but let us look back to the time in New York when they went to the 25-hour week for some of the construction industry people. At that time wages went sky high so everything is relative. But now we have quite a problem because the wages are such that we are priced out of the market in many instances, and we cannot go back on the theory that they have not increased recently. Those increases came about and did the damage several years ago. Do you not agree with that?

Mr. NEEDHAM. Yes; I do. If you would like to resolve part of the dilemma with the housing market—and I am talking about existing structures and not new houses—then I think the Federal Government could take a very constructive step. Supply and demand really should determine prices. I think most of us would agree on that except where there is a monopoly so that there has to be some supervision of that. Now, keep in mind for the average American worker his largest single investment, other than perhaps a retirement plan or social security plan, on an accumulated benefit basis, his largest investment is his home. Now, what does the Federal Government do for that person when he sells that home? If he sells it at a profit, which is primarily the result of inflation, he pays taxes on it. They take a bite right away from him. If he sells it at a loss, the Federal Government sits by and says "well, that is the way the free market system works and you do not get any credit for that."

Now, if we want to see labor mobile in this country—if we really want to do something for the housing market to move those houses, to sell them, then the Federal Government has to learn that it has to be a partner in losses as well as in profits. If you really want to do something that is very simple for the average working man, give him the opportunity to move. If you want to tax his home, and I am not so sure that is a good idea, then give him the opportunity to deduct against his income the loss on his home so that he can get out of the area that is depressed and go somewhere else and get a job. Many of them just sit there and say, "If I leave, the largest asset I have is gone." So he is afraid to go. So, if the Federal Government is serious, if you really mean you want the working people to have the opportunity to pursue happiness and enjoy the benefits of this country and you want to talk partnership, then let's be partners not only in growth but let's be partners in the temporary setbacks that people have and business has.

Chairman HUMPHREY. Thank you very much, Mr. Needham. We appreciate your comments.

Next, Mr. Bluhdorn, you have been patiently waiting here. We want to listen to what you have to say to us in counsel and advice. Proceed.

STATEMENT OF CHARLES G. BLUHDORN, CHAIRMAN, GULF-WESTERN INDUSTRIES, INC.

Mr. BLUHDORN. Mr. Chairman, Senators Javits and Fannin, there can be no doubt but that there has been a substantial improvement in the outlook for the Nation's economy in the last few months. The fact that both inflation and interest rates have been reduced has combined to restore the confidence factor that was sadly lacking throughout the country until very recently.

Consumer habits are based to a large degree on psychology. Words of doom and gloom have been replaced by a feeling of optimism as reflected in the performance of the stock markets in the last few months. All of this is bound to give comfort to a previously dissipirited public which is rediscovering America.

I have always been the great optimist on America. In the moments of greatest darkness and fear I have said loud and clear that America is here to stay, and anyone who does not believe that fact had better give up on the free enterprise system, not only in our country but throughout the free world.

Having been a most vocal supporter of our system and a firm believer in the inherent value of American capitalism, please forgive me if at this moment when we have achieved the kind of confidence that was missing for all too long, I respectfully indulge in some cautious warnings about the future. Neither unemployment nor inflation are diseases that disappear overnight. In the case of unemployment no one in this room can be satisfied to any degree, even with the improved figures that have been forthcoming recently. Much determined effort must yet be brought into play to get that figure down in order to restore real health to our Nation.

With respect to inflation, I submit that this monster has been only temporarily contained and can come out of hiding quickly and without forewarning.

We are facing the prospect of many wage settlements in 1976 and the progress of these negotiations between management and labor will be a high determining factor in whether or not prosperity will lead to another round of inflation, bringing with it all the self-doubt and fears of the past. Thus it is incumbent on all parties concerned to exercise the maximum amount of restraint in order to insure continued forward progress of the present psychology of confidence.

At this point permit me to reiterate my oft-expressed fear of the Organization of Petroleum Exporting Countries, commonly known as OPEC, and all that this infamous cartel stands for. I admit that this is the last thing that anyone wants to talk about now. I freely concede that I am a voice in the wilderness when it comes to this touchy subject. But someone must remind all of us that this cancer has not gone away. It is still with us. Is political expediency the solution to this terminal disease?

