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**THIRTIETH ANNIVERSARY OF THE EMPLOYMENT ACT
OF 1946—A NATIONAL CONFERENCE ON
FULL EMPLOYMENT**

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

—————
MARCH 18 AND 19, 1976
—————

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THIRTIETH ANNIVERSARY OF THE EMPLOYMENT ACT OF 1946—A NATIONAL CONFERENCE ON FULL EMPLOYMENT

THURSDAY, MARCH 18, 1976

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

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

Present: Senators Humphrey, Javits, and Percy; and Representatives Bolling, Hamilton, Long, Brown of Ohio, and Brown of Michigan.

Also present: John R. Stark, executive director; Lucy A. Falcone, Jerry J. Jasinowski, and Larry Yuspeh, professional staff members; George D. Krumbhaar, Jr., minority counsel; and Michael J. Runde, administrative assistant.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. It's my privilege, as chairman of the Joint Economic Committee, to call to order and convene this conference on the 30th anniversary of the Employment Act of 1946.

Our fundamental purpose is to assess national economic policies on the occasion of the 30th anniversary of the Employment Act of 1946. At the time of its passage it was considered to be the Magna Carta of the American economy. The Employment Act established the responsibility of the Federal Government to maintain and to adopt economic policies conducive to a healthy economy for all of our citizens. You may recall the charge of the Employment Act, calling upon the Government to adopt and effectuate such policies as to assure maximum employment, production, and income.

Now, there have been good years under the act, with benefits to our citizens that none of us should want to minimize. But in recent years our economic performance by almost any standard has been less than satisfactory. This national conference will focus on why that has been the case, and what we, as a Government, as an economy, and as a nation can do about it. This national conference is the culmination of an inquiry into these questions that the Joint Economic Committee began many months ago.

We have had a series of regional hearings, looking into the difficulties and the challenge of our economy. We have traveled to Chicago, New York, Atlanta, Los Angeles, Boston, and Fall River, Mass.; we have traveled to these areas to listen to the people, and to listen

to the elected representatives of the people. To listen to them about their economic situation and what the people in these localities felt could and should be done. Now we want to put these elements together here in the Nation's capital, in this conference, to see what can be done to improve our situation—in simple language, to act.

Today, we are especially fortunate to have the Vice President of the United States, Mr. Nelson A. Rockefeller, with us to open this national conference. Although it may not be too well known, let me just state here for the record that our Vice President, among his many accomplishments, also has a degree in economics from Dartmouth College. His exceptional record in public service since then has been one of consistent concern for economic and social progress, and consistent concern about dealing with the problems that afflict and affect our Nation.

During his four terms as Governor of New York, he made major strides in improving the health, welfare, and employment of that great State.

Vice President Rockefeller has always been a man of creativity and innovation; his leadership with the Commission for Critical Choices is but the most recent example.

I am sure he is going to have an important message for us today. I am very pleased that he has accepted our invitation to open this conference, not only because of his enviable public record, not only because of his many qualifications for speaking to us on matters of economic policy, but I'm particularly pleased to welcome him and to introduce him because I consider him a very good friend and a good American.

I present to you the Vice President. [Applause.]

STATEMENT OF HON. NELSON A. ROCKEFELLER, VICE PRESIDENT OF THE UNITED STATES

Vice President ROCKEFELLER. Thank you very much. Senator and distinguished members of the Joint Economic Committee, I would first like to say that for me to be in any meeting, or any gathering with Senator Humphrey, on any occasion, is always a pleasure. He is a very generous friend, as you could tell from his overly generous remarks. I'm delighted to be with him here, and especially to be with him today because of his leading role in the program which this occasion is celebrating. So, for me this is both a personal pleasure, Senator Humphrey, to be with you and to join others in giving you important credit for having been the inspiration back of this program; for your leadership during the history of the development of this program, and in our confidence, as we look forward, in the role this joint committee can play in the future policy formulations for the strength and well-being of our Nation.

I am delighted at the opportunity to be here before one of the most prestigious and influential bodies of the Congress, the Joint Economic Committee, on the 30th anniversary of the legislation which created your committee.

The passage of the Employment Act of 1946 was an economic landmark and I particularly want to compliment the key architect of

that historic measure, Senator Hubert Humphrey. And I compliment all the other members who serve on this prestigious committee with him.

There can be no better time than this bicentennial year to review the objectives of the Employment Act of 1946—to achieve maximum employment, production, and purchasing power for our Nation.

The American Declaration of Independence, and the Constitution signified a major economic revolution as well as achieving our political freedom. They opened the vast heart of this Nation to settlement and development by free men and women seeking individual opportunity for a better life.

The American enterprise system was by no means a totally private endeavor. Government has always played not only a significant but a crucial part in American economic life. Examples include agriculture, the railroads, the automobile, and aviation industries. But the basic concept is to encourage the individual and private or voluntary enterprise—within a framework of law that sets the basic rules and seeks to protect the public interest.

Yet, today, there are growing and legitimate claims that a dominant central government in Washington is already placing impediments and nonproductive restraints upon individual activity, voluntary association and economic enterprise. We must ask, therefore, is there a threat to human liberties because economic freedoms are being restricted, initiative discouraged and individual creativity thwarted?

Human liberties are not possible under the statism that now exists in most of today's world. The risk here in America, however, is not so much that we will take up the worship of the false gods of totalitarian ideologies, it is more that we may drift into statism as a reaction to corruption, and by governments progressively legislating such overwhelming and detailed responsibilities for the ordering of society that liberty will be surrendered in the process.

I made the following recommendations to regain our economic strength and vitality and the unrivalled opportunity which the American enterprise system offers our people:

1. That Government encourage labor and management to develop specific productivity programs in industry, encourage upgrading of skills, and facilitate adoption by labor and management of new and improved work rules and industrial processes.

2. A conscious national commitment to retaining our leadership in science and technology through education, training, and a greater capital investment, public and private.

3. That our tax policy be reevaluated and that new legislation be enacted to lessen the impact of those provisions which deter capital formation and to provide new incentives for capital formation and an accelerated rate of investment.

4. That Government and industry give top priority to plant modernization in their tax and investment policies.

5. Enactment at this session of Congress of the Energy Independence Authority to get our economy rolling again, by stimulating the investment needed to assure that this country will have an adequate and dependable supply of energy.

6. That the Federal Government act to stimulate and protect the investment of a substantial portion of public and private pension funds in housing.

7. That the executive and legislative branches of Government—
- (a) Establish clear objectives and criteria for regulation;
 - (b) Examine the present regulatory process; and
 - (c) Determine the effects of regulation, intended and unintended.

8. Change, where necessary, existing laws, rules, and procedures to assure that they are promoting, not hindering, the attainment of our overall national objectives.

We have all been through a difficult period—especially in terms of the political turmoil within the United States, but I am optimistic about the future.

With the creativity and imagination of our free people, their scientific and technological abilities, the managerial skills of the great American enterprise system, and the abundant resources within our borders, we can develop the needed new sources of energy, the needed raw materials or substitutes. And the same is true for food.

The opportunities are unlimited, for cooperation to help other nations achieve comparable goals, in a world that grows smaller and more interdependent all the time.

This can well prove to be the most exciting moment, with the greatest opportunities, in the history of civilized man. Confident of our heritage, with faith in the future, we can lead this country and all mankind to new heights of achievement and fulfillment.

Ladies and gentlemen, in conclusion I would like to say that Senator Humphrey, he and his committee in my opinion hold the key to achieving and realizing these opportunities for our Nation, and that I am deeply honored and deeply privileged by the invitation and the opportunity of being here present on this occasion, this historic occasion; and that I wish this committee, all who come before it, and all who participate in these discussions well because I think it is going to be a very significant and historic moment in the development of the kind of long-range planning which is essential to the realization of opportunities for the peoples of this Nation and the peoples of the world under the leadership of the greatest free nation that exists in this world of ours.

Thank you very much indeed, Senator, and I appreciate the opportunity you have given me in being here today, it was a pleasure.

Chairman HUMPHREY. Thank you very much. [Applause.]

Mr. Vice President, there is no way we can properly express our thanks to you except to say that your presence has added significant meaning to our gathering, and we are very honored—and I speak for every member of the committee when I say, thank you.

We do have an agenda, a program today that we are going to follow, and I'm happy to tell you that we are on schedule.

SUMMARY OF REGIONAL HEARINGS BY CHAIRMAN HUMPHREY

Now, I would like to take a few minutes to summarize the regional hearings, so as to give a proper predicate or base for what we hope to do in this morning's session.

In Washington the condition of the economy is often evaluated on the basis of changes in key statistics. Members of Congress, the President refer to shifts in the consumer price index, the wholesale price index, or the unemployment rate when they debate the fate of proposed or existing economic policy.

Now, by this statistical standard the U.S. economy has reached depths of historical proportion in 1975, numbers like 9 percent unemployed, or an inflation rate that reached in 1 month as high as 12 percent, and 9 million jobless. These figures were often quoted to describe a recession the likes of which Americans have not known since the Great Depression.

Now, the numbers told a story, to be sure, and its generally the story which comes out of Washington; but it was just a partial story. To speak, for example, only of a 9 percent national unemployment rate, or 7.6 percent unemployment rate, whatever it now may be, is a sterile and misleading exercise. If an economic policymaker ignores the human factor in our economy's condition, he will be unable to frame policies that are both effective and compassionate. Policies that are applied to a large sector of the American public move us uncomfortably close to the 18th century, when economics was known as the "dismal science." In order to go beyond the national statistics and to learn how the American people are coping with an economy in a difficult and critical condition, the members of the Joint Economic Committee journeyed, as I have indicated earlier, to the Nation's major regions.

We traveled to these areas to take this part of the Government out to the people, rather than merely asking for the people to come to Washington. We found that economic conditions in the cities that we visited were generally worse than the national averages.

Might I say that the economic problems that afflict us today are very much urban related, and therefore in our discussion in these 2 days, much of what we have to say will be related to, and referred to the problems that afflict our core cities and our metropolitan areas.

For example, in New York, Mayor Beame told us that, "New York City's 11.9 percent unemployment rate is expected to increase to 16 percent in the next 12 to 18 months."

In December of 1975 the unemployment rate in Massachusetts was 11.8, well above the national average at that time of 8.3; and the Boston unemployment rate was even worse, it was at 15 percent, which underscores what I said earlier, the relationship, the economic difficulties, and urban problems, or urban centers.

Chicago's jobless rate was similarly high, 11.9 percent, in September of last year.

Now, these data demonstrate that national economic indicators all too often do not tell us all that we must know.

We also heard from several economic experts, such as Mr. Ray Marshall in Atlanta, and Mr. Charles Killingsworth in Chicago, whose guidance we normally do not receive. These people as well as others convinced me, at least, that the country has many intelligent people who understand our economic problems, and who have constructive suggestions as to what to do about them.

We have used such advice to propose changes to the Employment Act of 1946, through the Full Employment and Balanced Growth

Act of 1976, which Congressman Hawkins and I introduced in the House and the Senate just 2 days ago; and may I add that we have members of the committee here who are cosponsors. Senator Javits of New York is a cosponsor; Congressman Bolling is a cosponsor; I'm not sure, but I believe Congressman Long is a cosponsor, and there are others. It is a basic piece of proposed legislation designed to meet some of the deficiencies of the Employment Act of 1946.

But surely the most moving and most useful testimony we heard came from the jobless themselves. I and other members of the committee heard firsthand what it means to be out of work for 6 months, a year, or longer. These were articulate, sensitive and able people who, despite their skills, have met with a series of rejections in response to their search for a job. Their words tell a poignant story and are worthy of being reported here.

Mrs. Annie Pearl Smith, a mother of seven, and an unemployed auto worker, testified in Atlanta:

I want to work, I don't want to be unemployed. I'm on welfare, but I'd rather been working. I'm able to work, and I want my children to realize that they have to work.

Ruth Schaffner, an unemployed worker in Chicago told us:

I've been unemployed for 1,240 hours. I've been a recipient of only one unemployment compensation check. I want a job, I need a job. I can produce, I am skilled.

Now, probably Gregory Roy summed up best the conditions of the jobless in his testimony in Boston, he said:

No one likes to hear the words, "sorry, we cannot use you"; Government has to be reeducated to the fact.

He went on to say:

Here we are, folks, we are out here. We have been looking for work for months and months—we want a job.

I remember this young man very well, he was what you might call a white-collar worker, and a capable and trained man, but was rejected repeatedly.

Now, these are not the words of malingerers, one message that permeated the statements of all the unemployed who testified in the various regions was—they want jobs.

I have long believed that to accept enormous numbers of jobless is to accept massive waste, waste of skill, waste of energy and physical effort. The words of these unemployed workers have reinforced in me the sense of outrage and shame.

In addition to the massive waste that accompanies high unemployment, we also learned that various kinds of social trauma result from the high jobless rates as well. In each region citizens, the jobless, and indeed experts, discussed the social costs associated with high unemployment.

In Atlanta Mr. Harvey Brenner—and I believe Mr. Brenner is here with us today—of Johns Hopkins University, a man who has studied the relationship between unemployment and social conditions, explained:

There is now substantial evidence that trends and national economic indicators have a profound influence on the state of mental and physical health of the general population, as well as on aggression and other criminal behavior.

We will be hearing from Mr. Brenner more in this conference. James Q. Wilson of Harvard testified in Boston that:

It is quite likely that there is a relationship between the unemployment rate of teenagers and young adults on the one hand, and the rate of property crime committed by persons of this age group on the other hand.

Doris Davis, the mayor of Compton, Calif., told us in Los Angeles:

No one has dealt with the fact that we have had these levels of hardcore, continuous unemployment. The family has no models of employment where there are several generations on welfare and public assistance.

Now, this testimony documented the way that prolonged high unemployment undermines both the spirit of the unemployed and the society in which we live. This testimony documents the relationship of unemployment, particularly amongst the young, to alcoholism, to drug abuse, to mental disorders, to heart disease, to homicide, and other serious matters.

We all bear these costs, all of us, whether it be in the form of high health care expenses, or higher crime rates. And since the number of jobless is so high, the aggregate impact on society is great.

Business and labor leaders have also talked to us, and they have expressed their concern over the unemployment situation. Hugh O'Malley of the Small Business Service Bureau, testifying in Fall River, Mass.—Congresswoman Heckler brought her subcommittee to her district—Mr. O'Malley testified:

The high unemployment rates over the last few years are largely responsible for the high rate of business bankruptcies. A major Federal job program is essential for the health of the small business community.

A Mr. Jack Spiegel, the director of the Chicago Shoemakers' Union had a terse but pointed comment, "If you don't send us help in jobs, you had better send us troops."

State and local government representatives explained how the unemployment situation in their regions was threatening their governments' abilities to provide public services.

John Crozier, the director of the Massachusetts Division of Employment Security explained:

During the 5 years ending on December 31, 1975, the employer-contributed balance to the Massachusetts Unemployment Compensation Trust Fund fell from a \$374 million surplus to a \$119 million deficit. By 1976, we estimate, that Massachusetts employers will owe the Federal Government \$253 million.

Mayor Richard Fulton of Nashville, Tenn., testified in Atlanta on the need for a national manpower policy. He said to us:

We are helpless to provide the unemployed with a work experience due to the absence of a national manpower policy, which would take into account emergencies such as the present one.

Mayor Maynard Jackson of Atlanta bluntly told the members of the Joint Economic Committee that, "The crucial economic issue is jobs." He said:

I tell you now, my No. 1 frustration as mayor is to see people not begging for welfare—although they need it; not begging for food—although they are hungry; not begging for money—although they are broke, but begging for a job. We need the help of Congress in this issue.

The testimony says it clearly, our cities are suffering badly from high and prolonged unemployment.

Our journey now ends where it began, this conference is the culmination of the Joint Economic Committee hearings across the country. We have found a unique way to retain the able guidance of those who testified at our regional hearings. On each of our panels during these 2 days regional witnesses will act as discussants after each panel member has presented his views and the committee members have had an opportunity to ask questions. The four discussants for the panel will be provided their chance to question either the panelists, or the committee members.

In this way our full employment debate will gain a new dimension which is almost always absent in congressional meetings. Also, we can be assured that because of the participation of these regional witnesses, this conference will build upon the views that we heard when we met in the various regions of the United States.

With these regional meetings and this national conference the Joint Economic Committee has demonstrated how the Federal Government can practice human economics. As Lucy Benson, a former national president of the League of Women Voters said in our Boston hearings, "I believe it is important to talk directly about people and their needs, far too often people get lost in numbers."

I believe that the record of the Joint Economic Committee's regional meetings will serve as a guide to the human side of the key economic indicators. Now, I have listened to that human side, and it is a moving story. I do not believe that we can afford to deny it, or ignore it; in fact, we must accept it and to build on it in terms of public policy.

Now, at this time, we will have our panel. May I take the privilege of introducing our panel, and asking our panel to proceed.

The first panelist is Kenneth Gibson, mayor of Newark, N.J. Mr. Mayor, we welcome you, we are very honored to have you. He is representing the U.S. Conference of Mayors. I believe Mayor Gibson is presently the vice president and will be the incoming president of the U.S. Conference of Mayors.

The second panelist is the highly respected leader of the Urban League, the National Urban League, Vernon Jordon. We surely welcome you, Mr. Jordon, you have done so much to help us all.

Our third panelist is Bishop James Rausch, general secretary of the U.S. Catholic Conference. Bishop Rausch, we are honored that you would give us of your time to be with us.

We had expected to have at this time a fourth member of the panel, Governor Lucey of Wisconsin. Governor Lucey is not here, he called me yesterday, because of the death of a very close and dear friend. He asked me to make his apologies. I am sure we all understand why he could not be with us.

Now, gentlemen of the panel, we will have the discussants also come, who will occupy this table.

We have Harvey Brenner, the Harvey Brenner whom I mentioned earlier, from John Hopkins University, who has been a witness with us, I believe, in our regional hearings in Atlanta.

Leon Finney of the Woodlawn Organization. Is Mr. Finney here? Please, Mr. Finney, if you would come forth to the table. Mr. Finney, we welcome you. Mr. Gregory Roy. Mr. Roy, we welcome you, I recollect you are from Boston.

Mr. Victor Gotbaum, the executive director of the American Federation of County and Municipal Employees was to be with us, but there is an emergency situation in his family which denied him that opportunity.

We have our panelists, three, that represent a city, represent a great organization, represent a great religious group in our society, one of the most prominent boards, or organizations in the field of social concern. We have a member of the university staff here that has studied the social consequences of unemployment. We have Mr. Finney, who will speak to us from a community base; and we have Mr. Roy, who will discuss the problems of the unemployment. He is someone who has suffered the indignity of unemployment.

With that I shall ask our panel to proceed. If you don't mind, I think we'll just go alphabetically. Mr. Gibson.

**STATEMENT OF HON. KENNETH GIBSON, MAYOR OF NEWARK, N.J.,
AND VICE PRESIDENT, U.S. CONFERENCE OF MAYORS**

Mayor GIBSON. Thank you very much, Mr. Chairman.

Members of the committee, I appreciate the opportunity to appear here today as mayor of the city of Newark and vice president of the U.S. Conference of Mayors.

First, I would like to commend the distinguished Senator and the cosponsors for the reintroduction of S. 50, the Full Employment and Balanced Growth Act of 1976. We are indeed pleased with the re-draft of this important legislation and are anxious to lend our support to its enactment.

The cities of America are struggling to retain the progress they have achieved over the past decade in meeting the needs of their populations. The prolonged era of economic stagnation which now confronts this Nation threatens to erase their hard-fought gains and very directly endangers the viability of urban areas. The impact of joblessness and lost income, human despair, and foregone opportunity has been especially concentrated in cities. The cavalier attitudes of the administration officials toward projections of prolonged recession belies a frightening disregard for the enormous social and economic costs of their misguided policies.

In order to present constructive alternatives to these policies, the U.S. Conference of Mayors urges the Congress to develop a positive program for achieving full employment. We view this as an immediate Federal priority. The growing acceptance of previously intolerable levels of unemployment by members of the administration clearly signals danger for America. The young, the minorities, the women, the workers whose jobs have been lost to machines and foreign competition must not be cast aside in the vast junkpile to be fed only with food stamps and supported by welfare.

Jobs are the heart of the issue. Holding on the present course will not only keep us headed toward the eventual financial collapse of

local government, but toward massive upheavals in our social and economic systems.

The questions and solutions involved are highly technical and complex. For this reason, we intend today to merely outline the broad areas which we, as mayors, see as critical to restoring the economy to full employment. As policies in this area are refined, we shall continue to trust the critical importance of local, as well as, national economic well being. As a nation, we have been preoccupied too often with the macroeconomic picture and have given far too little attention to addressing the problems of local and regional areas which suffer severely even in the best of times.

The essential elements of our program for restoring economic vitality include:

1. COUNTERCYCLICAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

Such a program is essential to assure that the use of Federal fiscal policies to stimulate the economy is not negated by tax increases and expenditure reductions that local governments are mandated to enact when their revenues decline. Almost one-half of the potential stimulus to the economy in the Tax Reduction Act of 1975 was not realized because of tax hikes, layoffs, and expenditure cutbacks made by State and local governments.

2. TAXES

The recently enacted tax-reduction compromise goes only part of the way towards giving the economy adequate stimulus to sustain a reasonable recovery. Attempts by the administration to tie tax reductions to tax cuts avoid economic rationality, and according to congressional budget efforts, would serve to actually depress the economy during 1976.

A restructuring of the tax system to remove the distortions caused by inflation and promote private capital formation is necessary in order to restore equity and strengthen the business investment foundation of the economy.

The President and the Congress must follow the mandate of the Employment Act of 1946 and aggressively use the Federal fiscal process to promote full employment objectives. The time is now for this country to adopt a national policy of full employment.

3. JOBS

The prolonged levels of joblessness we face must be immediately addressed by the creation of 1 million public service jobs and a program of accelerated public works in depressed areas.

The need for these programs is twofold. First, the tax cuts which have been enacted will not have sufficient stimulus to adequately reduce unemployment levels, as I said previously.

Second, large amounts of public investments are needed to provide human services and rebuild the long neglected economic infrastructure of depressed areas.

As an important part of this effort, it is critical that a complete reexamination of Federal income transfer programs be conducted. Too often, we see Federal programs spending billions to subsidize unemployment when those very same billions could be used to create productive jobs. Americans want the dignity of meaningful work, not a fat unemployment insurance check and we, in the cities, have plenty of work that needs to be done. In addition to the antirecession measures, an ongoing public service employment effort is needed to combat structural unemployment.

4. CAPITAL ALLOCATION

Geographic areas of the country and various sectors of the economy that have been hardest hit by previous Federal insensitivity and current economic disruption are in desperate need of capital resources to rebuild. Enormous capital investments will be needed over the next decade in both the private and public sectors to support needed growth, increased productivity levels, meet the cost of environmental protection, build and rebuild our transportation system, assure an adequate supply of quality housing at reasonable costs, and provide for our energy needs. We must insure that these demands are met and that urban areas have the tools they need to vigorously compete for new development.

5. LONG-TERM POLICY CONSIDERATIONS

In order to achieve and sustain the goal of full employment, Federal policies in a number of critical areas will have to be developed and coordinated. There is a desperate need for rational economic planning, capable of establishing priorities and guiding Federal policies. As capital and natural resources become increasingly scarce and Federal programs and agencies increasingly numerous, the need for coordinated action targeted to specific goals becomes essential. We can no longer afford to have fiscal policies contradicted by monetary policies, housing programs undermined by interest rates, and what little energy policies we have, canceled out by what little transportation policies we have.

These anomalies have caused Americans to lose faith and respect for all levels of Government. As elected officials, we recognize that the failure of the Federal Government to meet its basic responsibilities in protecting the jobs and incomes of Americans and its growing inability to effectively and efficiently conduct the operations have severely shaken the confidence in Government in general.

In conclusion, this great Nation, which has been beset by mounting economic problems must vigorously pursue solutions, solutions to the problems of unemployment at a time when many seek to reflect on a history of achievements in this, our Bicentennial year.

Thank you very much, Mr. Chairman.

Chairman HUMPHREY. Mayor Gibson, we are most grateful to you. You have been a witness with us before, and we welcome your testimony on behalf of the U.S. Conference of Mayors.

Our next witness is Vernon Jordan of the National Urban League. Welcome, Mr. Jordan.

**STATEMENT OF VERNON E. JORDAN, JR., EXECUTIVE DIRECTOR,
NATIONAL URBAN LEAGUE**

Mr. JORDAN. Mr. Chairman, members of the committee, I want to extend my congratulations to this committee for this creative and innovative approach to the process of public policymaking, and the National Urban League is pleased to be represented.

I want to apologize in advance, Mr. Chairman and members of the committee, I have to catch a 12:15 plane, and therefore, when I leave it's not because the discussion is heated, but because I have to catch a plane.

Chairman HUMPHREY. We'll let you get out of here. We'll get to you before you leave.

Mr. JORDAN. Thank you.

The 30 years since passage of the Employment Act of 1946 have seen vast changes in our world, significant alterations in the way in which economic problems are viewed, and also the partial confirmation of the fears of the framers of the Employment Act of 1946.

Many people believe that the coming of peace might mean a return to breadlines, soup kitchens and mass unemployment. Thus, the impetus for passage of the Employment Act, and for subsequent Federal programs in manpower and in economic development came from the fear of renewed depression, a fear that ate away at the insides of policymakers and workers alike.

Now, after 30 years, at least part of that fear has come true. Despite the juggling of official figures, the barrage of optimistic forecasts, and the assurances that the downturn is temporary, our Nation suffered its highest unemployment levels since the Great Depression last year. And despite some marginal improvement in the first months of this year, it appears condemned to live with unconscionably high levels of joblessness.

Further, this joblessness is not spread equally among our population. It is concentrated on those whose lives already are constricted by poverty, on those whose opportunities are already unequal because of the effects of racial discrimination, and on those whose economic marginality is confirmed and deepened because of national misplaced priorities.

I believe we must understand that this is no passing phenomenon. Every postwar recession has been followed by higher unemployment. Every postwar recession has claimed its permanent victims, people unable to reenter the productive labor force.

And in the course of time our concepts of what constitutes full employment have changed. Not very long ago 3 percent unemployment was the magic number. Then it moved up a notch to 4 percent, then to 5 percent. Now every indication points to acceptance of a range of 6 to 7 percent as nationally acceptable.

It is clear that the rationalizations for accepting high unemployment are without foundation. The administration's budget proposal and its callous plans to cut social services, while maintaining high unemployment should not be shared by the Congress; that would only worsen and make permanent what should be just a temporary tragic chapter in our history. This is all the more urgent because of

the differential impact economic troubles have on those least able to shoulder them. Back in 1946, black and white unemployment was roughly proportionate; today black unemployment is more than double that of white and has been for the past two decades.

On social grounds, this reflects a dangerous divisiveness in our society. On economic grounds it reflects a tremendous waste of human resources. On budgetary grounds, it reflects a gross misallocation of national priorities.

For every million unemployed, it costs the Federal Government some \$16 billion in lost taxes and in necessary support payments. Is it not wiser to spend on job creation and on manpower training that will bring productive jobs to the unemployed?

The National Urban League, through its labor education advancement program has spent \$22 million since 1967 on counseling, training and job-finding for minority individuals in the construction trades. That was all Federal money contracted for by the League. Some would say that was "social spending"—Federal tax dollars diverted to a nonprofit agency for social programs. I say it was not social spending. It was an investment whose return would be regarded by envy by anyone on Wall Street.

Just look at what that relatively small amount spread over 9 years yielded:

About 16,000 people found jobs through the program. Many of them are now in nontraditional jobs and in construction jobs, once barred to blacks.

In 1975, those 16,000 persons earned over \$131 million in salaries; since 1967, they earned a cumulative \$380 million in salaries.

Since 1967, the Federal Government has received back in taxes on those earnings over \$90 million.

In 1975 alone, taxes on the program's participants totaled over \$31 million, or \$9 million more than the Government's investment in the whole program for over 9 years.

All of this is terribly important because the League's program and other programs can only deal with a very tiny percentage of the huge number of people in need of economic security. It is my contention that the extent of poverty and joblessness in our land is grossly underestimated and that the Nation must be alerted to the real dimensions of the problem.

Officially, 7.2 million people are jobless, 1.3 million of them black. But in addition, there were about 5 million people, 1¼ million of them black who were no longer counted as part of the labor force because they were not actively looking for jobs they knew did not exist.

Some three million people, 600,000 of them black, were working part time because they could not find the full time jobs they wanted and needed. And 2 million workers, 400,000 of them black, worked full time for wages that amounted to less than the official poverty level. And two-thirds of those persons were family heads.

So, talk of 7 million jobless is fantasy. There are today some 17 million people either unemployed or subemployed.

And black people have suffered proportionately greater economic damage. Of the black unemployed, 35 percent have been out of work

for 15 weeks or more, and that represents a rise from 31 percent in the third quarter of 1975.

Of the black unemployed, 21 percent have been out of work for 27 weeks or more, and that too represents a rise from 18 percent in the third quarter of 1975. Black female teenage unemployment too is up, from 36.7 percent in the third quarter of 1975, to 38.2 percent at year's end. These are, of course, figures applicable only to the officially defined unemployment, and we have already demonstrated how that is an understatement. The overall 12.9 percent unemployment rate for black people in America, Mr. Chairman, translates into a 24.6 percent unofficial rate, or one in every four black workers out of work.

Such figures impose social as well as economic costs this Nation can ill afford. The cold figures on supportive expenditures, loss of tax revenues, loss of potential productivity, and other elements of economic calculation tell only part of the story. There are also hidden social costs and unbearable personal costs as well.

One such hidden cost is crime. Earlier this week, the New York Times headlined a page-1 story, "Crime Rose in Richer Neighborhoods." Now, this does not mean that rich folk have taken to burglarizing their neighbors; it means that people who are poor, who are out of work, who see no prospects, will find any means to survive, even if it means breaking laws.

Another social and economic cost imposed unnecessarily on our society is the inability of our economy to make places for young people, especially black youngsters. Our society has thrown millions of youngsters on the scrap heap. It seems willing to accept crime, supportive expenses and other economic costs, rather than invest in increasing productive capacity of individuals in the economy. This is a bitter situation, one that may find us reaping a harvest of social discontent and internal class and race divisions that could endanger our Nation.

What is to be done?

I would hope that this distinguished body will go on record in support of a national full employment policy that guarantees a decent job at a decent wage to all Americans able to work. I envision a three-pronged program to achieve this goal. It would include:

1. Incentives to private industry to recruit, train, and hire the jobless.

2. For the Federal Government to create a public works program along the lines of the old WPA that helped sustain millions during the depression of the 1930's.

3. Finally, a vastly expanded public service employment program that would help build the pressing need for public services while assuring employment opportunities for millions of people.

A national full employment policy along the lines I have outlined here would make unemployment a thing of the past, turn revenue-consumers into producers, generate tax income to pay for itself, and remove the curse of joblessness from the land.

It is my hope, Mr. Chairman, that the joint committee can help to move the Congress and the administration toward adoption of these proposals.

Thank you very much.

Chairman HUMPHREY. We are very grateful to you, Mr. Jordan, not only for your statement, but for your statistical evidence to support your contentions.

[The prepared statement of Mr. Jordan follows:]

PREPARED STATEMENT OF VERNON E. JORDAN, JR.

The thirty years since passage of the Employment Act of 1946 have seen vast changes in our world, significant alterations in the way in which economic problems are viewed, and also the partial confirmation of the fears of the framers of the Act.

In 1946 our nation was disbanding an immense military machine, sending millions of men and women back into civilian life, and at the same time, closing down war plants and defense factories. Behind all this loomed the spectre of the Great Depression that was ended by the coming of World War Two.

Many people believed that the coming of peace might mean a return to breadlines, soup kitchens and mass unemployment. Thus, the impetus for passage of the Employment Act, and for subsequent federal programs in manpower and in economic development came from the fear of renewed Depression, a fear that ate away at the insides of policymakers and workers alike.

Now, after thirty years, at least part of that fear has come true. Despite the juggling of official figures, the barrage of optimistic forecasts, and the assurances that the downturn is temporary, our nation suffered its highest unemployment levels since the Great Depression last year. And despite some marginal improvement in the first months of this year, it appears condemned to live with unconscionably high levels of joblessness.

Further, this joblessness is not spread equally among our population. It is concentrated on those who lives already are constricted by poverty, on those whose opportunities are already unequal because of the effects of racial discrimination, and on those whose economic marginality is confirmed and deepened because of national misplaced priorities.

I believe we must understand that this is no passing phenomenon. Every post-war recession has been followed by higher unemployment. Every post-war recession has claimed its permanent victims—people unable to re-enter the productive labor force.

And in the course of time our concepts of what constitutes full employment have changed. Not very long ago three percent unemployment was the magic number. Then it moved up a notch to four percent. Then five. Now every indication points to acceptance of a range of 6 to 7 percent as nationally acceptable.

The rationale for this lies in the myth propounded by the so-called "Phillips Curve" that ties inflation rates to employment rates. Recent experience strongly suggests that this explanation for inflation be scrapped. Economists have made devastating technical analyses that kick the props out from under this formulation, and in the past five years we've suffered both high inflation and high unemployment.

Another rationale lies in the myth that the federal government has too large an economic role, and that the federal debt must be restrained, thus discouraging federal spending for social and economic programs.

This too is a destructive myth. Back in 1946, when the Employment Act was passed, the federal debt actually was larger than the gross national product. This year it is expected to be only about 30 percent of the GNP.

Federal spending too, is relatively modest in comparison with the GNP. From 1953 to 1974 it held steady at about twenty percent of GNP. The slight rise since 1973 is directly attributable to recession-related costs of manpower programs, unemployment compensation and welfare.

It is clear then that the rationalizations for accepting high unemployment are without foundation. The Administration's budget proposals and its callous plans to cut social services while maintaining high unemployment should not be shared by the Congress. They would only worsen and make permanent what should be just a temporary tragic chapter in our history.

And this is all the more urgent because of the differential impact economic troubles have on those least able to shoulder them. Back in 1946 black and

white unemployment was roughly proportional; today black unemployment is more than double that for whites and has been for the past two decades.

On social ground, this reflects a dangerous divisiveness in our society. On economic grounds it reflects a tremendous waste of human resources. On budgetary grounds, it reflects a gross misallocation of national priorities.

The fact is that our nation has poured countless billions into waging war, arming for defense and in encouraging capital-intensive development that demands skills we have not imparted to all of our labor force.

It has been estimated that since 1946 the military has absorbed an amount equal to almost two-thirds the value of everything man-made in our nation. Had just a small portion of that immense sum been diverted to domestic productive enterprise that creates more jobs per dollar than do military expenditures, we would have no need for a Conference such as this.

Military-related expenditures help account for the deterioration of our cities, as tax dollars are drained from older urban areas of the northeast and diverted to military installations and plans in the so-called sunbelt states. In 1974, these sunbelt states collected about \$13 billion more from Washington than they paid in federal taxes while nine northern states had a net loss of \$20 billion.

New York City's recent fiscal crisis was brought about by many factors, but surely one of the most important must be the fact that it paid out billions more in federal taxes than it received in federal expenditures. At a time when the City's teachers are being dismissed and its university system dismantled, New York will pay over \$1 billion earmarked for the Pentagon.

This is not an argument against adequate defense spending; rather it is an argument for keeping our economy on an even keel and not encouraging through fiscal policies the deterioration of our large urban centers whose populations are disproportionately black and minority.

Our policy seems to be to spare nothing in military spending and to clamp down on social investment while spending whatever minimum is necessary to maintain the economically marginal population. Thus some \$40 billion will go into unemployment compensation programs to provide some help to the victims of unemployment. Is it not wiser to spend positively to make people productive rather than such negative spending that only confirms their dependency?

For every million unemployed it costs the federal government some \$16 billion in lost taxes and in necessary support payments. Is it not wiser to spend on job-creation and on manpower training that will bring productive jobs to the unemployed?

Part of the problem is the stigma social programs have as "spending" programs. They should more accurately be seen as investment programs in our nation's future and in the futures of the individuals that make up our work force.

The National Urban League, through its Labor Education Advancement Program has spent \$22 million since 1967 on counseling, training and job-finding for minority individuals in the construction trades. That was all federal money contracted for by the League. Some would say that was "social spending"—federal tax dollars diverted to a non-profit agency for social programs. It was not. It was an investment whose return would be regarded with envy by anyone on Wall Street.

Just look at what that relatively small amount spread over nine years yielded:

About 16,000 people found jobs through the program, many of them are now in non-traditional jobs and in construction jobs once barred to blacks.

In 1975 those persons earned over \$131 million in salaries; since 1967 they earned a cumulative \$380 million.

Since 1967, the federal government has received back in taxes on those earnings, over \$90 million.

In 1975 alone, taxes on the program's participants totalled over \$31 million, or \$9 million MORE than the government's investment in the whole program for over nine years.

Now this is an extraordinary situation for it teaches us a number of important things. First, that so-called social spending actually is investment that is quickly recouped. Second, that people dismissed as being unemployable are capable of absorbing the training and the skills to enable them to hold productive skilled craft jobs. Finally, it teaches us that our national priorities have

been distorted; that if so small an investment could yield so large a human and financial return, then a large investment would yield proportionately greater results.

All of this is terribly important because the Urban League's LEAP Program and other of our programs can only deal with a very tiny percentage of the huge number of people in need of economic security. It is my contention that the extent of poverty and joblessness in our land is grossly underestimated and that the nation must be alerted to the real dimensions of the problem.

Bad as seven percent unemployment is, it is understated. Bad as seven million jobless are, the figure is again, grossly understated. The official figures are misleading in that they do not include discouraged workers, people working part-time because they can't find full-time work, and full-time workers who are earning less than poverty-level income.

The poverty level itself is misleading, for while it has been increased over the years, those small increases have not matched the rise in the cost of living. Thus we are under the impression that some 24 million people live in poverty, when a more realistic poverty level would show some 40 million fellow-Americans who are poor.

The National Urban League has examined the unreleased official statistics on employment, and we have discovered the situation to be far worse than publicly acknowledged.

Officially, 7.2 million people are jobless, 1.3 million of them black. But in addition, there were about five million people, one-and-a-quarter million of them black, who were no longer counted as part of the labor force because they were not actively looking for jobs they knew did not exist.

Some three million people, 600,000 of them black, were working part-time because they could not find the full-time jobs they wanted and needed. And two million workers, 400,000 of them black, worked full-time for wages that amounted to less than official poverty level. And two-thirds of those persons were family heads.

So talk of seven million jobless is fantasy. There are today some 17 million people either unemployed or sub-employed.

And black people have suffered proportionately greater economic damage. Of the black unemployed, 35 percent have been out of work for 15 weeks or more, and that represents a rise from 31 percent in the third quarter of 1975.

Of the black unemployed, 21 percent have been out of work for 27 weeks or more, and that too, represents a rise from 18 percent in the third quarter of 1975. Black female teenage unemployment too is up, from 36.7 percent in the 3rd quarter of 1975, to 38.2 percent at year's end. These are, of course, figures applicable only to the officially defined unemployed, and we have already demonstrated how that is an understatement. The overall 12.9 percent unemployment rate for blacks translates into a 24.6 percent unofficial rate, or one in every four black workers.

Such figures impose social as well as economic costs this nation can ill afford. The cold figures on supportive expenditures, loss of tax revenues, loss of potential productivity, and other elements of economic calculation tell only part of the story. There are also hidden social costs and unbearable personal costs as well.

One such hidden cost is crime. Earlier this week, the New York Times headlined a page-one story, "Crime Rose in Richer Neighborhoods." Now this does not mean that rich folk have taken to burglarizing their neighbors; it means that people who are poor, who are out of work, who see no prospects, will find any means to survive, even if it means breaking laws. If you do not offer a man productive employment and self-respect and the opportunity to earn his way, he will seize whatever means are available to him, regardless of legality. There is a direct correlation between joblessness, especially teenage unemployment, poverty, and other forms of economic deprivation, and the rising crime rate.

Another social and economic cost imposed unnecessarily on our society is the inability of our economy to make places for young people, especially black youngsters. In many of our cities two-thirds of black teenagers are jobless, and that situation has been with us since before the 1973-76 recession. Thus, there is a very real danger that an entire generation will come to adulthood without ever holding a job, without ever learning the skills that will make possible a productive future. In effect our society has thrown millions of youngsters on the-

scrap heap. It seems willing to accept crime, supportive expenses, and other economic costs rather than invest in increasing productive capacity of individuals and the economy.

Beyond this, our society will have to deal with a cynicism, distrust and bitterness engendered by its broken promises. Black people have seen their economic gains in both income and employment rolled back to levels of a decade ago. White people have played the game, entered the consumer society, mortgaged their futures, and then been tossed out of their jobs because Washington fears inflation or higher federal spending.

This is a bitter situation, one that may find us reaping a harvest of social discontent and internal class and race divisions that could endanger our nation.

What is to be done?

I would hope that this distinguished body will go on record in support of a national full employment policy that guarantees a decent job at a decent wage to all Americans able to work. I envision a three-pronged program to achieve this goal. It would include:

Incentives to private industry to recruit, train and hire the jobless. The private sector can't do the job alone, but public policies that make it less attractive for a business to hire more workers compounds the difficulty. Federal regulations, subsidies and tax incentives should all be directed at increasing the private sector's ability to create jobs.

A second step would be for the federal government to create a public works program along the lines of the old WPA that helped sustain millions during the Depression of the 1930s. Those public works projects lined our country with roads, with bridges, with schoolhouses and other public facilities still in use today. A similar program in the '70s would not only create jobs, but it would provide a new generation of vitally-needed houses, transportation facilities and other public works our nation needs.

Finally, a vastly expanded public service employment program would help fill the pressing needs for public services while assuring employment opportunities for millions of people. Some years ago a Presidential commission determined that public sector manpower needs in conservation, safety, education and health could accommodate some five million new jobs, offering an opportunity to sharply improve necessary public services.

A national full employment policy along the lines I have outlined here would make unemployment a thing of the past, turn revenue-consumers into producers, generate tax income to pay for itself, and remove the curse of joblessness from the land.

Such a policy would not, by itself, end poverty, for there would remain those who are unable to work, who are incapable of working and thus in need of assistance that would enable them to maintain a decent living standard. The welfare system is supposed to do this, but its faults are too numerous to detail here. Everyone agrees that the welfare system is a mess, that it discourages work, penalizes the poor, and encourages dependency. It is an inconsistent patchwork of bureaucratic interference in people's lives, wildly varying benefit scales, and costly administrative charges.

But its worst fault is that it doesn't work. The welfare system for the poor is not nearly as efficient as the welfare system composed of tax loopholes and subsidies for the wealthy. That's why there is growing support for a welfare reform program that assures a liveable minimum income while relieving state and local governments of the increasing burden of providing for the needs of the poor.

I believe the most efficient reform would be a universal refundable credit income tax that would extend a basic annual grant, or tax credit, to all. That grant would be taxable income, so that the poor would keep all of it, the near-poor would keep some of it, and middle and upper income families would return it all in taxes.

This system would be financed by removal of most of today's tax deductions and loopholes and the imposition of a flat tax rate on all income. Such a system would limit subsidies to those in need, and not, as at present, to the better-off. It would supplement the incomes of working families who cannot make ends meet. And because the tax credit would be automatic and universal, it would bring big savings in administrative costs and reduce abuses so prevalent in the present system.

In fact, we have the beginnings of such a system today. Families whose incomes are below \$4,000 now get \$400 cash payment from the IRS. Those between \$4,000 and \$8,000 get lesser amounts.

The tax credit route to welfare reform has attracted increasing support including key elements within the Administration. Support for federal take-over of welfare has also mounted, with several governors urging such action. It is clear that some such reform will come sooner or later, and the national nature of the problem, the continuing economic crisis confronting low-income citizens and the growing disenchantment with the present malfunctioning system all argue for sweeping reforms as soon as possible.

My proposals for a national full employment policy and for a universal refundable credit income tax are pro-work, pro-human dignity proposals. They would increase national productivity, stimulate the economy, end unemployment and lessen poverty. And they would go a long way toward removing the economic causes of racial antagonism.

It is my hope that the Joint Committee can help to move the Congress and the Administration toward adoption of these proposals. I fully understand the political realities of our time, although I cannot understand why the white poor and the white jobless have not yet joined with black people to support the reforms that would benefit both groups. I know it is difficult to achieve such widespread structural reforms, but I have faith that it can be done. I have faith that our people can act in their own enlightened self-interest to finally end unemployment's curse. I have faith that our recent history of economic drift and hardship will engender changes along the lines I have outlined.

And I have a faith in my country that should not be out of place in this Bicentennial year. It is a faith I would like to share with you in the words of my predecessor at the Urban League, Whitney Young :

"I do have faith in America—not so much in a sudden upsurge of morality nor in a new surge toward a greater patriotism—but I believe in the intrinsic intelligence of Americans. I do not believe that we forever need to be confronted by tragedy or crises in order to act. I believe that the evidence is clear. I believe that we as a people will not wait to be embarrassed or pushed by events, into a posture of decency. I believe that America has the strength to do what is right because it is right. I am convinced that given a kind of collective wisdom and sensitivity, Americans today can be persuaded to act creatively and imaginatively to make democracy work. This is my hope, this is my dream, this is my faith."