Let me remind you of a couple of facts. When OPEC first invoked its embargo and then raised prices 400 percent, a lot of people said we would fight these fellows tooth and nail with a policy of both conservation and development of our own energy resources right here in the United States of America.

Here we are now in 1976 and I see absolutely no progress whatsoever on the part of the Congress and the administration to get together on a meaningful wartime-like action to get our country moving away from submission to blackmail.

Far from developing and expanding our own resources, which is a matter every bit as important as our military defense budget, we are playing everyday more and more into the hands of these blackmail artists.

While the Nation suffered from the severest recession since 1929, the consumption of oil went down and so did the imports. But now we are going to be caught in the vicious cycle of gaining the benefits of a new prosperity and on the other hand having to pay the penalty of exuberance and forgetfulness. This will invariably lead to higher consumption of oil products in the United States while our own domestic production is steadily deteriorating.

During this last year we were subject to the ridiculous situation of a 10-percent increase by OPEC which was greeted with relief by most economists in the Western World. Recently a less than 1-percent reduction was applauded almost hysterically and taken to be the long-awaited breakup of OPEC. Nothing could be further from the truth. OPEC is stronger today than it has been since its inception. OPEC has been waiting for our prosperity to return. OPEC will use the first opportunity to hit us hard on top of the head with new increases when they see that they again have us firmly in their grasp. And what will we do?

Let's face it. We have been lousy poker players all along. We will again submit because we will be scared to death of what an effective protest could do to our resurging economy.

The most pathetic and sad part of it all is that recent reports from the automobile industry are actually indicating the fact that the American public is returning to the usage of big gas-guzzling automobiles and are spurning gas-saving small cars and mass transportation. In other words, we have learned nothing and what is actually happening is that business is back to normal. And this has got to be welcome news for all of the boys at OPEC who have just been biding their time for precisely this type of reaction.

I know all too well that there will be many economists who will point out that OPEC has actually done some good for us. First, it is argued that even though we have to pay them a high price, they are buying more from us now. And then it is stated almost gleefully that some of them are running up actual deficits this year. This is causing fear to some American companies who are afraid that they will lose business in those countries. But what kind of business are they going to lose? I submit mostly monkey business.

The big export item has been military hardware, and here we are engaged in a clearly vicious race with the Russians to supply the Middle East with the largest stockpile of military weapons ever assembled in one single location in the world. It has now gotten down to the point where we are also paying petrodollars to some of those fellows so they can use the money to pay off the Russians for the armaments they have been shipping in there at the same time. Don't we realize the dimensions of a powder keg explosion if someone goes insane in that area of the world or if one of the governments is overthrown by extreme radical leftists who will then be in possession of our latest military technological weapons?

What is so sad about all this is that there would at least be some rhyme and reason to this cartel if they used the proceeds to help first of all alleviate the poverty of their own people, and also did something meaningful to offset the disaster they have brought upon small Third World nations that are becoming their satellites, burdened as they are by oil bills that in some cases are simply strangling them to starvation levels.

In fact, there is no human equation for all of this. Most of these conspirators are living in such unheard-of splendor as to make the fantasies of the Arabian Nights look mediocre by comparison.

Mr. Chairman, may I quote from a press item that appeared in the New York Times on Saturday, February 7th:

"Empress Farah of Iran has returned to Teheran after a 3-week vacation in Europe. Her special jetliner from Paris was followed Thursday by an Iranian Army Boeing 707, carrying 3 tons of French rose marble for a new swimming pool for the royal family."

Fortunately, she can afford the oil bill of her personal airplane while our own airlines have been suffering enormous deficits. I just hope that those fellows don't put machine guns in the million dollar rose marble swimming pools. If they should electrocute themselves in the process, we, of course as usual, will be the one to take the blame also for that.

I don't want you to think that everyone is tranquil about this. On July 25, 1975, two distinguished lawyers, Mr. Whitney North Seymour, Sr. and Mr. Arthur Liman, petitioned the Attorney General of the United States on our behalf, charging the OPEC countries with blatant violations of the Sherman Act. I am sad to say that we have not even received an acknowledgment.

I ask, are we living today by the double standard where the voice of Americans in protest is not heard while the red carpet is laid out in Washington for any little nation that specializes in insulting or blackmailing us on an almost daily basis. Is this what American pride is all about?

If we don't do something about this cartel, they could raise the price of oil to $15 a barrel by 1980 which, if trends of consumption continue, could cost us an astronomical $60 billion a year, and you can imagine what that would do to our balance of payments and our economy as a whole. And who is to say that the tag could not go to $20 a barrel in 1980. I say that this threat is every bit as serious to our Nation as was Pearl Harbor in 1941. The only difference is that this one is creeping and seemingly invisible. The other one was sudden and visible and we reacted then as Americans do when they really see a crisis for what it is.

Some years ago Mr. Khrushchev said he would bury us. Until a few days ago we had a new word in our vocabulary called "détente" which was anyway a mistake because the French president recently decreed that all Anglo-Saxon words were to be eliminated from the French vocabulary.

Since we are letting the Concorde in, at least we should repay them in kind when it comes to a sophisticated vocabulary.

Now Mr. Kosygin said the other day at the 25th party Congress that the Soviet Union is outproducing us all over the place. He also proclaimed the fact that Soviet industrial output was more than six times the annual rate of the United States and Western Europe. And he lectured us on the destructive vices of the capitalistic system. Pretty amusing, coming from a fellow who is Prime Minister of a nation that has been running around in circles trying to buy up all of our so-called second-rate technology.

Now today we don't have people banging shoes on desks any more. Instead they are putting their arms around our shoulders. There is nothing like being used and abused by a nice, good-natured chap like Brezhnev, who was hailed the other day by his associates, as the New York Times quoted, for his "excessive modesty, spiritual beauty and personal charm." It was said that he had created—and I guess again from the Times—"A pure and cloudless sky above us" meaning, in case you don't know, that perfect motherland called Russia.

Now their oil production is increasing while ours is decreasing. Their oil price is conveniently pegged to OPEC. Our grain is sold at a free market price under the free market system, which they so rightly criticize but enjoy all the benefits of. I personally can't see anything wrong with swapping these fellows one bushel of our wheat against one barrel of their oil on a government-to-government basis, if need be. Just why do we always have to be the suckers?

Mr. Chairman and members of the committee, I believe in our system of government and I believe in the free enterprise system, and I know that the Russians will never bury us—not in this century or any other century to come. Our people have always been the best and the strongest when they have not had blindfolds covering their eyes. The shock of the last 2 or 3 years brought a lot of us to our senses and made us tighten our belts and through hard discipline restore credibility to our country. Let us not now get lost on the road to progress by forgetting the things that must be remembered and dealt with if we are to survive and be a strong and free nation not subject to the whim of others. Thank you.

Chairman HUMPHREY. Thank you very much. Your statement is precise and unambiguous.

Mr. Bluhdorn, I would like to ask a question which you may not want to respond to—I would appreciate your at least giving it consideration—concerning an article that appeared in yesterday's New York Times, entitled "Iranian Assails Unethical Foreign Concerns." Did you read that article or are you familiar with that article?

Mr. BLUHDORN. A statement by the Prime Minister?

Chairman HUMPHREY. I think so, yes.

Mr. BLUHDORN. I am aware of it, yes.

Chairman HUMPHREY. Well, according to this article, the Prime Minister of Iran reportedly told a group of American business leaders, meeting in Teheran on Wednesday of this past week that unethical foreign companies are exporting "a lack of morality" to Iran. He said that when his country opened its doors to international business—and I am paraphrasing him and I want to be fair to the man—his country received more than it bargained for. In substance, he said that it received goods and services to be sure, but also, "a business morality or more accurately a lack of morality as well."

Now, Mr. Bluhdorn, you are a man of strong views and you have expressed very precisely, views over the years on OPEC countries. I think you have also been pretty tough on Iran. Would you like to comment on this statement? Would you like to make any comment about it?