Chairman HUMPHREY. Bishop Rausch, we are looking forward to your testimony.

STATEMENT OF BISHOP JAMES S. RAUSCH, GENERAL SECRETARY, U.S. CATHOLIC CONFERENCE

Bishop RAUSCH. Mr. Chairman, members of the committee, distinguished panelists, and guests.

I am Bishop James S. Rausch, general secretary of the U.S. Catholic Conference, the chief administrative officer of the national-level action agency of the Roman Catholic Bishops of the United States.

I am pleased and honored to have the opportunity to participate in this historic and innovative conference on full employment.

I intend this morning to only summarize the prepared statement that has been prepared for the committee, that I ask to be placed in the record.

Chairman HUMPHREY. We will include all portions of statements that were not read, or presented as part of the original testimony. Thank you.

Bishop RAUSCH. My brief reflections this morning are based on a major policy statement on economic issues passed unanimously by

the Catholic bishops of this country in November. I have made copies of this statement as well, and I presume those will also appear in the record.

Chairman HUMPHREY. They will be printed along with your testimony.

Bishop RAUSCH. My comments today will not focus on the technical workings of the economy, or detailed remedies for relief of economic distress. Rather, I wish to discuss the human, social, and even moral dimensions of economic life; what economic forces mean for families and individuals. We cannot forget that the economic interaction of labor, industry, and Government has concrete implications far beyond the market place, the board room, the halls of Government and the stock exchange. Behind the jumble of statistics and the rise and fall of economic indicators lie human lives and individual tragedies.

Speaking from my own particular religious perspective, I am relying on a long tradition of teaching and concern for economic justice and human dignity. We believe that economic policy must reflect broad values of social justice and human rights.

In our November statement, the bishops drew on traditional Catholic social teaching and laid out several principles of economic life. I wish to share several of them with you.

1. Economic activity should be governed by justice and be carried out within the limits of morality. It must serve people's needs.

2. The right to have a share of earthly goods sufficient for oneself and one's family belongs to everyone.

3. Economic prosperity is to be assessed not so much from the sum total of goods and wealth possessed by the Nation as from the distribution of goods among the people according to norms of justice.

4. Opportunities to work must be provided for those who are able and willing to work. Every person has the right to useful employment, to just wages, and to adequate assistance in cases of real need.

5. Economic development must not be left to the sole judgment of a few persons or groups possessing excessive economic power, or to the political community alone. On the contrary, at every level the largest possible number of people should have an active share in directing that development.

6. A just and equitable system of taxation requires assessment according to ability to pay.

A related and controversial matter is the appropriate role of Government in the economic life of its citizens. In their recent statement the bishop said: "Government must play a role in the economic activity of its citizens. Indeed, it should promote in a suitable manner the production of a sufficient supply of material goods. Moreover, it should safeguard the rights of all citizens, and help them find opportunities for employment."

Government has the responsibility of coordinating, regulating and complementing our free market system. It should operate in those areas where private enterprise is unable or unwilling to do so, or where the nature of the problems require public participation.

Chairman HUMPHREY. Bishop, can I interrupt you for just a moment. Senator Javits and I will have to go down and cast a vote,

it takes us about 5 minutes. But we want you to proceed, and Congressman Bolling will chair the hearing while I'm away.

You have to forgive the interruption, the work of the Senate goes on. We will be back with you immediately.

Bishop RAUSCH. In addition, Government policies should promote full employment, production and purchasing power.

As these comments make clear, it is our view that the formulation and implementation of economic policy cannot be left solely to technicians, interest groups or market forces. Our economic life is governed by its own laws and realities, yet it must be the aim of private economic activity and public policy to so direct and manage economic forces so that the public welfare will be served.

Our economic policy must fundamentally serve the public interest, the common good and the needs of people. That is why broad public debate and dialog over economic policy is essential and why this conference and the hearings that preceded it are so important.

Despite recent gains in employment, official measures of joblessness indicate that some form of unemployment presently afflicts more than 11 million Americans. In 1975, almost one-third of the American people were touched by the reality of joblessness within their own family.

While we pray that the recovery will grow in strength and intensity, the recent improvement in unemployment levels represents only relative progress. The fact that more than 10 million Americans are unemployed, far from being an encouraging sign, is only a further indication of the depth and damage of the worst recession since the 1930's. It cannot be cause for rejoicing, nor an excuse for inaction.

I wish now to discuss the tremendous human and social costs of long-term unemployment. The experience of prolonged joblessness dramatically affects a person's perception of self and his or her hopes for the future. It cannot fail to influence personal attitudes and behavior toward society.

Although we do not believe that a person's worth and value is determined by his or her economic productivity, in our culture, persons without employment lose a critical measure of their place in society and a source of individual fulfillment. They perceive that society has no productive role for them, or that there is no contribution they can make. As a result, alienation and loss of confidence intensifies and oftentimes leads to increased anxiety and antisocial behavior.

Mr. Harvey Brenner, who is one of our discussants here today, has thoroughly documented the direct and startling relationship between economic distress and increased mental illness, cardiovascular disease, and prenatal deaths. We also know that high levels of unemployment frequently leads to greater alcoholism, drug abuse, child abuse and crime.

High unemployment also contributes to rising social and racial tensions. In a situation of job scarcity, one individual or group can obtain and keep employment only at the expense of another. Threatened by loss of a livelihood, workers too often look for scapegoats and may blame minorities, aliens, women or young people, with serious consequences for intergroup relationships.

Of special concern to us is the negative impact of the loss of income and employment on personal and family relationships. It can destroy hopes and dreams, it can erode family life, interfere with the healthy rearing of children and greatly increase feelings of insecurity and inadequacy. It can result in the loss of the home itself. It places intense strains on family and community life.

In short, long-term unemployment threatens basic human dignity and lowers the quality of life for all those affected. There is also a spiritual aspect to this issue. What happens to a nation that begins to accept the notion that it cannot use the talents and labor of all its people? What happens to us as a people as we watch families which have made the slow and painful climb up the economic ladder, only to be pushed down once again into poverty and dependence by the loss of a job?

As a society, can we accept the notion that some will have jobs and income while others will be told to wait a few years and to subsist on welfare in the interim? What does it mean when our leaders say there is no way in the foreseeable future to harness the idleness of so many for work on vital social needs such as housing and transportation? It seems to me that those questions pose profound issues of national purpose and identity.

It is our position that the current levels of unemployment are unacceptable and these human, social and spiritual costs are intolerable. As the Catholic Bishops declared last November: "Fundamentally, our Nation must provide jobs for those who can and should work and a decent income for those who cannot. An effective national commitment to full employment is needed to protect the basic human right to useful employment for all Americans. It ought to guarantee, through appropriate mechanisms, that no one seeking work be denied an opportunity to earn a livelihood. Full employment is the foundation of a just economic policy; it should not be sacrificed for other political and economic gains.

Just 4 days ago, we testified in basic support for H.R. 50, the Full Employment and Balanced Growth Act of 1976, and we expressed the view that it provides the most comprehensive and useful approach to full employment now before the Congress.

We believe this legislation, as it continues to be refined and improved, will provide through its comprehensive planning process and job creation programs, a workable and practical way to achieve full employment. By stimulating the private sector and providing for Federal job reservoirs, it will insure that no one will be denied an opportunity to earn a livelihood.

We support public service jobs for persons who are unable to obtain employment within the private sector. We specifically reject claims that work within the public sector is necessarily less productive, efficient, or useful than employment in private industry. We cannot accept the notion that a nurses aide in a general hospital or a public service employee rehabilitating homes in our cities is somehow less productive or contributes less than those in the private sector who sell products or work in a factory. Clearly, the vast majority of our people will and should be employed in the private sector, and the major focus of economic policy ought to be efforts to stimulate

and increase private employment. However, we should not exclude the essential role of public employment at times of major joblessness. We believe it is far better to spend funds to create and maintain employment than to require families to subsist on unemployment compensation and other forms of assistance with the economic and human consequences we have described.

We are encouraged by the recent decline in the rate of inflation. This trend is welcome, although additional strong measures against inflation must be taken.

We urge that policymakers seriously consider a voluntary program of wage and price guidelines, involving the articulation of specific wage and price targets and vigorous action to achieve voluntary compliance on the part of business and labor. In addition, greater efforts to increase real competition and oppose monopolistic practices ought to be undertaken to strengthen the competitive forces in our economy.

The American Bishops oppose efforts to control inflation through high idleness of workers. They said in their recent statement:

There are those who insist that we must tolerate high levels of unemployment for some, in order to avoid ruinous inflation for all. Although we are deeply concerned about inflation, we reject such a policy as not grounded in justice. Policymakers should seek and use measures to combat inflation which do not rely upon high rates of joblessness. For many of our fellow citizens, the major protection against inflation is a decent job at decent wages.

This is an important moment in the economic and political history of our land. As we emerge from the deepest recession since the Depression of the thirties, we face a basic choice concerning national economic and social policy. We can harness the concern and experience of our people to enact fundamental reforms in our economic life or we can return to old policies and programs which offer little hope of achieving greater social and economic justice. I do not believe we can continue to neglect the realities of poverty, poor distribution of financial resources and economic power, inequitable taxation, and high levels of unemployment and subemployment.

We call on our national leadership to act boldly, to enact an effective and workable national commitment to full employment. To establish a compassionate and fair system which will guarantee an adequate income to those who are unable to work. In the words of our statement of last November:

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

A central question before the Nation in this bicentennial year is the economy—massive unemployment, continuing inflation and widespread poverty. We believe that this Nation has the compassion, wisdom and resources to meet the basic needs of its people and to harness their talents and energy. Our economy is the richest and strongest in the world. The task before us is to harness that strength and affluence so that all our people will be served more effectively.

Thank you.

Representative BOLLING [presiding]. Thank you very much, Bishop Rausch, and thank you for your excellent statement on behalf of the U.S. Catholic Conference.

[The prepared statement of Bishop Rausch and a statement of the Catholic Bishops of the United States follow:]

PREPARED STATEMENT OF BISHOP JAMES S. RAUSCH

INTRODUCTION

Mr. Chairman, Members of the Joint Economic Committee, Distinguished Panelists and Guests.

I am Bishop James S. Rausch, General Secretary of the United States Catholic Conference, the chief administrative officer of the national-level action agency of the Roman Catholic Bishops of the United States.

I am pleased and honored to have the opportunity to participate in this historic and innovative Conference on Full Employment. In Chicago and Atlanta, the U.S. Catholic Conference was represented through the testimony of Bishop McNicholas and Archbishop Donnellan, at your regional hearings which have led to this important meeting on the 30th Anniversary of the passage of the Employment Act of 1946.

My brief reflections this morning are based on a major policy statement on economic issues passed unanimously by the Catholic Bishops of this country. I have made copies of this statement available to the committee and I ask that the text of the statement appear in the record.

In addition, my testimony today is based in part on several detailed studies of unemployment, inflation and related issues prepared for our use by six distinguished economists.

They include: Dr. Paul Samuelson, Dr. Leon Keyserling, Dr. Robert Eisner, Dr. Lester Thorow, Dr. Daniel Larkins, and Dr. Helen Ginsberg.

The National Conference of Catholic Bishops also conducted a three-day hearing on economic issues last fall as part of our preparation of a five year plan of action on social justice.

My comments today will not focus on the technical workings of the economy or detailed remedies for relief of economic distress. Rather, I wish to discuss the human, social and even moral dimensions of economic life; what economic forces mean for families and individuals. We cannot forget that the economic interaction of labor, industry and government has concrete implications far beyond the market place, the board room, the halls of government and the stock exchanges. Behind the jumble of statistics and the rise and fall of economic indicators lie human lives and individual tragedies.

In these remarks, I wish: 1) to outline a few general principles that we believe ought to guide economic life; 2) to discuss some of the dehumanizing aspects of unemployment; 3) to express our position on full employment legislation; and 4) to consider very briefly the impact of inflation in our economy.

ECONOMIC PURPOSE AND PUBLIC POLICY

Speaking from my own particular religious perspective, I am relying on a long tradition of teaching and concern for economic justice and human dignity. We believe that economic policy must reflect broad values of social justice and human rights. The search for economic justice is an essential extension of the long and continuing struggles for basic civil rights and human dignity. Already we are seeing some of the progress of the last decade washed away in the wake of recession and massive unemployment.

In our November statement, the Bishops drew on traditional Catholic social teaching and laid out several basic principles of economic life. I wish to share several of them with you:

"(a) Economic activity should be governed by justice and be carried out within the limits of morality. It must serve people's needs.

"(b) The right to have a share of earthly good sufficient for oneself and one's family belongs to everyone.

"(c) Economic prosperity is to be assessed not so much from the sum total of goods and wealth possessed by the nation as from the distribution of goods among the people according to norms of justice.

"(d) Opportunities to work must be provided for those who are able and willing to work. Every person has the right to useful employment, to just wages, and to adequate assistance in cases of real need.

"(e) Economic development must not be left to the sole judgment of a few persons or groups possessing excessive economic power, or to the political community alone. On the contrary, at every level the largest possible number of people should have an active share in directing that development.

"(f) A just and equitable system of taxation requires assessment according to ability to pay."

A related and controversial matter is the appropriate role of government in the economic life of its citizens. In their recent statement the Bishops said: "Government must play a role in the economic activity of its citizens. Indeed, it should promote in a suitable manner the production of a sufficient supply of material goods. Moreover, it should safeguard the rights of all citizens, and help them find opportunities for employment."

Government has the responsibility of coordinating, regulating and complementing our free market system. It should operate in those areas where private enterprise is unable or unwilling to do so or where the nature of the problems require public participation. In addition, government policies should promote full employment, production and purchasing power.

As these comments make clear, it is our view that the formulation and implementation of economic policy cannot be left solely to technicians, interest groups or market forces. Our economic life is governed by its own laws and realities, yet it must be the aim of private economic activity and public policy to so direct and manage economic forces to serve the public welfare. Our system of private incentive and freedom is strong, yet continued neglect of the basic issues of poverty, fairness of taxation and inequitable distribution of wealth and economic power threaten to weaken our economic and political system.

Economic policy must fundamentally serve the public interest, the common good and the needs of people. That is why broad public debate and dialogue over economic policy is essential and why this conference and the hearings that preceded it are so important. The joint Economic Committee has done a commendable job in stimulating this kind of broad public discussion through its many activities.

UNEMPLOYMENT: CURRENT SITUATION

Despite recent gains in employment, official measures of joblessness indicate that seven million Americans are presently unemployed. In addition, 3 million persons have part-time jobs although they desire full-time work and almost one million additional persons have dropped out of the labor force in frustration. This means some form of unemployment presently afflicts more than 11 million Americans. In 1975, almost one-third of the American people were touched by the reality of joblessness within their own family.

These overall figures mask the seriously inequitable distribution of unemployment. Racial and ethnic minorities, blue collar workers, women, and young people experience far higher levels of joblessness than the rest of our society. Unemployment actually increased in February for minority teenagers, and minorities generally, and one out of five young people of all races are still without employment.

While we pray that the recovery will grow in strength and intensity, the recent improvement in unemployment levels represents only *relative* progress. The fact that more than 10 million Americans are unemployed, far from being an encouraging sign, is only a further indication of the depth and damage of the worst recession since the 1930's. It cannot be cause for rejoicing, nor an excuse for inaction.

The reality is that we have had a serious unemployment problem for decades, exacerbated by recurrent recession. The implementation of the Employment Act of 1946, whose 30th anniversary we commemorate in these hearings, has not fulfilled the law's broad social and economic purposes nor has it been an effective remedy for joblessness. We are presently falling far short of the "maximum employment, production and purchasing power" it sought to promote. We have alternated between boom and bust cycles. This instability places a difficult strain on families, individuals and our society. Businesses and individuals cannot make reasonable plans for the future. Even in good times, we are often unhappy for fear of what may lie ahead.

HUMAN COSTS OF UNEMPLOYMENT

Other witnesses will discuss in detail the substantial economic costs of high unemployment in the form of lost production, lost revenues and greatly increased costs for unemployment compensation and other forms of assistance.

I wish to discuss the tremendous human and social costs of long-term unemployment. The experience of prolonged joblessness dramatically affects a person's perception of self and his or her hopes for the future. It cannot fail to influence personal attitudes and behavior toward society.

Although we do not believe that a person's worth and value is determined by his or her economic productivity, in our culture, persons without employment lose a critical measure of their place in society and a source of individual fulfillment. They perceive that society has no productive role for them or that there is no contribution they can make. As a result, alienation and loss of confidence intensifies and leads to increased anxiety and anti-social behavior.

Dr. Harvey Brenner, who is one of our discussants today, has thoroughly documented the direct and startling relationship between economic distress and increased mental illness, cardiovascular disease, and pre-natal deaths. We also know that high levels of unemployment frequently leads to greater alcoholism, drug abuse, child abuse and crime.

High unemployment also contributes to rising social and racial tensions. In a situation of job scarcity, one individual or group can obtain and keep employment only at the expense of another. Threatened by loss of a livelihood, workers too often look for scapegoats and may blame minorities, aliens, women or young people, with serious consequences for intergroup relationships.

Of special concern to us is the negative impact of the loss of income and employment on personal and family relationships. It can destroy hopes and dreams, erode family life, interfere with the healthy rearing of children and greatly increase feelings of insecurity and inadequacy. It can result in the loss of the home itself. It places intense strains on family and community life.

In short, long-term unemployment threatens basic human dignity and lowers the quality of life for many Americans. In the years to come we will be paying a great economic and social price for our continuing tolerance of high levels of joblessness.

There is also a spiritual aspect to this issue. What happens to a nation that begins to accept the notion that it cannot use the talents and labor of all its people? What happens to us as a people as we watch families which have made the slow and painful climb up the economic ladder, only to be pushed down once again into poverty and dependence by the loss of a job? As a society, can we accept the notion that some will have jobs and income while others will be told to wait a few years and to subsist on welfare in the interim? What does it mean when our leaders say there is no way in the foreseeable future to harness the idleness of so many for work on vital social needs such as housing and transportation? These questions pose profound issues of national purpose and identity.

These social, human and spiritual dimensions of unemployment deserve equal consideration in deliberation on future economic policy.

NATIONAL COMMITMENT TO FULL EMPLOYMENT

It is our position that the current levels of unemployment are unacceptable and these human, social and spiritual costs are intolerable. As the Catholic Bishops declared last November: "Fundamentally, our nation must provide jobs for those who can and should work and a decent income for those who cannot. An effective national commitment to full employment is needed to protect the basic human right to useful employment for all Americans. It ought to guarantee, through appropriate mechanisms, that no one seeking work would be denied an opportunity to earn a livelihood. Full employment is the foundation of a just economic policy; it should not be sacrificed for other political and economic goals."

Just four days ago Bishop Eugene Marino, representing the U.S. Catholic Conference, testified before a subcommittee of the United States House of Representatives in "basic support for H.R. 50, the Full Employment and Balanced Growth Act of 1976, and expressed the view that it provides the most comprehensive and useful approach to full employment now before Congress."

We believe this legislation, as it continues to be refined and improved, will provide through its comprehensive planning process and job creation programs, a workable and practical way to achieve full employment. By stimulating the private sector and providing for federal job reservoirs it will ensure that no one will be denied an opportunity to earn a livelihood.

As we testified on Monday, we support public service jobs for persons who are unable to obtain employment within the private sector. We specifically reject claims that work within the public sector is *necessarily* less productive, efficient or useful than employment in private industry. The kinds of jobs outlined in H.R. 50 would help to meet the vital needs of our people in housing, transportation, education, recreation and health care. We cannot accept the notion that a nurses aide in a general hospital or a public service employee rehabilitating homes in our cities is somehow less productive or contributes less than those in the private sector who sell products or work in a factory. Clearly, the vast majority of our people will and should be employed in the private sector and the major focus of economic policy ought to be efforts to stimulate and increase private employment. However, we should not exclude the essential role of public employment at times of major joblessness. We believe it is far better to spend funds to create and maintain employment than to require families to subsist on unemployment compensation and other forms of assistance with the economic and human consequences we have described.

INFLATION

A second major economic problem facing our people is inflation which weakens our economic stability and erodes the economic security of our citizens. The impact of inflation is most severe on the very poor and those who live on fixed incomes, particularly on the elderly. In 1973 and 1974, most American families experienced an actual decline in real income as a result of the combined impact of recession and high rates of inflation.

We are encouraged by the recent decline in the rate of inflation. In 1975 consumer prices rose 7% compared to 12.2% in 1974. Most projections for the coming year indicate an additional slight decline in inflation. This trend is welcome although additional strong measures against inflation must be taken.

We urge that policy-makers seriously consider a voluntary program of wage and price guidelines, involving the articulation of specific wages and price targets and vigorous action to achieve voluntary compliance on the part of business and labor. In addition, greater efforts to increase real competition and oppose monopolistic practices ought to be undertaken to strengthen the competitive forces in our economy.

Some insist there is a direct relationship between unacceptable rates of inflation and full employment. We are not supporters of this view. There are multiple causes of our recent inflation, including supply shortages, lack of real competition and huge increases in costs of energy. In fact the lower production and high unemployment of the recent recession has probably contributed to inflation leading to shortages in housing and other goods as well as lower productivity. The simultaneous experience of high inflation and high joblessness of the last two years would seem to demonstrate the inadequacy of the so-called "trade-off" between inflation and unemployment.

In their November statement the American Bishops clearly oppose efforts to control inflation through high idleness of workers. They said: "There are those who insist that we must tolerate high levels of unemployment for some, in order to avoid ruinous inflation for all. Although we are deeply concerned about inflation, we reject such a policy as not grounded in justice. . . . Policy-makers should seek and use measures to combat inflation which do not reply upon high rates of joblessness. For many of our fellow citizens, the major protection against inflation is a decent job at decent wages."

CONCLUSION

This is an important moment in the economic and political history of our land. As we emerge from the deepest recession since the Depression of the thirties, we face a basic choice concerning national economic and social policy. We can harness the concern and experience of our people to enact fundamental reforms in our economic life or we can return to old policies and programs which

offer little hope of achieving greater social and economic justice. I do not believe we can continue to neglect the realities of poverty, poor distribution of financial resources and economic power, inequitable taxation, and high levels of unemployment and subemployment.

We call on our national leadership to act boldly. To enact an effective and workable national commitment to full employment. To establish a compassionate and fair system which will guarantee an adequate income to those who are unable to work. In the words of our statement of last November: "We ask the private the public sectors to join together to plan and provide better for our future, to promote fairness in taxation, to halt the destructive impact of inflation and to distribute more evenly, the burdens and opportunities of our society."

A central question before the nation in this Bicentennial year is the economy—massive unemployment, continuing inflation and widespread poverty. We believe that this nation has the compassion, wisdom and resources to meet the basic needs of its people and to harness their talents and energy. Our economy is the richest and strongest in the world. The task before us is to harness that strength and affluence so that all our people will be more effectively served.

THE ECONOMY: HUMAN DIMENSIONS—A STATEMENT OF THE CATHOLIC BISHOPS OF THE UNITED STATES, NOVEMBER 20, 1975

"This unemployment returning again to plague us after so many repetitions during the century past is a sign of deep failure in our country. Unemployment is the great peacetime physical tragedy of the nineteenth and twentieth centuries, and both in its cause and in the imprint it leaves upon those who inflict it, those who permit it, and those who are its victims, it is one of the great moral tragedies of our time."—The Bishops of the United States. *Unemployment, 1930*.

1. This was the judgment of our predecessors as they responded to the economic crisis of 1930. As pastors, teachers and leaders, we recall and emphasize their words as our country faces important economic, social and moral decisions in the midst of the highest unemployment since the 1930s.

I. THE CHURCH'S CONCERN

2. Despite recent hopeful signs, the economy is only slowly and painfully recovering from the recent recession, the worst since World War II. We are deeply concerned that this recovery may lack the strength or duration to alleviate the suffering of many of the victims of the recession, especially the unemployed. It is the moral, human and social consequences of our troubled economy which concern us and their impact on families, the elderly and children. We hope in these limited reflections to give voice to some of the concerns of the poor and working people of our land.

3. We are keenly aware of the world-wide dimensions of the problem and the complexity of these issues of economic policy. Our concern, however, is not with technical fiscal matters, particular economic theories or political programs, but rather the moral aspects of economic policy and the impact of these policies on people. Our economic life must reflect broad values of social justice and human rights.

II. THE CHURCH'S TEACHING

4. Our own rich heritage of Catholic teaching offers important direction and insight. Most importantly, we are guided by the concern for the poor and afflicted shown by Jesus, who came to "bring good news to the poor, to proclaim liberty to captives, new sight to the blind, and to set the downtrodden free" (Luke 4:18). In addition, the social encyclicals of the Popes and documents of the Second Vatican Council and the Synod of Bishops defend the basic human right to useful employment, just wages and decent working conditions as well as the right of workers to organize and bargain collectively. They condemn unemployment, maldistribution of resources and other forms of economic injustice and call for the creation of useful work experiences and new forms of industrial organization enabling workers to share in decision-making, increased production, and even ownership. Again and again they point out the interrela-

tion of economics and ethics, using that economic activity be guided by social morality.

5. Catholic teaching on economic issues flows from the Church's commitment to human rights and human dignity. This living tradition articulates a number of principles which are useful in evaluating our current economic situation. Without attempting to set down an all-inclusive list, we draw the following principles from the social teachings of the Church and ask that policy-makers and citizens ponder their implications.

(a) Economic activity should be governed by justice and be carried out within the limits of morality. It must serve people's needs.¹

(b) The right to have a share of earthly goods sufficient for oneself and one's family belongs to everyone.²

(c) Economic prosperity is to be assessed not so much from the sum total of goods and wealth possessed as from the distribution of goods according to norms of justice.³

(d) Opportunities to work must be provided for those who are able and willing to work. Every person has the right to useful employment, to just wages, and to adequate assistance in case of real need.⁴

(e) Economic development must not be left to the sole judgment of a few persons or groups possessing excessive economic power, or to the political community alone. On the contrary, at every level the largest possible number of people should have an active share in directing that development.⁵

(f) A just and equitable system of taxation requires assessment according to ability to pay.⁶

(g) Government must play a role in the economic activity of its citizens. Indeed, it should promote in a suitable manner the production of a sufficient supply of material goods. Moreover, it should safeguard the rights of all citizens, and help them find opportunities for employment.⁷

6. These are not new principles. They are drawn directly from the teachings of the Church, but they have critical relevance at this time of economic distress. Under current conditions, many of these principles are being consistently violated.

III. DIMENSIONS OF THE ECONOMIC SITUATION

7. In these reflections we wish to examine briefly the dimensions of our economic problems in three areas: unemployment, inflation and distribution of wealth and income.

A. Unemployment

8. In October, government figures show eight million persons were unemployed, representing 8.6% of the work force.⁸ Millions of other persons have given up seeking work out of discouragement or are in part-time jobs although they desire full-time work. Taking this into account, the actual level of unemployment in our country is over 12%. It is estimated that 20 million people will be jobless at some time this year, and that one-third of all Americans will suffer the traumatic experience of unemployment within their families.

9. The official unemployment rate does more than underestimate the true extent of joblessness. It also masks the inequitable distribution of unemployment. The figures for October indicate that minorities, blue collar workers, young people and women bear a disproportionate share of the burdens of joblessness.⁹

10. These realities clearly indicate that the nation's commitment to genuine full employment has been seriously eroded, if not abandoned. Since World War II, unemployment has been substantial, persistent and drifting upward. In fact, when joblessness rose dramatically during the latest recession, it took the form of an acute and visible crisis, superimposed on a long-term unemployment problem which has persisted for decades.

11. The costs of this tragic under-utilization of our country's human resources are enormous. In economic terms, these high levels of unemployment cost literally hundreds of billions of dollars in lost productivity and tens of billions of dollars in lost revenue and increased expenses for all levels of government.

12. As lamentable as these financial costs are, the social and human impact is far more deplorable. In our society, persons without a job lose a key measure of their place in society and a source of individual fulfillment; they often feel that there is no productive role for them. Many minority youth may grow up without meaningful job experiences and come to accept a life of dependency. Unemployment frequently leads to higher rates of crime, drug addition, and

See footnotes on p. 31.

alcoholism. It is reflected in higher rates of mental illness as well as rising social tensions. The idleness, fear and financial insecurity resulting from unemployment can undermine confidence, erode family relationships, dull the spirit and destroy dreams and hopes. One can hardly bear to contemplate the disappointment of a family which has made the slow and painful climb up the economic ladder and has been pushed down once again into poverty and dependence by the loss of a job.

13. The current levels of unemployment are unacceptable and their tremendous human costs are intolerable. Unemployment represents a vast and tragic waste of our human and material resources. We are disturbed not only by the present levels of joblessness, but also by official government projections of massive unemployment for the rest of this decade. We sincerely hope that these figures do not represent resignation to the human and economic waste implied in these rates of unemployment. As a society, we cannot accept the notion that some will have jobs and income while others will be told to wait a few years and to subsist on welfare in the interim. For work is more than a way to earn a living. It represents a deep human need, desired not only for income but also for the sense of worth which it provides the individual.

B. Inflation

14. There are those who insist that we must tolerate high levels of unemployment for some, in order to avoid ruinous inflation for all. Although we are deeply concerned about inflation, we reject such a policy as not grounded in justice. In recent years, our country has experienced very high levels of inflation. During this past year, there has been some reduction in inflation, but there are already signs of its renewal, spurred by large increases in food and fuel prices.

15. Inflation weakens the economic stability of our society and erodes the economic security of our citizens. Its impact is most severe on those who live on fixed incomes and the very poor. The double distress of inflation and recession has led to a painful decline in real income for large numbers of people in recent years. Clearly, steps must be taken to limit inflation and its impact.

16. However, low unemployment and high inflation are not inevitable partners, as history and the experience of other industrialized countries bear out. Policy-makers should seek and use measures to combat inflation which do not rely upon high rates of joblessness. For many of our fellow citizens, the major protection against inflation is a decent job at decent wages.

C. Distribution of income and wealth

17. Within our country, vast disparities of income and wealth remain. The richest 20% of our people receive more income than the bottom 60% combined. In the area of ownership, the disparities are even more apparent. The top one-fifth of all families own more than three-fourths of all the privately held wealth in the United States while over one-half of our families control less than 7% of the wealth.

18. The distribution of income and wealth are important since they influence and even determine our society's distribution of economic power. Catholic social teaching has condemned gross inequality in the distribution of material goods. Our policy cannot continue to ignore this important measure of economic justice.

IV. POLICY DIRECTIONS

19. Fundamentally, our nation must provide jobs for those who can and should work and a decent income for those who cannot. An effective national commitment to full employment is needed to protect the basic human right to useful employment for all Americans. It ought to guarantee, through appropriate mechanisms, that no one seeking work would be denied an opportunity to earn a livelihood. Full employment is the foundation of a just economic policy; it should not be sacrificed for other political and economic goals. We would support sound and creative programs of public service employment to relieve joblessness and to meet the vital social needs of our people (housing, transportation, education, health care, recreation, etc.).

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

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

22. Renewed efforts are required to reform our economic life. We ask the private and public sectors to join together to plan and provide better for our future, to promote fairness in taxation, to halt the destructive impact of inflation and to distribute more evenly the burdens and opportunities of our society. We also ask that consideration be given to a more efficacious use of the land, the nation's primary resource in order to provide gainful employment for more people. We should also explore the impact of technology and endeavor to preserve the small family farm and other approaches to economic life which provide substantial and productive employment for people. It is not enough to point up the issues in our economy and to propose solutions to our national problems while accepting uncritically the presupposition of an economic system based in large part upon unlimited and unrestrained profit.

23. We pledge our best efforts in support of these goals. We call on local parishes, dioceses, Catholic institutions and organizations to undertake education and action programs on issues of economic justice. We renew our commitment to assist the needy and victims of economic turmoil through programs of financial assistance and active participation in the dialogue over the formulation and implementation of just economic policies. We call on our people to pray for our country in this time of need and to participate in the difficult decisions which can still fulfill the promise of our land.

24. Working together with renewed vision and commitment, our country has the productive capacity and human and material resources to provide adequately for the needs of our people. We take this opportunity to renew the challenge of our fellow Bishops of 45 years ago: "Our country needs, now and permanently, such a change of heart as will, intelligently and with determination, so organize and distribute our work and wealth that no one need lack for any long time the security of being able to earn an adequate living for himself and for those dependent upon him."—The Bishops of the United States, *Unemployment, 1930*.

APPENDIX

In adopting this resolution, the Bishops sought to link this effort to a major statement issued in 1919 on similar matters. Entitled, "The Bishops' Program For Social Reconstruction," the statement called for: minimum wage legislation; unemployment insurance and protection against sickness and old age; minimum age limit for working children; legal enforcement of the right of labor to organize; a national employment service; public housing; and a long-term program of increasing wages.

It also urged: prevention of excessive profits and incomes through regulation of public utilities and progressive taxes on inheritance, income, and excess profits; participation of labor in management; a wider distribution of ownership through cooperative enterprises⁵ and worker ownership in the stock of corporations; and effective control of monopolies even by the method of government competition if that should prove necessary.

Most of these proposals have been enacted. Partial progress has been made toward others. The 1919 statement provides a historical framework for the current resolution and evidences a long-standing concern for economic justice on the part of the Catholic community in this country.

FOOTNOTES

¹ Vatican II, *The Church In The Modern World*, 64; John XXIII, *Mater et Magistra*, 38-39.

² Vatican II, *The Church In The Modern World*, 69.

³ John XXIII, *Mater et Magistra*, 73.

⁴ Pius XI, *On The Reconstruction of The Social Order*, 74; John XXIII, *Pacem In Terris*, 11, 18; Vatican II, *The Church In The Modern World*, 67; Paul VI, *A Call To Action*, 6.

⁵ Vatican II, *The Church In The Modern World*, 65.

⁶ John XXIII, *Mater et Magistra*, 132.

⁷ John XXIII, *Mater et Magistra*, 20; Vatican II, *The Church In The Modern World*, 67, 70.

⁸ The Employment Situation: October 1975; U.S. Department of Labor, Bureau of Labor Statistics; November 7, 1975.

⁹ Department of Labor figures for October 1975 indicate: One out of five teenagers were jobless; over 11% of all blue collar workers were out of work; 14.2% of all minority persons were unemployed; nearly 40% of all minority teenagers were jobless; and 134 of our 150 major urban areas were officially listed as areas of substantial subemployment.

Representative BOLLING. The program I have to administer now says that members of the committee will each have 5 minutes for statements or questions before we turn to the discussants. We will proceed under a strict 5-minute rule. Congressman Brown of Michigan.

Representative BROWN of Michigan. Thank you, Congressman Bolling.

I think that we all have the same basic goal and objective. I don't think that any of those who basically criticize this administration's policies feel that it is inhumane, or that it is insensitive to the problems of unemployment. I think that the means are criticized.

In a general sense, we have many statistics with regard to unemployment. Should we be concerned with the percentage of the population employed, or the percentage of the work force as we now use it, how should we relate those figures, since I think all of your testimony has been that every person that would like to be employed should have an opportunity to be employed.

Bishop RAUSCH. If I may speak to that—

Representative BROWN of Michigan. Surely.

Bishop RAUSCH [continuing]. From a moral perspective for a moment. We believe that man is created in the image of God, and he manifests that most when he has the opportunity to be creative. If the system deprives him of the opportunity to be creative, through productive work—that is the way we are most creative—then there is something wrong with the system, and it needs to be corrected.

I think people who want to work must be able to work, and that is not true in our society today.

Representative BROWN of Michigan. Therefore, you are saying that really the portion of our people that are employed is not significant, or not as significant as those who are now classified as in the work force.

Bishop RAUSCH. That's right.

Representative BROWN of Michigan. Because I think that is an important thing to point out. If we go back to the good times, the so-called good times insofar as statistics are concerned, when unemployment was down, we find that a lesser portion of the population was actually employed because our work force has changed; there is no doubt about that.

Mr. JORDAN. Congressman Brown, it seems to me that the real answer to your question ought not to be asked maybe of us, but of that portion of the work force that is not in fact working. That is where the problem is. The fellow who is not working; his concern is not that the work force is greater now than at some other time, but the fact that he desires to work and presently the Government, the private sector, the public sector, whatever, is not at this moment providing for him that opportunity.

The followup to that is when people are working and they are happy with their work, they act better, and they do better, they are healthier, they eat better, and consequently the whole society benefits.

Therefore I think, whatever the intentions of the administration are, there has to be a concentration on those people that are now out of the work force but want to get in and cannot because of policies that make that impossible.

Representative BROWN of Michigan. Well, your question about policies that make that impossible, I think, leads to another interesting issue. Teenagers constitute about 20 percent of our unemployment today. Yet, probably teenagers and marginal workers are more impacted by, for instance, minimum wage laws.

It seems to me that minimum wage laws have always been aimed at providing receipt of a decent wage—not necessarily payment of a decent wage. It seems that the industries that are labor intensive, activities that are labor intensive have been particularly disadvantaged by those kinds of laws.

Therefore, it seems that in our wisdom we should be able to, from a governmental standpoint, be able to in some way come up with an evaluation of the contribution of that worker, and see that he receives through general contribution of the Government, through general social consciousness, the difference between his contribution to his activity, and what we consider to be a decent wage, so that he does receive it.

When we have labor-intensive activities, whatever they may be, and governmental floors on wages, and so forth, make it impossible to function in this country. Industries move out, or they become mechanized, and in doing so that very group that is the least protected and has the most critical employment problem is the group that is most adversely affected.

Mr. JORDAN. I have two problems with that, Congressman Brown. My first is, I don't understand the difference between receipt and payment.

Representative BROWN of Michigan. Yes, you do.

Mr. JORDAN. I really don't. Second, my problem is that I think you have to have a minimum wage law. I think what you are implicitly suggesting is that we should probably work teenagers at a lesser wage than their fathers. My fear about that is that the employees of this country would not have their fathers at a higher rate, but would instead opt to have the children have it, instead. It seems to me that is the basic reason for the destandardization as it relates to instances like the minimum wage law.

The difference between the receipt and payment, I don't quite understand that. I think when you work, whether you receive it, or you get paid, you are in fact getting wages, and that is what the game is all about.

Representative BROWN of Michigan. Well, the difference basically is, you would have a supplementation of that which the employer would be required to pay, and the individual would receive a decent wage. But the law presently applies to who pays it, and that it has to be paid.

Mr. JORDAN. But it's paid based on the work that is done, I think that is probably the basic issue.

Representative BROWN of Michigan. My time is up, but in view of the fact that I have introduced a jobs bill which would put people to work right now, and there is some question about its efficacy, I just want to read a letter into the record very quickly.

This is from the Boston Redevelopment Authority:

DEAR CONGRESSMAN BROWN: On behalf of the Boston Redevelopment Authority, I want to express my support for legislation which would accelerate community development bloc grant spending in areas of high unemployment (H.R. 11860 and S. 2986).

Boston is one of those cities which has suffered a severe cutback in Federal funding as a result of the change from categorical grant programs to the bloc grant system. Boston is a city which is also suffering from an unemployment rate of over 15 percent.

However, Boston, because it has an extensive urban renewal program underway, has the ready need and capability for using extra community development funds and using them in such a way that jobs would be immediately created. In fact, in anticipation of public works legislation, this agency has already drawn up a work program for using supplemental funds from the Federal Government.

The Community Development conduit is in place in Boston and extra funds available to us under your legislation would have an immediate impact both in terms of the improvements we have planned, but also in terms of jobs, particularly in the building trades. Enactment of a program which can ease the plight of unemployed workers in this city would constitute a wise and humane move made by the Congress and we applaud your efforts in this matter.

I would applaud the Senate if it would do that which Senator Proxmire said it would do, vote the bill up or down.

Thank you.

Chairman HUMPHREY [presiding]. Congressman, you can rest assured that the distinguished body of the United States Senate, that august body will act, and will act affirmatively.

I appreciate your letter and we thank you; it is included, of course, in the testimony.

Congressman Hamilton.

Representative HAMILTON. Mr. Chairman, I don't have a statement to make except to express my appreciation to you as the chairman of the committee for putting on this 30th anniversary conference.

A particular word of appreciation to our three panelists. These have been very powerful statements that we have heard this morning. I just want them to know that they have certainly lifted my sights; they have widened my perspective on this whole question of unemployment. I want them also to know that it is certainly my resolve, as one Member of Congress, to do something about it. Your statements had quite an impact, and I'm deeply appreciative of them.

I am anxious to hear our discussants, Mr. Chairman, to give our panel full opportunity. I think this is a morning for us to listen and learn, rather than to talk.

Chairman HUMPHREY. Congressman Long.

Representative LONG. Thank you, Mr. Chairman.

Like Congressman Hamilton, I don't have a prepared statement. I might make one comment. I associate myself with Congressman Hamilton's remarks. I was most impressed by the statements all three of you gentlemen made. They were, as he said, most powerful and strong statements.

I find from my travels over the country to some degree, and my district in particular, that our fruitful ability—both yours and ours—to convey this message to the rank and file of the seriousness of the situation that exists in the United States today has not been very fruitful. I just can't find amongst what ought to be the leadership of the

country, at that tier, the concern for the problem that I think should exist and is evidenced by the statements you made here today.

I think this is a job for us, it is a job for you, it is a job for all of us. It's one of these things that's creeping up to a degree that doesn't attract the media to the extent as something catastrophic does; but it's creeping again to a degree that it's nearly eating us alive, and if we are not particularly careful, it's very likely to, in a relatively short period of time. If we look at the degree and the severity of the recessions that we have had since the Great Depression in the 1930's, every time they have increased in severity, they have increased in the period of time that they lasted. This seems partly true in reference to one of the statements that one of you gentlemen made when you made the point that we had that 3 percent unemployment and started living with that; and then it went to 4 and we started living with that; then it went to 5, and we started living with that; it went to 6 and we started living with that; it went to 7 and we started living with that, and now we are looking at an administration's program that projects an unemployment for 1977 in excess of 7 percent as something that we have to live with in order to resolve the other problems.

This is something to which I can't subscribe, and I don't think any of you can subscribe. But I do think it points out the danger of the growth as it continues; that is a very serious situation.

Congressman Bolling in the House in the last day or two put out something that I thought was very interesting, that made particularly the point that Bishop Rausch has made and perhaps is worthy of your consideration.

He pointed out that the social security fund that has had the great publicity recently, and everyone is very worried and with some reason, that, should we have unemployment not in excess of 5 percent during the period from 1975, the beginning of this year, to 1981, then the Social Security Trust Fund would receive during this period an additional \$4.2 billion instead of being depleted by an estimated \$16.2 billion in that same period. We can see what the effect is going to be. The financial effect of it is obvious; the effect in the social cost I think all of you would be as concerned about as I am; the psychological effect that the chairman spoke of is certainly something to be considered, the mental illness that results from this, and the stress and the strain that comes from it; and certainly the moral effect and the decaying of the work ethic that has made this country what it is, which all of us have alluded to, but none has specifically put his finger on.

I compliment all three of you on your statements and say that I think our problem is now—the psychiatrists say half of it is recognizing what the problem is, and the other half is doing something about it. I think it's down now to where we, as the leadership of the country recognize what the problem is, and our problem is to get the rest of the people to recognize what it is and to do something about it. My congratulations to you.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Senator Javits.

Senator JAVRS. I, too, would like to say that I think this testimony has been very admirable, and I'll comment on it in a moment.

Before I do, I would like to associate myself with the statement made this morning by the Vice President. One, as it related to his congratulations to Chairman Humphrey, who I think has given this committee distinguished and able leadership as its chairman; and two, for his original authorship in connection with the Employment Act of 1946, which came even before I was in the Congress—I came to the House in 1947.

Also, I would like to associate myself with the extraordinarily fine and succinct statement of recommendations which the Vice President made, which I think can really be a charter for anyone who thinks as I do, and as the witnesses think, obviously, from their testimony.

Finally, Mr. Chairman, as to the statements, I find myself in agreement with the statements which, in the words of Mayor Gibson, have coupled an effort to chart something of the future of America, for planning—and you may remember that Senator Humphrey and I have proposed in the national planning bill, which in my judgment should run parallel with the Full Employment Act offered by him and Congressman Hawkins, of which I am a cosponsor.

I thank you very much, Mayor, for pointing out the fact that these two go together. No corporation would dream of doing what we do, running a planless society. So, the first prerequisite for full employment is some kind of a national effort to determine what will be our priorities, and what we need to do in order to meet those priorities in terms of resources.

Second, I think you have all emphasized what our strength is, as compared with totalitarian societies. In an economic sense we have the power of conferring ownership and credit, which totalitarian societies do not, and that these are the most important incentives invented by man to encourage work and adjust an orderly society in economic terms.

And finally, and very importantly, you have expressed some great caution. I would like first to start with Mayor Gibson because he was the first to testify, and I call attention, Mr. Chairman, to his statement:

The young, the minorities, the women, the workers whose jobs have been lost to machines and foreign competition must not be cast aside.

It's critically important to labor that we understand that we are not going back to middle 19th century England and destroying the machines. The machines have made us free. Our job is to see that the labor power which is thereby saved is employed in accordance with the dictates of conscience and of God, and not according to the deficiencies and faults of man.