Mr. BLUHDORN. Mr. Chairman, I am afraid, you know, that I am not much of a diplomat so you will forgive me if I answer in a very undiplomatic manner. Let me say this to you. As an American businessman, I regret all of the disclosures that have been forthcoming about payoffs abroad, which obviously reflects very poorly on the business community, on American business, and on our Nation as a whole. However, I must also say respectfully that in reading this and seeing the prime minister of Iran lecturing 50 of our top business and financial leaders, I am glad I was not there—or maybe, I am unhappy; I don't know which—but I want you to know that I would have gotten up in the middle of that and I would just have walked right out. I want to tell you something, Senator. As I say, I deplore every one of these revelations that has come out, but I also want to tell you that I do not think it is necessary for us to be lectured on our conduct. The very fact that these things can be exposed in our country, that very fact shows what our country is all about. I might say that, as far as I am concerned, I would like to formally apologize to the Iranian Government, provided that they will be willing to submit from the Shah on down to investigations by your various committees, whether it is yourself or Senator Proxmire or whether it be Senator Church or whether it be the Securities and Exchange Commission; and provided they are willing to come in and testify under oath as to what they have been doing, then I want to come back here and apologize to the Shah.

Chairman HUMPHREY. Of course we don't have the right to do that.

Mr. BLUHDORN. Well, I want to tell you something, Mr. Chairman, you don't have the right, but I don't think we necessarily have to live by the double standards of people who have suddenly gotten so enormously rich that they are outspending even their money at a preposterous rate and then tell us about our ethics. Now, it could be, as you say, that they may be frustrated by the fact they can't even see the movie "Jaws" there, because I am not going to send them "Jaws" for 20 cents a ticket, which is what they used to collect there 15 years ago while they are charging us $12 a barrel.

Now, I must tell you something. I don't think the Prime Minister of Iran is anybody to lecture us on morality. Perhaps he ought to convene a committee, chaired by the Shah, which will have public hearings the way you have them today with the type of exchange you have been conducting in the last hour or so. But for him to be there and tell 50 of our leading businessmen how we ought to be behaving, well, he ought to be glad he is still sitting on his throne. If it weren't for us, he would be in exile someplace. I don't know where.

Chairman HUMPHREY. Hold on there, Mr. Bluhdorn.

In your statement, you have been very precise about the arms shipments into the area. I want to compliment you. I think it is a statement from a businessman which shows considerable knowledge about what is going on. The fact of the matter is, as I see it, that with the tremendous inflow of arms, several of these countries are now showing budget deficits. And the immediate answer is that the only way you can pay for these expensive arms is to raise the price of oil. So the more arms you put in, the more the price of oil goes up. This is one of the reasons we here in the Congress—and we did so act here in the Senate and we will complete our action between the two Houses very shortly—have tried to put some kind of a policy control over the shipments. We have come to realize not only the danger of an arms' buildup in the area, but also the economic impact upon us of the arms' buildup. Ultimately what can happen is that we will be paying for the same arms that we thought we sold. I mean, as the price of oil goes on up, in order to pay off what they consider to be their budgetary deficits due to excess spending on arms, we are going to be paying for both the arms and the oil. And I don't believe this has been thought through.

We have been justifying these arms sales essentially on the basis that it was a way to get a better balance in our trade. We import oil and then of course, we sell machinery. Not all of it is arms, and that should be clear, because I don't want to indicate that that is the only thing that is sold—but a large volume of arms goes into those Middle Eastern countries. And you have appropriately noted the political danger to us if any of these countries have a political turnover. There is danger always in this part of the world of a radical leftist group or extreme rightist group taking over. So you then have these highly sophisticated and technical weapons not in the hands of a friend, but a possible foe. But even more significant economically is the constant pressure, because of these arms sales, to raise the price of oil that we import in large quantities all the time, which puts pressure on our economy and adds to our inflation. So we end up paying more for the oil and, in its very real sense, we pay for the arms.

I thought your statement was exceedingly helpful there. I wish I had had it earlier when we were fighting on the Senate floor about the bill we had before us.

Senator Proxmire, do you have any questions?

Senator PROXMIRE. No.

Mr. BLUHDORN. Mr. Chairman, if I may respectfully interrupt? I have been advised here that one of our counsel, who has been in touch with Attorney General Levi, he says that the OPEC matter is under "active consideration." I don't know whether it means anything but apparently the Department of Justice and Attorney General Levi says he is still reviewing this matter. So I wanted to put that in the record.

Chairman HUMPHREY. Thank you.