I don't know, mayor, whether you, yourself, realize exactly how it would be interpreted, but I interpret it that way, and I think it's a splendid approach.

Second, I would like to draw on Mr. Jordan for his three ideas respecting incentives for private business, public works programs, and expanded public service. That is exactly the policy which Senator Williams and I are trying to pursue in the Senate Labor and Public

Welfare Committee of which he is the chairman and I am the ranking member.

And lastly—as my time is up—I would like to make the bishops statement a part of the record, Mr. Chairman.

Chairman HUMPHREY. Yes; it will be.

Senator JAVITS. The question of the distribution of wealth in this country is critically important. The fact is that we are beginning to get there, we are truly an equalitarian society in which there is enough ownership to guarantee freedom. I look at it optimistically, not pessimistically. Sure, there are disparities, but compared to the rest of the world it's an extraordinarily successful beginning of a truly just society. I thank you very much for bringing it so sharply to our attention.

Mr. JORDAN. Mr. Chairman, I beg to leave in the interest of my own job security. [Laughter.] I have a 12:15 plane that I must catch.

Chairman HUMPHREY. Mr. Jordan, we cannot afford to have more unemployment. In no way do I want to jeopardize your job security, but I must say, despite the problems of employment, I doubt that you would ever have any difficulty getting a job.

Mr. JORDAN. I just want to be sure about that. Thank you very much.

Chairman HUMPHREY. We are very grateful to you, thank you very much.

Now, gentlemen, you have heard the commentary of Senator Javits, do any of you wish to respond?

Bishop RAUSCH. I agree with what he said.

Chairman HUMPHREY. All right, thank you. Congressman Bolling.

Representative BOLLING. I join the other members of the committee in congratulating you on your statement. I think that we are coming this week—and I think it's a happy coincidence, not entirely a coincidence—to a crucial change in the question of legislation on full employment.

Your testimony gives me great hope and optimism that we will be able to accomplish the kind of legislation that we must if we are to have a society where everybody has an opportunity to have a job. I happen to believe that unless we are able to master that problem, that we will in fact lose our freedom. The history of other countries that have collapsed would indicate that dissatisfaction of a substantial segment of the society led to a variety of extremist approaches, and then ultimately led to the destruction of democratic governments.

I believe that full employment, what you have been talking about, is an absolute essential if this society is to progress in the future as it has in the past. I believe that the beginning that has been made in the second draft of the Humphrey-Hawkins bill combines a flat commitment to full employment with a method of beginning the planning necessary to achieve it in the Nation, is the right beginning. I think what we are now in the process of is moving in to the beginning. I think what we are now in the process of is moving in to the beginning of the legislative fight because, while government cannot do the job, it has to take the lead in encouraging all other elements is the society to coordinate and help do the job.

It will take everything we've got, business, labor, all the brains we've got, all the abilities we've got to move this economy from where it is now, with much too high a rate of unemployment, to a point where it does not have a rate of unemployment.

My goal of unemployment is frictional, that is that only the people who are between jobs are unemployed.

I would like to point out that many countries do much better than the United States in terms of unemployment. Most of the developed countries today do better in terms of the level of unemployment, and I think we can learn from some of the other countries what needs to be done. You cited a variety of proposals that need to be taken into account; most of them are done in one country or another.

I happen to believe that it won't be possible for this society to continue to function if we have the tragedy of unemployment as it is today. And I welcome your testimony because it seems to me that it adds to the beginning, which started at the beginning of this week, before the Hawkins subcommittee in the House of Representatives, which adds to the efforts made by the Senator and other Senators in introducing the new version of the Hawkins-Humphrey bill, we are beginning the legislative fight, and that is the important phase. We are moving from conversation to action, and I think your testimony gives us a great boost.

Chairman HUMPHREY. I want to quickly add, not only does your testimony give us a great boost in the movement of development of a national full employment policy, and the process to achieve this, but we will need your active participation before the committees of the Congress, and your insistence that there be action in the Congress, one way or another. People have a right to know what Congress is going to do on these matters.

I would like to point out also that what we have presented in these bills, H.R. 50 and S. 50, the full employment and balanced growth bills, is above all a procedure, a methodology for achieving the goal of not more than 3 percent adult unemployment. We put it within a time frame that is realistic, it's no 'pie in the sky,' it's no theoretical exercise; it is a very practical, achievable objective. We are going to need the Conference of Catholic Bishops, we are going to need the Protestant churches, we are going to need the members of the Jewish faith, we are going to need the labor movements, the Conference of Mayors, we are going to need business people, all of them to give us a helping hand. This legislation won't move without it.

We are going to need the same coalition that accomplished what we did in the comprehensive Civil Rights Act of 1964. I might say, civil rights are very meaningless if people are poverty ridden, if they are jobless; if they are the victims of violence and victims of crime; if they become drug addicts; if they are lost in the ghetto and in the areas of poverty and economic trouble—civil rights vanish. That's a theoretical exercise.

Now, having given you my point of view, and I have expressed it before, may I turn to our discussants, those who have participated in our regional hearings.

We will start out now with Mr. Brenner, and move right on down with Mr. Finney and Mr. Roy. What I would like to have here, if I

may suggest, you may have statements that you might like to make. You might also want to pose questions to Mayor Gibson or Bishop Rausch. And may I suggest that Mayor Gibson and Bishop Rausch, you might want to toss a question to our discussants on this panel. In other words, a little interaction here, if we can get it.

I might say to my colleagues, if you feel like you want to burst in after a while, why, just go ahead and do it. One of the problems of these committee meetings, they are so structured, they get dead. Let's liven it up, don't be ashamed to be a bit impolite on occasion.

OK, go ahead, Mr. Brenner.

STATEMENT OF M. HARVEY BRENNER, PROFESSOR, JOHNS HOPKINS UNIVERSITY, BALTIMORE, MD.

Mr. BRENNER. Thank you, Senator Humphrey.

It's become, I'm afraid, quite difficult for me personally to continue to make the kinds of detailed statements that I have done in the past, largely of a statistical nature, on the relationships of changes in the economy, particularly employment and unemployment, to health and to aggression, largely because the evidence is becoming stronger all the time as our technology in this field becomes more and more nearly scientifically credible.

As more material enters the scientific domain, the material comes to be accepted as a matter of fact, which is the way we usually have ascertaining the accuracy of factual materials.

It is difficult to look at this material, however, on an unemotional basis. We are finding, and have been finding over a period of years that the fundamental statistics gathered by major agencies of the U.S. Government and the individual State governments and cities, now unequivocally demonstrate that admissions to mental hospitals, both on State and National levels, are strongly influenced by changes in employment; they rise very sharply as a result of periods of unemployment; that the actual mortality rate due to suicide is very closely correlated with economic fluctuations and is particularly sensitive to fluctuations in employment. These are studies in part supported by the National Institute of Mental Health, the U.S. Department of Labor, Manpower Administration.

It has been found that the actual mortality rate—not simply the rate of morbidity—but the actual mortality rate due to each of the major causes of cardiovascular-renal disease, this includes heart disease, cerebravascular disease or stroke, or renal disease, kidney disease, the mortality rates are sharply responsive to fluctuations in the economy, nearly as sharply responsive as in suicide and our data on mental hospital admissions.

It has been found earlier that infant, fetal, and even maternity mortality, as has existed in the United States certainly since the early 1900's, is sharply responsive to changes in the economy as well; and again particularly to the rate of unemployment.

I had been under the assumption personally that the mortality relationships indeed extended just this far. However, in a paper that I myself reported on at the American Association for Advancement of Science in national meetings, we now can observe that the total

mortality rate at virtually every age of the population is highly responsive to fluctuations in the national economy; not only the long-term increase in per capita income appears to produce a longer life span, even the shorter fluctuations in the economy, as these elements of economic instability present themselves, decrease the actual life span. The findings were reported for the United States, England, and Wales, and for Sweden.

Chairman HUMPHREY. Would you clarify that, Mr. Brenner? You said the statistical evidence on three countries on what?

Mr. BRENNER. On the national mortality rate, on total mortality, which includes all causes. In other words, we are finding that length of life, in a word, is highly susceptible to economic stress, as particularly refined in the short term by fluctuations in unemployment; and over the long term by per capita income, or gross national product.

The point we seem to be coming to—perhaps unpleasant to some, or pleasant to others, as it may sound—is that with economic fluctuations, with the kinds of solutions that members of the panel have been discussing, all of which involve money, money remedies—with money remedies we are fundamentally talking about the purchase of length of life.

This is a very peculiar concept, I think, to medical and epidemiological circles, let alone figures prominent in the political system of the U.S. Government. We had not, earlier, thought that money expenditures per se influenced directly or indirectly, for very large aggregates of the population the actual length of life. In fact, this is statistically demonstrable; it is demonstrable in the aggregate for total mortality; and for specific causes.

What the latter seems to mean, in turn, is that while we seem as a nation to be quite prepared to spend dollars for the purpose of health care on an individual level, or even on a national level—in discussions on national health insurance—we are quite prepared to spend money on health care as it involves health and length of life; but we have not seen ourselves quite ready yet to take a preventive remedy position of expending money vis-a-vis help to the economy and particularly the unemployment situation and accomplish far more than is possible under the health care system, specifically in length of life; in terms specifically of mental disorder and physical disorder.

I think soon we must come to the recognition of the translation of such dollar expenditures to length of life and morbidity terms, and aggression terms, and ultimately have to face the economic and political reality that that indicates.

Since testifying at the Atlanta regional meetings, and now bringing to your attention the findings presented at the American Association for the Advancement of Science, I have not made public the findings of a study prepared by myself for the United Nations on aggression and justice, vis-a-vis the economy, based on information for three countries, the United States, England and Wales, and Canada, in which it was found that crimes known to the police, arrests and imprisonment for all major crimes are, again, very highly

susceptible to fluctuations in the economy, and increase very sharply and with a relatively short lag as a result of increases in the rate of unemployment.

The package, then, that we seem to observe—and we seem to observe it really for the first time in a statistical fashion, in a fashion that economists are used to looking at it; that epidemiologists are used to engaging it, and ultimately in the way that political economists are used looking at this material, so as ultimately to be able to translate length of life, mental disorder, aggression, into the sort of quantitative terms that are amenable to economic analysis, so that one might be able to say, as unfortunate as this phrase sounds, that a certain precise level of unemployment, or change in that level, is equivalent to the loss of life of so many Americans.

Under the Joint Economic Committee, under the leadership of Senator Humphrey, I was asked to prepare a study for the Joint Committee, which is in progress, which will attempt to do precisely this, examining per capita income and inflation, but most particularly changes in employment and unemployment. We hope to be able to come up with coefficients that will estimate with some accuracy the relationship between quite exact levels of unemployment, for instance, and mortality or morbidity; or crime, homicide, as the subject may warrant.

Chairman HUMPHREY. Mr Brenner, might I just interrupt. Is it not a fact that in your earlier testimony you gave us some indications of what we might call the "lag time" insofar as State institutionalization, and State costs are concerned?

Mr. BRENNER. Yes, Senator, that's correct. I think it is very appropriate because in a case of illness, not only are the reactions often unseen because the illnesses are unseen, but due to lag, say in the case of cardiovascular disease, which is the cause of mortality of 70 to 80 percent of persons living in industrialized societies, in the case of cardiovascular disease the lags in mortality may be as long as 5 years.

Therefore, it comes to be true that even now it is possible to ameliorate the economic situation, particularly the employment situation and in fact save lives because the lag in cardiovascular disease is so long. It is true also of certain mental disorders, and it happens to be true in homicides and certain other causes of death we are beginning to find.

Perhaps just one or two words additional vis-a-vis the excellent testimony of the speakers, which I was moved by, all of which has been quite relevant to my own studies of this problem.

Mayor Gibson and Mr. Jordan have alerted us to the necessity of disaggregating quite finely estimates of the impact of the economic situation by race, by age, by sex, particularly to examine the impact on urban areas; and these are going to be quite different and much more highly valuable than in the case of the United States as a whole. I'm almost a little afraid to look at these data in detail myself; but we will be doing that as well for the Joint Economic Committee, if the Senator wishes.

Finally, the many excellent comments by Bishop Rausch, but one or two in particular that were of importance to this particular work,

the issue of income distribution vis-a-vis justice, indicating full employment is the foundation of a just society, which in fact looks to be statistically accurate, not simply morally correct.

We are observing that in the case of crime, even in the case of suicide and accidents, and cardiovascular disease over times the long-range trend of the economy is up. And yet, contrasted with that are fluctuations in the economy, as principally dominated by fluctuations in unemployment, that bring about particular increases in the rates of suicides, homicides, accidents, and several other causes of mental and physical disorders, despite the long-term growth in the economy, employment fluctuations remain and remain quite substantial.

Indeed, so serious is that problem, for late teenagers and those into their 20's, the mortality rate has actually increased. Thank you.

Chairman HUMPHREY. Thank you very much, Mr. Brenner. Our next witness is Mr. Finney, president of the Woodlawn Organization.

Senator Percy.

Senator PERCY. I would like to just introduce in 30 seconds the truly enlightened leaders that we have in Illinois. The Woodlawn Organization is one of the finest organizations that has been responsible for building an urban community and given hope to people that I know of.

Chairman HUMPHREY. That's a fine compliment.

Mr. FINNEY. I'm not so sure, Senator, I can add anything to that.

Chairman HUMPHREY. Well, I think you got a good introduction.

STATEMENT OF LEON FINNEY, PRESIDENT, THE WOODLAWN ORGANIZATION

Mr. FINNEY. First I would like to associate myself with the bill proposed, S. 50, I had the opportunity to read it before in draft, I have not read it in detail at this time; but I'm generally familiar with its contents. I think that it is in fact an appropriate approach to the serious problem that I perceive in our country.

But off the side, let me get at some more testing matters. One, it appears to me that we've got to get away from talking about percentages of the population that are employed or unemployed. These are Americans we are talking about—they are people.

It seems to me that the comments that were contained in Mr. Jordan's testimony were very important, that 17 million of our American citizens are unemployed—17 million, not 8 percent, of a total of 200 million-plus; 17 million, that's a lot of people; and 35 million of our people are not fed well, they are in poverty. These are Americans. You just can't keep throwing statistics around.

I heard someone say a few minutes ago that this was the greatest country in the world. Well, OK, if you are going to compare it to other countries. What about comparing its greatness from one citizen to another? I'm not sure that 35 million of our people in this country think that the United States of America is the greatest country in the world because they are not privileged to go to bed with full bellies; they are not privileged to have jobs; they are not privileged to live in communities where they are free of crime.

I'm just very worried of us accepting the fact on some percentage-basis—I know countries that import workers. The Ford Foundation sponsored a tour for me to go to Germany, and I was astounded to find that in West Germany they had a negative employment rate, that they had to import workers from elsewhere. How is it that a Germany economy can work on full employment and the greatest country in the world's economy can't work with full employment?

It astounds me that we continue to allow ourselves to operate on some economists' theories about people who are locked into our shores here as American citizens, being unemployed. I find it unacceptable. I don't know how the Congress of the United States can hold its head up when a matter such as this takes place, where 35 million of our people—our people, these are not alien people who come from other shores, but they are our American citizens, are somehow or other, we find, underprivileged, unemployed, and left out of the system.

I look at my community, Woodlawn. We made great strides, as I think Senator Percy has alluded to, but when you talk about a national average of 8 percent unemployment across the country, you are averaging in my city 35 percent. As far as I'm concerned, that's a depression.

I know that this country wouldn't tolerate a depression over the land, but it does in fact tolerate a depression in my neighborhood, and neighborhoods like mine all over the country. And I want to know why we, as public and private citizens, will allow a situation such as this to happen.

Of course, we realize that every social entity is affected negatively, as Mr. Brenner said, by an unstable economy and by unemployment. I'm persuaded by the fact that maybe some of you are not aware of, our crime rate is negatively affected in Chicago by the unemployment rate that we have here. It worries me that we are willing to spend \$5,000 a year to incarcerate someone who burglarizes someone's home, robs someone on the street. Why? As Mayor Gibson and Mr. Jordan have said, why? Because in many instances they don't have any other alternative than to steal, and burglarize, and to rob.

We spend \$5,000 to incarcerate them for 1 year, and yet, we won't spend \$5,000 to keep them on the street and give them a job, and subsidize them until they can be accorded a job. I just wonder why and how we can continue to tolerate a situation such as this.

You know, I'm persuaded we have a serious problem in energy, and it worries me, as it worries all other Americans. But I wonder, you know, we talk about harnessing electric energy, harnessing gas, and we talk about harnessing oil—but we haven't gotten around to the policy of exploiting our most valuable resource and energy source, and that's manpower. We haven't harnessed that great population of ours, there are 35 million of us that are not harnessed, that we are letting trickle through the system; 17 million we know for sure, are unemployed. That is a tremendous source of energy, what about using it? Aren't there creative means of using human energy that might supplement and augment our dwindling ore resources?

I'm no metallurgist, or geologist, or anything like that, I'm a human being; and I know there are people around who could work. It

seems to me that muscles and their ability to work is a source of energy. Yet, we don't use it. We concentrate all of our time on conserving oil and not putting in production human manpower and human energy. I just find that somehow unacceptable, and I don't know why we can't get at that.

We conduct manpower training programs, and as I testified before this very same committee earlier this year—late last year, I showed and demonstrated to this committee that we were able with manpower training programs to turn tax eaters into tax generators; that we were able in fact to pay for every manpower training program. As submitted by Mr. Jordan, every manpower training program that we have ever conceived already paid for itself because we have been able to put people back in the productive work force and they have paid taxes that have gone back into our general tax reserve.

I'm worried somewhat by this concept of the trickle-down effect; I'm worried also about laissez-faire Government, too. I think that in certain times of crises the Government has the obligation to intervene in order to assure that its citizenry is well taken care of. I worry about this notion of somehow or other stimulating business, and maybe at the bottom things will trickle down.

I submit, Mr. Chairman and committee members, that we don't need a trickle-down effect for the Nation's poor, not in my neighborhood, we need a series of tidal waves. We need massive input in our communities in order to save them.

And I'm also persuaded by something else, and that is that every urban city in this country—and I have visited most of them—every urban city in this country is in serious trouble—serious trouble not just from unemployment, but from the fact that goods and services are dwindling. And yet, we cannot conceive of a way to use our manpower to put goods and services back into our urban cities. Why can't we find ways of using our manpower to produce goods and services, housing, for instance, industry—take Newark, for instance, you can see that Newark, as many urban settings, has lost much of its housing stock; has lost much of its industry; has lost much of its commerce.

Why can't we use our manpower, our investment in manpower to turn a Newark around, to turn a Cleveland around, to turn a Los Angeles around—or turn, yes, Senator Percy, a Chicago in the beginning around because it's in serious trouble.

So, these are the things I worry about, that I'd like answers to. I would like to see us rebuild our great cities. I would like to think that every American citizen in this country would want to think of this country as the greatest country in the world—at this particular moment, however, I seriously doubt that 17 million unemployed, and perhaps 35 million underemployed people, underemployed Americans think that the United States is the greatest country in the world.

Thank you very much.

Representative LONG. Mr. Chairman.

Chairman HUMPHREY. Yes.

Representative LONG. Mr. Finney, I'm not in any way arguing with anything you say, but just to make an additional point.

I represent basically about half a million people in Central Louisiana who are poor, and who for the last 5 years the unemployment rate, the figures are less accurate even than in the cities. Of course, they are scattered, they are hard to find, the people are hard to find; they don't know where to go and report. And for the last 5 years the unemployment rate has exceeded the national average every year by at least 1½ percent, those that have reported.

Mr. FINNEY. How many people is that, Congressman?

Representative LONG. About a half million. I have never translated it into number of people.

Mr. FINNEY. See, that's what continues to worry me, we continue to talk about percentages of people. We don't look at the idea that at some point there is a human being behind that percentage.

Representative LONG. I recognize every one of them as a human being because I drive down those country roads in this south Louisiana fringe area, and I see them, I know them as human beings. I run into them as people that just can't find a job anywhere.

All I'm saying, and that is not to take away in anyway from what you are saying, a great deal of the attention has been given to the metropolitan and to the urban areas. The problem is just as real in dealing with human beings in those areas as it is in the urban areas, they are just harder to find because they are scattered over broader areas.

Mr. FINNEY. There is no question about that. That also reminds me, and that is the one question I would like to pose to everybody here, I think that we are going to have to relate two things. We have a large portion of our population that's just simply unemployable, we have to admit it, there is no sense in ducking it.

And we have also a large portion of our population that is employable. Now, any program that we devise—and I hope that this Senate bill 50 doesn't follow the same fate of the family assistance program, where it was talked to death in one House and voted on in the other one, and nothing ever happened to it—but the point is, I think we are going to have to relate those two matters.

We have to have a guaranteed annual income for those that are simply unemployable, one that's livable. I'm not talking about something that we can afford, something that we think we can afford, but that is livable. Senior citizens at this particular point in time are eating out of garbage cans because the old age benefit contributions they made over the productive years of their lives are not adequate for them to sustain themselves in an inflationary economy—they are just plain not adequate.

There are people who are on welfare who have to eat one meal a day in order to sustain themselves because there is not enough in the welfare largesse for them to sustain themselves. That is one side of the picture.

The other side of the picture is the matter of, what are we going to do for those that are unemployed? I think we have to look at these matters together. I don't think we can continue to separate them, and I wonder if anybody has an answer to it, Senator.

Chairman HUMPHREY. I surely wouldn't disagree with you for a moment, I think you are absolutely right. There is one category that

we call "unemployment employables," and even in that category some of them would require training and a period of time to bring them into the technology which is now related to employment.

Surely, there is another category, as you probably put it, that are unemployable, or are not eligible or available for employment. For us to go along with the Jerry-built system of welfare that we have today, some of these people are the recipients of as much as 14 or 15 little programs; they get a little here, and a little there, and a little here, with administrative costs that are staggering.

I think if we ever found out the total amount of money that is spent on administration of these innumerable Federal, State and local government programs we have, we would be shocked because that money goes to people that are really not unemployed, or unemployable; those are people that are administering the program for the people that we are supposed to be helping.

Mr. FINNEY. One suggestion, Senator, that we fire all the social workers and give the money to the welfare recipients, that's who needs it.

Chairman HUMPHREY. By the way, Martha Griffith, a former Congresswoman from Michigan did an amazing study for us here on the Joint Economic Committee, which is the basis of new legislation that will be enacted. To put it frankly, the first and immediate task of Government in this field that we are discussing right now is to clean up, reorganize, and establish under decent standards a program of family assistance. That is absolutely essential, to get away from what we've got at the present time.

Let me just quickly say—and then I'll turn it over to anybody else—your figure on incarceration of \$5,000, I want to help you, it's about \$12,000. It's \$12,000 per person that is incarcerated in anything else but a county jail.

Mr. FINNEY. I was giving you a county jail figure. [Laughter.]

I was. I'm giving you the figure for the Cook County Jail.

Chairman HUMPHREY. Well, when you get into State prisons and Federal prisons, it's staggering.

Mr. FINNEY. I'm aware of that.

Chairman HUMPHREY. Again, what's needed, if we had enough time, staff and so forth, what's needed is a total tabulation, an aggregate figure of just the direct costs of criminal justice. The direct costs, not indirect.

I tell you, if you saw that, you'd have a big bump on the middle of the forehead, the middle of the eye, so to speak.

Mayor GIBSON. Mr. Chairman.

Chairman HUMPHREY. Yes.

Mayor GIBSON. There is one point that should be made here, before I forget it, and that is in relation to Congressman Long's comment about his constituents, and their needs; and the fact that he felt that in many cases the attention had been directed towards urban centers.

A great deal of that attention has been media attention, attention that has not delivered basic services to the needs of these people. What has happened, I think—and that is one of the pitfalls that we face—is that his constituents and my constituents both are suffering equally; and in many cases we are pitted against each other in trying

to get benefits for our people because we really don't understand. I think a part of the strategy generally has been to keep us in opposition to each other. Blacks being in opposition to whites, both of them suffering, and none of them receiving the basic needs and benefits in our communities.

I think we have to get ourselves together to deal with that because Newark has suffered, and his constituents have suffered; and I think many people believe that Newark has benefited in this furor of Federal programs, but Newark has not benefited. The unemployment rate is 20 percent, ladies and gentlemen—that is depression. That is my neighborhood, by the way, a city of half a million people.

Chairman HUMPHREY. Mr. Roy, we want to get you in here, and then we've got lots of things we would like to talk to you gentlemen about. You were with us in Boston, is that correct?

Mr. ROY. Yes.

Chairman HUMPHREY. Just do with us as you did in Boston, give us your experiences.

STATEMENT OF GREGORY ROY, UNEMPLOYED WORKER, BOSTON, MASS.

Mr. ROY. Senator, I thank you for letting me come here. I'm from Boston, Mass., which has one of the highest unemployment rates in the Nation.

I am one of these statistics that they have been talking about here all day—I am unemployed. And when you talk about in terms of "what is it like", Congressman Long, who just left, said it best, it's catastrophic, absolutely catastrophic.

I had intended on buying a home this spring, but last year, almost 1 year ago to the day, I started to look because of dissatisfaction with my job. I have been looking for this year, and there still is nothing.

Senator Humphrey has through the Joint Economic Committee brought, as he said, "the Government out to the people", and it's the best thing that ever happened. But, I have a question for the Senators—unfortunately the rest have left—why does it take a national emergency for the Government to do anything about it, why?

That seems to me to be the whole thing with the United States, the American people, they wait until somebody is killed; they wait until there is a flash flood; they just wait. Why do they wait? If you want to interrupt and answer my question—

Senator PERCY. I don't understand what you mean, Mr. Roy. Unemployment compensation is a steady, consistent program. Anyone unemployed who has unemployment compensation, there is no crisis necessary—it is a crisis in their family, I recognize that—and of course welfare is available to them also.

The Congress has acted on these matters, and the Presidents, in the past, beginning with President Roosevelt back in the 1930's.

Mr. ROY. That wasn't my question, Senator. My question rather was because of the employment statistics which are still being battered around here, nobody knows for sure. And, like Mr. Finney had to say, speaking in numbers of people, not statistics.

Why does it have to get so high, so high before the Government decides to really get on the stick and try to develop a work program, and so forth; that's the gist of that question. Why isn't there any study being done on solar energy technology? We have thousands of unemployed engineers with brains that astound. These gentlemen are knowledgeable in the field, yet, they are unemployed and can't get jobs.

Now, let me tell you why they can't get jobs—because they are over 40 years old. Any company, any corporation with an insurance policy, group insurance policy, as soon as you hit the age of 40, the price goes up. So, it's uneconomical for them to hire them, they are too old.

My problem is, I'm too young, and I don't have a college degree. Two weeks ago to this very day I was told by the company president of a large firm in the Boston area, after consulting three times with the vice president of the company who wanted to hire me; everything that they needed I had. The company president asked me one question, "Do you have a college degree?"

I said, "No, I have an associate's degree."

He said, "When do you expect to get it?"

I go to night school to continue, I said, "1977, next year."

He handed me everything back and said, "See you next year."

The vice president's mouth dropped, he could not believe it. The president also went on to say to me, "Do not go for your master's degree, or don't even bother with us."

I know of unemployed schoolteachers with doctorate degrees. They have to prostitute themselves when they go for a job. They have to tell these school boards that they have a bachelor's degree, they cannot go and say they have a master's, or a doctorate's—it's that bad.

I represent a group of unemployed professionals, 40 percent of whom are teachers, schoolteachers; 35 percent that are professional technicians and scientists of engineering firms; and the other 35 percent, attorneys, attorneys that cannot get a job because they did not graduate from Harvard, Yale, or Dartmouth.

Senator PERCY. Mr. Roy, I just can't really provide a forum of this kind to you to make such statements that are just absolutely untrue. You are unrealistic about it. I just came from the Jones Commercial High School in Chicago with 600 students, and 85 percent of them are able to get jobs; they take courses in accounting, book-keeping, secretarial services. They don't need a college degree to do it. Are you trying to say to the American public that you have to have a college degree, or a master's degree in order to get a job in America? There is no factual basis for that kind of a statement, and you know that.

Mr. ROY. I agree with you, sir.

Senator PERCY. I really think it's a waste of this committee's time to have that kind of testimony. I really would hope you would come down to something that we could do something about.

Certainly, you have asked the question, why does the Government step in and do these extraordinary things when unemployment gets high. There is a simple fact of life, we have the freedom to move in this country, and 20 percent of our population decides to move every

year. There is a certain percentage of unemployed entirely through the voluntary action of individuals. They want to move to California, they want to move somewhere else. There is no reason to have a crisis over that and return to government which runs a huge deficit. They voluntarily decide they are going to move from Illinois to Arizona, for instance.

What we are concerned about is involuntary. What we are concerned about is Leon Finney's people who want jobs, who have the skill and ability, who should be able to get employment. What we want is an insight as to what we can do about that.

I don't think we can guarantee 100-percent employment, nor can we take away the liberty of people to quit, to find a better job; nor can we presume that everyone has to get a college degree in order to get a job—that's not factual.

Chairman HUMPHREY. Mr. Roy, don't feel intimidated. This is an open forum, we may have a senatorial title, but we are just men and women. Go to it. [Laughter.]

Senator PERCY. I'd like you to come back at me, you asked the question and I tried to give you an answer. Come back at me.

Mr. ROY. Senator Percy, don't misunderstand me, but it seems to me, being unemployed, that there are two classes of unemployed, the professionals and the unskilled laborers.

Before I came down to Washington I took a poll outside the office, the local office where people collect their checks. The statistics are incredible. If I may, 50 percent said there were no jobs. Out of the 100 people that we took this poll from—many, by the way, refused to even answer. I said, "Why," and they said, "We don't really care." That's the attitude.

You know, politicians, as far as myself being a city boy, country boy, call me what you will, common citizen—there is so much dissension with the Government, politicians. We all think that you are "fat cats," et cetera, that's the general attitude, you hear it from your own constituents.

Well, these kids don't care. This is the whole thing, you are dealing with the waste of the younger generation. I'm only 27, 28 years old. I mean, people laughed in my face, a 25-year-old guy, he laughed. He said, "Big deal, you are going to Washington, you are going to testify—big deal." I said, "This is for you, so I can present this to Congress." "I don't care." This is the thing you are dealing with here.

In Boston, Representative Mel King, talking about the black, 34 percent in Boston unemployed, I couldn't believe it. I was sitting next to him, I couldn't believe it.

So, this gap, it's just phenomenal. People just don't care anymore. I asked the manager of the local office, "What type of jobs are you getting in here?"

Chairman HUMPHREY. What local office are you speaking about?

Mr. ROY. These are the claims offices, Senator, where people pick up their checks.

Chairman HUMPHREY. The unemployment compensation checks?

Mr. ROY. Yes, sir.

Chairman HUMPHREY. Thank you.

Mr. Roy. Our State provides services of open listings. The majority were minimum wage, for dishwasher, or secretarial. Now, how can you justify minimum wage, if they get \$2.25, \$2.50 an hour, and after taxes probably take home a check for \$80, \$85 a week; and the State pays you \$90 a week tax-free? It pays you not to work. This is the type of situation that we have.

Senator PERCY. That sounds like a statement made by one of my hard-line right-wing businessmen. Would you expand on that, what do you have in common with them? Are you saying that we have unemployment compensation levels so high that it pays—

Mr. Roy. It pays not to work.

Chairman HUMPHREY. Well, I'd like to put a caveat in there, how do you live on \$80 a week? I mean, you know, they talk about unemployment compensation levels are high, and I get into that syndrome, too. But I want to tell you something, I happen to live in the city of Minneapolis, which is the fourth-highest cost-of-living city in the United States, according to the latest survey. How are you going to get by on \$80 a week?

Mr. Roy. My wife works, Senator.

Chairman HUMPHREY. That's the point. The real point is, instead of talking about the levels of unemployment compensation being too high—how are you going to buy shoes? A mother's got to buy the children shoes, a little baby's shoes are \$12, \$14, for a little pair of shoes as big as that—and she's got to have shoes. If you have to heat your home, how are you going to pay for that heat? How are you going to pay for that rent?

I'm talking about people that don't want to go on welfare, the working poor of this country. And I think a lot of us who are living very well, we forget about the working poor in this country, and there are an awful lot of those people.

Now, you get talking, Mr. Roy, because when we were in Boston you were telling me about these scientists and these technicians that have ability and have talent, and which the Government spent millions to train. You know, everybody who goes to college is subsidized. Any person that ever went to a university or college any place in the United States has been the recipient of the largest subsidy that's been given to any individual citizen. We all know that, we all owe the country something. We all owe the country at least 5 years of our life because we were paid for. When I graduated from the university, I was given my education. My people never had a chance to go to the university, and I haven't forgotten it. That goes for the Senators that have a college education, or anybody else.

So, what about these people you were telling me about? Just feel like you are in Boston, Washington never scared me, and I don't want it to scare you. You just go in there and dig.

Mr. Roy. Thank you, Senator. What I was trying to do was get a little discussion going here.

Chairman HUMPHREY. You got it going.

Mr. Roy. Thank you.

I belong to a group of unemployed professionals, and we band together to conduct workshops, and we try to retrain each other in how to go about getting a job, finding a job. We know, for instance—our

group has 500 active members any given week of the year that's unemployed, by the way. We are all unemployed, we are not paid.

And yet, we do a great service. I mean, I have seen people come in shaking. You heard Mr. Brenner talking about the health problem and unemployment. Have you ever seen a man walk in the door in January, just bright and chipper, knowing he has just been laid off; and when you see him 6 months later, that man is ready for a heart attack, I have seen it. It's just incredible, the change in personality of the man, the physiological makeup of the person, it causes such distress.

We help place people back into the job market. We have a placement service. We openly solicit jobs from companies and try to match our people with these open positions. So far we do about one out of four, on a weekly average, which isn't too bad, but it could be so much better. But, we have flagrant violations of discrimination. We know, for instance, our local newspaper, the Boston Globe, every Sunday advertises the "Help Wanted" ads. The first page is company A, no names. The second page is company B. And yet, they will not talk to the unemployed, they are simply advertising for each other's personnel. That is called company sabotage, or whatever you want to call it. They will not talk to any unemployed individuals.

And I venture, I offer that as testimony, you have your aide sometime just try a local advertising out of the newspaper. Have one call up and say, "I work for so-and-so," and have the other one call up and say, "I'm unemployed," and let him get the reaction. Find out for yourself what it's like.

The corporations, the personnel people have to be so retrained. They put an ad in the paper, and they think they will get 25, or 50 resumes—they get a thousand per Sunday, the New York Times. The Tuesday Wall Street Journal, 800; the Boston Globe, 500. These people are amazed. I have gone into interviews and the man threw his hands up when I asked him how many people answered. "I never believed the amount of people that answered" is usually their answer.

They have to be reeducated, that is our field. Back in Boston I did a more chronological type of presentation. Usually, the first 2 weeks, when you get your pink slip, or whatever, you take a little vacation. But after that you start looking, you start looking in the newspapers and employment agencies. In the meantime, you have been painting your house six times and mowing your grass three times, and raking the leaves, but you can only do so much. The frustration keeps building and building; and I might say, the credit keeps building and building. The bills still come in, the oil has to be paid; gasoline has to be paid; telephone has to be paid. All these compound traumatic experiences, I can see, cause some psychological and physiological unpleasanties. It's the human factor we are talking about.

And there is also a very definite stigma with being unemployed. Let me put it to you this way, you find out who your friends are awfully fast. And as soon as you truthfully tell the employment person, the hiring person, that you are unemployed, he completely turns off to the job at hand and wants to know why you are unemployed.

This is the type of situation we always come across, and I venture to guess anybody here can try it.

I would like to address Bishop Rausch because I don't know where the church has been all this time, but finally they are starting to do something about it. They feel the pinch of unemployment, their parishoners can't put money in the basket. One group has been asked on several occasions now to go out to the church groups and to talk to the parishoners. We have had no less than 50 people at any one of these church groups. We do this free of charge.

This was the point I was trying to make earlier, Senator Percy: Why does it take so long? I mean, what's happened here is that the unemployed have to turn to themselves. It's the great story about the American people: If they are going to do it, they are going to do it themselves.

Chairman HUMPHREY. Can I interrupt to tell you why? For the same reason that the American people alerted to the energy shortage, there was never any lack of information on it, any more than there was ever any lack of information about the fact that the Soviets were going to launch Sputnik. We know they were going to do it, it's all there; we've got an information glut.

But I happen to think that Americans, like most people, have a what I call physiological politics—empty stomach, full head; full stomach, empty head. Until disaster comes, how do most people take care of their health? They all go bargaining around, abusing themselves, until one day they have a little heart attack—hopefully it's only a little one; or it's something else that goes wrong.

Then, all at once, they are out jogging, swallowing the vitamin pills; they are out looking for organic food, deep breathing and doing pushups and all sorts of things. Up until then, why, it's potbelly and huffing and puffing. I suppose it's a part of the human equation.

By the way, I want to make note right now that I want the staff—and I think my colleagues will be appreciative of this,—give us a State-by-State unemployment compensation rate; so that we will have Boston, what did you say, \$80, or \$90—I would like to know what it is. And South Dakota, Minnesota, Arkansas, Indiana, Mississippi, California, New Jersey. We'll take a look and see what people get. In one State I know of, it's \$60 a week. Now, I want to tell you, you can have a real "bust" on that. [Laughter.]

Mr. ROY. In closing, Senator, if I may. I have gotten to the point, personally, where I have given up completely. So, when I came to Washington, I have brought my own personal resume to look to the Government to get me a job. I'm not going on college degrees; I'm going on experience; what I have to offer as an asset.

Chairman HUMPHREY. What is your background, and what's your experience?

Mr. ROY. Sales marketing. But, I have turned around to the public sector. I can see it now, it's been great for me, as a young fellow; I really want to give myself now to public service. I dread the day when I turn 40 years old, believe me, because when I'm 40, if I'm in the public sector, I'll probably be laid off just because of general principle. I know why, because it's too costly. I'm going to have to become a politician before that time.

Chairman HUMPHREY. Don't try it, my friend, you'll have nothing but trouble. [Laughter.]

And I assure you, when you get laid off here, you are laid off. [Laughter.]

Mr. ROY. Thank you very much.

Chairman HUMPHREY. All right, Senator Percy, and then Senator Javits.

Senator PERCY. I'll be happy to yield to Senator Javits.

Chairman HUMPHREY. You'll get another chance in the other round.

Senator PERCY. I would like to ask our witnesses first whether the proposal made by the President to Congress would offer some hope in the area of Woodlawn, where industry has gone out. One would like to attract industry to Chicago, inside the city. It's so far to go out to the suburbs, that's one of the great problems.

Would this investment tax credit that the President offers for any area with unemployment higher than 7 percent, you can write off plant and equipment in 5 years. What a tremendous incentive for a company to build in those areas, rather than go some place else.

Would you think this is the place we should put our money to provide incentive on private jobs, then, in addition to public service jobs, which all of us have supported.

Mr. FINNEY. Senator, let me respond this way. One of the reasons why industry leaves the poor areas of the cities is because the cost of business is getting too high, the cost of doing business is too high. They flee because of various factors that influenced that total cost. Certainly, the proposal as I understand you are presenting it, that the President is making, which might reduce the cost of doing business in the city and thereby encourage industry to relocate there.

But let me also quickly add that you've got other things that industry worries about, and that is a skilled labor force. So, if you locate industry there, you've got to have skilled labor, or those programs to raise the skill levels of people who might be able to enjoy the jobs.

There are other problems, too, which you have to be concerned about, and one of them is the effective rate of crime, how safe the area is because that's another cost of doing business.

And then, finally, you've got the problem of public education. In many instances industry does not locate in a given area because the public education systems are so bad, so terrible, that their employees, who want to live in close proximity to the plant, don't have adequate places to send their children to school.

I think that as the President, and as the Congress considers the matter that the President presents, it has to take a look to its size, as well as straight at that bill, and see whether or not there are not companion provisions to be made to assure that as that bill goes through, it is not seen as a panacea, but only a cog in the machinery, the total machinery that may stimulate the economy in a given community.

Senator PERCY. I would like to ask another related question, and certainly, Mr. Brenner and Bishop Rausch and Mayor Gibson might help on this, just a very quick reaction as to whether or not—though we all believe in public service jobs, we recognize that essentially 80

percent of the unemployed have to be employed by the private sector in the long run.

Could we do the same thing in what we have termed a human investment tax credit, if industry would hire people and pay a portion of their training, and train them right there in the factory, on the job, for a real job that they know will exist; then, should we put that human tax credit behind it which would mean a subsidy for part of that training cost?

Mr. FINNEY. Senator, I don't want to presume on Mr. Brenner, but I think probably to that question I'm the most expert person here to answer, and I'll answer it.

We've experimented with this whole concept of on-the-job-training, and reimbursement allowances for the employers. There is no doubt in my mind that is a sane way to go. As a matter of fact, in Woodlawn we had the first program ever funded by the United States that coupled the idea of training people at an institutional training setting, and then moving them from the classroom to the job, and then paying the employer to further train them.

We have had tremendous success with that, it is an excellent idea and it should be revived and stimulated, money put back into it. I'm for on the job site training, off the job site training, wherever we can train them, get them trained, and get them employed. There is no doubt that ultimately most of the people that are unemployed must be employed in the private sector. Yet, we need public intervention to do that. We just can't leave it to industry alone to do it, you must have the public sector to intervene in the economy, the state of the economy in a given area in order to get people into jobs.

Senator PERCY. I have just 1 minute left, so I would appreciate it if we could have one or two answers—

Chairman HUMPHREY. You take your time.

Senator PERCY. Have any of you had working relationships with Leon Sullivan's industrialization centers, and could you comment if that is an approach we should really beef up now, and more actively fund?

Senator JAVITS. Would the Senator yield?

That does not carry a stipend, that's the big difference between that and CETA training.

Senator PERCY. Thank you.

Mr. BRENNER. I have no direct experience of the programs you are speaking of, my work has been largely of a statistical nature, showing relationships of national economic indicators, occasionally State and city, with statistical measures of variety of social pathology, ranging from morbidity and mortality to homicide and other criminal behavior.

I think that the only problem I find with the proposals I have heard at the moment, that they appear to be singular. I do not get the sense of a generalized approach, rather specific proposals. Now, of course, there can only be specific proposals when one is proposing anything. Yet, what it raises is a series of "if" questions.

You would ask "if" the government subsidizes industry to train and hire x numbers of individuals, would that work. Well, it is a perfectly empirical question, it might work and it might not work. I

don't know that there is any way to assume that it would work, it is a function of many things. It is a function of the general state of the economy, obviously, as well, as Mr. Finney has pointed out.

There are a variety of proposals, all of which might be very nice if it were demonstrable that they did indeed work.

I think your question is at the moment somewhat theoretical, and it's difficult to give an empirical answer to it.

Mr. PERCY. Bishop Rausch.

Bishop RAUSCH. I would like to make a comment, and I don't know if I'm hitting the nail on the head at all. It seems to me that if we are going to give business a break, we ought to give them a break when they invest in people. If in our operation—we have about 220 employees, and we have a program in the building where any person can further his education at our expense if it's job related. He gets time off from work, and we pay the tuition if he or she successfully completes the course.

These people can leave us once they get the degree, or whatever. I don't worry about that at all, and I'd better not, in my position. But the fact is, what we have done, we have invested in human beings. This country spends billions and billions of dollars on education every year for people. But then, when they are done, there is no place for them to go. This is another problem which I think needs to be looked at.

But I would like to address something else while I have an opportunity, and that is—

Senator PERCY. Bishop, you will have to be very brief because we'll have a final call on a vote.

Bishop RAUSCH. I will be very brief. I want to make the comment that I taught the Full Employment Act for 10 years to high school kids. These kids didn't believe that act because of what they experienced, except at election time; then jobs became available. But, if they were in an unemployed family, they said: "The law isn't any good; on paper it's good, but it doesn't have teeth in it."

I think whatever this Congress does, however you fashion that legislation, it's got to be legislation that has teeth in it; that it is not a political tool, but a tool for human development.

Senator PERCY. Could I ask Mayor Gibson to respond? We have 2 or 3 seconds.

Mayor GIBSON. On-the-job training, with a job at the end of it has been demonstrated to be successful, as Mr. Finney pointed out. We have used it in the city of Newark. It has been used effectively. It's a good program.

Chairman HUMPHREY. What do you think about the investment-tax-credit type of idea in the area of severe unemployment?

Mayor GIBSON. I like the on-the-job training program better. I'm not opposed, of course, to the capital investment type.

Mr. FINNEY. On Leon Sullivan's program I would say this, that in a depressed community the best volunteers are paid volunteers. I don't want to cut any program, but if it doesn't carry a stipend, it cannot be anywhere close as effective as a program that carries a stipend with it. In many instances those people have no means of income. They need some subsidy in order to live.

Senator PERCY. I would like to say to Mr. Roy that we appreciate you being here. I wanted to provoke you into telling a story that I thought you had. I don't want you to leave here without a feeling that Senator Javits, or Senator Humphrey, or Senator Percy are dealing in a theoretical sense with this problem.