Mr. Bluhdorn, just one final question. You heard Mr. Needham's testimony. I want to repeat again that he is an outstanding citizen. We have had him before us on other occasions. He has been very helpful. What did you think of his ideas on the need for capital in private industry? Would you like to just comment on the capital need of American industrial today, as you see these needs?

Mr. BLUHDORN. Well, I must confess, Mr. Chairman, that I have long been an advocate of doing something about alleviating the burden of what I call double taxation of dividends by corporations. Now, I have been in favor, and this goes back to the very earliest days during a period of time when credibility got to a very low point, but I want to say that I think Mr. Needham is right; the number of shareholders in the United States has been going down. I have been in favor of giving incentives to the small people to invest in America. And one of the things that I would like, and I have mentioned it many times, to have the Congress do is something that will not benefit people over a certain income bracket by giving them a chance to make more money. Rather I want to bring the small investor back to the United States. I want to bring the small investor back into the mainstream of what Mr. Needham represents; namely, the New York Stock Exchange. I prefer to see 10 million Americans own stock in their country than the Shah get $12 a barrel to invest it one day in Pan American Airlines or not invest it.

And the way to do that, Senator, I think is to have the Congress come up with a program where people with an income of up to say $15.000 would get a total benefit in this respect if they owned stock and then earned more progressively from that point on. Now that privilege would decreased to a point where somebody who is making $75,000 or $100,000 might still stay with the same system. But what we've got to do is get the little fellow back into the marketplace.

And by getting him back in the market. I don't mean. Senator, just buying one stock at $1 a share when he does not know what he is buying; but somebody who can really invest in America. I say that because Mr. Needham is right on one point. To raise the capital that we need in the future, we must attract investors.

And I want you to know that I, for one. am not a scared businessman. I am not running to the hills. And I know you want jobs. Senator, and I want jobs and we have to have jobs. But it is a fact that in order to have the jobs we have to have capital investment. That capital investment has got to be, if our free enterprise system works, from the little man having that incentive to invest in the stock market. And I would give that little man the incentive to make a profit and not pay taxes; take a loss, and get a deduction.

Yes; I would be for that, Senator. It is not for me, but for the person who is making $15,000 or $20,000. Let him have a piece of America. What is wrong with that?

Mr. Brezhnev, he perhaps officially does not own anything but let me tell you that he lives very well, so he doesn't need any stocks. But this little fellow in Minnesota, he could use it. How can he afford it? How are you going to give him that incentive to afford it?

So I say for the little fellow there ought to be that kind of basis. And I think that the capital requirements can me met. I agree with you. But capital requirements can only be met if there is confidence.

Now, there is one thing you mentioned where I do agree with you. I think you have to provide people with useful jobs, whether it is repairing roadbeds from Washington to New York or vice versa or whether it is in terms of using them for useful purposes of whatever sort. I don't care whether it is getting our streets cleaned up or whether it is a question of working on a massive energy program for self-sufficiency. While I am a free enterprise advocate, I don't mind the Government employing people if those people are going to do something for this country. But if they are just going to stand around, then they are no good to themselves and they lose all their pride.

But you set up a massive, Manhattan-style project to get us into a position where we are going to be a Nation that is 10 feet tall, why you are going to make every one of these fellows feel 10 feet tall if you give them a job, provided it is useful and provided it is not just a check for this fellow to go home and do nothing, because that is almost degrading when you send him that check. He sits home and gets up at 11 a.m. and gets a cup of coffee and goes down and picks up his check. Now that is no good.

But employment is vital to the Nation. And I agree with you it is the kind of thing where momentum piles on top of momentum. And when momentum takes over, it is one of these things that starts to boil. And obviously, the Federal Government and State governments all create more taxes when people are working. That is obvious.

Chairman HUMPHREY. Mr. Bluhdorn, we thank you very, very much. Let me tell you we have Mr. Shiskin here today. We have to listen to him. The hour has come. It is noontime and we have our Commissioner on Labor Statistics. So we would like to thank you once again for your testimony. You have been sounding the warning bell on this energy matter for several years now.

Mr. BLUHDORN. Without much success, I am afraid.

Chairman HUMPHREY. Well, I wouldn't be too sure. You are being heard. Thank you very much.

Mr. BLUHDORN. Thank you.

[Whereupon, at 12 noon, the committee adjourned, subject to the call of the Chair.]

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