It was 40 years ago right this year that my father got a job for the first time, I think, in 4 years, at the bottom of the depression, a steady job. We were on relief, and I saw the crushing, humiliating effect upon a man that had worked all his life as a skilled worker and couldn't get a job. He wouldn't accept welfare, and we sat there, got thrown out of apartments and had our phones cut off; we had no utilities and services. He fought, and fought, and fought to somehow stand on his feet. I know what people go through, and Senator Humphrey knows just as well as anyone, Senator Javits went through it.

We are trying to find the right programs; and your appearance here today, just reminding us of the fact what we went through and saw our parents go through; people are going through it today. They are not statistics to us at all; they are human beings; and we want to do something about it.

Your presence here has been immensely helpful to help us in finding the right way.

Chairman HUMPHREY. I think we'll have to conclude. I want to conclude on this note, what Senator Percy has said. I was always very close to my father, and I said that the depression took 10 years out of his life, and I've never forgiven the economy for it, to be frank about it. One of the reasons that I'm in politics is because of that.

I used to see my father sit at his desk with his head in his hands, a proud man, knowing that there were bills that we couldn't pay, taxes that were coming due, and we were literally on the verge of being thrown out of our little family business. I have never forgotten it, and I have never forgiven some people for what I think was the malfeasance in office, the unwillingness to face up to the hard realities of the time. And of course, when Mr. Roosevelt became President, to me he was like a savior; I have never forgotten that, either. I have had people ask me why I am the way I am—not because of what I have learned in college, but because of what I have learned of South Dakota economics during the depression. I have never forgotten it, nor shall I, as long as I live.

That is why I am for economic policies that prevent this country from going into such an incredible economic catastrophe that we have suffered. I'm sure that my father lost 10 years of his life because of that—it took him from me 10 years sooner, and I shall not forget it.

Now, having said that, let me say to you that it is my judgment that nothing is really going to happen around here unless people are going to understand that things are different from what they used to be. In 1930, about 35 to 40 percent of our people lived in smaller towns and rural areas. Today, we have the intensification of the social aspects of unemployment and recession in our cities, as

Mayor Gibson can tell you. There has never been anything like this.

During the 1950's and 1960's we were able to, at least, with rising employment and production, as we said in the 1960's, 10 million people worked their way out of poverty into middle income. In the last year and a half a million and a half have slipped back into poverty. Plus the aggravated conditions in the cities with the rise in crime and all, it has placed an incredible new problem before Government, before organized society.

That is why your testimony today, Mr. Finney, and yours, Mr. Brenner, and yours, Mr. Roy—Mr. Roy with technical, skilled workers, college-educated people unemployed, scientists, technicians, unemployed.

I couldn't agree with you more, when we cut the space program back, we laid off thousands of skilled people. Instead of cutting it back, we should have put it into solar energy. Anybody with the brain of a March Hare knows that we should be doing something in solar energy. You could be a "Mortimer Snurd," and you'd know what to do about solar energy, except this Government has got paralysis of the brain when it comes to figuring out what we ought to do.

I got a bill passed for \$1 billion of solar energy research. I have tried to convince my colleagues in Congress and finally got a hundred million of it—a hundred million. One of these days when the lights go off, why, we'll find out that we ought to do something about it.

In the meantime we are going to keep working; keep the faith; don't give up. I'm an optimist, and I'll recess the meeting until 2 o'clock when we'll be back here with Congressman Brown introducing the panel.

We are going to have Paul McCracken, former Chairman of the Council of Economic Advisors; Murray Finley, general president of Amalgamated Clothing Workers of America; Reginald Jones, chairman of the board of General Electric on our panel; and we have a panel of discussants that will also participate.

We thank you very much. I have to go vote.

[Whereupon, at 12:55 p.m., the committee recessed, to reconvene at 2 p.m. on the same day.]

AFTERNOON SESSION

Chairman HUMPHREY. We reconvene now the special meeting of the Joint Economic Committee on its 30th anniversary conference. This afternoon Congressman Clarence Brown of Ohio, who is a ranking member of the House minority delegation on this committee, will present our respective panels.

We will proceed, then, with the panels and thier discussion, Congressman Brown.

Representative BROWN of Ohio. Thank you, Mr. Chairman. It is a pleasure to have the opportunity this afternoon to present the panel, which will make its individual presentation, and if it's appropriate, or acceptable to those gentlemen on the panel, I'll take

them in the order in which they are seated, away from the table, and introduce them before each of their remarks.

Before that I should like to make just one or two remarks of my own, Mr. Chairman, related to where we are in terms of the economy, and where we are in terms of the question of full employment.

One of the issues when I am on the panel tomorrow afternoon, that I will discuss in some detail, is the question of what is full employment 30 years after the Committee on Economic Development, and this basic legislation which we are celebrating. We have generally accepted 4 percent unemployment as full employment in our economy.

The nature of the work force has changed rather radically since that time. The nature not only of the work force, but of work itself changed through a number of mechanisms. One is what the Federal Government, State and local governments has done in the nature of support for those who are out of work, and those in our economy who are not fully employable in the first instance.

It has also changed in the nature of what we have done legislatively, by law, to encourage full participation in the work force, and to discourage full participation in the work force; I make reference to some of our laws on child labor, minimum wage, and a lot of other things that have changed rather radically in those 30 years; and we have had some radical social changes.

I'm fond of disturbing some of my female colleagues by suggesting that back in the 1930's most women did not work, they stayed home and did things like the laundry, canning, tending the garden, and other things that were in those years not counted as "work" for women, that was the routine of unemployment for women.

Now, women have entered the work force and are counted as part of the work force, and somebody else is doing the kinds of things that women once did, as part of the work force, and the nature of the jobs of women has changed rather radically.

Chairman HUMPHREY. Can I save you quickly? Don't let the women think for a minute that we don't believe that taking care of a home is not work. I couldn't get back to the house tonight if I left that on the record here. You mean "paid work."

Representative BROWN of Ohio. I tried to explain to my wife carefully and subtly what I'm trying to say, so that I can also go home this evening because she is not technically employed at this point, merely taking care of three children and a household, and keeping her husband organized, which is a full-time job in and of itself.

In any event, the nature of the work force has changed, as we have seen the number of women counted in the work force move up from 27 percent in 1939 to almost 40 percent in 1976.

I don't need to detail, I think, for those of you who are here the radical nature of this change, and the fact that perhaps, then, 4 percent as a measure of unemployment is no longer an appropriate measure, and we need someone to look at this measurement and see what in effect full employment is and what in effect unemployment is.

Without belaboring this point further, let me introduce to you a distinguished panel of people who will discuss the general question which we have for our topic today, the record under the Employment Act of 1946.

Our first panel member is Murray H. Finley, general president of the Amalgamated Clothing Workers of America, who received his bachelor of arts from the University of Michigan in 1946; his bachelor of law from Northwestern University. In 1949 he was named attorney for the Amalgamated Clothing Workers of America. He is on the board of directors of the Amalgamated Clothing Workers' Bank of New York; chairman of the board of the Amalgamated Life and Health Insurance Co.; a member of the executive council of the AFL-CIO; a former manager of two major affiliated unions in Chicago, and presently living in New York City, which is an economic experience in itself, I assume.

Mr. Finley.

**STATEMENT OF MURRAY H. FINLEY, GENERAL PRESIDENT,
AMALGAMATED CLOTHING WORKERS OF AMERICA**

Mr. FINLEY. Thank you for the introduction, Congressman Brown.

Mr. Chairman and members of the Joint Economic Committee. As Congressman Brown's introduction stated, I moved to New York in 1972, which is one of the reasons we have such a great interest in the problems of full employment.

We are discussing today, Mr. Chairman and members of the committee, one of the great issues that faces our Nation, the problem of jobs for people, the problem of full employment. It's of course appropriate that we are doing this on the 30th anniversary of the act of 1946.

The act, as we all know, stated in its preambles as its objectives the hopes of having high employment and production for all people. I suppose one of the great accomplishments of the act of course was the establishment of the Joint Economic Committee, under whose auspices we are appropriately meeting here.

I filed a more detailed prepared statement. If you will permit me, I will try to very briefly give a summary and overview of the outlook as we see the problems; what has taken place since the act of 1946, the defects, the hopes, and so forth.

I may open up, if I may, with the very simple position of the labor movement—and I don't see how anybody else can disagree—what we are talking about when we are talking about full employment. To us it's a very simply thing, full employment means job opportunities at decent wages for all those who are able to work and seek employment; and to say to somebody who is looking for work, "You should be home canning, and therefore you should not be included, or cleaning the house," seems to us to beg the real issue.

So, starting with that thing that all those who are seeking work actively, at a decent wage, that is in our judgment as simple and as accurate a description of what full employment is.

Let's take a brief look at the record of the 30 years since the act of 1946. It is clear that our national economic policy has never even come close to full employment. The average unemployment rate since 1947 was slightly under 5 percent, 4.9 percent in the whole period.

The record, of course, for the last couple of years indicates how truly dismal that situation can become when we have no true national policy affecting employment. As we all know, the official figure is 7.6. If you calculate those who ceased looking for work; those who are working part time, or less than full, but who want to work full time, and you add that figure into it, you come closer to a 0.5 percent true unemployment figure in this country.

But even assuming the average figures that we use are the official ones, the problem with averages, they really only give you kind of a broad one, but never affect any person. The person who is unemployed—to him or her—the unemployment rate is a 100 percent; not 4.9, or 7.6; to that person it's a 100 percent.

But if you look at the averages, and how would it affect the different people in our society, on that 4.9 average of 1946, we see very clearly that some groups suffered way beyond the average of 4.9; nonwhite females over 40 percent; for blacks in our society the unemployment average is about 25 percent.

During this period we have had the economic philosophy which dominated us, the government participated in jobs, deficit spending, and so on; and this program did prevent a depression occurring since 1946, barring the last year or so, in terms of definition. But each time in the ups and downs of our record of unemployment, and each recession and recovery, the level of unemployment was at a higher figure than the prior level. We see these, if you take a quick look, in the Truman era of 1947 to 1953, where the average unemployment was 4 percent, at the end of that period it was 2.9. Then the Eisenhower from 1953 to 1961, we had an average of 5.1 percent unemployment, it started at 2.9 and then went up to 6.7. The Kennedy-Johnson at an average of 4.7, going from the 6.7 down to 2.5 at the end of that period. And then, of course, the Nixon-Ford, through 1975, with an average of 5.6, ending of course with an average in 1975 of 8.5 percent unemployment.

So, we have seen a period of increasing average unemployment with the ups and downs. During the same period there have been rapid changes in technology and vast shifts in our labor force; and the people themselves have been forced to accept the consequences of the change. There have been declines in employment in agriculture, mining, railroads, manufacturing, while other industries such as finance, real estate, and State and local governments have increased employment. And through that shift people lost their jobs, were left to fend for themselves without a meaningful recourse or programs to handle the problem.

During the same period the output of man-hour productivity has been increasing at an accelerating rate. From 1947 to today the productivity has been increasing at about 3.2 percent per year; while from 1919 to 1947 it was increasing at about 2.2 percent a year, which meant that the accelerated drive in productivity required an

even greater number of jobs to be produced in order to prevent more people from being thrown out of their jobs.

The entrance, as you mentioned, Congressman Brown, of women in the work force has been one of the other dramatic changes. The percentage of married wives working has doubled in the 36-year period we are talking about. The number of women with young children under 6 years of age who have entered the work force because of economic necessity has tripled. And of these women working, one-third are the primary wage earners; and the other two-thirds are not working for frivolous things. I may only point out parenthetically that with the cost today of maintaining a minimum but adequate budget, if you look at the average cost of a factory earner, you will see that that average factory earner does not make an adequate minimum budget. Unfortunately it requires two or more wage earners for a family today, for a family of four to live adequately under today's costs. So, that is why women are working today, having the problems of leaving the home, going back to the home and doing the work when they get back.

The shrinkage in our Armed Forces—and this is not mentioned as a matter of objection, just as a matter of statistics—with a million less than the standing Army of 3 million, has put another million or so people in the labor force.

The large migrations that have occurred, the blacks out of the rural areas into our major cities; the whites who are leaving the inner city for the suburbs; the immigration of the Spanish-speaking from Puerto Rico and Mexico and other areas, have all caused dislocations and distortions in our unemployment figures.

In addition to the internal structural changes, there has been a deteriorating job situation, exacerbated by the international problems of trade, where hundreds of thousands of jobs have been wiped out by the increase of imports from abroad. This has been the cause of the loss in these jobs in electronic, steel, glass, and so forth, and the industry I'm most familiar with, apparel, in the year 1975, when actual production dropped 20 to 25 percent, depending on the particular sector, imports were increasing as much as 40 percent, 25 percent, 30 percent, depending on the particular item. In a year when we are in our worst recession, we find that our trade policy has caused an increase in imports, and at the same time in the same industry there was a decrease in terms of actual output domestic.

And while we have a number of training programs, all of which were meritorious, that have been developed during this period, unfortunately those programs have not been linked up with job creation. So, we are training people, but when they are done with their training, there is no correlation between the training and the jobs that may, or may not have been available.

We have never developed an adequate system of job delivery. Our U.S. Employment Service has not been effective; the current existing State programs are horrendous; and so the problem of placing people into jobs that are available has been a neglected area in our country. The problem excepts perhaps the building trades, where a

fairly adequate system has been developed between two openings and people available for work.

I don't have to point out the comparisons we can make with the free world, Western Europe and Japan, where the unemployment rates that we have in this country would probably cause an internal revolution, if any of these countries even approached anywhere near the unemployment rates that we have.

When one looks at this overview, it is clear that if any organization, private industry or labor union was as shortsighted in looking over the major ups and downs, and changes as we have as a Nation on this most basic thing we are concerned about, the ability to provide our people with jobs, no manager of an organization would remain in office for any length of period.

And so, as we look back in the 30 years, it becomes clear, we have done this by fits, starts, shortsighted acts, we have acted in the sense of firemen without truly looking over the problem as it truly exists.

So, while all this is a kind of unhappy overview, I will close with one kind of an optimistic picture, and that is the bill that was just introduced this last Friday, the Humphrey-Hawkins bill, S. 50-H.R. 50, the Full Employment and Balanced Production Act of 1976. I don't want to overlook the other people that participated and sponsored it.

For the first time we have, in our judgment, a bill that, as a Nation looks at the problem of jobs, of production, of savings of money and in terms of efficiency in Government, it puts together the Executive, the Congress, the Federal Reserve Board; it puts together the States, and brings citizens participation in a program mandating employment, with a program of coordinating once and for all in this country on a national basis; a program by which we can do away with the ups and the downs that have been such hardships for so many millions of people for over 30 years.

I am hopeful that Congress passes this act very quickly; and I will be very hopeful that the President will sign it, so that this will be the last series of hearings that the Joint Economic Committee will have to hold on how to reach a full employment economy.

Thank you.

Representative BROWN of Ohio. Thank you, Mr. Finley.

[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 this Committee to comment on what must be the most crucial economic problem currently facing us—the programs and policies we should be pursuing to bring about full employment. It is especially important now that these hearings are being held, following so closely upon what I believe is one of the most historic and far-reaching legislative proposals ever to be introduced in the U.S. Congress. We trust that the authors of the Full Employment and Balanced Growth Act of 1976—Senator Humphrey, Senator Javits, Senator Willimas, and Congressmen Hawkins, Reuss, and Bolling—and the other co-sponsors of this Act—will receive a place in history alongside the other great legislators who have changed the direction of our nation toward a more progressive, enlightened society.

Since the Employment Act of 1946, there have been several times in which Congress, and particularly this Committee, have taken up the issue of creating a full employment economy. Presumably, the problem should have been solved with the legislation of 1946; but, obviously, it was not. Over the past thirty years there have been numerous hearings dealing with the issue of generating full employment and a more stable economy. Just four years ago, in 1972, the Joint Economic Committee held three days of hearings which explored the question of reducing unemployment to a two percent maximum and now here we are going around again. Once and for all, this constant and recurring issue has to be solved, and we think the mechanism of the Humphrey-Hawkins Bill, if enacted, will finally do so.

The record of the last thirty years clearly reveals that national economic policy has never even come close to full employment. The average unemployment rate since 1947 is close to five percent (4.9%) over this entire thirty-year period. Table I appended to this statement details the figures. To repeat the old cliché, those who do not learn from history are bound to repeat its follies over and over again. Currently, many people have become concerned about the unemployment situation anew because of the deep economic slump the country has experienced over the past two years and the fact that it is an election year. But the central issue facing the nation is not the temporary economic ups and downs it experiences, but the continuing and sad acceptance of high levels of human, and capital waste that are totally unnecessary.

This is not a problem that will be resolved by modest economic recovery such as is now being proclaimed underway. In the male apparel industry, whose workers my union represents, we still need a thirty percent increase in employment and hours of work to reach the pre-recession levels of 1973. The employment problem is a long-term and persisting difficulty that can once and for all be removed from our worries only through a structure of genuine full employment and an ordered system of economic priorities.

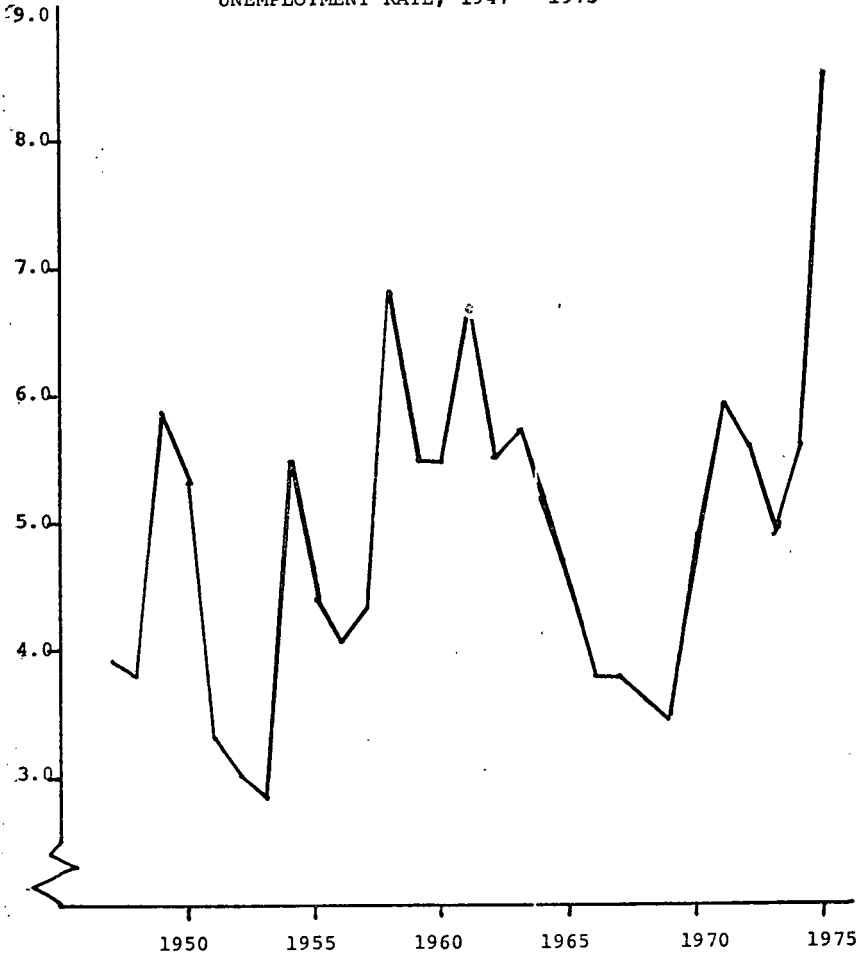
The Committee should take note, of course, that the officially reported unemployment rates are not a true measure of the difficulty that the nation experiences. For example, the latest officially reported unemployment rate is 7.6% nationally, representing over seven million jobless people. But a truer measure of the unemployment rate would place the figure at about ten and one-half percent, meaning close to ten million people without adequate livelihoods. This is because the official unemployment rate ignores the million discouraged people who have given up searching for jobs, the hundreds of thousands who are compelled to take part-time work because full-time jobs are not available.

Since 1946, we have seen the ascent of Keynesian economic theory put into practice in our country to try to handle the problem. The stimulation of government spending, deliberate deficits, public creation of jobs, and so forth have prevented a general depression. But still we have had recurring recessions. And, what the following graph shows is that the peaks in the unemployment levels and the average unemployment level after each recession have a continuing upward drift. We have not seen less than four percent unemployment since 1969 and not less than three percent unemployment since 1953.

Remember also that as our population increases, we are talking, even though at the same percentage levels, of a greater absolute number of people who are suffering from lack of adequate incomes. Remember also that unemployment rate figures mask the rotation and large number of family members who suffer reduced income. During last year, it is estimated some sixty million people felt the consequences of unemployment sometime during the year.

Previous testimony before the Joint Economic Committee has also pointed out that certain groups in our society suffer even higher rates of unemployment than the average figures show and, in fact, cover up. A recent study by the Urban League shows that black unemployment has not been under six percent at any time during the past two decades. In 1975 every fourth black worker was unemployed and, as a consequence of that, the Urban League reports that middle income black families have declined from a fourth of all black families to only a fifth, while those at the poverty level have increased markedly. The income gap between whites and blacks has widened to a point to where it was a decade ago, reflecting the roll-back in black economic gains. Youth unemployment continues to be a long-standing problem and, in fact, was a focus of much discussion during the hearings the JEC held in 1972. Currently, the youth

UNEMPLOYMENT RATE, 1947 - 1975



unemployment rate for those between the ages of sixteen and nineteen is in the neighborhood of twenty-five percent and approaches fifty percent for black youth. Likewise, we could continue and cite the figures of excessive unemployment among women, among those over 45, among the handicapped, and among the under-educated. What is interesting is that even during the years where the average unemployment rate has been three percent or less, such as during the period from 1967 through 1969, people belonging to any of the above discriminated against groups continued to experience exorbitantly high unemployment rates.

Another thing that the statistics show over the last several years, with the deepening levels of successive recessions, is that the average duration of unemployment is increasing. For example, during January 1976 the average unemployment duration was 15.8 weeks, and over a third of all unemployed people had been so for fifteen weeks or longer. These are the highest levels for these indicators ever experienced during the last thirty years. See Table II.

Part of the key to understanding the unemployment figures that we have just talked about is to understand some of the underlying causes that bring about these high rates that we have been seeing. There have been rapid

changes in technology and vast shifts in the structure of our labor force, and our country has never made any provision for the people caught in the crush of these forces. As a particular industry declines or the technology in it changes, the people who lose their jobs have been forced to accept the consequences of these changes without any help or reorientation into the new job market. As Table III shows, there have been very sharp declines in employment in agriculture, mining, manufacturing, and transportation industries relative to the change in the total work force, while in other sectors such as wholesale and retail trade, finance, insurance, and real estate, general services, and state and local government, there have been much greater increases from the general growth of the work population. The people who suffer these shifts are left to fend for themselves. No institution assumes responsibility for offering them guidance or retraining or relocation or any of the other necessities needed to again enter the labor market.

Add to this the fact that the productivity or output per man hour has been increasing at an accelerating rate over the last thirty years. For example, during the period from 1919 to 1947, productivity increased at a rate of 2.2 percent per year, while from 1947 to the current time, productivity has been increasing at about 3.2 percent per annum. This accelerated rise in productivity means that an even greater number of jobs must be created in order to prevent even greater numbers of people from being thrown out of employment.

In a similar manner, changes in the composition of the labor market have not been adequately handled over the last thirty-year period. Much has been made of the fact of the number of women who have entered the work force. In 1947, women constituted 31.8 percent of total employment. In 1975, the percent of women in the work force had increased sharply to 46.4 percent. The percentage of married women working has doubled over this thirty-year period: the number of women with children under six years of age who have entered the work force has tripled. What this indicates is that, obviously, one income is not sufficient to provide an adequate standard of living for a family.

We have done some studies within our own garment industry which has seen this shift very strongly. Women now constitute eighty percent of the work force. Of these, one third of them are the primary earners in their families. They are clearly working out of financial necessity to maintain an adequate level of income for their families.

Add to this the fact that our farmed forces now contain one million fewer young people than when we had a standing army of over three million people after the demobilization from World War II: the large migrations that have occurred from rural areas to the cities and the large in-migration from Puerto Rico and Mexico and other Spanish speaking areas, none of which has been adequately handled without much pain and suffering by those affected. I can personally testify to the great hardships all of these structural changes have caused, because the Amalgamated Clothing Workers has established a Social Services Department to handle the members' financial and personal problems which derive from the unstable employment and financial difficulties they are constantly undergoing.

An additional force that has come to have a very marked effect on the job situation in our country has come to the fore only during the last decade, but its potential can be absolutely devastating. America has become much more intertwined in international trade and economic relationships. Much of America's industrial base is being wiped out by imported products. The President and many economists continue to call for a freer, unrestrained trade policy without making reasonable provision for the harm and potential dangers this holds. Let me show you how graphically the situation can change by mentioning that sector which I know best which is the men's and boys' clothing industry. While clothing manufacturers in the United States struggle 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 in Table IV.

These figures show how imports have eroded domestic employment in the clothing sector, and the pace is accelerating. The United States 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 restricted 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. This would be true for many thousands upon thousands of jobs that have been lost in the electronics industry, the steel industry, glass, shoes, and so forth.

One way the Congress has attempted to deal with all of the above enumerated problems, especially over the last fifteen years, has been to enact several manpower programs, training programs, and emergency job creation programs. While many of these programs have indeed provided people with substantially raised levels of income and better employment opportunities, when measured against the real needs, the positive productions have fallen far short of what has been necessary. But the real defect is that there has been no real link-up with the question of job creation and of providing real opportunities for people who didn't have them.

We in the labor movement also have noted that under times of great need, such as during World War II and other periods, employers quickly adapted to the problems of hiring some of the so-called less desirable workers. Employers made up for any lacks of education or cultural experiences or skills in the work forces that they were hiring with various devices the necessity demanded.

Another reason that the various programs developed over the past fifteen years haven't resolved the unemployment problem is that there has been a continuing lack of coordination between job vacancies and job seekers in any kind of meaningful way. The system of job delivery in America is a hit and miss situation. There is really no effective U.S. employment service, and the existing state programs do a horrendous job by any standards and measures. There ought to be a federalized employment service, requiring all job openings to be listed with it—with the exception of certain industries or sectors, such as in the building and construction trades, where an adequate system has already been developed between vacancies and people available to fill those vacancies.

A remedy for many of the structural and technological shifts in employment opportunities in this society that we think particularly creative and helpful is the manner in which the reorganization of the Northeastern Railroad just completed has handled the problems of the work force on the railroads involved. For employees who have been working on the various railroad lines for five years or more, they are guaranteed their full wage rate currently being earned, plus fringes, on a lifetime basis until age 65. They also would receive any subsequent raises that would be obtained by workers in the future. Naturally, they must be willing to take a job with the railroad if an opening arises for them to do so. There are, in addition, generous relocation allowances and other protections of income and security. For those who wish to leave the railroad industry, there is a lump sum severance payment which is substantial enough to allow the person to pursue another job or career.

We think some such system which does protect the income of a worker and his family gives him some assurance of security and protects certain benefits that are necessary in today's world, such as health insurance, pensions, and so forth would be the only meaningful way in which changes in the society can be handled smoothly and without the individual worker having to pay costs and great hardships that are involved.

Some such job and security protections are built into other Western industrialized democracies, and they show that such programs are not stultifying or inflationary. In fact, international comparisons show that there is no reason why full employment is not totally compatible with low rates of inflation and increases in productivity that are very close to what the United States has experienced. Table V clearly shows that when adjusted to U.S. concept, the unemployment rates in Australia, France, West Germany, Great Britain, Italy, Sweden, and Japan have all been three percent or less since 1959.

The case of West Germany shows what is possible if one has a coordinated policy of balanced growth and deliberate attempt to coordinate full employment with other economic objectives. At the same time, they have had a substantially lower inflation rate than the United States and a substantially greater increase in productivity of its work force. We see nothing inherently different in the economic structure of West Germany from that of the United States

that would not allow us, if we put our minds to it, to come close to replicating their experiences.

Ultimately, however, the way for this country to fulfill the promise of full employment would be to enact what I think is one of the most historic and far-reaching pieces of legislation ever to be submitted in the Congress—the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1976 (S. 50, H.R. 50). We think that the major concepts and structures outlined in this Act would be the most meaningful way finally to end the continuing and sad acceptance of high levels of human and capital waste that have been going on for so long. It sets forth many of the principles that we think would lead to a sustained full employment economy, particularly containing the following elements.

1. It commits the nation to provide job opportunities at decent wages for everyone able and willing to work—that the only persons who would be unemployed would be those who are temporarily jobless, such as entrants into the labor force, people moving from one job to another or from one part of the country to another, or those people who are temporarily jobless as a result of seasonal fluctuations in their specific industries.

2. It requires the President to submit annually a full employment policy and program that would finally bring forth the plans, objectives, and goals that would meet both the economic and social needs of our country.

3. It requires coordination of the various policy making groups, such as the President and the various executive branches and the Congress. It requires the coordination of fiscal and monetary policies and, for the first time, requires the Federal Reserve Board to enunciate its policies and programs and justify how they coordinate with the other economic programs being proposed by the executive and legislative branches.

4. It provides Congress with a much stronger voice in reviewing and acting upon the President's economic plans and policies.

5. It establishes a citizens' consultative body comprised of major groups in the economy to help channel advice and experience into on-going policy considerations.

6. It provides that full employment goal must be good jobs at adequate levels of pay. To that extent that the economy's regular channels of private and public employment fail to achieve that goal, the Government is to create a public employment program to provide those additional jobs that are needed to lower the unemployment rate to a maximum of three percent.

7. It finally establishes the priority of full employment with all of the other economic goals that our country pursues and removes workers from bearing the brunt of the changes and instabilities caused by the fluctuation of economic forces.

This legislation sets up a mechanism for more orderly and less crisis-ridden structure to our economic system. It aims at translating full employment rhetoric into full employment reality. We think it sets up a reasonable, practical, and workable mechanism that will finally provide the actual jobs that have so long been promised.

This is obviously an election year, and we think the issue of where the candidates stand on this piece of legislation should be one of the primary issues of the campaign. We think every candidate for the Presidency and for Congress should be asked to commit himself to supporting and passing H.R. 50; S. 50, and that the electorate should use the commitment of the candidates in determining their voting decisions in November.

Full employment is an economic and social necessity for America. There is no lack of will to work in America—there is only a lack of jobs. 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 that the total community should assume this responsibility and must guarantee its fulfillment.

Gentlemen, I truly hope to have the distinction of being at the last series of hearings that the Joint Economic Committee ever has to hold on how to reach a full employment economy.

TABLE I

HOUSEHOLD DATA: EMPLOYMENT STATUS OF THE NONINSTITUTIONAL POPULATION, 1929 TO DATE

(Numbers in thousands)

Year and month	Total labor force		Civilian labor force						Not in labor force	
	Total noninstitutional population	Percent of population	Employed				Unemployed			
			Total	Total	Agriculture	Non-agricultural industries	Number	Percent of labor force		
								Not seasonally adjusted		Seasonally adjusted
Persons 14 yrs of age and over										
1929.....	(1) 49,440	(1) 49,180	47,630	10,450	37,180	1,550	3.2	.....	(1)	
1930.....	(1) 50,080	(1) 49,820	45,480	10,340	35,140	4,340	8.7	.....	(1)	
1931.....	(1) 50,680	(1) 50,420	42,400	10,290	32,110	8,020	15.9	.....	(1)	
1932.....	(1) 51,250	(1) 51,000	38,940	10,170	28,770	12,060	23.6	.....	(1)	
1933.....	(1) 51,840	(1) 51,590	38,760	10,090	28,670	12,830	24.9	.....	(1)	
1934.....	(1) 52,490	(1) 52,230	40,890	9,900	30,990	11,340	21.7	.....	(1)	
1935.....	(1) 53,140	(1) 52,870	42,260	10,110	32,150	10,610	20.1	.....	(1)	
1936.....	(1) 53,740	(1) 53,440	44,410	10,000	34,410	9,030	16.9	.....	(1)	
1937.....	(1) 54,320	(1) 54,000	46,300	9,820	36,480	7,700	14.3	.....	(1)	
1938.....	(1) 54,950	(1) 54,610	44,220	9,690	34,530	10,390	19.0	.....	(1)	
1939.....	(1) 55,600	(1) 55,230	45,750	9,610	36,140	9,480	17.2	.....	(1)	
1940.....	100,380	56.0	55,640	47,520	9,540	37,980	8,120	14.6	44,200	
1941.....	101,520	56.7	55,910	50,350	9,100	41,250	5,560	9.9	43,990	
1942.....	102,610	58.8	56,410	53,750	9,250	44,500	2,660	4.7	42,230	
1943.....	103,660	62.3	55,540	54,470	9,080	45,390	1,070	1.9	39,100	
1944.....	104,630	63.1	54,630	53,960	8,950	45,010	670	1.2	38,590	
1945.....	105,530	61.9	53,860	52,820	8,580	44,240	1,040	1.9	40,230	
1946.....	106,520	57.2	57,520	55,250	8,320	46,930	2,270	3.9	45,550	
1947.....	107,608	57.4	60,168	57,812	8,256	49,557	2,356	3.9	45,850	
Persons 16 yrs of age and over										
1947.....	103,418	60,941	58.9	59,350	57,038	7,890	49,148	2,311	3.9	42,477
1948.....	104,527	62,080	59.4	60,621	58,343	7,629	50,714	2,276	3.8	42,447
1949.....	105,611	62,903	59.6	61,286	57,651	7,658	49,993	3,637	5.9	42,708
1950.....	106,645	63,858	59.9	62,208	58,918	7,160	51,758	3,288	5.3	42,787
1951.....	107,721	65,117	60.4	62,017	59,961	6,726	53,235	2,055	3.3	42,604
1952.....	108,823	65,730	60.4	62,138	60,250	6,500	53,749	1,883	3.0	43,093
1953 ²	110,601	66,560	60.2	63,015	61,179	6,260	54,919	1,834	2.9	44,041
1954.....	111,671	66,993	60.0	63,643	60,109	6,205	53,904	3,532	5.5	44,678
1955.....	112,732	68,072	60.4	65,023	62,170	6,450	55,722	2,852	4.4	44,660
1956.....	113,811	69,409	61.0	66,552	63,799	6,283	57,514	2,750	4.1	44,402
1957.....	115,065	69,729	60.6	66,929	64,071	5,947	58,123	2,859	4.3	45,336
1958.....	116,363	70,275	60.4	67,639	63,036	5,586	57,450	4,602	6.8	46,088
1959.....	117,881	70,921	60.2	68,369	64,630	5,565	59,065	3,740	5.5	46,960
1960.....	119,759	72,142	60.2	69,628	65,778	5,458	60,318	3,852	5.5	47,617
1961.....	121,343	73,031	60.2	70,459	65,746	5,200	60,546	4,714	6.7	48,312
1962.....	122,981	73,442	59.7	70,614	66,702	4,944	61,759	3,911	5.5	49,539
1963.....	125,154	74,571	59.6	71,833	67,762	4,687	63,076	4,070	5.7	50,583
1964.....	127,224	75,830	59.6	73,091	69,305	4,523	64,782	3,786	5.2	51,394
1965.....	129,236	77,178	59.7	74,455	71,088	4,361	66,726	3,366	4.5	52,058
1966.....	131,180	78,893	60.1	75,770	72,895	3,979	68,915	2,875	3.8	52,288
1967.....	133,319	80,793	60.6	77,347	74,372	3,844	70,527	2,975	3.8	52,527
1968.....	135,562	82,272	60.7	78,737	75,920	3,817	72,103	2,817	3.6	53,291
1969.....	137,841	84,240	61.1	80,734	77,902	3,606	74,296	2,832	3.5	53,602
1970.....	140,182	85,903	61.3	82,715	78,627	3,462	75,165	4,088	4.9	54,280
1971.....	142,596	86,929	61.0	84,113	79,120	3,387	75,732	4,993	5.9	55,566
1972 ¹	145,775	88,991	61.0	86,542	81,702	3,472	78,230	4,840	5.6	56,785
1973 ²	148,263	91,040	61.4	88,714	84,409	3,452	80,957	4,304	4.9	57,222
1974.....	150,827	93,240	61.8	91,011	85,936	3,492	82,443	5,076	5.6	57,587
1975.....	153,449	94,793	61.8	92,613	84,783	3,380	81,403	7,830	8.5	58,655
October.....	154,256	95,431	61.9	93,267	86,023	3,524	82,499	7,244	7.8	58,825
November.....	154,476	94,943	61.5	92,787	85,556	3,156	82,400	7,231	7.8	59,533
December.....	154,700	94,888	61.3	92,731	85,536	2,856	82,680	7,195	7.8	59,812
1976: January.....	154,915	94,805	61.2	92,665	84,491	2,853	81,638	8,174	8.8	60,110

¹ Not available.² Not strictly comparable with prior years due to the introduction of population adjustments in these years. For an explanation, see "Historic Comparability" under household data section of explanatory notes.

TABLE I—Continued

HOUSEHOLD DATA: EMPLOYMENT STATUS OF PERSONS 16 TO 24 YEARS OLD, 1947-74

[Numbers in thousands]

Employment status and year	Total, 16 to 24 yrs	16 to 19 yrs			20 to 24 yrs
		Total	17 and 17	18 and 19	
Unemployment rate:					
1947.....	8.0	9.6	10.1	9.2	7.0
1948.....	7.3	9.2	10.0	8.6	6.2
1949.....	10.8	13.4	14.0	13.0	9.3
1950.....	9.3	12.2	13.6	11.2	7.7
1951.....	5.7	8.2	9.6	7.1	4.1
1952.....	6.2	8.5	10.0	7.3	4.6
1953.....	5.9	7.6	8.7	6.8	4.7
1954.....	10.6	12.6	13.5	12.0	9.2
1955.....	8.7	11.0	12.3	10.0	7.0
1956.....	8.5	11.1	12.3	10.2	6.6
1957.....	9.0	11.6	12.5	10.9	7.1
1958.....	13.1	15.9	16.4	15.5	11.2
1959.....	11.0	14.0	15.3	14.0	8.5
1960.....	11.2	14.7	15.5	14.1	8.7
1961.....	13.0	16.8	18.3	15.8	10.4
1962.....	11.3	14.6	16.2	13.6	9.0
1963.....	12.2	17.2	19.3	15.6	8.8
1964.....	11.5	16.2	17.8	14.9	8.3
1965.....	10.1	14.8	16.5	13.5	6.7
1966.....	8.6	12.7	14.8	11.3	5.3
1967.....	8.7	12.9	14.7	11.6	5.7
1968.....	8.7	12.7	14.7	11.2	5.8
1969.....	8.4	12.2	14.5	10.5	5.7
1970.....	11.0	15.3	17.1	13.8	8.2
1971.....	12.7	16.9	18.7	15.5	9.9
1972.....	12.1	16.2	18.5	14.6	9.3
1973.....	10.5	14.5	17.3	12.4	7.8
1974.....	11.8	16.0	18.4	14.2	9.0
1973					
January.....	11.1	14.7	17.1	13.2	9.0
February.....	11.7	16.1	18.8	14.2	9.0
March.....	10.6	14.4	17.6	12.2	8.2
April.....	10.2	14.3	18.2	11.3	7.6
May.....	9.5	12.6	14.9	10.9	7.4
June.....	12.6	17.8	22.9	13.5	8.1
July.....	11.1	14.8	17.2	12.8	8.1
August.....	9.5	11.9	13.0	11.0	7.7
September.....	10.7	14.8	17.4	12.9	8.0
October.....	9.2	13.5	16.0	11.5	6.4
November.....	9.9	14.9	18.1	12.6	6.6
December.....	9.5	13.8	15.9	12.2	6.7
1974:					
January.....	11.9	15.9	18.8	13.9	9.3
February.....	12.0	15.8	18.6	13.8	9.6
March.....	11.1	15.2	18.6	12.8	8.4
April.....	9.7	12.9	15.2	11.3	7.7
May.....	10.1	13.2	14.9	12.0	8.2
June.....	13.8	19.7	23.9	16.3	9.3
July.....	12.4	16.8	18.9	14.9	8.9
August.....	10.8	12.8	13.5	12.2	9.3
September.....	12.5	17.3	18.3	16.5	9.5
October.....	11.5	16.3	17.9	15.1	8.4
November.....	12.8	17.8	20.3	16.0	9.6
December.....	13.1	17.4	20.2	15.5	10.4

TABLE II

HOUSEHOLD DATA: ENROLLMENT OPPORTUNITIES AND POST-TRAINING EMPLOYMENT, 1973-74

[Covers enrollment opportunities under the Manpower Development and Training Act]

Item	In thousands												
	Total	Fiscal year											
		1963 ¹	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Enrollment opportunities ²	2,413.2	59.2	125.8	231.8	281.1	270.9	229.9	198.5	211.2	213.7	229.2	183.0	178.9
Enrollments (first time) ³	2,519.1	34.1	77.6	56.9	235.8	265.0	241.0	220.0	221.0	254.8	301.6	267.1	244.2
Completions ⁴	1,591.5	20.1	51.3	96.3	155.7	192.6	164.2	160.0	147.0	135.9	170.9	166.3	131.2
Obtained employment (posttraining) ⁵	1,271.8	16.1	39.4	73.4	124.0	153.7	127.5	121.0	115.3	105.1	141.0	139.3	113.0

¹ Program became operational August 1962.² Enrollment opportunities are the number of positions authorized each fiscal year. The number shown by fiscal year includes only those newly authorized in that year, although actual enrollment opportunities from previous years, if not filled, may still be available.³ Generally larger than the number of training or works opportunities programmed because turnover or short-term training results in more than 1 individual in a given enrollment opportunity. Persons served by more than 1 program are counted only once.⁴ Completions do not include dropouts.⁵ Posttraining employment includes persons employed at time of most recent followup.

Source: U.S. Department of Labor, Manpower Administration.

TABLE II—Continued
 MAJOR UNEMPLOYMENT INDICATORS, 1948-74
 [Unemployment rates of persons 16 yrs and over]

Year and month	All civilian workers	Men, 20 yrs and over	Women, 20 yrs and over	Both sexes, 16 to 19 years	White	Negro and other races	Household heads	Married men	Full-time workers	Part-time workers	Unemployed 15 weeks and over ¹	State insured ²	Labor force time lost ³
1948	3.8	3.2	3.6	9.2	3.5	5.9					0.5	3.1	
1949	5.9	5.4	5.3	13.4	5.6	8.9					1.1	6.0	
1950	5.3	4.7	5.1	12.2	4.9	9.0					1.3	4.8	
1951	3.3	2.5	4.0	8.2	3.1	5.3					.5	3.0	
1952	3.0	2.4	3.2	8.5	2.8	5.4					.4	3.0	
1953	3.9	2.5	2.9	7.6	2.7	4.5					.3	2.8	
1954	5.5	4.9	5.5	12.6	5.0	9.9					1.3	5.1	
1955	4.4	3.8	4.4	11.0	3.9	8.7		2.8			1.1	3.5	4.8
1956	4.1	3.4	4.2	11.1	3.6	8.3		2.6			.8	3.4	5.1
1957	4.3	3.6	4.1	11.6	3.8	7.9		2.8			.8	3.7	5.3
1958	6.8	6.2	6.1	15.9	6.1	12.6		5.1			2.1	6.3	8.1
1959	5.5	4.7	5.2	14.6	4.8	10.7		3.6			1.5	4.4	6.6
1960	5.5	4.7	5.1	14.7	4.9	10.2		3.7			1.4	4.8	6.7
1961	6.7	5.7	6.3	16.8	6.0	12.4		4.6			2.2	5.7	8.0
1962	5.5	4.6	5.4	14.7	4.9	10.9		3.6			1.6	4.4	6.7
1963	5.7	4.5	5.4	17.2	5.0	10.8	3.7	3.4	5.5	7.3	1.5	4.3	6.4
1964	5.2	3.9	5.2	16.2	4.6	9.6	3.3	2.8	4.9	7.2	1.3	3.7	5.8
1965	4.5	3.2	4.5	14.8	4.1	8.1	2.8	2.4	4.2	6.7	1.0	3.0	5.0
1966	3.8	2.5	3.8	12.8	3.3	7.3	2.2	1.9	3.5	6.2	.7	2.4	4.2
1967	3.8	2.3	4.2	12.9	3.4	7.4	2.1	1.8	3.4	6.9	.7	2.5	4.2
1968	3.6	2.2	3.8	12.7	3.2	6.7	1.9	1.6	3.1	6.5	.6	2.2	4.0
1969	3.5	2.1	3.7	12.2	3.1	6.4	1.8	1.5	3.1	6.2	.5	2.2	3.9
1970	3.5	3.5	4.8	15.2	4.5	8.2	2.9	2.6	4.5	7.6	.8	3.4	5.3
1971	4.9	4.4	5.7	16.9	5.4	9.9	3.7	3.2	5.5	8.7	1.4	4.0	6.4
1972	5.6	4.0	5.4	16.2	5.0	10.0	3.3	2.8	5.1	8.6	1.3	3.5	6.0
1973	4.9	3.2	4.8	14.5	4.3	8.9	2.9	2.3	4.3	7.9	.9	2.8	5.2
1974	5.6	3.8	5.5	16.0	5.0	9.9	3.3	2.7	5.1	8.6	1.0	3.5	6.1

See footnotes at end of table, p. 72.

TABLE II—Continued
MAJOR UNEMPLOYMENT INDICATORS, 1948-74—Continued
 [Unemployment rates of persons 16 yrs. and over]

Year and month	All civilian workers	Men, 20 yrs and over	Women, 20 yrs and over	Both sexes, 16 to 19 years	White	Negro and other races	Household heads	Married men	Full-time workers	Part-time workers	Unemployed 15 weeks and over ¹	State insured ²	Labor force time lost ³
1973:													
January.....	5.5	4.1	5.4	14.7	5.0	9.0	3.6	3.1	5.0	8.1	1.1	3.8	5.7
February.....	5.6	4.2	5.2	16.1	5.1	9.3	3.7	3.1	5.1	8.2	1.1	3.7	5.9
March.....	5.2	3.9	4.8	14.4	4.7	9.0	3.4	3.0	4.8	7.3	1.3	3.4	5.4
April.....	4.8	3.5	4.5	14.2	4.3	8.7	3.0	2.5	4.3	7.2	1.2	2.8	5.0
May.....	4.3	3.1	4.2	12.6	3.9	8.1	2.7	2.1	4.1	5.7	1.0	2.5	4.7
June.....	5.4	3.1	4.9	17.8	4.7	10.7	2.7	2.0	5.0	8.2	.9	2.4	6.0
July.....	5.0	2.9	5.1	14.8	4.3	10.6	2.6	1.9	4.5	8.5	.7	2.5	5.7
August.....	4.7	2.9	5.3	11.9	4.1	8.8	2.6	1.9	4.1	8.8	.7	2.3	5.3
September.....	4.7	2.6	5.3	14.8	4.1	9.1	2.4	1.7	3.8	9.6	.7	2.1	4.8
October.....	4.2	2.5	4.4	13.5	3.7	7.7	2.3	1.7	3.5	8.0	.7	2.1	4.5
November.....	4.5	2.7	4.6	14.9	4.0	8.3	2.6	2.0	3.9	8.1	.8	2.4	4.8
December.....	4.5	3.1	4.3	13.8	4.1	7.7	2.8	2.3	4.0	7.4	.7	3.1	5.0
1974:													
January.....	5.6	4.1	5.4	15.9	5.1	9.5	3.5	3.0	5.1	8.8	.9	4.0	6.1
February.....	5.7	4.4	5.4	15.8	5.3	9.6	3.6	3.1	5.2	8.8	1.0	4.2	6.2
March.....	5.3	3.9	4.9	15.2	4.8	9.3	3.4	2.8	4.9	7.7	1.2	4.0	5.7
April.....	4.8	3.6	4.6	12.9	4.4	8.3	3.1	2.5	4.5	6.5	1.2	3.6	5.4
May.....	4.6	3.2	4.7	13.2	4.1	8.2	2.8	2.0	4.4	5.9	1.1	3.0	5.1
June.....	5.8	3.4	5.2	19.7	5.2	10.7	2.9	2.3	5.4	8.3	1.0	2.9	6.4
July.....	5.6	3.3	5.4	16.8	4.9	11.0	2.8	2.4	5.2	8.6	.9	3.2	6.3
August.....	5.3	3.5	5.8	12.8	4.8	9.2	3.0	2.4	4.7	9.5	.9	2.9	6.0
September.....	5.7	3.3	6.3	17.3	5.2	9.7	3.0	2.3	4.8	10.9	.9	2.7	6.0
October.....	5.5	3.6	5.6	16.3	4.9	10.0	3.2	2.4	4.8	9.1	1.0	2.8	5.8
November.....	6.2	4.2	6.4	17.8	5.6	11.0	3.7	3.0	5.5	10.0	1.0	3.7	6.6
December.....	6.7	5.2	6.2	17.4	6.1	11.6	4.5	3.9	6.2	9.3	1.3	4.8	7.3

¹ Unemployment rate calculated as a percent of civilian labor force.

² Insured unemployment under State programs—unemployment rate calculated as a percent of average covered employment. As is the case with other data presented in this table, data relate to the week containing the 12th of the month.

³ Man-hours lost by the unemployed and persons on part time for economic reasons as a percent of potentially available labor force man-hours.

TABLE II—Continued

UNEMPLOYED PERSONS AND PERCENT DISTRIBUTION OF THE UNEMPLOYED, BY DURATION OF UNEMPLOYMENT, 1947-74

[Persons 16 yrs of age and over]

Period	Total	Less than				15 weeks and over			Average duration
		5 weeks	5 and 6 weeks	7 to 10 weeks	11 to 14 weeks	Total	15 to 26 weeks	27 weeks and over	
Number unemployed (thousands)									
1947	2,311	1,210	203	308	193	398	234	164	
1948	2,276	1,300	208	297	164	309	193	116	8.6
1949	3,637	1,756	309	555	331	683	427	256	10.0
1950	3,288	1,450	275	479	301	782	425	357	12.1
1951	2,055	1,177	169	252	153	303	166	137	9.7
1952	1,883	1,135	168	223	126	232	148	84	8.4
1953	1,834	1,142	149	209	124	211	132	79	8.0
1954	3,532	1,605	306	504	305	812	495	317	11.8
1955	2,852	1,335	230	368	217	703	367	336	13.0
1956	2,750	1,412	234	360	211	533	301	232	11.3
1957	2,859	1,408	258	392	240	560	321	239	10.5
1958	4,602	1,753	363	596	438	1,040	785	667	13.9
1959	3,740	1,585	304	474	335	956	502	454	12.8
1960	3,854	1,719	324	499	353	1,532	728	804	15.6
1961	4,714	1,806	377	587	411	1,532	804	104	15.8
1962	3,911	1,659	334	478	323	1,119	534	585	14.7
1963	4,070	1,751	358	519	354	1,088	535	553	14.0
1964	3,786	1,697	314	483	319	973	490	482	13.3
1965	3,366	1,628	286	422	276	755	404	351	11.8
1966	2,875	1,535	252	346	206	536	295	241	10.4
1967	2,975	1,635	278	397	218	449	271	177	8.8
1968	2,817	1,594	247	367	157	412	256	156	8.5
1969	2,831	1,629	263	364	200	375	242	133	8.0
1970	4,088	2,137	394	564	331	662	427	235	8.8
1971	4,993	2,234	456	687	435	1,181	665	517	11.4
1972	4,840	2,223	425	664	369	1,158	597	562	12.1
1973	4,304	2,196	390	576	330	812	475	337	10.0
1974	5,076	2,567	463	690	418	937	563	373	9.7
1973:									
January	4,675	2,231	478	640	383	942	557	386	10.4
February	4,845	2,224	479	777	384	979	608	372	10.6
March	4,512	1,862	366	628	535	1,121	679	441	12.0
April	4,174	1,878	349	568	358	1,022	649	373	11.4
May	3,799	1,871	278	500	246	904	531	373	11.2
June	4,847	3,053	932	454	214	775	439	336	8.6
July	4,550	2,356	594	655	273	678	283	295	9.0
August	4,208	2,213	323	634	369	671	339	332	9.6
September	4,165	2,447	331	439	305	643	380	264	8.7
October	3,763	1,923	403	513	254	670	375	295	9.8
November	4,056	2,207	321	532	306	690	391	299	9.6
December	4,058	2,097	412	567	329	654	372	282	9.6
1974:									
January	5,008	2,644	495	682	398	789	478	311	9.0
February	5,140	2,383	501	927	423	905	574	331	9.7
March	4,755	2,117	415	607	567	1,051	682	369	10.8
April	4,301	1,931	346	480	431	1,112	728	384	11.2
May	4,144	2,094	324	473	284	970	593	377	10.6
June	5,380	3,226	402	556	273	922	543	379	8.7
July	5,260	2,609	732	740	348	832	430	402	9.3
August	4,885	2,500	370	784	411	820	435	386	9.6
September	5,202	3,006	382	565	412	838	488	349	8.9
October	5,044	2,560	530	690	362	902	556	347	9.5
November	5,685	2,936	477	821	502	949	576	373	9.4
December	6,106	2,801	588	954	613	1,151	679	472	10.3

TABLE II—Continued

UNEMPLOYED PERSONS AND PERCENT DISTRIBUTION OF THE UNEMPLOYED, BY DURATION OF UNEMPLOYMENT,
1947-74—Continued

[Persons 16 yrs of age and over]

Period	Total	Less than 5 weeks	5 and 6 weeks	7 to 10 weeks	11 to 14 weeks	15 weeks and over			Average duration
						Total	15 to 26 weeks	27 weeks and over	
Percent distribution									
1947	100	52.4	8.8	13.3	8.4	17.2	10.1	7.1	
1948	100	57.2	9.1	13.0	7.2	13.6	8.5	5.1	
1949	100	48.3	8.5	15.3	9.1	18.8	11.8	7.0	
1950	100	44.1	8.4	14.6	9.2	23.8	12.9	10.9	
1951	100	57.3	8.2	12.3	7.4	14.7	8.1	6.7	
1952	100	60.2	8.9	11.8	6.7	12.3	7.9	4.5	
1953	100	62.2	8.1	11.4	6.8	11.5	7.2	4.3	
1954	100	45.8	8.7	14.3	8.6	23.0	14.0	9.0	
1955	100	46.8	8.1	12.9	7.6	24.6	12.9	11.8	
1956	100	51.3	8.5	12.1	7.7	19.4	10.9	8.4	
1957	100	49.3	9.0	13.7	8.4	19.6	11.2	8.4	
1958	100	38.1	7.9	13.0	9.5	31.6	17.1	14.5	
1959	100	42.4	8.1	12.7	9.0	27.8	12.5	15.3	
1960	100	44.6	8.4	13.0	9.2	24.8	13.0	11.8	
1961	100	38.3	8.0	12.5	8.7	32.5	15.4	17.1	
1962	100	42.4	8.5	12.2	8.3	28.6	13.6	15.0	
1963	100	43.0	8.8	12.8	8.7	26.7	13.1	13.6	
1964	100	44.8	8.3	12.8	8.4	25.7	12.9	12.7	
1965	100	48.4	8.5	12.5	8.2	22.4	12.0	10.4	
1966	100	53.4	8.8	12.0	7.2	18.6	10.3	8.4	
1967	100	54.9	9.3	13.3	7.3	16.1	9.1	5.9	
1968	100	56.6	8.8	13.0	7.0	14.6	9.1	5.5	
1969	100	57.5	9.3	12.9	7.1	13.3	8.5	4.7	
1970	100	52.3	9.6	13.9	8.1	16.2	10.4	5.7	
1971	100	44.7	9.1	13.8	8.7	23.7	13.3	10.4	
1972	100	45.9	8.8	13.7	7.6	23.9	12.3	11.6	
1973	100	51.0	9.1	13.4	7.7	18.8	11.0	7.8	
1974	100	50.6	9.1	13.6	8.2	18.5	11.1	7.4	

UNEMPLOYED PERSONS BY DURATION OF UNEMPLOYMENT

Duration of unemployment	Total				Household heads			
	Thousands of persons		Percent distribution		Thousands of persons		Percent distribution	
	January 1975	January 1976	January 1975	January 1976	January 1975	January 1976	January 1975	January 1976
Total	8,180	8,174	100.0	100.0	3,319	3,330	100.0	100.0
Less than 5 weeks	3,641	3,017	44.5	36.9	1,365	1,000	41.1	30.0
5 to 10 weeks	2,985	2,403	36.5	29.4	1,327	1,045	40.0	31.4
11 to 14 weeks	2,242	1,680	27.4	20.6	993	746	29.9	22.4
15 weeks and over	743	723	9.1	8.8	333	299	10.0	9.0
15 weeks and over	1,554	2,754	19.0	33.7	628	1,286	18.9	38.6
15 to 26 weeks	960	1,221	11.7	14.9	352	481	10.6	14.4
27 weeks and over	594	1,532	7.3	18.7	276	805	8.3	24.2
Average (mean) duration	10.1	15.8			10.8	18.8		

TABLE II—Continued

UNEMPLOYED PERSONS BY DURATION, SEX, AGE, COLOR, AND MARITAL STATUS

Sex, age, color, and marital status	Thousands of persons					Average (mean) duration; in weeks	Less than 5 weeks as a percent of unemployed in group		15 weeks and over as a percent of unemployed in group	
	Total	Less than 5 weeks	5 to 14 weeks	15 to 26 weeks	27 weeks and over		January 1975	January 1976	January 1975	January 1976
							January 1976			
Total, 16 yr and over.....	8, 174	3, 017	2, 403	1, 221	1, 532	15.8	44.5	36.9	19.0	33.7
16 to 21 yr.....	2, 571	1, 177	755	383	256	11.1	46.5	45.8	18.5	24.9
16 to 19 yr.....	1, 737	855	499	246	137	9.8	48.5	49.2	19.5	22.0
20 to 24 yr.....	1, 928	778	557	293	300	13.7	46.7	40.4	16.6	30.7
25 to 34 yr.....	1, 893	612	583	312	385	17.0	45.9	32.4	18.2	36.8
35 to 44 yr.....	973	309	291	137	235	18.6	38.4	31.8	17.2	38.2
45 to 54 yr.....	904	279	255	119	251	20.1	41.9	30.8	21.5	40.9
55 to 64 yr.....	550	131	162	84	173	22.3	40.1	23.8	21.6	46.8
65 yr and over.....	189	52	55	30	51	23.8	29.1	27.7	39.6	43.2
Males, 16 yr and over.....	4, 690	1, 477	1, 540	740	934	16.9	40.5	31.5	19.5	35.7
16 to 21 yr.....	1, 494	601	476	264	153	11.9	43.6	40.2	18.2	27.9
16 to 19 yr.....	997	452	314	162	69	9.8	46.5	45.3	18.7	23.2
20 to 24 yr.....	1, 114	371	356	197	190	15.2	42.6	33.3	17.4	34.7
25 to 34 yr.....	1, 080	291	385	164	241	18.5	37.8	27.0	20.6	37.4
35 to 44 yr.....	544	134	187	84	139	19.7	34.9	24.6	17.6	41.0
45 to 54 yr.....	520	125	166	66	162	22.7	40.9	24.0	20.7	44.0
55 to 64 yr.....	318	72	98	47	101	22.8	37.4	22.6	20.7	46.5
65 yr and over.....	117	32	33	21	31	25.0	26.9	27.5	40.4	43.9
Females, 16 yr and over.....	3, 484	1, 540	863	482	599	14.2	49.8	44.2	18.3	31.0
16 to 21 yr.....	1, 077	576	279	119	103	10.0	50.3	53.5	19.0	20.6
16 to 19 yr.....	740	403	185	84	67	9.9	51.1	54.5	20.5	20.5
20 to 24 yr.....	814	407	201	96	110	11.7	52.6	50.0	15.5	25.3
25 to 34 yr.....	813	321	199	148	145	15.1	56.4	39.5	15.2	36.0
35 to 44 yr.....	429	175	104	53	96	17.2	42.5	40.9	16.8	34.7
45 to 54 yr.....	384	154	89	53	89	16.7	43.0	40.1	22.4	36.8
55 to 64 yr.....	233	59	64	37	72	21.6	44.1	25.4	22.8	47.2
65 yr and over.....	72	20	22	10	21	21.9	(¹)	(¹)	(¹)	(¹)
White.....	6, 686	2, 497	1, 975	991	1, 223	15.5	45.2	37.3	18.4	33.1
Males.....	3, 880	1, 246	1, 274	608	752	16.5	41.1	32.1	18.9	35.1
Females.....	2, 806	1, 251	701	384	471	14.0	50.8	44.6	17.7	30.4
Negro and other races.....	1, 488	520	428	230	310	17.1	41.0	34.9	22.0	36.3
Males.....	810	231	266	132	181	18.9	37.5	28.5	22.7	38.7
Females.....	678	289	163	98	128	15.0	45.3	42.6	21.1	33.4
Males:										
Married, spouse present.....	2, 135	587	735	316	497	18.6	39.3	27.5	17.5	38.1
Widowed, divorced, or separated.....	422	82	128	75	137	25.0	34.6	19.4	26.1	50.2
Single (never married).....	2, 133	808	676	348	300	13.6	43.1	37.9	20.6	30.4
Females:										
Married, spouse present.....	1, 698	722	436	237	302	14.8	51.1	42.5	16.6	31.8
Widowed, divorced, or separated.....	697	272	178	95	152	16.0	49.1	39.0	17.2	35.5
Single (never married).....	1, 089	546	249	149	145	12.0	47.9	50.2	21.8	27.0

¹ Percent not shown where base is less than 75,000.

TABLE III
EMPLOYEES ON NONAGRICULTURAL PAYROLLS
[In thousands]

	Goods producing			
	Total	Mining	Construction	Manufacturing
1947.....	18,482	955	1,982	15,545
1975.....	22,549	745	3,457	18,347
Percent change.....	+22	-22	+74	+18

	Service producing				
	Total	Transportation and public utilities	Wholesale and retail trade	Finance, insurance and real estate	Services
1947.....	25,399	4,166	8,955	1,754	5,055
1975.....	54,435	4,498	16,948	4,223	13,995
Percent change.....	+114	+8	+89	+140	+177

	Government			
	Total	Federal and State	State and local	
1947.....		5,474	1,892	3,582
1975.....		14,772	2,748	12,024
Percent change.....		+175	+45	+236

Agriculture

1947.....	7,891
1975.....	3,380
Percent change.....	-5
Grand total:	
1947.....	43,881
1975.....	76,984
Percent change.....	+75

TABLE IV

	Imports			U.S. production		
	1974	1975	Percent change 1975 vs 1974	1974	Projected for 1975 ¹	Percent change 1974 vs 1975 ¹
Men's and boys' suits.....	1,933,914	3,164,073	+63.6	19,684,000	16,141,000	-18
Men's and boys' sport coats.....	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

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.

IMPORTS AS A PERCENT OF U.S. PRODUCTION¹

	1974	1967
Men's and boys' suits.....	9.6	19.8
Men's and boys' sport coats.....	22.5	42.9
Men's and boys' separate trousers.....	20	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.

TABLE V

LABOR FORCE AND UNEMPLOYMENT IN SELECTED INDUSTRIAL COUNTRIES, 1959-74

Year	Adjusted to U.S. concepts									As published					
	United States ¹	Australia ¹	Canada ¹	France	Germany, Federal Republic and West Berlin	Great Britain	Italy	Japan	Sweden	France	Germany, Federal Republic and West Berlin	Great Britain	Italy	Japan	Sweden
Civilian labor force ² (in thousands)															
1959	68,369	(*)	6,214	19,100	25,850	23,420	20,530	43,330	(*)	18,925	26,337	23,747	21,286	44,330	(*)
1960	69,628	(*)	6,382	19,120	25,970	23,660	20,340	44,120	(*)	18,951	26,518	24,109	20,972	45,110	(*)
1961	70,459	(*)	6,491	19,090	26,180	23,910	20,270	44,610	3,581	18,919	26,772	24,381	20,882	45,620	3,632
1962	70,614	(*)	6,584	19,180	26,220	24,260	20,160	45,040	3,663	19,050	26,844	24,625	29,629	46,110	3,676
1963	71,833	(*)	6,715	19,340	26,350	24,480	19,760	45,420	3,731	19,398	26,930	24,761	20,137	45,520	3,749
1964	73,091	4,559	6,898	19,660	26,340	24,600	19,740	46,040	3,687	19,638	26,922	24,939	20,026	47,100	3,710
1965	74,455	4,689	7,105	19,750	26,450	24,740	19,440	46,770	3,713	19,813	27,019	25,101	19,717	47,870	3,738
1966	75,770	4,832	7,382	19,980	26,380	24,830	19,150	47,850	3,766	19,964	26,962	25,166	19,396	48,910	3,792
1967	77,347	4,959	7,651	20,140	25,850	24,790	19,290	48,810	3,743	20,118	26,409	25,008	19,525	49,830	3,774
1968	78,737	5,079	7,872	20,420	25,700	24,650	19,220	49,680	3,803	20,176	26,291	24,902	19,484	50,610	3,822
1969	80,734	5,231	8,116	20,680	25,970	24,600	19,030	50,140	3,815	20,434	26,535	24,912	19,266	50,980	3,840
1970	82,715	5,404	8,323	21,000	26,240	24,480	19,090	50,739	3,884	20,749	26,817	24,801	19,302	51,530	3,913
1971	84,113	5,512	8,579	* 21,190	26,350	24,230	19,010	51,030	3,932	20,958	26,910	24,524	19,254	51,780	3,961
1972	86,542	5,614	8,840	* 21,430	26,316	* 24,540	18,800	51,140	3,939	21,155	26,991	24,701	19,028	51,820	3,969
1973	88,714	5,748	9,225	* 21,660	26,420	* 24,780	18,930	52,310	3,952	21,403	26,985	24,980	19,169	52,990	3,977
1974	91,011	5,889	9,602	* 21,960	* 26,200	* 24,710	19,130	52,080	4,013	* 21,701	26,791	-----	19,458	* 52,740	4,043
Unemployed ⁴ (in thousands)															
1959	3,740	(*)	371	390	440	680	1,170	980	(*)	254	540	445	1,117	980	(*)
1960	3,852	(*)	445	360	200	530	880	750	(*)	239	271	346	835	750	(*)
1961	4,714	(*)	465	310	120	480	750	660	52	203	181	312	710	660	50
1962	3,911	(*)	390	280	100	680	640	590	54	230	154	432	611	590	54
1963	4,070	(*)	372	250	120	850	530	590	63	273	186	521	504	590	63
1964	3,786	63	324	290	90	610	590	540	58	216	169	372	549	540	58
1965	3,366	61	279	300	80	530	770	570	44	269	147	317	714	570	44
1966	2,875	72	266	370	70	560	820	650	59	280	161	331	759	650	59
1967	2,975	79	314	540	260	830	730	630	79	365	459	521	679	630	79
1968	2,817	78	380	500	300	810	740	590	85	427	323	549	684	590	85
1969	2,832	80	381	530	220	740	710	570	72	340	179	544	655	570	72
1970	4,088	75	494	* 590	* 140	75 0	660	590	59	356	149	582	609	590	59
1971	4,993	88	551	* 610	* 180	930	660	640	101	446	185	758	699	640	101
1972	4,840	126	561	* 580	* 240	* 1,060	750	730	107	492	246	844	697	730	107
1973	4,304	108	519	* 690	* 260	* 740	720	670	98	450	273	598	668	670	98
1974	5,076	133	523	-----	* 550	* 740	600	* 730	80	510	582	600	560	730	80

See footnotes at end of table, p. 80.

TABLE V—Continued

LABOR FORCE AND UNEMPLOYMENT IN SELECTED INDUSTRIAL COUNTRIES, 1959-74—Continued

Year	Adjusted to U.S. concepts									As published					
	United States ¹	Australia ¹	Canada ¹	France	Germany, Federal Republic and West Berlin	Great Britain	Italy	Japan	Sweden	France	Germany, Federal Republic and West Berlin	Great Britain	Italy	Japan	Sweden
	Unemployment rate ²														
1959	5.5	72.1	6.0	2.0	1.7	2.9	5.7	2.3	(3)	1.3	2.6	2.0	5.2	2.2	(3)
1960	5.5	71.6	7.0	1.9	.8	2.2	4.3	1.7	(3)	1.3	1.3	1.5	4.0	1.7	(3)
1961	6.7	73.0	7.1	1.6	.5	2.0	3.7	1.5	1.5	1.1	.8	1.4	3.4	1.4	1.4
1962	5.5	72.4	5.9	1.5	.4	2.8	3.2	1.3	1.5	1.2	.7	1.9	3.0	1.3	1.5
1963	5.7	72.3	5.5	1.3	.5	3.5	2.7	1.3	1.7	1.4	.8	2.3	2.5	1.3	1.7
1964	5.2	1.4	4.7	1.5	.3	2.5	3.0	1.2	1.6	1.1	.8	1.6	2.7	1.1	1.6
1965	4.5	1.3	3.9	1.5	.3	2.1	4.0	1.2	1.2	1.4	.7	1.4	3.6	1.2	1.2
1966	3.8	1.5	3.6	1.9	.3	2.3	4.3	1.4	1.6	1.4	.7	1.4	3.9	1.3	1.6
1967	3.8	1.6	4.1	1.9	1.0	3.3	3.8	1.3	2.1	1.8	2.1	2.2	3.5	1.3	2.1
1968	3.6	1.5	4.8	2.6	1.2	3.3	3.9	1.2	2.2	2.1	1.5	2.4	3.5	1.2	2.2
1969	3.5	1.5	4.7	2.4	.8	3.0	3.7	1.1	1.9	1.7	.9	2.4	3.4	1.2	1.9
1970	4.9	1.4	5.9	2.5	4.5	3.1	3.5	1.2	1.5	1.7	.7	2.5	3.2	1.1	1.5
1971	5.9	1.6	6.4	42.8	4.7	3.8	3.5	1.3	2.6	2.1	.8	3.4	3.2	1.2	2.5
1972	5.6	2.2	6.3	42.8	4.9	44.3	4.0	1.4	2.7	2.3	1.1	3.8	3.7	1.4	2.7
1973	4.9	1.9	5.6	42.7	41.0	43.0	3.8	1.3	2.5	2.1	1.2	2.6	3.5	1.3	2.5
1974	5.6	2.2	5.4	43.1	42.1	43.0	3.1	41.4	2.0	2.4	2.6	2.6	2.9	1.4	2.0

¹ Published and adjusted data for the United States and Australia are identical. Canadian data are adjusted only to exclude 14 year-olds.

² Published figures for Italy, Japan, Sweden and Germany include military personnel.

³ Not available.

⁴ Preliminary estimates based on incomplete data.

⁵ Published figures for the United States, Australia, Canada, Italy, Japan, and Sweden refer to unemployment as recorded by sample labor force surveys; for France, to annual estimates of unemployment; and for Great Britain and Germany, to the registered unemployed.

⁶ Adjusted figures: as a percent of the civilian labor force. Published figures; for France, unemployment as a percent of the civilian labor force; for Italy, Japan, and Sweden, unemployment as a percent of the civilian labor force plus career military personnel; for Great Britain and Germany, regis-

tered unemployment as a percent of employed wage and salary workers plus the unemployed. With the exception of France, which does not publish an unemployment rate, these are the usually published unemployment rates for each country. Published rates shown for Great Britain and Germany cannot be computed from the data contained in this table.

⁷ The Australian labor force survey was initiated in 1964. Unemployment rates for 1959-63 are estimates by an Australian researcher.

Note.—The adjusted statistics, insofar as possible, have been adapted to the age at which compulsory schooling ends in each country. Therefore, the data for the United States and the adjusted data for France and Sweden relate to the population 16 yr of age and over; the data for Australia, Canada, Germany, Great Britain, and Japan to the population 15 yr of age and over; and the data for Italy to the population 14 yr of age and over.

TABLE V—Continued

INDEXES OF OUTPUT PER MAN-HOUR, HOURLY COMPENSATION, AND UNIT LABOR COSTS IN MANUFACTURING, SELECTED COUNTRIES, 1960-74

[1967=100]

Item and country	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974 ¹
Output per man-hour:															
United States.....	79.9	81.9	86.6	90.1	94.5	98.4	99.9	100	104.7	107.4	107.4	115.1	121.6	128.3	129.3
Belgium.....	70.5	71.7	76.7	79.3	84.1	88.1	94.2	100	108.7	117.7	128.4	132.3	144.6	158.8	-----
Canada.....	75.5	79.6	83.9	87.1	90.9	94.4	97.2	100	107.3	113.3	115.2	122.9	128.1	133.1	134.9
Denmark.....	66.6	70.3	74.0	76.4	82.6	86.7	91.1	100	109.8	120.3	129.3	138.8	150.0	163.9	-----
France.....	68.7	71.9	75.2	79.7	83.7	88.5	94.7	100	111.4	115.4	121.2	127.5	136.1	144.0	148.9
Germany, Federal Republic and West Berlin.....	66.4	70.0	74.4	78.4	84.5	90.4	94.0	100	107.6	113.8	116.6	122.6	130.3	139.3	143.3
Italy.....	65.1	67.4	74.1	76.5	81.5	91.6	96.0	100	108.4	112.0	117.8	123.0	133.4	146.0	-----
Japan.....	52.6	59.3	61.9	67.1	75.9	79.1	87.1	100	112.6	130.0	146.5	151.7	163.9	193.6	199.6
Netherlands.....	67.8	71.3	73.0	74.9	82.6	87.8	93.1	100	110.7	120.9	132.3	140.4	155.5	170.6	-----
Sweden.....	62.3	65.5	70.4	76.0	82.0	88.6	92.4	100	110.1	118.2	123.5	129.2	138.3	148.0	146.6
United Kingdom.....	76.8	77.4	79.3	83.6	89.7	92.4	95.7	100	106.7	108.1	109.1	114.2	118.9	127.2	127.6
Switzerland.....	80.4	80.5	79.9	82.2	85.8	90.5	95.2	100	105.2	116.1	125.5	132.2	138.7	147.7	-----
Hourly compensation in national currency:															
United States.....	76.6	79.0	82.2	85.0	88.9	91.2	95.3	100	107.1	114.0	122.1	130.4	137.5	147.3	161.2
Belgium.....	52.3	55.5	59.7	65.9	74.7	82.5	91.5	100	106.3	116.3	131.8	151.2	175.1	206.1	-----
Canada.....	72.2	74.1	76.3	79.0	82.0	86.1	92.9	100	107.3	115.3	124.3	133.8	143.6	155.8	176.2
Denmark.....	49.2	55.1	60.4	65.7	71.0	78.9	89.6	100	111.2	124.1	145.0	165.4	184.3	217.8	-----
France.....	56.0	61.6	67.9	75.0	80.6	86.8	92.4	100	113.3	119.9	134.4	150.4	168.2	191.1	228.1
Germany, Federal Republic and West Berlin.....	54.3	60.6	68.5	73.2	78.9	86.7	94.5	100	105.9	115.5	133.0	151.6	169.4	191.8	220.2
Italy.....	49.5	52.5	61.5	73.2	82.3	89.0	91.4	100	107.2	117.6	141.1	167.1	191.6	236.7	-----
Japan.....	43.1	50.2	57.3	64.0	71.9	81.0	89.3	100	116.2	137.5	163.4	189.1	218.7	272.2	363.3
Netherlands.....	46.4	52.8	56.1	61.5	71.9	80.5	90.0	100	110.3	124.8	144.1	164.9	190.1	218.2	-----
Sweden.....	50.1	55.0	61.5	69.4	75.0	82.5	90.4	100	109.4	119.5	131.8	148.1	166.7	184.6	215.4
United Kingdom.....	64.5	69.5	73.1	76.5	82.0	89.7	97.2	100	107.2	115.8	132.8	151.5	171.3	194.1	233.2
Switzerland.....	57.1	62.2	68.1	74.3	80.5	86.6	94.1	100	105.2	112.2	124.7	141.7	157.4	172.4	-----

See footnotes at end of table, p. 80.

TABLE V—Continued

INDEXES OF OUTPUT PER MAN-HOUR, HOURLY COMPENSATION, AND UNIT LABOR COSTS IN MANUFACTURING, SELECTED COUNTRIES, 1960-74—Continued

[1967 = 100].

Item and country	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974 ¹
Unit labor cost in national currency:															
United States.....	95.8	96.4	94.9	94.3	94.0	92.7	95.4	100	102.3	106.2	113.2	113.2	113.1	114.8	124.6
Belgium.....	74.2	77.4	77.9	83.1	88.8	93.7	97.1	100	97.8	98.8	102.7	114.2	121.1	129.8	-----
Canada.....	95.6	93.0	90.9	90.7	90.2	91.3	95.6	100	99.9	101.7	107.9	108.8	112.1	117.1	130.6
Denmark.....	73.8	78.4	81.7	86.0	86.0	91.0	98.4	100	101.3	103.2	112.2	119.2	122.9	132.9	-----
France.....	81.5	85.7	90.2	94.1	96.3	98.1	97.5	100	101.8	103.9	110.9	118.0	123.6	132.7	153.2
Germany, French Republic and West Berlin.....	81.8	86.5	92.0	93.3	93.3	95.8	100.5	100	98.5	101.4	114.0	123.6	130.0	137.7	153.7
Italy.....	76.1	78.0	82.9	95.7	101.0	97.2	95.2	100	98.9	104.8	119.8	135.9	143.7	162.1	-----
Japan.....	82.0	84.5	92.5	95.4	94.8	102.3	102.5	100	103.2	105.8	111.5	124.6	133.5	140.6	182.0
Netherlands.....	68.4	74.1	76.8	82.2	87.0	91.7	96.6	100	99.6	103.3	109.0	117.4	122.3	127.9	-----
Sweden.....	80.5	84.1	87.4	91.4	91.4	93.1	97.8	100	99.3	101.1	106.7	114.6	120.5	124.8	146.0
United Kingdom.....	84.0	89.8	92.2	91.5	91.4	97.1	101.6	100	100.4	107.0	121.7	132.7	141.1	152.6	182.8
Switzerland.....	71.0	77.3	85.3	90.5	93.8	95.6	98.9	100	100.0	96.7	99.4	106.7	113.5	116.7	-----
Unit labor costs in U.S. dollars:²															
United States.....	95.8	96.4	94.9	94.3	94.0	92.7	95.4	100	102.3	106.2	113.2	113.2	113.1	114.8	124.6
Belgium.....	73.9	77.1	77.7	82.8	88.7	93.8	96.8	100	97.3	97.9	102.7	116.9	136.7	166.2	-----
Canada.....	106.3	99.1	91.8	90.7	90.2	91.3	95.7	100	100.1	101.9	111.5	116.3	122.1	126.3	144.1
Denmark.....	74.7	79.2	82.6	87.0	86.8	91.8	99.5	100	94.5	95.8	104.4	112.4	123.4	154.0	-----
France.....	81.8	86.0	90.6	94.4	96.7	98.4	97.6	100	101.1	98.7	98.7	105.4	120.5	147.2	156.8
Germany, Federal Republic and West Berlin.....	78.1	85.9	91.7	93.3	93.6	95.7	100.2	100	98.3	103.1	124.6	141.8	162.5	207.3	237.3
Italy.....	76.5	78.3	83.4	96.1	101.0	97.1	95.1	100	99.0	104.3	119.2	137.2	153.6	173.9	-----
Japan.....	82.5	84.8	92.8	95.6	94.8	102.5	102.5	100	103.7	106.9	112.8	129.9	159.5	188.0	226.1
Netherlands.....	65.4	73.6	76.8	82.2	86.9	91.8	96.2	100	99.1	102.7	108.5	121.2	137.2	165.7	-----
Sweden.....	80.4	84.0	87.5	90.9	91.6	93.2	97.7	100	99.2	101.0	106.2	115.9	130.8	147.9	171.1
United Kingdom.....	85.7	91.4	94.1	93.1	92.8	98.7	103.1	100	87.4	93.0	106.0	117.9	131.0	136.0	155.5
Switzerland.....	71.1	77.4	85.4	90.6	93.9	95.6	98.9	100	100.3	97.1	112.4	99.7	128.7	160.1	-----

¹ Preliminary estimates.² Indexes in national currency adjusted for changes in exchange rates.

Source: Department of Labor, Bureau of Labor Statistics. Estimates based on national and international publications.

Representative Brown of Ohio. Our second panel member today is Mr. Paul McCracken, former Chairman of the Council of Economic Advisers. Mr. McCracken received his A.B. at William Penn University in Iowa; his master of arts and doctor of philosophy from Harvard University.

He was an economist at the U.S. Department of Agriculture in 1942-43; economist and director of research of the Reserve Bank in Minneapolis from 1943 to 1948. In 1948 he joined the faculty of the School of Business Administration and Graduate School of Administration of the University of Michigan. From 1956 through 1959 he was a member of the President' Council of Economic Advisers, and returned as Chairman of the Council of Economic Advisers from 1969 to 1972. He is Chairman at this time of the International Committee of Economists, which was commissioned by the OECD in Paris to make recommendations on economic policy.

He is a winner of many awards and has written many books on financial and economic policy, and is noted throughout the world as a lecturer on economics.

Mr. McCracken.

STATEMENT OF PAUL W. MCCRACKEN, FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. McCracken. Thank you very much, Mr. Chairman.

We received the suggestion that we each confine ourselves to 10 minutes. That struck me, the suggestion that a professor confine his oral remarks to 10 minutes, struck me as the purest form of optimism, but I shall try.

It is, I think, pertinent for us to remember the observation that Senator Wagner made back in 1945, when he opened hearings on S. 380, and observed, "We meet to consider what I profoundly believe to be as important a proposal as any before the Congress within my memory."

Now, it was the set of hearings that led to the legislative process that finally gave us the Employment Act of 1946. I think it might be particularly appropriate at this juncture, and particularly in this month to point out that Congressman Wright Patman, who was for so long the alternating Chairman of the Joint Economic Committee, was the floor-manager for the Employment Act of 1946 in the House.

Now, the subject which has been assigned to our panel has to do with the record, and I have looked at this rather broadly, and at least raise the question, if we look at the economic performance during the years, the 30 years of the act, what do we make out of it, how do we evaluate it?

It occurred to me that it might at least be useful to compare our economic performance during that 30-year period with a period, correspondingly, prior to the act. I do this not in any sense suggesting that, however the figures might come out, proves the potency or the lack of it of the act because all kinds of differences, of course, would prevail. But nonetheless, this kind of historical comparison would at least give us some perspective.

Now, as I looked at this period—and by the way, I excluded the Great Depression because, obviously, if one took the 30-year prior period which included the Great Depression, that period would of course dominate the data. So, I took the period from 1889 to 1929 and compared it with the period 1946 of course to today. Let me just say in brief, if one looks simply at the overall figures, the comparison does not suggest that something came in in 1946 that gave us the capability for a startlingly improved economic performance.

If we look at that earlier 30-year period, civilian employment actually increased slightly more rapidly on the average than it has during the more recent period; real output also increased slightly more rapidly then; of course real personal consumption expenditures increased significantly more rapidly; and the rate of inflation in the last 30 years, last 29 years, has been somewhat greater than in this earlier period.

I suppose it might come as somewhat of a surprise, at least to some, that even the incidents of cyclical performance in these two 30-year periods turns out to be remarkably similar, as a matter of fact, in terms of the number of years in which real output declined, it turned out that for each of these periods that number was six. Now, we do have to point out, and Mr. Finley has already commented on this, that if you take period from 1958 to 1977—that period would be roughly 20 years—there would have been approximately five of those years that I should think anyone would reasonably define as years when we experienced comfortably full utilization of our productive resources.

There are, however, three basic points that I think ought to be made on the side of the act, as it were. One of these is that while the incidence of cyclical fluctuations, in other words, the number of these years where we had a recedence in output, turned out to be the same. Nonetheless, the severity of these declines in the earlier period was of course markedly greater; the average reduction—year to year, I should add—the average reduction in output in the earlier period was 3.8 percent compared with somewhat less than that, I think about 1.2 percent in these 30 years we are now concluding. And of course the most severe decline, namely from 1907 to 1908 of 8.2 percent was markely greater than the most severe year-to-year decline, which would have been from 1974 to 1975.

Now, the second point to make, and I think it's a very important one, is that while I excluded the Great Depression here for these comparative purposes, nonetheless, we did have a "Great Depression". This time, at least during these 30 years, we have not had anything which would be in that category, and that in spite of the fact that we have had our episodes here of very severe restraints in the financial system, certainly in 1970, again in 1975. I don't suggest, again, that in some manner this is to be attributed to the Employment Act, but on the other hand, it is probably to be attributed to that greater understanding and perhaps greater attention to some of these fundamental problems of which the Employment Act is at least an expression.

Now, there is one other point that I would like to make here, although it is not in my written statement. We need to remember that

the management of economic policy this time is in the context of a period, particularly in recent years, where the impact on the U.S. economy of external economic developments is markedly greater. For example, you just cannot explain the 1933 overheating of the domestic economy unless you take into account the extent to which we had sharp improvements in our trade position. According to my rough calculations, if we had not happened to get the favorable swing in our trade position from about the beginning of the sharp decline in 1974 until the middle of last year, roughly, we would have had about 1 million more unemployed than we actually did.

Now, a third point that I would like to make here is that many that have not participated, many economists that have not participated in the committee work, or the Council of Economic Advisers, are often surprised to learn of the proportion of the activity which is devoted to program analysis, what might be called "micro issues", in contrast to the overall level of business activity of production and employment.

The analyses of proposals for trade policy; for regulation or de-regulation, there is an endless array of proposals. I think this is mirroring to the extent that there is a growing focusing of economic analysis on these specific programmatic issues, as well as just the overall.

Well, I concluded my prepared statement here by raising the question, at least quickly, as to where we go from here. I would just make three summary comments. All of us would agree that the one area which has been particularly disappointing is in the area of price-level stability, which is of course related to the unemployment problem, also. This is a worldwide problem, I am acutely aware of that, having participated now in the OECD study to which the chairman has alluded.

The second point that I have made here is, I think the managers of economic policy can be asked to be even more forthcoming than has been the case up until now, as to what the path is that would represent, all things considered, the optimum for the objectives of economic policy.

Now, I concluded here with a third comment, which is addressed specifically to the Joint Economic Committee, and I make this from the vantage point of an elder statesman, as it were, who has been here and is now back at the grassroots.

Reports of this committee in the earlier years reflected a substantial degree of unanimity, they had, therefore, a particularly influential weight in terms of the impact, I think, on the Congress, and certainly public education. By definition, therefore, they represented the combined judgment of the Members of the Congress, representing both political parties, and representing a wide spectrum of ideological points of view as to what they could agree on in terms of the importance of public policy. I think this was a very important matter.

Now, the more modern tendency for majority reports and minority reports has, it seems to me, gone too far in the last several years. And while the committee reports remain a major influence, its impact on thinking could be even greater if there was greater emphasis

on a greater degree of unanimity, such as, for example, the committee report on international economic policy.

But I would conclude, Mr. Chairman, that an act and its institution which it created, which have lasted for 30 years, and which was given the Joint Economic Committee, which has no legislative function, the status and influence which it has not only within the Congress, but in the country at large, and which gives the Council of Economic Advisers with a personnel of only 50, which in this city rounds off to zero, the kind of visibility and impact, all that suggests to me that something must have been done right 30 years ago, and we would do well to keep that in mind as we ponder where to go from here.

Representative BROWN of Ohio. Mr. McCracken, thank you very much. I must say that I think your hope for unanimity between the majority and minority is highly ambitious. I for one, and I think probably Senator Humphrey would echo this, would settle for unanimity on either side of the group, either among the minority, or among the majority.

I think a careful reading of the Joint Economic Committee's report indicates that there are minorities in the minority, majorities in the majority—I'm not sure, when you put all this together and stir it up, whether it comes out black or white, or just sort of a dull gray.

[The prepared statement of Mr. McCracken follows:]

PREPARED STATEMENT OF PAUL W. MCCRACKEN

I

On July 30, 1945, Senator Wagner of New York convened his subcommittee of the Senate Banking and Currency Committee to begin hearings on S. 380, "The Full Employment Act of 1945." He opened these hearings by observing: "We meet to consider what I profoundly believe to be as important a proposal as any before the Congress within my memory." S. 380 was, of course, what subsequently metamorphosed into The Employment Act of 1946, signed into law 30 years ago last month by President Truman. And, Mr. Chairman, it's pertinent to point out that Congressman Wright Patman, who was for so long alternating Chairman of the Joint Economic Committee, was floor manager for this bill in the House.

Have subsequent developments justified Senator Wagner's hopes? What do we now make out of this three decades of experience? These are questions to which my own comments will be addressed.

Certainly the machinery set up by the Act had some significant results. According to my count, for example, it has provided 32 members of my profession the opportunity for a few years of frenetic, occasionally vexatious, and ultimately rewarding experience in the public service before returning to the mists of academic obscurity. Hopefully we can pass along to our students the thought that economic stabilization is a bit more than comments in a seminar that the parameters of our fiscal and monetary functions must be adjusted.

Moreover, it succeeded in creating on the Hill a Committee with prestige and influence even though it is not a legislative committee. And for an agency with a total personnel of about 50 to achieve status and general visibility, as has the Council of Economic Advisers, suggests that something must have been right about the decisions made 30 years ago.

The ultimate question about which we must form some judgment, however, is whether the performance of the economy has been improved by the existence of the Act and the machinery which it created.

If we take this pragmatic view that the worth of the Act and machinery and processes thereby established are to be measured by the performance of

the economy, this whole historical venture could easily emerge with a "straight A" grade. By almost any test, except for the rate of inflation, the performance of the economy during the 30 years of the Act would be far superior to that for the 30 years before the Act. (Excluding the war years that would be 1910-1940, but that would be a period whose statistics would be dominated by the Great Depression.)

When we compare the performance of the U.S. economy during the three decades before the Great Depression with that during the last 30 years, even though this earlier period does include World War I and its displacement effects, the superiority of our recent performance becomes less evident. From 1899-1929 civilian employment rose at the annual rate of 1.9 percent, compared with 1.8 percent since 1946. Clearly the job-creation processes of the economy were functioning at least as well in the three decades up to 1929 as during the period under the Employment Act of 1946. And the economy was also generating somewhat larger rates of increase in output during the early period—3.5 percent per year compared with 3.3 percent for the 1946 to 1975 period.

This earlier superiority in the capability of the economy to enlarge output also carried through even better to what economic activity is ultimately all about—namely, improvements in the material well-being of consumers. Real personal consumption expenditures per person from 1889 to 1929 rose at the rate of 2.7 percent per year, compared with only a 1.9 percent rate since 1946. If in that earlier period real personal consumption outlays had risen only as rapidly as they have since 1946, the average American family would by 1929 have had a material level of living about 20 percent below that which he actually enjoyed.

AVERAGE ANNUAL INCREASE IN SELECTED ECONOMIC INDICATORS

[In percent]

	1899 to 1929	1946 to 1975
Indicators:		
Civilian employment.....	1.9	1.8
Gross National Product (constant prices).....	3.5	3.2
Personal consumption expenditures (constant prices).....	5.1	3.3
Personal consumption expenditures (constant prices) per capita.....	2.7	1.9
Consumer prices.....	2.7	3.6

Source: "Economic Report of the President, 1972," "Historical Statistics of the United States From Colonial Times to 1957," and "Long Term Growth 1860-1965" (Census, 1966).

The price level performance in the three decades from 1899 to 1929 was, of course, decidedly superior to that from 1946 to 1975. Since 1946 the consumer price index has risen at the average rate of 3.6 percent per year, and from 1968 to 1975 (the final seven years) the figure is 6.4 percent. From 1899 to 1929, as best they can be measured, consumer prices rose at the rate of only 2.7 percent per year and that includes the jump in the price level incident to World War I. Moreover, from 1922 to 1929, roughly "the Twenties" after the economy stabilized following the war, the price level trend was almost flat—rising at the average rate of 0.3 percent per year, compared with 6.4 percent from 1968 to 1975.

Finally, it may come as a surprise that the record of cyclical performance during the top periods does not give a clear cut victory to the years of the Act. The number of years in which real output was less than that in the preceding year was 6 both for 1899-1929 and during the years following 1946. And in not more than 5 of the 20 years from 1958 to 1977 will the economy have been operating at reasonably full employment. No such sustained run of unemployment can be found in the years from 1899 to 1929. The image of the U.S. economy as lurching violently from boom to burst before stabilization policy became an academic discipline is not supported by the evidence of history.

II

There are, however, three important things to say about this record in favor of the Act and its institutions. First, while the incidence of cyclical fluctuation

tuations during the earlier period was about the same as in the period since 1946, those earlier recessions were markedly more severe. The average decline for those six years during the period from 1899 to 1929 in which there was a recedence of real output was 3.8 percent, and the most severe was 8.2 percent from 1907 to 1908. This contrasts quite unfavorably with an average decline during recedence years since 1946 of 1.2 percent, and the maximum decline of 2.0 from 1974 to 1975.

Second, while the 30-year comparison period excluded the Great Depression, since that would then have dominated the data, the fact is that we did have a Great Depression in the 1930's. We have not had one during the last three decades even though economic policy was called upon to deal with severe strains in our financial system in 1970 and again in 1975. No one would pretend that the recurrence of a Great Depression was prevented by The Employment Act of 1946. Probably the single most important difference has been the vastly more sophisticated understanding of money and its economic role on the part of the Federal Reserve System now relative to the 1930's. This is all, however, a part of that larger effort to watch the quality of our economic performance of which the Act and its institutions are also building blocks.

Third, those who have not participated in activities of the Joint Economic Committee or the Council of Economic Advisers are often not aware of the major proportion of time and resources devoted to things other than macro-analyses of the overall economic situation. Some of the most useful policy work of these two institutions is devoted to what might be called micro-program matters. Illustrative of these would be such issues as trade policy, agricultural programs, the impact of public employment programs on unemployment and wage levels, the effect of the minimum wage on inflation and unemployment, the de-regulation of transportation, forest management economics, or the economics of pollution control programs. The list could be extended almost indefinitely. And this attention to these programs has at least raised the probability that the cost-benefit matter, which is inherent in these programs, will get a more explicit consideration. And it is precisely because the Joint Economic Committee and the Council of Economic Advisers have no particularized constituency that they can increase the probability that program decisions will be in the general public interest. This may well be the area of greatest contribution to economic policy by The Employment Act of 1946.

III

What can be said about where we go from here? This is a large subject, but a few quick comments may be in order. An urgent matter has to do with the problem of inflation. This is the dimension of our economic performance which has definitely been poorer than in our thirty-year comparison period. The President and the Congress during the last three decades have displayed no lack of concern about the problem, but it is so still true that our major declaration on national economic policy is silent about the price-level problem. The addition of "reasonable stability of the price-cost level" to the objectives of national economic policy would be a constructive step.

Second, the managers of economic policy can reasonably be asked to be more forthcoming about the path for production and employment that would represent the objectives of economic policy during the year ahead and for several years ahead. With increasingly explicit claims on future output arising out of decisions in the public sector, the time horizon for discussions in the Economic Reports of the President and of this Committee must be lengthened beyond "next year." This can assist in avoiding the erratic influences on the economy that inevitably arise if our theory is that policies should zig or zag to counter instability inherent in the economy—rather than recognizing that the path taken by policies themselves is the one that the economy will follow along later.

Third, a comment addressed specifically to your Committee. Reports of this Committee during earlier years reflected a substantial degree of unanimity. They therefore were recommendations for policy in which members reflecting widely varying views and sections of the country, and from both houses united. This gave them an enormous weight that helped to establish the Joint Economic Committee as an influential body even though it had no legislative function. The tendency for "Majority Reports" and "Minority Reports" has, it seems to me, gone too far in the last several years. While Committee Reports

remain a major influence, this impact on thinking could be even greater if they reflected that considerable body of analysis and recommendations on which there could be a wide range of agreement. (The Committee, for example, is to be commended this year for a *committee* report in international economic policy.)

Finally, an Act and the institutions which it created that have lasted and gathered strength for three decades are not things to modify lightly. The elastic phrasing of our national economic objectives has assured its continuing relevance and minimized the danger of obsolescence that more arithmetic targets would have courted. The decision not to burden this Committee with heavy legislative responsibilities or to establish the Council of Economic Advisers with a large bureaucracy assured continuing vitality of these institutions.

These do, in short, work. Perhaps that alone is enough to justify Senator Wagner's high hopes in 1945.

Representative BROWN of Ohio. Our third speaker today is Reginald Jones, chairman of the board of the General Electric Co.

Mr. Jones received his bachelor of science degree from Wharton School, University of Pennsylvania. In 1939 he began working with General Electric Co. In May of 1968 he became vice president for finance of General Electric; in 1970 senior vice president of GE; in 1971 a member of the board of that corporation. In May 1972, he was designated as vice chairman of the board of directors, and in June of 1972 elected as president.

In December of 1972 he became chairman and chief executive officer of GE. He is a member of the President's Export Council—I assume that is the President of the United States, and not the president of GE—and a member of the President's Labor Management Committee; he is a trustee of the University of Pennsylvania.

Mr. Jones.

STATEMENT OF REGINALD H. JONES, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, GENERAL ELECTRIC CO.

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

We congratulate the committee, and especially you, Mr. Chairman, for your initiative in organizing this very timely Conference on Full Employment. There is no more urgent challenge facing this country today than the challenge of getting people back to work, and assuring plenty of good job opportunities in the years ahead for our expanding labor force.

As you well know, it's not simply a matter of stimulating the economy with infusions of Federal money; there are deep and disturbing structural problems that threaten to make high unemployment a chronic sickness in our society, especially among young people and minorities. Whatever legislation emerges from your deliberations must address these structural problems, and avoid the temptation to concentrate on short-term solutions.

It is our belief that the primary thrust of any program to achieve full employment must be to restore the dynamism of the private sector—the productive core of our economy. The cyclical recovery already underway will help in this process, and we endorse the idea of extending the individual tax cuts and making them permanent in order to sustain the recovery. But our problems are so deep that

even the individual tax cuts combined with investment incentives for business will take a few years to come into full force in terms of employment. Therefore, some immediate special employment measures may be required in the transition period.

If a reasonable amount of public works projects can be set in motion quickly—and not delayed until the economy has already recovered—you can provide temporary jobs for unemployed breadwinners, particularly in the hard-hit construction industry. That would be helpful, but if it is correct that public works projects require spending in excess of \$25,000 per job, that is an expensive and ultimately self-defeating way to tackle the unemployment problem. The public works approach would appear to have limited usefulness.

Jobs for young people and minorities, generally with fewer skills and less experience, pose even more difficult problems and require longer-term structural solutions. Having in mind the temporary character of public-service job programs, it might be a better investment to concentrate funds on title I of the Comprehensive Employment and Training Act, and begin to correct the mismatch between the jobs and the skills that are becoming locally available.

It is reported that there are anywhere from a 1/2 million to 1 million unfilled jobs in the United States—and we ought to have better data on this—but the people with the necessary skills are not locally available to handle them. By giving people the training they need through CETA we not only provide immediate income for both the trainees and the teachers, but also begin to get at the long-term problem of chronic unemployment or underemployment among minorities, youth, and women.

Experience shows that a program such as CETA reaches young people with employment problems. Of the enrollees from July 1974 to June 1975, in title I programs, 61 percent were under 22 years of age, 60 percent had less than 12 years of education, 45 percent were females, and 40 percent were minorities.

Moreover, the CETA approach seems to get results. The Department of Labor reports that for the period from July 1974 through June 1975—and that was the worst of the recession—of the 624,000 individuals who were enrolled in and left the programs under titles I and II of CETA, 385,000—better than 60 percent—were either placed in jobs or went on to more specific job training.

We simply have to work hard in the next several years in the frustrating area of youth and minority unemployment, or we cannot expect them to support our economic or our political system.

Yet, everyone recognizes that public-service jobs and training programs are temporary expedients or transitional activities. That is why any full-employment program must concentrate on restoring the producer sector that provides most of the jobs, the income, and the tax revenues on which our economy operates.

The Nation's economic problems have been a long time developing. For most of the period between 1946 and the present, we have been favoring consumption over investment; we have been building up demand and neglecting supply; and we have been expanding the government sector and neglecting the producer sector that supports it.

Much good has flowed from these policies, but the one-sided emphasis is catching up with us. The economy has drifted out of balance. The producer sector, weakened by underinvestment, forced deeply into debt by declining real profits, is not going to be able to support the ever-growing demand for jobs, tax-supported services, and rising standards of living that the people and their Government expect. So, we need tax policies that permit us to channel a larger proportion of our national output into capital formation, and we need restraint in the expansion of Government services until we build up the tax base to support them.

BUSINESS UNABLE TO RAISE NEEDED FUNDS

Well, how much capital will business have to invest? The Council of Economic Advisers states that real business fixed investment—excluding the need for working capital—may have to rise to 12 percent or more of GNP in 1975 through 1980, as compared with the 10.4 percent averaged over the decade 1965 through 1974, in order to reduce the unemployment rate to even 5 percent by 1980.

Our own economists think that this is not a reachable goal under the present tax laws. They forecast that business fixed investment will not exceed 10 percent of GNP in 1977–80 because of inadequate funds and incentives to invest.

The five charts that are at the back of my prepared statement show why business will not be able to generate needed capital funds; corporate profitability and return on investment have been in a basic long-term decline.

Chairman HUMPHREY. Might I just interrupt, you mentioned charts.

Mr. JONES. They are at the back of the prepared statement, I'm reading a brief one.

Chairman HUMPHREY. Thank you.

Mr. JONES. Inflation has also eroded the funds provided by depreciation, and so businesses had to turn outside for funds. New equity shares have almost become a negligible factor in capital formation because our tax system is heavily weighted in favor of debt, rather than new equity. Therefore, most companies have been plunged deeply into debt. The result of this plunge into debt and the squeeze on corporate funds is that corporate liquidity has all but disappeared. It is somewhat better now than it was a year ago, but far from adequate. No wonder most financial institutions are skittish about lending money to many businesses, and businessmen are properly reluctant to go further into debt.

Corporations in these circumstances are just not going to be able to make the capital investments required. And reduced capital investments mean less economic activity, less employment, less improvement in productivity, less ability to compete with overseas competitors, and less improvement in our standards of living. These are the consequences of a tax structure weighted against capital formation and business investment.

ACTIONS PROPOSED

What must be done to restore the ability of industry to modernize and expand our aging industrial machine? How can we trigger the capital investment boom that this country needs to reach full employment again?

We would certainly support the extension of recently enacted incentives—making the 10 percent investment tax credit permanent, and making permanent the tax cut on the first \$50,000 of corporate income to help the struggling small businessman.

But two other areas of tax policy must be changed over a period of years, starting now, if we are to restore vitality to the producer sectors.

One is the area of capital cost recovery. The Congress should legislate a capital-cost-recovery system which will allow producers to adjust their depreciation or capital allowances to compensate for the ravages of inflation.

Chairman HUMPHREY. Could you just digress a little bit and explain that a little bit more in detail?

Mr. JONES. What we have in mind here is to permit deduction for tax purposes, depreciation of replacement costs, rather than historic costs.

Chairman HUMPHREY. I got you, thank you.

Mr. JONES. Now, the other area that requires attention is integration of corporate and individual income taxes to eliminate the bias in favor of debt instruments and stimulate the issuance of new equity. Again, there are several possible methods of achieving the required integration, of corporate and individual taxes, and on both of those we would suggest a start, realizing we can't afford the loss of tax revenues to go all the way, but over a period of years we could accomplish much.

Now, I would like to point out, in both these areas of taxation, our principal foreign competitors are well ahead of us. They have methods for minimizing the impact of inflation and double taxation that we badly need. You know, we have to remember that growing exports and international trade are so significant to our economy.

Today our exports of goods and services have grown to 10 percent of our GNP; it was just 6 percent 4 years ago.

Mr. Finley has made reference to the jobs lost through imports, and no one is more sympathetic than I. We have lost something like 2,800,000 jobs through our growth in imports. But, I would point out to you that we have gained 8.5 million through this tremendous growth in export. So, we are 5.7 million jobs ahead, and they are jobs that pay on the average 25 percent more per hour. We must take care of Mr. Finley's people, though, in some sort of adjustment situation.

Now, let me just go on to conclude by saying, as responsible legislators you want to know how much such tax reductions would be, and how they could be financed if we are going to keep the Federal deficit under control and prevent another dangerous round of inflation.

Well, the basic offset, of course, as your own report shows, is increased economic activity and employment that is generated by the proposed tax reductions. This will not only increase the individual and the corporate tax base, but also produce savings in Government expenditures related to unemployment and income maintenance as private employment increases. A valuable side effect, of course is the help that will provide to hard-pressed State and local governments in terms of reduced welfare costs.

We estimate that a properly phased-in program could accelerate economic growth to the point where the program would be paying for itself in about 3 years; and I think Mr. McCracken has written very much along this same line. And beyond that it starts to provide a fiscal bonus. More importantly, the cumulative effect of these actions on economic growth would produce extra jobs in the period of 1976-80 and help bring unemployment down to more acceptable levels. Beyond that point the demographics favor us, we don't have the same structural problems; but we do have them in this period to 1980.

Now, this investment in job formation cannot be postponed. Decisions must be made this year, by managements in companies large and small, so that the facilities will be in place to provide the jobs and rising standards of living our people aspire to. That's why the Congress must restructure the tax laws affecting business, if the Nation is to return to full employment.

Thank you.

Chairman HUMPHREY. We thank you.

[The prepared statement of Mr. Jones follows:]

PREPARED STATEMENT OF REGINALD H. JONES

Mr. Chairman, distinguished members of the Joint Economic Committee: We congratulate the Committee and especially you, Mr. Chairman, for your initiative in organizing this very timely Conference on Full Employment. There is no more urgent challenge facing this country today than the challenge of getting people back to work, and assuring plenty of good job opportunities in the years ahead for our expanding labor force.

As you well know, it's not simply a matter of stimulating the economy with infusions of Federal money; there are deep and disturbing structural problems that threaten to make high unemployment a chronic sickness in our society, especially among young people and minorities. Whatever legislation emerges from your deliberations must address these structural problems, and avoid the temptation to concentrate strictly on short-term solutions.

NEW PROBLEMS NEED NEW SOLUTIONS

This Conference comes on the thirtieth anniversary of the Employment Act of 1946. Then, as now there was widespread concern that the economy was facing high and chronic unemployment. The war was over, and the fear was that as we reconverted to a peacetime economy we would drift back into the depression from which we had just emerged. The answer then, a correct answer, was to stimulate demand—essentially to remove wartime controls and trigger the pent-up demand for consumer and capital goods that had been postponed for fifteen years of depression and war.

But that rather simple solution is not our answer today. Conditions are different.

In 1946, the United States was virtually the only industrial nation left intact, while our competitors around the world lay in ruins. Today they are not only rebuilt, but gaining on us in productivity and battling fiercely for markets here and abroad.

In 1946, both consumers and business had a mountain of accumulated funds to spend, after the enforced saving of the war. Business in 1946 had liquid assets that amounted to 86% of its current liabilities. Today, business is deeply in debt and liquid assets are only 34% of current liabilities.

In 1946, in spite of the problems of transition from war to peace, the unemployment rate was 3.9%, and we had only a *fear* of unemployment. There were relatively few women in the labor force, and the migration of blacks from the farm to the city had barely begun.

Today, with unemployment at 7.6% overall, and much higher than that among youth, women, and minorities, we face an entirely different situation.

So while the nation again faces a question of how to assure full employment of our labor force, the problems and the conditions are different, and will require a different set of solutions.

Incidentally, it is customary to speak of our growing labor force as a problem, but we must understand that potentially, it is an enormous asset. It takes labor *and* capital to improve national wealth. Many industrial nations do not have any slack in their labor force, and thus cannot increase output by putting additional skills and talents to work. We have talented people who are willing and eager to be put to work, sick of being on welfare or unemployment insurance, sick of being underemployed. This is our great challenge and our great opportunity—to bring them into the productive mainstream of our private sector and put them into dignified, high-paying jobs with a future.

How shall we go at it?

JOBS THROUGH THE TRANSITION

It is our belief that the primary thrust of any program to achieve full employment must be to restore the dynamism of the *private* sector—the productive core of our economy. The cyclical recovery already underway will help in this process, and we endorse the idea of extending the individual tax cuts and making them permanent in order to sustain the recovery. But our problems are so deep that even the individual tax cuts combined with investment incentives for business will take a few years to come into full force in terms of employment. Therefore some immediate special employment measures may be required in the transition period.

If a reasonable amount of public works projects can be set in motion quickly (and not delayed until the economy has already recovered) you can provide temporary jobs for unemployed breadwinners, particularly in the hard-hit construction industry. That would be helpful, but if it is correct that public works projects require spending in excess of \$25,000 per job, that is an expensive and ultimately self-defeating way to tackle the unemployment problem. The public works approach would appear to have limited usefulness.

Jobs for young people and minorities, generally with fewer skills and less experience, pose even more difficult problems and require longer-term, structural solutions. Having in mind the temporary character of public-service job programs, it might be a better investment to concentrate funds on Title I of the Comprehensive Employment and Training Act (CETA), and begin to correct the mismatch between the jobs and the skills that are becoming locally available.

It is reported that there are anywhere from half a million to a million unfilled jobs in the United States (and we ought to have better data on this), but the people with the necessary skills are not locally available to handle them. By giving people the training they need through CETA we not only provide immediate income for both the trainees and the teachers, but also begin to get at the long-term problem of chronic unemployment or underemployment among minorities, youth, and women.

Experience shows that a program such as CETA reaches young people with employment problems. Of the enrollees from July '74 to June '75 in Title I programs, 61% were under 22 years old, 60% had less than twelve years of education, 45% were females, and 40% were minorities.¹

Moreover, the CETA approach seems to get results. The Department of Labor reports that for the period from July '74 through June '75—the worst of the

¹ Data from the Comprehensive Employment and Training Act Review and Oversight, U.S. Dept. of Labor, Dec. 5, 1975.

recession—of the 624,000 individuals who were enrolled in and left the programs under Titles I and II of CETA, 385,000—better than 60%— were either placed in jobs or went on to more specific job training. About half of these went to unsubsidized employment while another half entered school or the armed forces or other activities to increase their employability.²

We simply have to work harder in the next several years in the frustrating area of youth and minority unemployment, or we cannot expect them to support our economic and political system. We must help this generation make the transition from unemployment to employment, from school to jobs, so they too can share in the rewards of a decent standard of living.

Yet everyone recognizes that public-service jobs and training programs are temporary expedients or transitional activities. That is why any full-employment program must concentrate on restoring the producer sector that provides most of the jobs, the income, and the tax revenues on which our economy operates.

INCREASED CAPITAL FORMATION

The nation's economic problems have been a long time developing. For most of the period between 1946 and the present, we have been favoring consumption over investment; we have been building up demand and neglecting supply; we have been expanding the government sector and neglecting the producer sector that supports it.

Much good has flowed from these policies, but the one-sided emphasis is catching up with us. The economy has drifted out of balance. The producer sector, weakened by underinvestment, forced deeply into debt by declining real profits, is not going to be able to support the ever-growing demand for jobs, tax-supported services, and rising standards of living that the people and their government expect. So we need tax policies that permit us to channel a larger proportion of our national output into capital formation, and we need restraint in the expansion of government services until we build up the tax base to support them.

CYCLICAL VS. SECULAR CONSIDERATIONS

Looking at the unused capacity in our factories today, some may say that it is foolish to talk about a capital shortage—at least right now. That is a dangerous misunderstanding. It takes anywhere from two to four years to get new factories built and up to full employment, and Boards of Directors have to see their way clear *this year* to raise the money in order to provide the additional jobs we need between now and 1980. This question of lead time, of incentives for business to act right now, is critically important.

Moreover, we should not be misled by those statistics about unused capacity today. Much of that is obsolescent—based, for example, on earlier assumptions of cheap energy. That day is gone forever, and such equipment must be replaced with more efficient, conservation-minded equipment in order to stay competitive.

In addition, much new equipment must be installed just to meet the government-mandated requirements for pollution-control and safety—necessary uses of capital, but producing practically no return to the investor.

And as the U.S. and world economy recover, inflationary shortages are widely predicted in our basic industries—paper, steel, fertilizers, chemicals, and others, especially energy. We must expand our capacity and we must make it more productive in order to compete in world markets and raise our standards of living.

Most discussions of the capital needs of industry concentrate on the need for new plant and equipment, and ignore another key aspect—the need for working capital. Business needs funds to carry inventories and receivables and equipment on lease to customers. Inflation has sharply increased the requirement for such working capital, and this is why many companies have gone deeply into debt just to get the capital they need to operate.

BUSINESS UNABLE TO GENERATE NEEDED FUNDS

So business needs more funds both for working capital and for investment in modernization and expansion of capacity, if it is to provide jobs for our growing labor force. How much are we talking about?

² Data from the Comprehensive Employment and Training Act Review and Oversight, U.S. Dept. of Labor, Dec. 5, 1975.

The Council of Economic Advisers states that real business fixed investment—excluding the need for working capital—may have to rise to 12% or more of GNP in 1975 through 1980, as compared with the 10.4% averaged over the decade 1965 through 1974, in order to reduce the unemployment rate to 5% by 1980. And since real business fixed investment actually declined during the recession years 1974 and 1975, we have some catching up to do. Business will have to invest at least 13% a year in 1977 through 1980 in order to provide the jobs needed to soak up unemployment.

Our General Electric economists say that this is not a reachable goal under the present tax laws, in spite of the anticipated improvement in corporate profits from the exceptionally low levels of the recession. They forecast that business fixed investment will not exceed 10% of GNP in 1977-80 because of inadequate funds and incentives to invest. And even that lower figure will be exceedingly difficult to attain. Let me offer a few statistics to demonstrate why.

There has been a basic, long-term decline in corporate profitability as shown on Chart 1. Reported profits before taxes fell from 10.9% of GNP in 1965 to 8.0% in 1975, according to the latest available data. When we adjust pre-tax corporate profits by removing just two of the illusions created by inflation—inventory profits and underdepreciation—we see that profits have eroded from 11.2% of GNP in 1965 to 6.8% in 1975.

Chart 2 shows how return on investment has deteriorated. The decline has been exacerbated in recent years by the high levels of inflation. Pre-tax operating profits expressed as a percent of the replacement cost of the stock of plant, equipment, and inventories have plummeted from 14.7% in 1965 to 8.2% in 1975.

The other source for internally generated funds, depreciation, has also been eroded by inflation. Capital cost recovery allowances based on historic original costs have not kept pace with the rapidly inflating costs of construction and capital equipment. As a result, industry has not been able to generate, through depreciation, the funds needed to replace obsolete plant and equipment. There shortfall by year-end 1975 has been conservatively estimated by the Commerce Department at \$8 billion for nonfinancial corporations, and the gap has been growing rapidly.

The decline of funds available from retained earnings and depreciation forced industry to turn increasingly to outside sources for capital funds. Here the choice is either to raise funds by the issuance of new equity shares, or to go into debit.

BIAS AGAINST EQUITY

New equity shares have become almost a negligible factor in capital formation. Over the past 20 years, Chart 3 shows that new equity shares have provided only 3.5% of the total funds raised by nonfinancial corporations. New debt, on the other hand, has been used to meet a growing share of corporate financial needs, averaging close to 40% during the past five years—compared with 30% during the first half of the 1960's.

The reasons for this imbalance are not hard to find: our tax structure is heavily weighted against new equity as compared with debt. Interest and dividends are both costs of capital—fees paid to people for the use of their savings. But interest is tax-deductible to corporations, and dividends are not. Hence there is a strong bias in our system pushing the corporation toward debt. Declining profit margins and return on investment are a further reason why savers prefer to lend money instead of risking their savings in equities that offer a small and uncertain return.

THE PLUNGE INTO DEBT

As a result of all these factors, corporations have been forced to go into debt, deeply and alarmingly, for their capital funds. Chart 4 further underscores the increase in corporate reliance on debt in recent years. During the past five years, corporations floated \$3.20 in new debt for every \$1.00 of new equity (which includes retained earnings as well as new share issues). This contrasts sharply with the ratio of \$1.42 to \$1.00 during the first half of the 1960's. It also contrasts with the long-term trend of 1.26-to-1 from 1955 to 1967, when the plunge into debt really began.

The result of this plunge into debt and the squeeze on corporate funds is that corporate liquidity has all but evaporated. Chart 5 shows the point dramatically. In 1960, the liquid financial assets of the nonfinancial corporations were 62.1% of their current liabilities. By 1965 that ratio had fallen to 40.7%, and by 1975 it was down to 33.7%. No wonder most financial institutions are skittish about lending money to many businesses, and businessmen are properly reluctant to go further into debt.

Corporations in these circumstances are just not going to be able to make the capital investments required. And reduced capital investments mean less economic activity, less employment, less improvement in productivity, less ability to compete with overseas competitors, and less improvement in our standards of living. These are the consequences of a tax structure weighted against capital formation and business investment.

ACTIONS PROPOSED

What must be done to restore the ability of industry to modernize and expand our aging industrial machine? How can we trigger the capital investment boom that this country needs to restore our economic vitality?

We would certainly support the extension of recently enacted incentives—making the 10% investment tax credit permanent, and making permanent the tax cut on the first \$50,000 of corporate income to help the struggling small businessman.

But two other areas of tax policy must be changed over a period of years, starting immediately, if we are to restore vitality to the producer sector.

One is the area of capital cost recovery. *The Congress should legislate a capital cost recovery system which will allow producers to adjust their depreciation or capital allowances to compensate for the ravages of inflation.* The present law contains a precedent for this type of approach by permitting taxpayers to use the LIFO method of inventory adjustment. A number of methods of accomplishing this objective in capital cost recovery are available, and it is possible to phase these adjustments in over a period of years to minimize the revenue impact. But acceptance of the concept and a meaningful start are much more important than the particular method adopted.

The other area requiring attention is integration of corporate and individual income taxes to eliminate the bias in favor of debt instruments and stimulate the issuance of new equity. Correcting this inequity would reduce the upward pressure on interest rates that results from the unnaturally high volume of debt offerings. And most important of all, it would invigorate the market for new equity shares. Again—there are several possible methods of achieving the required integration of corporate and individual taxes, but the most important point is acceptance of the concept and commitment to get started. Here too, it is possible to phase in the program of correction over a period of years in order to minimize the revenue impact.

WORLDWIDE COMPETITION

I should point out that in both these areas of taxation—capital cost recovery and the integration of corporate and individual taxes—our principal foreign competitors are well ahead of us, and have various methods of minimizing the impact of inflation and double taxation on their industrial sector. And this brings up yet another very fundamental reason why the Congress must act. It must act so that American industry can improve its productivity and remain competitive in the battle for export-related jobs.

There is little recognition in this country of the growing impact of world trade and world competition on jobs and income here in the United States. Many of our people are now aware that total exports of goods and services in the United States rose from \$66 billion, or 6% of gross national product, in 1971 to \$147 billion, or 10% of GNP, in 1975. Thus, exports now provide a rising proportion of U.S. national income and something like 8 million jobs that more than offset the 2½ million jobs lost through imports.

Last year, American industry achieved a stunning and surprising \$9.5 billion surplus in the U.S. balance of trade. But we are heading into a much more competitive period and actually ran a trade deficit in January. Yet we hear an

insistent clamor in the Congress to change our tax laws governing foreign source income, without regard to the impact our foreign subsidiaries have on our success in foreign trade. There are threats to eliminate or reduce the foreign tax credit, which merely avoids double taxation. There are proposals to tax foreign source income *before* it comes into the United States. There are proposals to eliminate or reduce what few export incentives we have, such as the DISC provisions to partially offset the tax advantages of foreign exporters. These ill-considered efforts to tamper with our ability to compete in world trade must not be allowed to succeed.

We cannot expect to have another \$9.5 billion trade surplus in 1976. Our competitors overseas are hurting from the recession and are going all out to step up their export business. Many of our customers, particularly in the less developed countries, have had to slow down their purchases of U.S. goods because they are having serious balance-of-payments problems. Meanwhile, as the U.S. economy recovers we can expect an increase in our imports of raw materials and some finished goods. The competition in world trade is going to be extremely intense, and it would be downright self-destructive to add to the tax burdens of our industries that operate on a world scale and bring in most of our export business.

For the same reason—international competitiveness—we need tax policies that will enable U.S. industry to modernize its plant and equipment. Our main competitors, Japan and the European Economic Community nations, have been investing two or three times as much of their GNP in new plant and equipment as we have, and their productivity has been increasing two or three times as fast in the past two decades. Inevitably, they are going to catch up and surpass us in industry after industry—with devastating impact on jobs and income—unless we keep ahead in the productivity race.

This is just another reason why, in addition to individual tax cuts, we must have changes in business taxation to encourage capital investment.

IMPLICATIONS FOR FEDERAL DEBT

As responsible legislators you want to know how such tax reductions would be financed, in order to keep the Federal deficit under control and prevent another dangerous round of inflation.

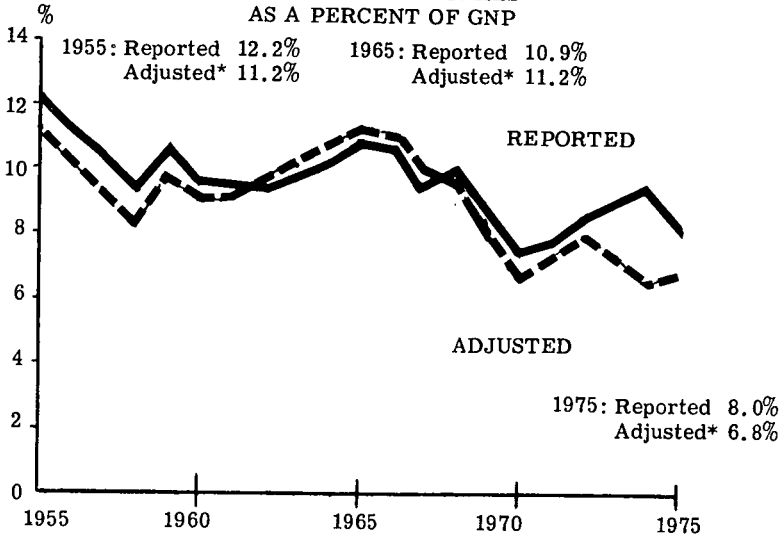
The basic offset, of course, is the increased economic activity and employment generated by the proposed tax reductions. This will not only enlarge the individual and corporate tax base, but also produce savings in government expenditures related to unemployment and income maintenance as private employment increases. A valuable side effect of the increased economic activity is the help this will provide to hard-pressed state and local governments in terms of reduced welfare costs and increased tax revenues.

Our economists estimate that a properly phased-in program could accelerate economic growth to the point where the program would be paying for itself in about three years and start providing a fiscal bonus thereafter. More importantly, the cumulative effect of these actions on economic growth would produce extra jobs in the period 1976-1980 and help bring unemployment down to more acceptable levels.

The required tax reductions would not be completely offset in 1977, and no one is anxious to add to the Federal deficit. But our feeling, looking at the underlying weaknesses revealed by the recent bout of inflation and recession, is that we cannot delay in providing the means to step up capital investment and job formation for the long pull. With the economy running well under full-employment capacity right out to 1980, this is the best time to take our medicine and swallow the immediate losses in tax revenue. Less productive uses of Federal funds, particularly new programs that do not contribute to the restoration of a dynamic economy and a strong national defense, must be postponed.

But the investment in job formation cannot be postponed. Decisions must be made this year, by managements in companies large and small, so that the facilities will be in place to provide the jobs and the rising standards of living our people aspire to. That is why the Congress must restructure the tax laws affecting business if the nation is to return to full employment.

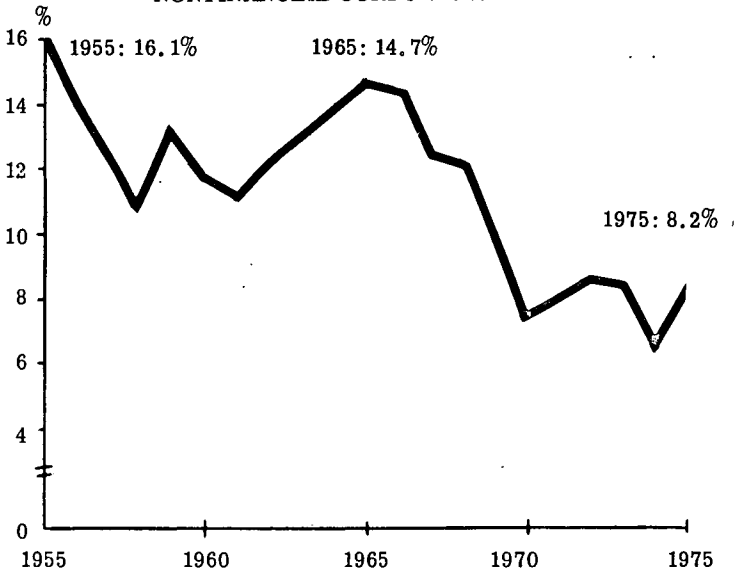
CHART 1.
PROFITS BEFORE TAXES
AS A PERCENT OF GNP



* Adjusted by Commerce Department by Removing Inventory Profits and an Allowance for Underdepreciation

SOURCE: Calculated from Commerce Dept. Data

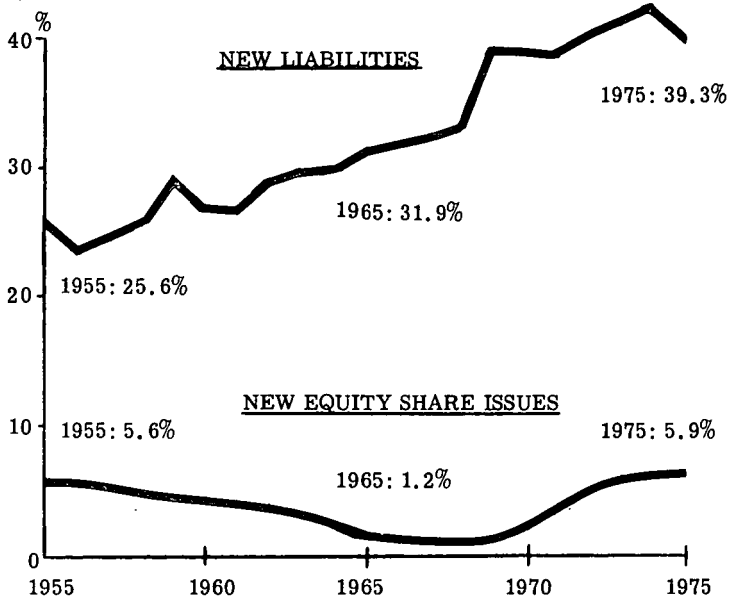
CHART 2.
 RETURN-ON-INVESTMENT* BEFORE TAXES
 NONFINANCIAL CORPORATIONS



* Pre-Tax Operating Profits as a Percent of Plant, Equipment, and Inventories Valued at Replacement Cost

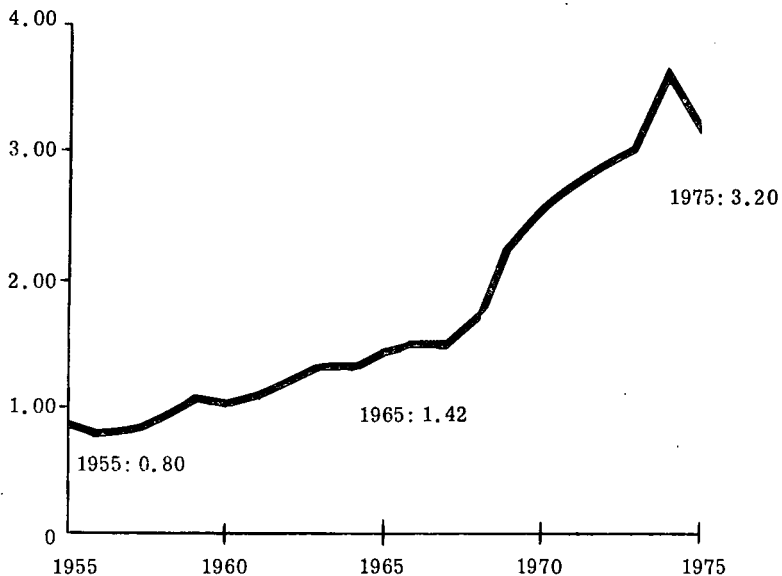
SOURCE: GE Estimates Based on Commerce Dept. Data

CHART 3.
 PERCENT OF TOTAL FUNDS RAISED THROUGH
 NEW EQUITY SHARES AND NEW LIABILITIES
 NONFINANCIAL CORPORATIONS
 (5-YEAR MOVING AVERAGE ENDING IN YEAR SHOWN ON CHART)



SOURCE: Calculated from Federal Reserve Data

CHART 4.
 RATIO OF NEW DEBT* TO NEW EQUITY**
 NONFINANCIAL CORPORATIONS
 (5-YEAR MOVING AVERAGE ENDING IN YEAR SHOWN ON CHART)

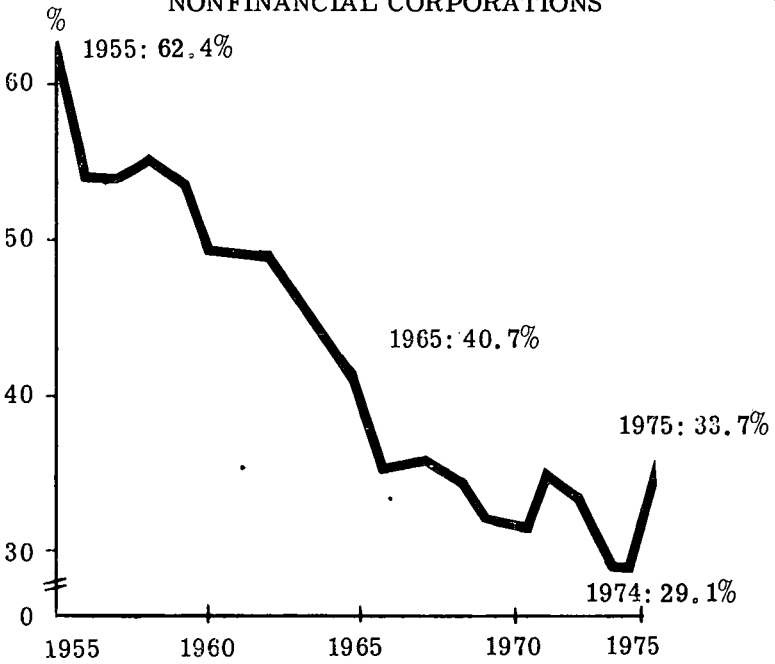


* All Financial Liabilities

** Consists of Retained Earnings (Ex Inventory Profits But Including Foreign Branch Profits) Plus New Equity Shares

SOURCE: Calculated from Federal Reserve Data

CHART 5.
LIQUID FINANCIAL ASSETS AS A PERCENT OF
CURRENT LIABILITIES
NONFINANCIAL CORPORATIONS



SOURCE: Calculated from Federal Reserve Data

Chairman HUMPHREY. The statements that we have had here are not only constructive, but they are provocative, and I know we want to get into some questions.

My colleagues temporarily had to go to the House for a vote, and I want to apologize to our panelists here; but some of you who testified here before know about the situation we have to put up with here, we have the business of the Senate and the House, and that must go on.

We are going to proceed with our discussants now, and might I suggest that some informality here would be very helpful. I know that this panel that is with us, those who are going to lead in the discussion, have brief statements they want to make on their own, but I would hope you would feel free, as panelists, to get into some dialog, some interruption.

I'm asking each of the panelists to keep their comments as they have been instructed, or have been advised, within reasonable limits and then we'll get the give and take here because this is an education forum for us, on different points of view.

I believe we'll start right, as I look out here to my right, with Mr. Ray Marshall. Mr. Marshall is professor of economics, and director of the Center for the Study of Human Resources of the University of Texas in Austin. He has a very fine background, a Ph. D. from the University of California at Berkeley.

And I want to say, the thing in your academic training that has impressed me even more, or the most, Mr. Marshall, is that you received your master's degree from Louisiana State University. I also received mine there, and obviously you are the superior witness of the day, there is no doubt about that. [Laughter.]

You have served as chairman of the Department of Economics at the University of Texas, and also the University of Kentucky. My Uncle John, John Humphrey served as the head of the Department of Economics of the Kentucky University. You are in with the chairman today, I can assure you. [Laughter.]

Now, we will take it one at time, and we will lead off with Mr. Marshall, and then I'll present you individually. Go right ahead.

STATEMENT OF RAY MARSHALL, PROFESSOR OF ECONOMICS, UNIVERSITY OF TEXAS

Mr. MARSHALL. Thank you, Mr. Chairman, it is a pleasure to be here. We were asked to try to ask questions mainly, rather than making a statement. I'm glad you gave us a chance to make a little statement.

Chairman HUMPHREY. That's what I thought you might want to do. And I want you to cross-examine the panel.

Mr. MARSHALL. It's hard for me to ask questions without stating my underlying assumptions.

Chairman HUMPHREY. You'd better be a good Senator, by the way.

Mr. MARSHALL. One problem I have with the figure that Mr. Jones used, the \$25,000 for public works jobs—I believe that was the figure he used—I know the source of that figure, but I don't know how the President calculated it.

That causes me some trouble, partly because I've seen the figure range all the way from \$3,500 to \$25,000—that's a sizable range of

error, if we do have errors there. The Congressional Budget Office estimated that the cost of a public employment job was considerably less than that, in the neighborhood of \$8,000; but that it costs a great deal more to create a job, or to reduce unemployment by one job through tax cuts. I believe you give heavy emphasis to the question of tax cuts.

Now, I believe their estimate was that it costs between \$17,000 and \$21,000 to create a job that way.

I also liked your statement, Mr. Jones, about the need to take specific labor market action, it seems to me that is entirely the case. I wasn't surprised at Mr. McCracken's comment about the Council of Economic Advisers having given some attention to specific labor market matters, but I would be surprised to learn they had given a great deal of emphasis to that. It seems to me the Council through time has given much too much weight to general macrotype economic policy, and not enough to specifically targeted labor market activities.

But, at the same time, the problem of the cost and the alternative of using public employment and the alternative of using tax cuts seems to me to be one that we really ought to dig into because all these figures cannot be right, and they cannot apply to the same thing.

I know from personal experience in Texas that the Operation Main Stream program, which was a public employment program, was much less expensive than that. The total cost, out-of-pocket cost, was about \$5,000 per job. It was a very effective program, it did a lot of useful things that could not be done, would not have been done if we hadn't had that program.

It seems to me another thing we have to do is look at all the benefits and the costs associated with public employment. I think it's entirely true that we must look to the private sector for the main thrust. But I'm convinced because of my concern for pockets of unemployment, the problems of minority groups, the problems of rural people, the problems of youth, that we are not likely to get anything near full employment by whatever definition you use, unless we start accepting aid as the level of full employment. We are not likely to approach that without intolerable levels of inflation, unless we have highly targeted programs like public employment; and that the cost must be looked at as net cost.

It costs us a great deal not to do anything. If we had not embodied all the labor that we did during the Great Depression in schools, and bridges, and roads, that labor would have been lost to society forever because one of the most perishable products that we have is the labor of a human being. There is no way we can go back and work yesterday.

It seems to me that we have to put into the equation that reality, that is the fact that we lose that labor if we don't use it. I think another important part of the reason that we ought to give a great deal of attention to the cost of public employment is because it seems to me to make a whole lot more sense to pay people to produce goods and services than to pay them not to do anything. The alternatives are extended unemployment insurance, or some kind of transfer payments, and it makes a whole lot more sense to pay people to produce

goods and services. It makes sense in terms of what we get for it, and it also makes sense in terms of the inflation problem. It's a whole lot more inflationary to pay people not to do anything, than it is to pay them to produce goods and services.

I think it's also clear that other costs, nonmonetary costs of not doing anything about the problem of unemployment, which are not monetary in a direct sense, also have to go into the equation. In spite of all we hear about the changing character of unemployment, some of the same old relationships seem to show up in the statistics. That is to say, with rising unemployment, we get rising crime; we get rising poverty; we get rising mental problems; increasing incidence of suicide among middle-aged men.

Now, it may be new, but it shows up in the same old way, which makes it very difficult for me to believe that there is a whole lot new about this kind of unemployment, or that we can safely ignore it.

I completely agree that we need to do whatever we can to get the private economy to provide most of the jobs. I think it's also clear, as you, yourself, have pointed out, Mr. Jones, in your excellent prepared statement, that the private sector is not likely to do it. There are just a lot of things the private sector cannot do. That being the case, we need to get public employment programs.

Now, one final comment about that, it seems to me the term "public employment" is used too broadly; some people use the term "public service employment," as if you are talking about putting people on Government payrolls. Well, it need not take that form, as you indicated. It can also be private employment in the form of public works, but nevertheless a part of a public employment program; the outcome is quite different. The outcome of a program that transfers funds to State and local governments, as the public employment programs did, it quite different from Operation Main Stream, where the farmers' union operated a program in rural areas that put people to work, doing all kinds of useful things.

So, "public service" employment is not "public works"; and there is another concept, "supportive work," which has been used in a lot of circles, I think, with benefit. All those different kinds of programs have different outcomes.

I would like for you to enlarge on that, or other members of the panel.

Chairman HUMPHREY. Might I just interrupt on this because I have to cast a vote, but I want the dialog to continue. I am going to ask Jerry Jasinowski—we do have Members of the House on their way back right now. But, we are building a record, and if you would like to continue for just a moment. Jerry, if you will preside, I'll be right back, and Congressman Brown is on his way. I see my time is running, the people's business needs me.

Please, go ahead.

Mr. JONES. If I could respond to Mr. Marshall, I think he has asked some very good questions.

First of all, let me say, I haven't found any source of what I would call totally reliable figures on the cost of a public works job versus a public service job versus cost in the private sector through

tax reduction. The White House can give you one set of numbers as to the costs of jobs provided, as you know; and Congress can give you another. You can get one from the House, and a different one from the Senate.

The Congressional Budget Office, as you know, put out a report which indicated that a public work job is considerably more expensive than a public service job.

What I was trying to suggest here is that we need a mix of all these things. Just as you indicated, we need to strengthen the private sector because this is where most jobs are going to develop. And while it is true that the cost, shortrange, in the private sector through tax reduction is expensive—and I'm talking tax reduction for both the individual and the corporation—the payback is there.

I mean, you can go time and time again and see the tremendous improvement in the economy that follows a tax cut. There is a lag of about 18 months, and then beyond 3 years you get an actual bonus out of it.

Now, what we used in the program that we put together, that I just mentioned very quickly, was public works, where the jobs could be developed within 90 days; where the work has proceeded beyond the drawing board and where we are ready to let the contract, are ready to go to work. I think that has got to be done to a reasonable degree. What's reasonable? Well, certainly, a couple of billion is not extraordinary in this area.

But we concentrated on the public service area because it's less costly and it serves a much larger constituency. The trouble, as you indicated when you talked about public employment, one fellow thinks you are talking about training, and another thinks you are talking about making a grant to a local government to pay an employee that they've already got on their payroll. There is a tremendous difference.

We were concentrating on title I because in title I, \$1.5 billion would serve 1.2 million people, as we figure it; whereas in title VI, which is the grant to local government, it's a situation where you've got about \$1.7 billion to serve maybe 300,000 people, a very substantial difference.

Now, the House is talking about increasing the amount in title VI, but setting it aside so that it won't be given to local governments for use in just hanging onto people currently on their payroll, but for highly visible projects that would be handled in the local area, where there is need for employment.

We think the mix of those three, building the private sector; some limited public works, and expanded public service, particularly in the title I areas of CETA, would give us something that would long-term address the structural problem; and short-term give us some more immediate relief.

Mr. JASINOWSKI [presiding]. I think in order to keep the elements of this dialog going, I think it would be very useful to have Prof. Robert Lekachman, who is a distinguished professor of economics from Lehman College to comment and question our panel informally, as Chairman Humphrey said he would like.

STATEMENT OF ROBERT LEKACHMAN, PROFESSOR OF ECONOMICS,
LEHMAN COLLEGE, CITY UNIVERSITY OF NEW YORK

Mr. LEKACHMAN. Thank you very much, I am glad of the chance.

Let me start very briefly by saying that, although this is an occasion of celebration of the 30th anniversary of the Employment Act, I'm not among the admirers of the Employment Act, which I consider an extremely weak and toothless instrument.

It is for that reason, among others, that I'm pleased that Senator Humphrey, Congressman Hawkins and others have sponsored H.R. 50, which I understand to be a serious effort to strengthen the Employment Act of 1946.

I would strengthen it still further myself by enforcing rather stronger requirements of action on the part of the Federal Reserve; by speaking more concretely of anti-inflation restraints; by reenforcing the section which declares employment to be a right, and also strengthening the statement of purpose which, though considerably better than the statement of purpose in the 1946 act, nevertheless of capable is being read as regarding full employment as a possible trade-off against other objectives.

There was one thing that, when Mr. McCracken was going the historical comparisons, that came back to mind. I'm unhappily old enough to remember the 1950's quite vividly, and there are some parallels between the emphasis which I have heard today on the part of both Mr. Jones and my colleague, Professor Marshall, on structural unemployment, which remind me quite vividly of a similar emphasis during the 1950's.

Now, without underestimating the true problems of bringing together the right people with the right jobs, I would rather suggest this, that where aggregate demand is high, and employers are hunting hard for employees, they will do a portion of the training which CETA programs and others now do at public expense.

There will also be an impetus for job redesign, simplification, so that the job is adjusted, in many instances, to the qualities of the actually available employees.

That is to say, although I am certainly no opponent of efforts to train individuals whose preparation and education may be sketchy, nor am I an opponent of the effort to match those individuals with jobs, if necessary created, for them to fill; at the same time I think it is desirable to recall—though not currently fashionable—that all of these efforts are easier when the economy is running at something near full employment, than they are in the absence of that particular feature of the economy.

I think it's in this light that I would like, if I may, explore further the experience of the Employment Act with Mr. McCracken, who has served both in the 1950's and in the 1970's as either chairman or member of the Council.

Let me ask this first question, Mr. McCracken, if I may take another comparison. Why has the experience of the United States been, as Mr. Finley suggested in his opening statement, on the whole less satisfactory from the standpoint of employment than the experience

of most of the other advanced countries in the postwar period? I believe that to be fairly common ground.

Mr. McCracken. Well, Mr. Chairman, I found myself so startled by the allusion that he was old enough to remember the 1950's that I had a little difficulty tracking after that, since I remember the 1930's.

Mr. Lekachman. So do I, as a matter of fact.

Mr. McCracken. Well, good, I feel better.

Well, that, of course, is a very large subject, and I think we could do very little more than just identify the areas that ought to be explored here.

One of the questions, of course, has to do with the definition of unemployment. I do not mean by saying that that it's merely a definitional problem, but there is that dimension in trying to get figures that are roughly comparable.

Now, it is also true that to the extent that one can reduce the figures to comparability, unemployment rates in the United States, given levels of pressure on the price level, seem to be higher. In other words, the relationship seems less favorable here.

The second set of considerations may be that in the European countries, especially during much of this 30-year period, there was more underemployment there and less unemployment and, therefore, there was more elbowroom to keep the economies moving ahead very rapidly, without the same degree of pressure on the price levels.

I guess the third point that I would make, however, is that is we bring ourselves up to date, the fact of the matter is that the kinds of problems that we are concerned about here, namely, the problem of both high rate of unemployment and high rate of inflation is quite general; it's the same kind of problem in varying degrees that we see in most of the other countries of the industrial world. Hopefully, we are moving out of that. In that degree, at least, there is a considerable degree of parallelism in our experience here vis-a-vis Japan, or the other countries of the industrial world.

Mr. Jones. Could I make one comment?

Mr. Jasinowski. Sure .

Mr. Jones. It is a fact, however, as I understand it, our demographics are different. Their baby boom follows ours by 5 years. They will hit the same demographic problem about 1980, 1981, that we hit in 1975 with 10 percent of our work force in that very young age bracket, where it's historically been 7. It will return to 7 percent in this country in about 1981 or 1982. The people are here, we know that. In Europe, they hit it, as we do now, in about 1981.

The second factor is, of course, they had to rebuild from the ravages of the war, and we poured in capital, as well as their very high savings rates. So, they have a much more modern industrial machine than we and, therefore, higher productivity. You know, in Japan for example, 32 percent of their machine tools are over 10 years of age; in the United States that figure is 67 percent. These are some factors that create dissimilarities.

Mr. Lekachman. A tragedy that we haven't managed to lose a war recently, I suppose.

But, let me return for a moment to an aspect of Mr. McCracken's response. I heard in it what I suppose is an echo of the Phillips Curve doctrine, that there are tradeoffs built into unemployment and inflation relationships.

I heard Congressman Udall on television, who I understand is running for a higher office, respond to some panelist's question about the difficulty of achieving full employment without inflation. His answer was something like this: That these were separate problems to which you addressed separate policy instrument; that you expanded the economy by whatever combination of public and private measures were needed to produce full employment. If the side effect of this was inflation, then you addressed the inflation directly.

In a highly delicate fashion, he was alluding to some variety of incomes policy. I don't want to interpret too much into a single answer of Congressman Udall, but speaking in my own voice, isn't one possible answer to the tradeoff the contemplation of both, a permanent full employment policy and a permanent anti-inflation policy at a discard of what has been the policy of recent years, which has been to proceed alternately against one of these problems, at the cost of exacerbating the other.

Mr. McCracken. Are you addressing this comment to me?

Mr. LERACHMAN. Yes.

Mr. McCracken. Well, let me comment on that. Poor Mr. Phillips apparently was on the verge of achieving immortality, only to have his law suddenly discredited, apparently.

I think we probably went too far one way in the direction of assuming some kind of reasonable invariant relationship, and are now going too far in the sense of suggesting that there is no relationship at all.

Suppose that we were to pursue a policy by which the demand for output at least in nominal terms—that is we'll stay in current dollars—were to rise substantially more rapidly than what seems to be ahead of us.

If we put the economy under too much pressure, I would guess that we see a price level response. I think that would be the general expectation, also. One cannot go so far as to say that these are two totally different problems; I don't understand that, and I don't see any logic to support it. Moreover, in the substantial amount of international experience that we have had with this electric phrase "income policies," which I suppose ranges all the way from mild exhortations to outright price controls, I don't see how one can read that experience and be confident that we have some kind of a wage and price control program which can deal with the problem of inflation, by which then we can put the economy under pressure.

Indeed, I will put it even more strongly. I think that has been one of the problems that countries who have tried these programs have run into, thinking that they had solved and dealt with the problem of inflation by incomes policy. They overstimulated the economy and found themselves sooner or later with the program blowing up.

The OECD in its review of this experience has certainly concluded that there might have been some temporary displacement effect on the price-cost level, but whether it had any enduring impact

was doubtful. That is based not only on their own experience, but international experience.

So, I guess I would not see the logic that somehow or other these are two totally different things, I just don't think they are.

Mr. LERACHMAN. Might I differ on that, Mr. McCracken—

Representative BROWN of Ohio. May I interrupt long enough, so that we can open this up all the way, I want to introduce the other two discussants who have not been introduced, and then perhaps we can make this a little more free wheeling, or get a little more involvement from everybody in the conversation.

Our other two guests this afternoon I will introduce separately, but one comment, if I may, from each, and then everyone will be involved in the panel discussion and participation.

We have James Compton, the president of the Chicago Urban League, who has his A.B. degree from Morehouse College in Atlanta, Ga., diploma from the University of Grenoble in France. He also attended Miloa University, Chicago, Chicago Teachers' College in Chicago. He was executive director of the Chicago Urban League beginning in 1972, and executive director of Broome County League at Bingham, N. Y., prior to that.

He taught school, elementary and adult evening classes in Chicago. His career has centered around education, social and community organization work, with emphasis on helping minority groups improve their economic and social condition.

Mr. Compton, can we get a question, or a comment from you, and then I will introduce our other guest.

STATEMENT OF JAMES W. COMPTON, PRESIDENT, CHICAGO URBAN LEAGUE

Mr. COMPTON. Thank you very much, Congressman Brown.

I first wish to take the opportunity to commend the committee, and especially its chairman, for the regional hearings which you conducted throughout the major areas of the United States, and also for the convening of this very important conference over this 2-day period on what I consider to be one of the most severe problems that we are facing in this country today, and that is the problem of high unemployment.

May I say, initially, on behalf of the Chicago Urban League, that we applaud the basic features and the intent of the revised Humphrey-Hawkins bill entitled "Full Employment and Balanced Growth Act of 1976." We are heartened by its recognition of the need for a national commitment to full employment, comprehensive and explicit planning, the policy and program formulation and accountability to quantitative and qualitative details to structural as well as cyclical barriers to full employment.

I want to commend the authors of this legislation for their recognition of our very special problems of our inner cities, the people who inhabit the inner cities; the direction of labor and production resources to social needs, including housing and community development as well.

I ask, in considering this bill, that even more consideration be placed on these latter features, that is the employment of minorities and youth be given special attention as an institutional problem, rather than individual-by-individual problem. Special scrutiny be given to compliance with enforcement of nondiscrimination provisions. That the legislation defining unemployment include those who are working part time while desiring full-time work; an accurate information system be incorporated in the legislation to provide timely unemployment data relative to structural barriers, and to monitor the content and distribution of the increased productivity it generates.

This legislation is of profound importance to the people of Chicago and to the Nation as a whole. It is especially vital to the interests of minorities who constitute a disproportionately large segment of the unemployed, as well as underemployed.

And on this, the 30th anniversary of the Employment Act of 1946, that is appropriate and long overdue, to attempts to compensate for the inadequacies of the past.

In basic conception and purpose the Chicago Urban League and its constituency applauds this legislation, and we urge and plead its enactment into law.

In that Professor Lekachman is an expert in the aspects of employment in the public sector, I will not try to repeat his remarks, except to say that I do support and do agree wholeheartedly; and I do think that when you talk about cost factors of this type of employment, in the public sector, that we should give less attention to the cost factor, regardless of whose figures we are using, and give more attention to the investment factor and human beings.

I don't think that the cost factors, regardless of whose figures we use, would be greater than the cost factors involved in heavy crime that we have in our major cities; the cost of welfare, or paying people not to work; the costs in broken homes and misery; the cost in mental illness, and ultimately the cost of threat of violence to the social fabric of this Nation. So, I support that aspect of it as well.

Representative Brown of Ohio. Our fourth discussant this afternoon is Bernard Anderson, of the Wharton School of Finance, professor of industry; he is a graduate of the Wharton School; coauthor of a recently published study on the impact of government manpower programs; member of the American Economic Association and Industrial Relations Research Association; and he is a former instructor at Swarthmore College.

Professor Anderson please proceed.

STATEMENT OF BERNARD ANDERSON, PROFESSOR OF INDUSTRY, WHARTON SCHOOL OF FINANCE

Mr. ANDERSON. Let me begin by thanking you for the invitation to come here today, and let me commend the Joint Economic Committee for holding these hearings on what I consider to be the most important domestic issue in the country.

Let me make a very brief statement, and then I would like to direct a question to my fellow alumnus, Mr. Jones, and then another question to Congressman Brown.

I would like to begin by saying, it seems to me that full employment is far too important to be left to economists— and if I should debunk my profession somewhat, you will forgive me, Mr. McCracken, but I think that too much of the discussion of full employment and its consequences, its feasibility, has come forth from economists who have, as you, I'm sure will agree, a particular view on this issue.

I begin with the notion that work is an important ingredient in the lives of individuals. Now, we have heard in this country in recent years a great deal about the work ethic. Well, I think it's ludicrous to talk about the work ethic without developing creative and imaginative policies that make it possible for every individual willing and able to work in fact to have a job.

We have heard that there are changes in the structural content of the labor force, and that certainly is true. But I can't understand why we don't see and emphasize the fact that the opportunity to make a productive contribution to this society is the birthright of every American.

I suggest that the opportunity to work should be the centerpiece of the national economic policy. If we have observed changes in the composition of the work force, does that then not suggest that we should have policies that make it possible for minorities and women, and youth to be more fully adapted to the economy?

That is, I don't understand why, if the composition of the work force changes, that we then should be satisfied with a higher rate of unemployment. I don't understand why we want to define full employment as that rate of unemployment that is consistent with some notion of price stability.

I would suggest that another important ingredient of this, to which Mr. Compton has referred, that full employment is a *sine qua non* for the achievement of economic equality in this country, which I understand to be another objective of public policy.

Now, with those remarks I would like to say that it is likely, given the current changes in the economy, that we would have difficulty in achieving full employment in the years ahead. We need measures that would permit us to deal effectively with the energy shortages, the inevitable rise in the cost of energy; foreign competition, the need to expand production without spoiling the environment, and a number of other desirable public objectives.

Now, Mr. Jones, permit me to ask you this, I am informed that multinational corporations, like General Electric, achieve a rate of return on investment that is higher in Western European countries that have some form of national economic planning, than they do in the United States.

I'm interested in your chart No. 2 to your prepared statement, which shows the decline in the rate of return on investment during the period between 1965 and 1970.

Now, if in fact that is the case, if multinational corporations do very well in foreign countries that have a considerably greater involvement of government in the economic affairs of the nation, I wonder if you would care to comment and give us the benefit of your thoughts, on the desirability of some form of national economic plan-

ning for the United States, as a tool for achieving in the years ahead full employment without inflation.

Mr. JONES. I will be happy to try to respond, Mr. Anderson. First let me say that our experience is not one of higher return in the planned economies of Western Europe. Our experience is lower return and withdrawal, actually, of any significant operation in Western Europe on the part of our company. We have some small operations there, they are not significant in our total.

We have found, as a matter of fact, in our own experience, that we are doing much better in exporting to Western Europe than we are doing in trying to locally manufacture there. There are occasions where because of local regulation—national chauvinism, whatever you want to call it—we must produce certain products in the country in order to be able to sell them, which I am sure you appreciate.

Just to give you a couple of figures, the favorable balance of trade at General Electric, that is its exports in excess of its imports in 1970 was \$500 million; last year it was \$1.5 billion, three times as much.

There are a number of reasons for that. One of course is the fact that the U.S. dollar was so badly overvalued that we had a real currency problem. When we went to floating rates, we were of course advantaged. Not advantaged unfairly because I firmly believe the floating rate put the dollar in about the right relationship to other currencies. You have a terrible burden when you are required to be both the transaction currency and the reserve currency; we still have a bit of that problem, but we are a lot better off.

The second thing that helped us, of course, was the general growth in the economies throughout the world in that period from 1970 to 1975.

But the third, very important factor was DISC legislation, which was passed by Congress because what DISC enabled us to do is offset some of the advantages our international competitors had, and it made it a much better deal for us, in many respects, to manufacture the product here in the United States and ship it abroad, and get that tax saving here.

Now, I would say that with respect to planned economies, with the possible exception of one, most of them have not been, I don't believe, successful. What you are up against is a situation where labor does not have the mobility in many of these countries, and the redundancies are not permitted—that's what they call them there—and this has caused the Government to pour more and more money into the industry in order to keep it viable.

I think that the economy in Italy is in a shambles; the economy in the United Kingdom, where 60 percent of their GNP now is in the public sector, is in great trouble; the economy in France is now experiencing difficulties, as you know, the franc is dropping precipitously. I just came back from Japan where the Japanese industrialists are most pessimistic. Admittedly, their situation has not been as critical as ours, but they are telling me that there is no way that the economy in Japan is going to match the government planning statistics that have been outlined for the year 1976.

Chairman HUMPHREY. What is the rate of unemployment in Japan?

Mr. JONES. It's about 2 percent, something on that order.

Chairman HUMPHREY. And they think that's bad.

Mr. JONES. They think that's very bad because—

Representative BROWN of Ohio. Is it accumulated on the same basis as the United States?

Mr. JONES. Not quite. The First National City Bank letter of current issues has a very interesting section in it which compares the way we accumulate our unemployment statistics, and how the major industrialized nations around the world do it. In each case their unemployment statistics would be slightly higher if they were computed on our basis; but there is still a wide difference.

Chairman HUMPHREY. Slightly higher than ours?

Mr. JONES. No, slightly higher than reported, but still well below ours.

Chairman HUMPHREY. In other words, they add more people in, more elements in their economy; is that what you are saying?

Mr. JONES. No. The way they accumulate the statistics—let me just give you a specific. In most of the Western European nations the difference between their reported unemployment, if it were put on a U.S. basis, would be up about 1 point.

Chairman HUMPHREY. One point, I got you.

Mr. JONES. Japan is slightly different. Mr. Finley, do you want to answer?

Mr. FINLEY. It would be 4 percent, on the same basis as ours, compared to our 7.6. So, their stated figure of 2 percent, if you made it on a comparison basis, would be about 4 percent to our 7.6.

Chairman HUMPHREY. But it is a fact that we have had, as a prevailing statistical fact, a much higher rate of unemployment over the last 10, 15, 20 years, or at least 15 years than any other industrialized nation in the world; isn't that true?

Mr. JONES. While you were out we mentioned one of the reasons for that, our demographics are different. Our baby boom is 5 years ahead of the European baby boom. We've got 10 percent of our work force now, you know, in the 19-and-under age bracket.

Chairman HUMPHREY. Our population—compared to many of the Europeans—is older.

Mr. JONES. Not in this area. They will hit about 10 percent, as we have now, in the 10-and-under bracket, at about 1981.

Mr. FINLEY. On this point that the Senator is raising, if you take the 15 years, Senator, from 1959 to 1974, which I would think would cover the point you are making about the demographics. Japan went from 2.2 in 1974, and ours went from 5.5 to 5.6. They were always substantially under ours every year for 15 years. While there may be some demographic differences, that can't be the total answer. I think this is the point that the Senator is referring to.

Mr. JONES. The point that Mr. Anderson was bringing up, that in these planned economies you do not have the freedom, if you are industrialized, to lay anybody off. In Japan, when you go to work for a certain company, you are with that company for life.

Chairman HUMPHREY. That is not the plan, that is company policy.

Mr. JONES. That has been the system in Japan.

Mr. FINLEY. Is that true of the countries like Sweden that imported labor?

Now, they had full employment. Their underemployment was the southern Italians, Portuguese, the Turks, and some Spaniards. They can get rid of that. I don't think they were quite as frozen as that.

Mr. ANDERSON. If I might interject a comment here. Mr. Jones, I think you might agree that the characteristic of the economic plan in almost every country is highly compatible with the basic institutions and values of these countries. For example, in Japan they have long had a tradition of not laying off because the employer has a paternalistic relationship with the employee. That is different, from what I understand at least, from the economic plan in Germany, to which Mr. Finley just referred.

But now, let's look ahead and give me the benefit of your thought, if you will, on whether you believe that the private sector in the free market, without any greater coordination in our economic life, will be able to handle effectively and efficiently the host of problems that seems to be on the horizon in this country.

That is, the General Electric Corp. did not become a multinational corporation without some sort of planning. I'm sure you now have goals for sales and profitability over the next 5 years.

Do you see any inconsistency in the same kind of coordinated specification of goals and objectives, and the identification of alternatives, and means of achieving these alternatives for the Nation at large, that seem to work so well for the corporations?

Mr. JONES. I think there is an order of magnitude difference, several orders of magnitude difference. Professor Drucker, who is quite a student of management has said that something like the General Electric Co. is unmanageable as it exists; and when you recognize that we are 1 percent of the GNP, you can recognize the problem, two orders of magnitude different, if you transfer that to the national scene.

Of course, I didn't realize that we were going to get into a big debate this afternoon about a planned economy versus a nonplanned economy. But, you know, most people would tell you that we have the finest planned economy right here in the United States because the planning is done by the consumer. He buys what he wants to buy.

Now, I am certainly not objecting to our setting forth goals and objectives for what we should, as a Nation, strive to achieve. I think they should be realistic. But, when I contemplate the difficulty, the enormous job of trying to make millions, billions of decisions that are required in a planned economy of this complexity, I just pale at the thought.

Look what we have done, for example, in the energy field. With all the planning that we have put in to this in the last 3 years, we find ourselves dependent increasingly on imported oil. We don't seem to be able to recognize that, with all the planning that we have done, our answer has got to be to rely on resources that are

indigenous to the United States if we are going to free ourselves and become independent of foreign oil.

Representative BROWN of Ohio. This Government has injected itself most radically into this whole process by setting the price scale in the energy area.

Mr. JONES. Congressman Brown, you said it, and I have to agree that this is part of the problem. We must remember that ours is perhaps not only the most litigious society in the history of civilization, it's also the most adversary. The great difference between our society and that of Japan is just that point. Theirs is a consensus society—ours is an adversary society.

Representative BROWN of Ohio. You mean we don't sing the company song as we go to work in the morning; is that what you are talking about?

Mr. JONES. I'm afraid if a I wore a sweatshirt and tried to do that, I wouldn't have the job 30 seconds; this is not a paternalistic society.

Chairman HUMPHREY. But doesn't there get to be a point here, which our discussants are raising, looking at all the merits and the values of our relatively open and free economy, as to what happens to that segment of the population that for some reason or another either is not able to get a job, or is not skilled, or trained to get a job, or the economy itself doesn't permits them to get a job. What do we do with them?

There was the argument made here about public works, which I want to just quickly put in, the private sector is not going to take care of waters and sewers; the private sector is not going to take care of the police department; and it isn't going to take care of the parks; and it isn't going to take care of the highways. It's been taking care of the railroads, and that's why they are such a mess.

Representative BROWN of Ohio. Mr. Chairman, you had the railroads regulated, they are the oldest regulated institution in the country.

Chairman HUMPHREY. But they are at least supposed to take care of the road beds, never mind the rates for a minute. They are supposed to do something about the roadbeds.

But my point is, what do you do with the people, as posed in the question here because we are all on the basis that most of those jobs will have to be in the private sector. And everybody agrees that hopefully the economy will respond so that in due time the private sector will provide the jobs.

I think the question before intelligent men and women in this, what is the alternative for those persons that fall in between the time of long unemployment and the long period of recovery that is hopefully going to provide private employment; what do you do with the 6 million, 7 million, 8 million, 5 million, or whatever group it is.

Your unemployment compensation funds are bankrupt, practically all of them. These business people say they don't want any help, and they are all in here borrowing money right and left to be able to take care of their unemployment compensation funds, which is an employer-paid fund. The Government of the United States is going

to have to loan money to these State unemployment funds, or give them money because the private business fell out the window a long time there.

Now, what do you do with these people in between? We would like to hire in our little business 10 more people, but we don't have the sales. What are we going to do about it?

Mr. JONES. That's why, Mr. Chairman, I did recommend while we make these tax cuts and other moves for individuals and corporations to stimulate the economy and enhance the opportunities in the private sector, that during the transition we should have a reasonable public works bill, and we should have something more than we have in the CETA area, particularly. That's the most inexpensive, and for the long term the most productive, it will give us a more skilled work force.

You know, we don't have the mobility that we once had in this country. People used to go where the job was. Now, with considerations of quality of life they want to stay in the area they know best, where their families are, where their friends are; and that's why we have a 1/2 million, or 1 million open jobs in this country. We've got to take the training to them to fill the jobs locally.

Chairman HUMPHREY. Mr. Jones, I want you to know, I thought your statement was very positive. You gave us some good material, and I was very pleased with what you had to say.

But, there has been a constant barrage in this city—which is the governing city—against forms of emergency public works and public service employment, as if they were some sort of a disease. I don't happen to think public service employment is too hot myself, but I think it's a lot better than paying people to sit on their tail.

Representative BROWN of Ohio. Mr. Chairman, I hate to interrupt this, I am in the peculiar position of being the minority member of this committee, but the moderator of this panel. I would like to, if I can, get back to the discussants and let them proceed.

Mr. ANDERSON. In my final 2 minutes, Congressman Brown, I wanted to direct a question to you.

Representative BROWN of Ohio. I understood you did.

Mr. ANDERSON. In your introductory remarks you alluded to a change in the structure of the work force and suggested that we might be wise to examine whether 4 percent unemployment is the appropriate level for measuring full employment.

I would like to ask you why you would not think that the appropriate level for full employment is a condition in which every individual willing and able to work would in fact have a job.

Representative BROWN of Ohio. Well, I think there are three things, probably, that are involved in that. First, there is that change in the structure in the labor force; second, there is a certain "frictional" unemployment; and then finally, it seems to me that our survey procedures of what the impact, and what the real factors of unemployment are ought to change some, as our society changes.

Now, I mentioned women in the work force, and I didn't do so casually. The fact of the matter is that we have more people working today per population—that is per numbers of people in our society—than we had in 1946, with this high rate of unemployment that we

are currently suffering under. The question that occurs to me is, when you have two people in a family of four let's say, who both have full-time jobs, doing very well working, and one of them is temporarily unemployed, is the impact of that household as severe as the 4 percent unemployment, which we permitted as a judgment of full employment back in 1946 when the pattern was, one working head of household per household.

That's the allusion I tried to make about the woman at home who is doing the canning, the cooking, the gardening, and all the other things that were going on in the household, but in fact was not counted as part of the work force in the technical sense of the term, then; nor was she counted as unemployed, of course.

Now she is out in the work force, she is running a beauty parlor while the husband works in the factory. Now, if she is out of work, or the husband is out of work, there is some assistance in the family relationship there that tends to carry the family.

The other thing that has happened is that we have unemployment compensation, the union supplemental unemployment benefit plans that have been negotiated, and when the main person in the household, or the main wage earner in the household is unemployed in a technical sense, he may be very well sustained in an economic sense for a period of time at least; and he is passing through to the family the funds that go to keeping the economy moving in some condition that it did not move when he was unemployed back in 1946 because when he was unemployed back in 1946, the family was down on its ears.

When he is unemployed today, his wife has a job some place else, there are the sustaining social services that have been folded into the economy, thank goodness, since 1946, then the family is not quite as bad off as it was before.

Now having said that, that does not take care of the problem that was mentioned by one of the other members of the panel, and that is the high percentage of unemployment of the ghetto blacks, for instance; the high percentage of unemployment in the teenagers.

I fully subscribe to the fact that our programs should be directed in those areas. Unfortunately, the Federal programs have not been terribly successful in those areas, and I think the change in the structure of our work force; the change in the structure of what unemployment means; the change in the structure of what we offer as a sustaining factor in unemployment has to be taken into account when we figure 4 percent unemployment as full employment.

I must say that those things work both ways. We have made employment by teenagers unlikely by the high minimum wage laws. I think we would have a lot more people employed if our minimum wage laws were structured to take into account that a teenager might be, as a beginning worker, something different that what consider a minimum wage for a head of a household. That has not been done, and I think it's a government-induced unemployment to some extent.

Mr. MARSHALL. You might also get substitution of teenagers for adult male workers, which might make their unemployment a good bit higher.

Representative BROWN of Ohio. There is another change in our work force that is substantial, I think, and that is that there are many highly technological industries which don't require now the same kind of lengthy apprenticeship and skilled craftsmanship that were required before. In the printing industry, which is something I know something about, now that it's gone offset, is not the highly individually skilled industry it used to be in terms of composing-room equipment, linotype operator, and so forth. You can bring somebody in that knows typing, and have them contribute to that kind of an operation.

However, there are many other technological changes that have made it absolutely necessary that you get a highly skilled person on the job rather than a low-skilled person because of the technical equipment with which they work.

Mr. FINLEY. I think you put it correctly, Mr. Chairman, and Mr. Compton and Mr. Anderson, I want to agree with them.

We are facing today about 10 million unemployed people in this country. When you take the 7 million, and you take the partially unemployed and the discouraged; and in that percentage you have among teenage blacks something like 40 percent, and whites in general 25 percent, and women—

Mr. ANDERSON. It's higher than 40 percent, and let me tell you why it's higher.

Mr. FINLEY. All right.

Mr. ANDERSON. Less than half of those who are black between 16 and 19 are even counted. I have estimated that the rate of unemployment among black teenagers is at least 50 percent, and it's closer even to 60 percent.

Mr. FINLEY. You know, I should have taken the same increment, the general one. If you have that close to 50 percent, or 40 percent, you'd get to the true picture; you're right.

Let me tell you something, I think 40 percent is a horrendous picture—you have 10 million people. And to talk about a proper program that will do maybe 1 million people, so on, you have to remember, also, that around 1.8 million are going to lose their unemployment compensation this year. Now, that million you are going to train is not going to keep up with the 1.8 million who are going to lose unemployment, and they are going to go on welfare or some other degrading, costly kind of a thing.

That is in front of us now. And, let me also point out something else. We had in 1939, 17 percent unemployment, Mr. Chairman; in 1943, we had 1.9; in the same year we had 9 million more civilian labor force, it wasn't in the Army. The civilian labor force went from 36 million to 45 million in that same period. These were the people you couldn't train; these were the people who didn't want to work; these were the people, all the things you say about them, "My God, they are not in the right place", and their education, they are black, they are brown and they are young, and what have you.

In a period of a couple of years we added 9 million people to the civilian labor force of this country because nobody knew about Mr. Phillips; nobody knew about all these things, because the Nation put its energies to the problem. We had a war and we had to get production up.

Nine million more civilians were employed, besides 12 million went into the Army. We didn't have all this problem about, "My God, they are underprivileged, I've got to train them and educate them, and then find a slot."

We've got 10 million sitting here today. Our cities are deteriorating at a rate that we all know. It's a tragedy, wasted lives of young kids that don't have any hope. And to talk about slowly going down to 7.6 and 7.4—capital formation, I don't quarrel with that, I believe in the private sector. This labor movement is dedicated to the proposition.

But what's also recognized, that we have problems that the private sector alone is totally incapable of handling, and the rest of society has to step into this—that's our government; that's public works jobs and training, and fiscal and monetary programs, and that's your H.R. 50, your S. 50. It can be tightened up, I don't like the 4 years to get down to 3 percent.

I'll tell you, if you tell a guy that has been unemployed for 2 years to wait 4 more years, that's rough in my way of thinking.

But by God, at least this is going to address it, not at the expense of the private sector, but to save the private sector, if you will. I'll close on this statement.

Chairman HUMPHREY. Yes, Mr. Compton.

Mr. COMPTON. Mr. Chairman, I would like to make a comment based on the remarks of Mr. Jones, that while I'm in concurrence in agreement that jobs go unfilled because of the poor delivery system, and the fact that other factors cause persons not to be matched up with that, I would also say that we still have problems that are pertaining to employment discrimination as a fact that some jobs go unfilled. The fact that in the city of Chicago, for example, over a 10-year period, we have lost over 500,000 jobs to suburban areas with an inadequate public transportation system to bring people from where they live to the jobs.

We also still have the problem of both racial and economic discrimination in the suburbs, so that many of these persons who would probably be working where the jobs are do not work because of these discriminatory factors.

Also, I would like to ask of Mr. McCracken the definition of a depression; and given your definition, do you see us being in one, presently, in certain areas of the United States?

Mr. JONES. Do you want me to take the first question, and Mr. McCracken the second?

Mr. COMPTON. Yes.

Mr. JONES. Well, Mr. Compton, I couldn't agree with you more on the problems in this area that you have raised, of discrimination. We talked about the delivery system, you brought it up and I brought it up, we are both in agreement there.

One of the activities that perhaps you know about, and the chairman, Mr. Murphy, has been very influential in this. Through the National Academy of Engineering, for example, we recognized the problem that we cannot get minorities interested in engineering, historically we haven't been able to get an adequate supply. One percent of the graduating engineers in the United States, just 4

years ago, were black. How are we going to get the upward integration, so that we get an equivalent number, let's say, of good qualified blacks in engineering-management rolls in our technical society that they have in relation to the total population of the country.

So, a few of us have gotten together, and the chairman has been very influential in starting this, we formed something called the National Advisory Committee on Minorities in Engineering, and now launched the National Fund. I am happy to say that as a result of the work just over the last 3½ years, we have more than doubled the output; but we are not going to be satisfied until we get 5 times, at least, the output.

We are very conscious of the problems you raised, and we are working to right that wrong.

Representative BROWN of Ohio. Mr. McCracken.

Mr. McCracken. Well, Mr. Chairman, may I make two comments, one quite specifically to the question that was posed; and then I would like to make a more general one, if I may, on the discussion up until now.

On the question which I think Mr. Compton raised—is this a depression, was that it?

Mr. COMPTON. Yes.

Chairman HUMPHREY. In certain areas.

Mr. McCracken. Oh, well, as a matter of fact, I think it was Mr. Finley who said that for the individual who is unemployed, it isn't 7 percent unemployment, it's 100 percent unemployment.

Indeed, I recall, the first time I testified up on the Hill here as Chairman of the Council I was asked, "What is the acceptable rate of unemployment?" and my response was that, "So long as society had people looking for work and unable to find a job, it's got unfinished business."

Now, as to whether, if one is talking about overall, as to where you go from recession to depression, 7 percent, 8 percent, 9 percent, I really don't know. I mean, that's a question of terminology. The important thing is to be as accurate as possible, at least factually, as to what is going on. It's a serious problem.

I would like to make this general comment, Mr. Chairman. It seems to me it helps to clarify our thinking here if we recognize that we are here in our session with three not unrelated, but separable types of problems.

One of them is the problem that we are here now with an economy, an overall economy with 7.5 percent or so unemployment, and there is the problem, what policies do we perceive to get the general economy expanding at whatever is deemed to be the appropriate rate—and of course, judgments will differ about that. But, in any case, we want to set a policy which will be expanding the general economy.

There is a second set of problems, and that is that at the moment there are people who are unemployed, who as the economy moves back to full employment, will be reemployed; but it is going to take some time. What are the programs by which these people are going to be taken care of, and their problems, in this interlude between now

and when they are going to be reemployed. We have of course to keep in mind that there is a certain amount of moving around in the labor market; in other words, the 7 million this month will contain many who were not unemployed this month and will not be unemployed next month, but that is a detail. There is that set of problems.

And then there is the third set, and that is that even at the point at which the general economy has gotten back up to where we start to observe many of the symptoms of a fairly fully employed economy, as evidenced what is happening to the price level, and other characteristics, also, we are still going to have a significant amount of unemployment.

Now, as I indicated in testimony before the Senate Budget Committee last week—at which you were there also—while I'm not an expert in the area of public employment, my impression would be that if we are talking about an enduring role of some kind of public service type employment, that I would see it in this third area of problems because we all should, I think, agree that it's much better for a person to be on the payroll instead of just drawing a welfare check, doing some kind of useful work; it may be rebuilding our national parks; it may be a long array of activities of that sort, I do think as we are talking about these different things, we need to be specific as to what the problem is that we are addressing, and what the quantitative magnitudes are. For example, what is the part of the totality of this set of problems for public service employment to deal with.

Mr. Finley indicated that if we take into account not only the numbered unemployed, but I take it those who dropped out of the labor force also, we have something in the neighborhood of 10 million unemployed. Well, if you only take the reported figure, it would be about 7 million. Now, let's be very precise about this, what is public service employment supposed to do? Should we take that instrument to take care of at least for an interlude these 7 million. and what should we pay them.

I suppose if it were in the neighborhood of the minimum wage, that would be \$6,000 or so, and \$6,000 times 7 million is \$42 billion. Is this what we are talking about?

I think we need to face candidly the orders of magnitude we are talking about for each problem.

Chairman HUMPHREY. I would just interrupt to say, I think for purposes of analysis your figures are helpful. Then, once you took care of them, you would have to deduct what you would have had to pay for unemployment compensation, and what you would have had to pay for other services.

Mr. McCracken. Oh, I agree, sure. But I'm talking about the magnitude of the program that one would be proposing.

Now, I haven't analyzed S. 50 carefully at all yet, but I think there are certain aspects of this that are desirable. I have always felt that public policy ought to lay out more explicitly than it has what constitutes the path that represents the target for public policy. Is 6½ percent, for example, is that just a guess as to what may happen, or is it what, all things considered, we think is the appropri-

ate rate; and what is the set of policies that will achieve that. Those aspects I would be sympathetic with.

Chairman HUMPHREY. Don't leave, I'm going to come back; this is a most helpful discussion.

Mr. LEKACHMAN. I would like to make a brief comment in contrast, once more, between the Employment Act of 1946 and the present Humphrey-Hawkins bill.

What was wrong, in my view—most wrong—with the 1946 Act was in fact partly symbolic. The words “maximum employment” were substituted for “full employment”; but partly substantive as well, the statement of purpose, which preceded the provisions of the 1946 Act, in fact listed a whole list of objectives, among them price stability, the strengthening of the free enterprise system, and so on. And thus it was possible, a year or so ago for Secretary Simon, if I remember correctly, to testify in favor of a proposal to impound some appropriated funds on the grounds that this would promote price stability, one of the objectives of the Employment Act of 1946.

What is right, it appears to me—most right—in H.R. 50, the Humphrey-Hawkins bill, is that those segregated words “full employment” have been returned to the actual legislation. I would wish even though, that the statement of purpose in the 1976 proposal were even sharper and clearer; but at least the words are back.

Now, this suggests to me a central difference in economic strategy. The 1946 bill represented a strategy which I think in the main was followed, with exceptions, in the 30 years which followed. It was a balancing of desirable objectives. Very seldom was full employment accorded an absolute priority.

I'm not insensible to the dangers of inflation, and the pains that inflation imposes, usually on the most vulnerable groups in our economy. But I would say this, if you start with full employment as an objective and keep your eye fixed upon it, you will then have the impetus to develop ingenious ways of coping with some of the painful side effects of your progress to full employment.

That's why it seems to me, unfashionable as it may be for an economist, one must simply select a value, state it, pursue it, and then cope as best you can with some of the painful side effects of your pursuit of the central strategy. That is why I am enormously heartened by the appearance of H.R. 50, and disheartened by some of the residual signs of the 1946 act still persisting.

Senator JAVITS. Mr. Lekachman, if you will allow me, I would now like to now substitute for myself as acting chairman, Congressman Brown of Ohio.

Representative Brown of Ohio. You will be happy to know Senator Humphrey and I passed the baton in the elevator, and he will be back eventually.

I don't know whether that exchange was to direct a question, or just to make a comment. If I may direct a question to Mr. Finley.

I have written down a note as a response to your comments presented formally, do I understand that labor is now advocating an institution of protective tariffs, as a matter of protecting jobs in this society.

And the question really is, where is labor in the area of protectionism, and what I conceive to be a reduction in international trade as a result, versus free trade and the competition from abroad of other labor in taking jobs from this country.

Mr. FINLEY. Well, let me say this, we are not for protectionism, that's against free trade. We are for protecting jobs, this we are, and I say this very clearly. The description of free trade versus protectionism is a little misleading, Congressman, because we never had truly free trade; none of the trading partners that we deal with ever believed in it, it's kind of a misnomer.

Japan rebuilt its economy, to use the term you used, with the most protectionist provisions that ever were; this was true of the Common Market, as well.

Now, the labor movement is very concerned—and I don't know how long to go on this, I'll try to do it very quickly. The labor movement takes the simple position that there have been tremendous changes in the last couple of decades in the structure of the economy of this country versus the rest of the world. We were the dominant economy after the war, and the others have grown, partially with our export of technology, and so on.

You are dealing with managed economy; you are dealing with an Eastern European bloc; you are dealing with, essentially, state involvement, and to talk about freedom in that context, and to talk about policies that might have been adequate in the 1920's or 1940's in the changes of today is just meaningless and harmful. All right.

Having said that, what we want is a fair regulation on trade, it's as simple as that. We are for trading around the world. We think, though, that trade should not be that if somebody is manufacturing a garment at 20 cents an hour in South Korea, they can with total impunity and immunity bring those garments in here at the cost of jobs of American workers who have brought up standards to a reasonable degree. We don't think American workers should compete with child labor; and I could go on in this.

So, what we say, we want a fair regulation of trade. We are not requesting higher tariffs as such; in some places the tariffs can remain; some places they can be reduced; in some cases you will need quotas—and I'm sorry Mr. Jones is gone—I think that the multinational corporations, rather than having a disadvantage, have more laws to favor them in their foreign operations than the domestic corporation has.

So, the answer is, we are not protectionists in that sense, we want to protect the jobs of our members; and that is the American interest.

Representative BROWN of Ohio. But, how do you quantify the differences in, for instance, the social structure of the Japanese family where there maybe aren't as many women working as in the United States; and the benefits that were described by Mr. Jones in terms of habits of continued corporate employment, spreading it out over your employees, regardless of how much work there is for the factory to do, and the social benefits that exist here versus the social benefits that exist there; then reduce that down to the degree of protectionism that American goods and American labor ought to have?

I think that is a really serious question for anybody that negotiates in international trade. Perhaps I should also ask Mr. McCracken, who has been involved in it.

Mr. FINLEY. Japan is not really, today, the best of examples, their wage levels have gone up remarkably in that sense. So, to make comparisons, I'll leave that for Mr. McCracken.

But I would take one that I'm reasonably familiar with, I will take South Korea. We imported from there one-third of all the suits that came into this country last year, they came from South Korea. And there you've got a wage level of 25 cents an hour. The people work 13 days, 11-hour days—and when I say people, some of them are 13- or 14-year old people—they have 1 day off, on the 14th day, and then they go back for another 13 days. They get no overtime.

Now, they do give them a kind of barracks, and so on. So, we estimated if we doubled it with the so-called fringe benefits, you still have a comparison of a 40-cent figure or 50-cent figure—and I think by doubling it we are very generous, and we are willing to be—against an American average earning of \$4.30, \$4.40, with a 30-percent fringe cost.

That's a totally impossible comparison in terms of anybody competing in that situation.

Mr. McCracken. Well, I'm not quite sure whether it's the 98-cent treatment, or the \$3.98 that I ought to give here.

Representative BROWN of Ohio. The reduced number, perhaps the 98-cent treatment would be adequate.

Mr. McCracken. Very well. If I could outline my views here in detail, the thrust of my comments would be to take a more liberal view in terms of trade policy than I think Mr. Finley would be willing to sign his name to.

The basic thing that I would like to look at is, what is the general character, the pattern of our overall trade position. I alluded to the fact, to be precise, that from the third quarter of 1974 to the second quarter of 1975 we had actually an enormous swing, and a favorable one, in our trade overall. Had we not had that, in other words, had the trade position remained where it was, we would have had, I think, something like 1 million more unemployed.

If we find that our trade position, or payments position is overall out of balance, then, in all possibility, we are talking about a maladjusted exchange rate, where it then does begin to look as if we have a comparative disadvantage in everything as was true, as seemed to be the case in the beginning of the 1970's.

But, so long as our general trade position is in reasonable balance, then it seems to me overall, what happens, is that we can maintain full employment at home, but with that trade we have better jobs.

Representative BROWN of Ohio. Are there comments from any of the discussants?

Mr. COMPTON. I would like to comment to something Mr. McCracken said earlier when he was doing the calculations and arrived at about a \$42 billion figure, when we were discussing public service jobs. One of the programs administered by the Urban League in 32 cities is a construction program, to recruit minorities in the construction industry, and over a 9-year period, I think the Federal Govern-

ment has contributed in the neighborhood of about \$22 million, channeled through the National Urban League to the 32 cities.

When I think of the investment factor, I know that in terms of wages, in terms of skill development, in terms of taxes paid back into the Federal Government, that that is a far better approach than the approaches that we have been doing, which keep people on welfare, unemployment compensation, and things of that nature.

I would just ask your comments, if you have any further, on something of that nature.

Mr. McCracken. I certainly would have no comment on attempting to evaluate the experience of the program that you are talking about. The basic point that I was making was when we talk about, for example, public service employment, or whatever the proposed program is, as a solution for unemployment, I think we have to be very explicit about the magnitude of the Federal program that we are talking about, so that we don't talk about 1 billion or so to put 7 million people to work because those figures are just not related to each other. The first news says, I favor public service employment to get all those 7 million people to work, if it takes a \$42 billion increase in the budget to do it, I'll face up to it; that's a perfectly candid answer. I don't think I would be willing to go that far because I recognize if you are talking about what the net impact is on the budget, you have pluses and minuses to reckon with. But we do need to be quite explicit about the magnitude of the program we are proposing to deal with the problem.

Representative Brown of Ohio. Is the efficiency of the production of the job significant? I'm told that CETA, for instance, in terms of public funds given to the CETA program, in my area, at least, it takes about \$10,000 to put a person to work. Assuming that the person hasn't been working before—and that's one of the other complaints—you get a very small percentage of actually unemployed through CETA funds.

Organizations such as Leon Sullivan's OIC program, can do the same job in my area for about \$1,800 or \$1,900. It seems to me that on that basis some kind of Federal funding of such private programs might be a great deal more effective because they tend to bring the three elements of society together, the Federal funding, the person looking for the job, and a job opening that is actually available, at a much lower price than CETA funds. Do you have any comments?

Mr. Compton. Yes; I would agree with you on that. It is costing us right now in the neighborhood of \$1,200 per person in the administration of this labor advancement education program for apprenticeship in the construction industry. So, I think there is great merit in what you just said, in having these programs being administered through organizations such as the Urban League, or IC, and others. I think in some of these instances, with CETA being channeled through State and local governments, there is a possibility of greater expense.

Representative Brown of Ohio. A friend of mine in the House has proposed something like the reinstatement of the old GI Bill of Rights after World War II, where the company is actually given the subsidy to employ a person. You know, the first year you pay two-thirds of

his pay, the second year one-half of his pay, and the third year one-third of his pay, and finally he is fully on the payroll of the company. In the meantime the Government is subsidizing his pay.

Now, the only fault I see in that is, that not until the company can actually use the additional employee are they likely to take advantage of that program. In the meantime they may find it easier to employ that person than an older person who is laid off, and who is a higher paid person.

I react nervously in some ways to that.

Mr. ANDERSON. I would simply like to comment on your remarks about OIC. We just completed a nationwide study—I will not call it an evaluation of OIC, but it was a nationwide study, the most intensive study of OIC yet conducted—and your comments are correct, OIC does seem to be able to serve the disadvantaged at a lower cost than comparable Government programs. But I think you have to be careful here. I regret that Mr. Jones left because it is often alluded to—many people allude to the great support of the business community for Reverend Sullivan's activities. I think the record will show that well over 90 percent of all of the funds of the OIC program are Government funds.

We have concluded that much of the success of the OIC program is attributed to the close cooperation between Reverend Sullivan and his staff, and the business community in opening up jobs which otherwise might not be made available to the disadvantaged.

Now, another point that might be made there, though, is that under the CETA legislation as presently written—and I recently reviewed the 1976 regulations—I was pleased to see a firmer commitment to support community-based organization like OIC and the Urban League. It was not clear, initially, that Reverend Sullivan's organization and the Urban League would be protected as these moneys were sent to the State and local level.

It seems no what they have done much better than they hoped, and in fact, in my estimate OIC has something like 15 to 20 percent more funds under CETA than they had under the original categorical program. But despite that, we have to recognize that some parts of this manpower problem cannot be solved by the community-based organizations. We need a public service employment program, in part because, as I say, many of the jobs available to trainees in programs like OIC are relatively low-wage jobs. And our study of the 11 major categorical programs of the 1960's show that on the whole manpower programs have been effective in changing the relative economic position of their participants in comparison with similar people who have not been in the program, But, it merely raises them from a level somewhat below poverty to a level somewhat just above poverty.

The manpower program today, during the 1960's, did not seem to increase significantly the wage level of the vast majority. We have a problem, some economists call it "subemployment"; some allude to the "dual labor market." Be that as it may, I think we have to give attention to the wage levels of the jobs that participants in manpower programs get when they complete their training in these programs.

Representative Brown of Ohio. The question was directed, really, not to who should get the credit, I guess whoever pays the taxes

should get the credit from the public for the financing of federally funded employment programs, but rather which would be the most adequate method of doing it. I would like to suggest one other method as a possibility for support either by the public or private sector, and that is for the technologically unemployed, whether there is not some advantage in the stimulation of the technical college vocational education program to an extensive degree at times of unemployment, to provide lower tuition opportunities, or nontuition opportunities for someone who is technologically unemployed, if that can be established in some way, so that they can be trained for a new job, for an improved situation when their particular type of work is no more.

Is there a reaction to that.

Mr. LEKACHMAN. If I may, Congressman Brown, I will speak for a local interest.

Representative BROWN of Ohio. I think most of us do in one form or another, so, I think you are right at home here.

Mr. LEKACHMAN. The City University, where I currently teach, among its numerous units does, as I understand, do some of the things which you are describing, particularly in 2-year colleges, and some of the specialized programs in the 4-year colleges are indeed directly vocationally oriented.

It's a sad paradox of a condition when the economy is still running at subpar rates, that the city of New York, as one of its numerous calamities, is now engaged, practically, in dismantling the City University. In fact, just to sharpen the irony of its activity, it's doing so in a way which is bearing particularly heavily on precisely the kind of vocational training opportunities which I believe are consistent with our inquiries. If you want to construe this as a plea for Federal funding, I'm on that side of the issue, certainly.

Representative BROWN of Ohio. It never occurred to me.

Mr. LEKACHMAN. But, I'll accept State funding, private funding, international funding, money from OPEC if it is forthcoming for this purpose.

But it is, it seems to me—and New York is not alone in this particular dilemma—that publicly financed vocational training opportunities, among many other important activities of the general fiscal crises of the cities.

Chairman HUMPHREY. Go ahead, Mr. McCracken.

Mr. McCRACKEN. May I make just one comment on this. I have been in the teaching profession now for almost 40 years, starting my teaching career at the secondary level. In that entire period, going back to the first year—

Representative BROWN of Ohio. You are counting the two stints on the Council of Economic Advisers, I assume.

Mr. McCRACKEN. Well, that's teaching, of course, too. Yes, that includes those two stints.

But, going back to the beginning of my teaching career, I have been hearing educators, my own profession, talking about the need for a more relevant type of training, to be responsive to the kinds of jobs that are out there, and that sort of thing, at the secondary level, and I suppose at the universities, too.

I think one of the questions which the people in public policy ought to bear down harder on with the educators is, why is it you

constantly talk about this—at least in the 40 years that I can speak authentically about—you seem to be saying the same thing now you did 40 years ago, with very little in the way of results; and society has not allocated resources in your direction.

Chairman HUMPHREY. Well, I disagree with that, Mr. McCracken. We have 28 vocational technical schools in the State of Minnesota today; 10 years ago we had 4. They are training people by the thousands simply because in the past young people got their training alongside their father or their mother, or their brother. You can't get training at the Ford plant out there; he can't take him to Honeywell.

I was taught—I was an apprentice pharmacist when I was 17. I knew all that I needed to know to go through pharmacy school, and I was taught by my father. But, had my father been the manager of a Walgreen drugstore, he never could have had me in the store; they never would have permitted him to have his son in the store.

But the day of the small entrepreneur seems to be fast evaporating. I assure you that in my little local community where my father and mother lived, there is only one independent retail drugstore in the entire county. The rest of them are all discount stores, or all chain stores. No manager brings his son in. So, there is a structural difference today. And today we have to teach these young people how to repair their radios, TV's. I was a radio repairman, learning it out of our business. I was 16 years old, and I knew how to fix radios, as well as any man does around here today. But I learned it from people alongside of me.

Now, in order to learn it, you've got to go to college, or a vocational technical school. So, I happen to be a strong supporter of it. In fact, I just talked to 1,000 of these young people the other night, 1,000 from my State that were prize students from these schools. They are learning a great deal.

I just don't think it's fair to say that we haven't made the change, there is some change being made. The real problem for these young people is: Where do they go to work?

Mr. McCracken. Well, Mr. Chairman—by the way, let the record show that I have been in that drugstore.

Chairman HUMPHREY. I'm glad to know that.

Representative BROWN of Ohio. I hope you bought something.

Mr. McCracken. As a matter of fact, I did; I bought a post card.

Chairman HUMPHREY. That's a nonprofit item, darn it. [Laughter.]

Mr. McCracken. Mr. Chairman, I must still insist that the basic point that I'm making still stands. Now, perhaps it stands in the other 49 States. But, nonetheless, in the 40 years that I have been an educator, I have been hearing this, "We need to do more in the way of vocational training," and I still hear it. I still think there is a problem here.

Let me give you an indication. Throughout the country we started an enormous number of junior colleges and community colleges, the basic thrust of which is to be responsive to some job-training needs that the ordinary liberal arts college is not responding to.

Now, there is one aspect of that which I find very disturbing, and that is how frequently, talking to the president of a community col-

lege and asking him about his programs, he will cite the rising proportion of students who go on to get a liberal arts education—and in a sense of course, being in the business I'm in, I'm delighted. On the other hand, this could seem to mean that there is a tendency for this to start to shift into the same kind of mainstream, thinking that the real education is a liberal arts training.

Chairman HUMPHREY. I don't disagree with that. The thrust of what you say I agree with, but there is a certain snob appeal, may I say; to having had the liberal arts education, even though I think that's a part of preparing oneself to life.

What I was trying to get at was, there is a new awareness of the necessity for young people being trained, and the vocational technical schools are gaining some acceptance. There is, however, as yet, a certain look down at them.

Mr. McCracken. No doubt about that.

Chairman HUMPHREY. For example, in our State they aren't permitted to have a football game.

Mr. McCracken. Well, there you are.

Chairman HUMPHREY. It's very interesting. But what I'm trying to point out is, despite these limitations, it's beginning to take hold.

Mr. McCracken. Push it along.

Representative BROWN of Ohio. I must say, Senator, that you and I share a very grave concern about the discouragement of small business—I'm not sure we share the same conclusions as to the cause of the discouragement. I think it stems from a little too much "Uncle Sam," a little regressive tax policy that makes it very difficult for anything but the largest institutions to put together the capital requirements for expansion and growth, and job formation in a society where so much of the capital is controlled, or dominated by Federal decision, or Federal regulation.

Chairman HUMPHREY. Well, that isn't what did it out our way, Congressman. I guess we don't want to have our argument here, but I want to tell you, when you've got tax laws that permit mergers to have certain company spinoffs to lose money for 5 or 6 years while the legitimate businessman is trying to stay in, that's one thing. When I know my competition, and I run the business, says they were prepared to lose \$200,000 a year until they took the market because they are a subsidiary of a giant, that's part of their tax loss, they don't have to worry about that.

Representative BROWN of Ohio. That's exactly my point. The Congress wrote the tax laws, and that's what bothers me. We have written tax laws that encourage consumption, but very clearly discourage the formation of additional new small businesses. And until we reverse that policy, all of this other talk is really largely shifting sand.

Chairman HUMPHREY. I want to ask a couple of basic questions, and then we are going to recess.

Representative BROWN of Ohio. Mr. Chairman, I'll have to be excused again, and I probably will not be able to be back.

Chairman HUMPHREY. We are going to adjourn. We have some people that can be very helpful on this—I think I'll put the question this way, have we developed—and possibly, Mr. McCracken, you can give us a response on this and others here, so don't leave the institu-

tions for formulating economic policy? I'm talking now on the governmental level.

Mr. McCracken. That's a very good question, and I don't have a definitive answer.

Chairman HUMPHREY. What's your general view?

Mr. McCracken. I think this is a question that ought to be given a systematic examination. The SEA structure, Joint Economic Committee structure has been operating essentially unchanged now for 30 years. We have had the Economic Policy Board, or its prior name was the "Troiker," the "Quadriette" and various forms.

I think one of the key questions that ought to be examined, probably incident to the hearings on S. 50, ought to be a searching look at this question, what about the institutional structure. It would certainly not be strange if, after 30 years, something ought to be done, needs to be done. And that doesn't mean that they have not been working, it's just that time has caught up with us.

Chairman HUMPHREY. Fine. Mr. Lekachman.

Mr. LEKACHMAN. I'll amplify on that. I don't think that the present economic policy structure is adequate. I point out—and I agree with Mr. McCracken—that this is an opportunity to examine it closely. But I point, as a preliminary to that to one glaring anomaly of our policymaking mechanism, and this of course is the independence of the Federal Reserve Board. I don't see how it is possible to make coherent national policy, particularly coherent full employment policy, until the Federal Reserve Board is housebroken.

There are a variety of methods of doing so. I would willingly shorten the term of members of the Board from 14 years to 4 years; mandate representation of minorities, and perhaps other groups on the board; and perhaps prevent the Board from including a majority of economists and bankers at any one time. I think an occasional economist or banker, taken in moderation, is not necessarily dangerous [laughter] but the Board as it is currently constituted—and I speak with respect of my old teacher, Mr. Arthur F. Burns—but I bear in mind also that if he completes his current term he will be 79 years old, and the year will be 1984, by coincidence. [Laughter.]

This, it strikes me, is an actual menace to full-employment policy. And I urge you, Senator, with the help you can muster, to do something about the Federal Reserve, preferably next week.

Mr. ANDERSON. I would like to associate myself with Mr. Lekachman in his views, with a slight modification. I think that the independence of the Federal Reserve is in today's economy, and given our goals for the future, something that needs to be closely examined.

I'm not sure that I would agree that it would be desirable to mandate any specific type of representation on the Federal Reserve Board. I agree that over the years it has been too topheavy with economists and bankers. But, after all, it is a bank, and economists need full employment, too.

I would say, Mr. Chairman, also, that another area that deserves close examination is the adequacy of our economic intelligence. We simply must look very closely at the information base, the data base on which economic policy decisions are made. I think in the area of labor force statistics, here is a great deal; I'm a former economist at

BLS; and I think I know. There are some deficiencies in the system, but they do a great job. They need more resources to do a better job. I think we need more information on the economic aggregates in corporations. That information must become the foundation for the development of wise economic policy. There is a lot we don't know today about the labor force, about capital markets and other markets, that we need to know if we are going to formulate wise economic policies.

Chairman HUMPHREY. Anyone else?

Another quick one, you answered a couple of them here, or at least commented on a couple of the concerns I have jotted down for a quick discussion. Let me put it this way, should price income policy be a continuing part of economic policy, in light of the economy as it now is, with large labor forces, large corporate forces, and so forth.

Mr. Finley, do you want to take a whack at that?

Mr. FINLEY. Well, I'll take a whack at it, Senator, because our experience with this kind of a policy was, when you have price incomes policy—and we had the recent experience with the freezes and the phases, and so on—we are very, very much concerned about that.

I've also had experience, we represent people in Canada with that program, and that's another example which convinces us totally that that is not the answer to our economic problems.

Chairman HUMPHREY. Anyone else?

Mr. LEKACHMAN. Well, I differ a bit with my good friend, Mr. Finley.

Chairman HUMPHREY. Get right up to that microphone.

Mr. LEKACHMAN. I'm sorry.

I share and sympathize with what happened to the unions under the Nixon version of control. I don't think that particular shape of controls is inevitable. I think it's almost inevitable if we are going to have full employment, without risk of inflation, which may well sabotage the very measures needed to achieve full employment, that some sort of restraint, particularly of prices in concentrated industries, and in sectors like health care, is essential. I know there are all kinds of problems with it, but the fact is, I don't see how we can achieve full employment in a politically acceptable fashion without doing so.

If I may remind you, Mr. Finley, that George Meany at various times has said that he favors equitable controls over all incomes. Perhaps that's one exit from the difficulty, that if we do go back to a system of incomes policy, it will not be limited to wages, if we go beyond prices at all, but will cover all other forms of income as well.

Mr. McCracken. Well, I think incomes policy is more rhetoric than policy. My suggestion is, I would make this suggestion, that anyone before the committee who proposes incomes policies ought to be pressed to be very precise and say what they mean, because otherwise it seems to imply that there is some painless palliative out here that won't hurt anybody, and the only thing that will happen is that we will have a stable price level.

I think they need to be pressed, precisely what do you mean; and, give me the evidence as to how much difference it's going to make.

Chairman HUMPHREY. Very good. I tend to find myself somewhat

intrigued by the general phraseology of incomes policy. Go ahead, Mr. Anderson.

Mr. ANDERSON. I simply wanted to say that as a general proposition the move towards full employment will stimulate some pressures on prices, and it would be desirable in that context to have some sort of incomes policy. However, I think that the record of incomes policy in Western Europe and other places will show the great difficulties of making such a policy effective. In our own country, for example, I don't believe there is a period in the last decade when any incomes policy has been very effective.

For example, the guideposts probably were effective because of very convenient economic conditions which contributed to that. So, we have to be concerned about the consequences of incomes policies, what impact will there be on the collective bargaining system, on the private decisionmaking character of the collective bargaining system. What kinds of Government intervention in the private markets will be necessary to make these policies work?

I am very cautious about the possibilities of developing any type of incomes policy that does not fall heavily on labor because wages are the easiest thing to control.

Chairman HUMPHREY. Might I just note that when I think of incomes policy, I think about people in public office exercising the power, the influence that they have. I was the mayor of my city at one time, and we used to have a few labor-management disputes, Mr. Finley. When they got out of hand, I called them in the office. I didn't try to be the arbitrator, but I tried to be the persuader; and sometimes it worked.

I remember it one time here when I was Vice President, the President of the United States gave me a nice little assignment to talk to the postal workers. They had an income bill up here that was going to pass, that would have broken what we called the guidelines at the time.

My job was to talk to my friends in the postal workers and persuade them that they shouldn't try to take a bite that big the first year as they were talking about, take a little less, and the next year we could pick up a little more, and so on down the line. We worked it out, and we had an incomes policy.

I remember when the steel workers were having a dispute in 1965 or 1966 that was very bitter, there was a strike on. The President of the United States by the name of Lyndon Johnson called them all in, put them in the White House, called me over and said:

Listen, we are not going to have any more of this business, we are going to settle this. Now, you fellows get busy and settle it. There is room over there in the Executive Office Building, it's on the fourth floor, the Vice President is on the third floor. He is going to be listening from downstairs, and I'm going to be looking out the window across the street here. I want you to come over here every night at 6 o'clock and tell me what progress you have made.

Well, they made progress. They stayed reasonably well within what we called the wage-price guidelines. Now, that's what you call the art of persuasion with the perception of power behind it. Obviously, no Vice President had any power, but the man looking out the window across the street had some.

That's about the only incomes policy that I have seen very effective for any period of time, except this, and I want to comment on it.

There seems to be, and very understandably so, a great concern over price stability; and obviously, we would be concerned about it. We should be concerned about inflation. But I think the question that is most important to those of us who have sat in on these many hearings is, who pays the price for price stability; and who is supposed to let their blood loose to dampen down the fires of inflation. That's the problem.

Nobody wants inflation, certainly not large inflation. I don't think there is any way out of some inflation. No one wants to have wild price fluctuations, you need price stability. But the question is, how do you do it equitably? Everything gets down on that old adage, "How you stand is determined pretty well by where you sit."

It's mighty easy for myself and some of my friends who are well heeled to talk about price stability, and what we've got to do to have price stability. And it's very easy even for a good economist that's well paid, or for a professor that's fairly well paid—there are none that are overpaid, that I know of, at least by the universities; they get a little help some place else—but at least they've got tenure. And it's easier for those of us who find ourselves in those positions to be much more theoretical and much more "objective" about inflation and price stability because, really, the crunch isn't on us.

I think what we have heard here from some of our folks here today, particularly, might I say, what we have heard this morning on some of the social costs of unemployment; and what we have heard from you, Mr. Compton—we had Vernon Jordan and others here today—about who suffers, who takes it, who really is injured.

Now, we constantly hear about the rate of inflation, which of course is a tax on everybody. But, when you get both inflation and unemployment, you not only get punched, but you get knocked out. There is a great deal of difference between being in a battle and getting hit, and being knocked out.

I think what has happened to us here is that we have been unwilling to come to grips with the fact that a very substantial proportion of our population, most of whom have suffered for a long time for other reasons, many of whom thought for the first time in their lives, in the 1960's, that they had a chance to get out of their predicament, have suddenly again been pushed down in the economic canyon, or economic sewer.

I'm reminded what we often talked about, "rising expectations." Congressman Brown rightly noted that in 1946 one breadwinner might have been enough; and when he lost the job, or she lost the job, that was curtains, so to speak, that was terrible.

Today, you have frequently two breadwinners in the family and only one loses the job, and someone says, "Well, that's not so bad." But everything is relative. The fact is, the reason there are two breadwinners in the family is because the house payments require two; the car payments require two; if the kids get their teeth fixed, the definition of an orthodontist is \$1,200. You know, you've got to get the braces on. And even poor folks like to have nice teeth, too.

So, you have all of these many demands that have been built in, so that today you need the extra income. There isn't hardly anyone

right here, there is not a one of us sitting here now, the six of us here, that couldn't get along with much less than we are getting along with right now, based on what we once got along with.

When I think what I got along with in 1939, 1940, 1941, as compared what I think I've got to have in 1976, it's ludicrous, absolutely ridiculous. But, it's what you get accustomed to. My old daddy once said to me, "Never let a person eat a T-bone steak if you are going to keep him on a hamburger diet."

I had a smart father, I tell you; he was the smartest man I ever knew in my life. And how right it is, people got accustomed to something a little better. There are rising expectations, and they want it.

Now, we have all these things called "transfer payments," Government services, union contracts that for the period of the last 20 months, I say, have been the counteracting forces to social turmoil. Can you imagine what would happen in this country in light of the problems that exist in our cities, of a social nature, and the tensions that are evident in our society if we were without old age insurance, unemployment compensation, food stamps, welfare, et cetera.

I would think, first of all, it would be fair to say that we would be in a major depression. And second, that it would have been of such consequence that you would have had a revolutionary upheaval—that easily could have happened. Because, when you take people from a relatively good standard of living, or at least a moderate one, and drop them out, it would have had a catastrophic effect. But they didn't drop that far, there was a safety net, and that is really what has helped us so much.

So, as people condemn programs, which are never as good as they ought to be, I think they ought to know what it means to have them. It's sort of like a person that's had a heart attack. You maybe can't run the 4-mile run; and you maybe can't be the weightlifting champion; you ought not to engage in too much Indian-wrestling because you are apt to have a recurrence, but it's better to have a few little pills, maybe a digitalis tablet, that you can take once in a while, than die.

And, what we have been doing is taking these unemployment compensations, and pensions, and transfer payments, and all this sort of thing we talked about, which has been a palliative.

Now, what I'm getting to is this—and someone said this today—possibly these very things that have helped us get through this period—and they have helped, there is no doubt about that, they have prevented genuine misery—they may also have dulled our sensitivity in the sense of coming to grips with the problem.

For example, had the Arabs kept on the boycott on oil for 6 more months, you and I we would have found answers to the oil shortage, we would have. We would have turned heaven and earth to do it. It would have been done, just as I said many times, when the Japanese cut off natural rubber, what did we do? We produced synthetic rubber. We would have done it.

But possibly the very programs that we have had, that have minimized the pain, have also dulled the senses. Now, I don't have my little quotation from De Toqueville, but what he once said was that those difficulties, those pains which once seemed inevitable, the minute that they seemed to be subject to reform, become intolerable.

I really believe this is what we are seeing in part here, when you talk about the rate of unemployment, compared to the rates of inflation. The truth is that while things may not be as bad as some of us would like to paint them, they are bad enough, compared to what the people thought they could have—and it's perception. I don't know if I'm making myself clear, but it's perception.

Now, when you have that television that brings into everybody's home—which it didn't do in 1946, 1947, 1948, 1949, 1950, 1951, 1952—television is really the last 10, 15 years, major television—and television brings to the poorest of the poor, if it's only on the street corner and in the saloon, in the barroom, wherever it may be, television brings to the people the picture of what's out there. It's their one escape. And then they say, "I've got to have it."

Now, they either have anguish about wanting it, or they take it. I suppose that it's fair to say that no one instrument has the potential for more good and more evil than the picture, the tube, and the spoken word all at once because on the one hand it can lift people, it can educate people; on the other hand it arouses emotions and desires that are almost beyond control.

And I think we are speaking about the structural part of our economy. I don't think that's the only problem. I know there are differences that happen in the economy, changes, structural changes; business is different today. You can argue about big business and little business, and I happen to be a strong proponent of what we call the smaller business—and even that's hard, somewhat, to define.

But the real fact of the matter is that people are different today, they really are. For example, in 1939, 38 percent of the population of this country was rural—38 percent. What is it today? What has happened to our cities? What happened in terms of the coloration of our cities? What have the cities become?

The residence not only for the big corporations in the downtown steel and glass beautiful buildings. But within the shadows of those magnificent new structures are the worst slums that this Nation has ever known. And it isn't just the physical slums that's taken place there any longer, it's happening to the people.

And all of that adds to the problem, as I see it, we are trying to get at here, whether or not we can fashion a public policy that is more than words, that will actually be effective in providing useful work—I think as one of you defined it—for people who want to work, which is really the definition of full employment. And if we can't do better than we are doing, I predict that we will be having a growing economic and social problem and not a lesser one. We are like a man or a woman that has a low-grade fever. We are getting along pretty good, we look healthy; we can still go out at night; we can still enjoy the good life, but not quite. And the longer you keep it up, the weaker you get.

And despite the movement towards recovery—and I happen to think it is, I am more bullish about the economy than some people are—I still think it will leave, at the best estimate, 6 percent of our people unemployed. If you get really optimistic and get on the "jolly-beams", as I call them, you will still have about 6 percent of the people unemployed.

Now, you have to ask yourself a question. Do you want to leave those people just on the dole—which is apparently what some people want to do because I haven't heard anybody say, I don't care who it is, "Just let them rot." Even the most, call it what you will, conservative person says, "There's got to be something done"—or do you try to find ways and means of stimulating the private economy as much as possible, without going into a tailspin; and if that doesn't absorb that unemployed group, have programs of a substantial nature to take up and absorb that unemployed group.

That's the central question, that's what we are working at. I don't think we disagree on objectives. I must say, as I listened to the witnesses, I listened to Mr. Jones here, Mr. McCracken, Mr. Finley and all of you here, I don't think there is any disagreement about our objective. I think the disagreement is, how do we get at it.

The bills that we have before us, the so-called full employment and balanced growth legislation, are attempts to get at it. I hesitate to say that they are the ultimate, not at all; they may be only a very crude and feeble attempt. But I believe in designing machinery for decisionmaking, and I think what is really wrong, the question I asked is that our economic institutions are not finely tuned, not only to the structural problems of our economy, but to the psychological problems of our economy, the perceptions that people have as to what they ought to be doing.

It's the one thing for somebody to say, "Well, you don't need two breadwinners in the family, you ought to get along with one." It's one thing for you and I to say to somebody, "Well, you really don't need two cars," but, who educated people to want two cars; who educated people to throw away their clothes before they are worn out; who was it that trained people, that said you didn't need one pair of shoes, you needed four?

It's the same American free enterprise economy that today says, "Well, we've got to have price stability." You can't have it both ways. I grew up in a family where daddy was lucky if he had one suit. I'd hate to take a look at how many suits most of us have; and what would happen to the clothing industry if we went back to that? What would happen to the automobile industry?

So, what's been said here, in part, to me, the most important, what we are contemplating here is not an attack on the enterprise system, but I think we are engaged once again in like treating a spoiled child, disciplining it for its own good. I remember when they were after Roosevelt, that's my earliest memories. The big business people in this country were after him, they considered him the Black Knight, or the Red Knight, or the worst thing that ever happened to them. And the first thing that Franklin Roosevelt did was save the business people. He did it simply because he had to.

Just like my dear friend, Arthur Burns, right in this room said that he considered it his first duty to save the banks. I don't disagree with that. Nothing would be worse than to have our banks go "kerplunk." If the banking system of this country went to pieces, the whole economy would come apart, there is no doubt about it.

But I would like to have somebody else somewhere in the Government, someone that said, "Hey, I got a duty, too, I'd like to save jobs."

If I could get one person as effective on jobs as Arthur Burns is on finance, we'd have this thing half made. I respect Arthur Burns—I'm going to tell him that tomorrow. I have tremendous respect for him because he fights so hard for the people that he represents. Well, I'm just looking for somebody to represent the folks, because ultimately the banks aren't going to do any better than the economy does. But he had to do what he's done. He frankly admitted here—isn't that interesting. Now, here is the Franklin Bank. As far as my people in Minnesota are concerned, the only Franklin that they know is Benjamin Franklin, and he's dead.

But, he was going to save the Franklin Bank. Now, nobody out my way could have cared less. I'm a Senator from Minnesota. Except, when I explained to them that if that bank goes down the tube, five more go down. It isn't going to be long before the Northwestern National Bank in Minneapolis is going to go, and the First National, and so forth. Then they began to understand.

We have had the Council of Economic Advisers in here, and they sat right in this room and told me for 1 hour that we couldn't make public service jobs work, too expensive. When I hear that a public service job costs \$10,000 a year, that doesn't bother me a bit. How much does it cost to send a kid to college? About \$10,000 a year; not your money, but the public's money, somebody pays it. How much does the job program. You remember that Job Corps? We estimated that it would cost about \$10,000 a year to keep a kid in the Job Corps. And then we had about a 40 percent dropout rate. And this became a big hue and cry. I was in the campaign of 1968 in which the Job Corps became a big issue for some reason or another, as if that was the major issue.

Well, I went up and check Harvard. It costs more money to put somebody through Harvard in a year than it does the Job Corps. And not only that, the dropout rate was as big too. And I didn't hear anybody say that we ought to close up Harvard; not one bit. And not only that, they get a lot of Government money.

There are universities that I love, and I'm an exprofessor and will have to go back to teaching if I don't quit this present work that I'm doing, and they all get lots of Government money—they never ever consider it subsidies. They just come down here and are very quiet. They come to see me in my office. We are building new buldings out there at the University of Minnesota. I just got \$5 million for a new building. That isn't a subsidy; you know that: that's just help, that's all. [Laughter.]

Well, I'm glad to help them, I think they needed \$50 million, as far as I'm concerned. That's my university, I'd like to help them. I just want folks to 'fess up. I 'fess up. I have been on the public payroll. I have been to the State University. My father's business depended on people that went on WPA, and I want to tell you something, we paid enough taxes back so that we have been able to take care of all of it.

I like what I have heard here by some of you that pointed out what CETA did, putting people on payrolls; that's the answer. But more important, giving people a sense of dignity, that's the answer. And I tell you, what's wrong in this country is not just economics; it's

spirit. I think one of the things that's happened to our spirit is that people feel that somehow or other things aren't working, and nobody cares.

That is particularly true of an awful lot of disillusioned young people. And you have 10 percent of the young people in this country disillusioned, you've got poison in the well. As old Sam Rayburn said, "Never spit in the well from whence you are going to drink," and we have been letting people spit in the well, and pretty soon it gets polluted.

With that little sermonette, I'd like to just suggest two things. No. 1, we are everlastingly grateful to our participants. We have learned something today. I think we have had excellent papers presented, and I want to thank each and every one of you. I want to thank our discussants over here.

And tomorrow, I want you to know, that the show continues. This is what we are going to have for "feature attractions": We have policies for achieving full employment, where our lead start is Mr. Arthur Burns; in the supporting role is Alan Greenspan. [Laughter.]

And for walk-on parts, Hubert Humphrey and Jacob Javits, and Richard Bolling and Clarence Brown, all members of this committee.

The discussants, who will be there to write reviews and pass on comment will be Frank Morris, president of the Boston Federal Reserve Bank; Michael Harrington of the Democratic Socialist Organizing Committee; Byron Johnson of the University of Colorado, and Robert Eisner of Northwestern University.

Now, if that isn't a mix you have never seen one. I predict to you that this will be a stellar attraction, and I want to invite all of those who have gone through this day to come back and bring your friends and relatives.

Thank you very much. [Applause.]

[Whereupon, at 5:10 p.m., the committee recessed, to reconvene at 10 a.m., Friday, March 19, 1976.]

THIRTIETH ANNIVERSARY OF THE EMPLOYMENT ACT OF 1946—A NATIONAL CONFERENCE ON FULL EMPLOYMENT

FRIDAY, MARCH 19, 1976

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

The committee met, pursuant to recess, at 10:05 a.m., in room 318, Russell Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Sparkman, Ribicoff, Javits, and Taft; and Representatives Bolling, Hamilton, Brown of Ohio, Brown of Michigan, Heckler, and Roussetot.

Also present: John R. Stark, executive director; Jerry J. Jasinowski, Courtenay M. Slater, and William A. Cox, professional staff members; Michael J. Runde, administrative assistant; and M. Catherine Miller, minority economist.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. The committee will please come to order.

Today it is a pleasure to welcome our panelists and our discussants, and those who have come to share in and participate in this second day of the Joint Economic Committee's national conference on full employment.

Yesterday's sessions were interesting and productive, providing this committee and the Congress with important insights into the nature and the cost, both economic and social, of unemployment in America, and a number of useful recommendations on how to do a better job of keeping our people at work and our economy at full production.

Today, I look forward to discussing alternative policies for achieving full employment in a healthy and stable economy with distinguished witnesses from the administration, from Mr. Alan Greenspan, the Chairman of the Council of Economic Advisers and Mr. Burns, the Chairman of the Federal Reserve Board. But this morning we are very honored to have an outstanding leader of the Congress, my good friend and a friend of all of us here, the distinguished Speaker of the House of Representatives, Hon. Carl Albert.

Speaker Albert has demonstrated throughout his long and distinguished career of public service a keen awareness of the problems of the disadvantaged, the poor, the unemployed, but above all, the needs of our Nation. This awareness has been translated time and time again into effective action by the Congress to help alleviate these

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problems and to give our economy the necessary incentive and stimulant that the times require.

It is indeed an honor and a personal pleasure for me to introduce our friend and our respected colleague, the Speaker of the House of Representatives, Carl Albert.

STATEMENT OF HON. CARL ALBERT, THE SPEAKER, U.S. HOUSE OF REPRESENTATIVES

Representative ALBERT. Thank you, Senator Humphrey, and thank you for inviting me to say a few words on this memorable occasion. I know that the Congress and the Nation join me in congratulating you for the great work you have been doing, not only as a U.S. Senator, Chairman of the Joint Economic Committee, but also the special work you have been doing in commemorating the 30th anniversary of one of the memorable acts of this country, the Employment Act of 1946.

It is an honor to be included here with you.

The landmark legislation which was passed in 1946 symbolized the promise of a new freedom, the right to be free of the fear of joblessness and poverty and the right to have a good job and a decent wage. But for a generation, this great promise of the Employment Act has gone largely unfulfilled and, for the past 8 years, it has been virtually ignored. Long-term joblessness has pushed a sizeable segment of our population into an insecure and alienated way of life, separated from the mainstream of society, and dependent upon an inadequate and inequitable welfare system.

Some Americans have been able to wait out comfortably the increasingly severe recessions that have occurred during the last 30 years. For the average American family, however, unemployment has been a financial and an emotional disaster.

For the American taxpayer, unemployment has been a deficit-producing nightmare.

Why do we have 10 million Americans walking the streets unable to find full-time jobs?

Have we lacked the capability or the will to stop this destroyer of our well-being?

Have we lacked the resources?

I am sorry to say that we have apparently lacked the desire necessary to end joblessness in this land of plenty. We have allowed ourselves to be led astray by the false, misguided trickle-down and trade-off economics of Hoover, Eisenhower, Nixon, and Ford.

The long-term cost of a policy that contemplates unemployment above 6 percent into the 1980's is exorbitant. The Democratic leadership is committed to stopping this tragic waste of money and manpower.

We defeated unemployment under President Truman. We again achieved full employment under Presidents Kennedy and Johnson. The 94th Congress is currently trying hard to redeem the commitment rendered to the American people by our predecessor, the 79th Congress in 1946, to provide work for all Americans able, willing, and seeking to work.

There may be some short-term cost to eliminating unemployment, but the cost of any other policy like the administration's, which contemplates unemployment above 6 percent into the 1980's, is far, far higher. The cost is incalculable.

For this reason, the Democratic leadership in Congress and certainly in the House is offering its strongest support for the Full Employment and Balanced Growth Act of 1976.

This bill was prepared through the great and successful effort of Congressman Hawkins and Senator Humphrey and many others who are deeply concerned with the tragic waste represented by our shamefully high unemployment levels. Destiny knocks at the door of the 94th Congress. This Congress cannot, and it will not, evade this historic rendezvous.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Mr. Speaker, we are singularly honored by your willingness to participate in this Conference and your willingness to give us the leadoff statement for this morning's session.

We want to think you very much. We know that you have a very busy day, Mr. Speaker, and at any time that you feel that you must leave us, please feel perfectly at ease to do so.

We just want you to know our gratitude and appreciation for your attendance and presence.

Yesterday morning, as you know, we had the distinguished Vice President of the United States, Mr. Nelson Rockefeller, as our introductory speaker and he gave us a splendid statement.

Today, for purposes of introducing our panelists and also for presenting a statement relating to economic policy as it pertains to employment, we have one of our senior members of the Joint Economic Committee.

Senator Ribicoff of Connecticut has served on this committee for approximately 10 years. He is presently chairman of the Senate Committee on Government Operations, and I might add that had he not selected that post, I would still be a very junior member of the Joint Economic Committee rather than its chairman.

So I am indebted to Senator Ribicoff for many things.

We have asked the Senator to present our panelists to lay down the ground rules for this morning's discussion and to share with us his wisdom that is the result of years of experience in government as well as a very bright and creative mind.

Senator Ribicoff.

Senator RIBICOFF. Thank you, Senator Humphrey. I am glad, for the sake of Government Operations and the Joint Economic Committee, I chose Government Operations. Of the many outstanding chairmen this committee has had, none of them really exceeds you for the thrust and vibrancy you have brought to the chairmanship of this committee.

Since 1973, our Nation has suffered under the combined tyrannies of inflation and recession. During this period, it has really been easier to focus on the problem of inflation, because each and every one of us can see it and feel its bite.

I am glad that this conference has been called to focus our attention on the great costs of a stagnant economy and high unemployment.

Today, there are 10 million jobless Americans walking our streets with little hope of finding employment. In my State of Connecticut alone, there are 178,500 individuals without jobs, about 2.1 percent of the work force.

The costs of high unemployment are paid not only by the unemployed, but also by those of us who are lucky enough to have jobs.

We pay socially in terms of bitter youth and battered families; we pay economically in lost tax revenues and lost GNP—lost goods and services that might have made our country richer.

Today, we turn from a recognition of these costs of unemployment and the severity of our situation to the task of charting the road back to full employment, to a healthy and growing economy.

The road back will not be easy and it will not be cheap. But the failure to start on the trip back will be more costly.

We must look to new combinations of tools. Public employment moneys should be used to fund jobs which will create other jobs. In this way we can use public funds as seed money, as investment capital. We can look to jobs which build and rebuild infrastructure in our decaying cities.

For example, funds to employ people in renovating a decaying plant or a decaying theater result in private-sector jobs for the people who then work in that plant by the President.

If this 2-year period of stagflation—inflation and recession together—has taught us anything, it should have taught us the importance and necessity of long-range planning.

Currently no one in the Federal Government is charged with the responsibility of looking ahead; of warning us about the future. The JEC has recognized the need for such planning. Let us institutionalize the task.

I want to tip my hat to both Senator Humphrey and Senator Javits who have been in the forefront of this effort.

Meaningful tax reform is also a route to economic recovery. While we travel the road back, tax reform lessens the inequities and the burdens we place on the American family earning under \$15,000 per year. The tax code also provides incentives for certain types of behavior.

Our tax laws need to be examined to insure that these incentives are not perverse; that we are not discouraging actions which would raise employment.

There are many different views represented around this table. I will be interested to see if the participants can combine some of those views into a route map for full employment. What monetary and fiscal policy, what programs offer us the surest, fastest route to full employment without double-digit inflation?

Now, I have the honor of introducing the expert members of this morning's panel: Arthur Burns, Chairman of the Federal Reserve Board; Alan Greenspan, Chairman of the Council of Economic Advisers; and our discussants: Frank Morris, president of the Boston Federal Reserve Bank; Byron Johnson of the University of Colorado; Robert Eisner of Northwestern University; and Michael Harrington, the Democratic Socialist Organizing Committee.

On behalf of the Joint Economic Committee, we have designated four members to participate formally in the discussion: Our Chairman,

Senator Hubert Humphrey, a man with a long history of commitment to full employment and likewise Senator Jacob Javits, Congressman Richard Bolling and Congressman Clarence Brown, all respected and able.

Let me lay out the ground rules for this morning's discussion. Each of the participants will have 5 minutes to briefly summarize their views on policies for achieving full employment. The order of these presentations will be as follows: First, Arthur F. Burns, then Senator Hubert H. Humphrey, followed by Chairman Alan Greenspan, Congressman Richard Bolling, Senator Jacob Javits and Congressman Clarence Brown.

Following these oral presentations, the designated discussants will each have an opportunity to question the members of the panel. Following these questions, we will then have an informal dialog between all members of the panel and the discussants.

Senator Humphrey will moderate this discussion to the extent that it is necessary.

I know that this is going to be a most productive day.

Thank you very much, Mr. Chairman.

Senator TAFT. Mr. Chairman.

Chairman HUMPHREY. Yes, Senator Taft.

Senator TAFT. Mr. Chairman, I wonder if, in laying out the ground rules, some provision could be made for the introduction of prepared statements by members who are not members of the panel?

Unfortunately, I am not going to be able to stay for the entire day, and I like to introduce my prepared statement.

Chairman HUMPHREY. Senator Taft, you spoke to me yesterday about that, and indeed, we want your prepared statement and the prepared statement of any other member of this committee to be included, and it will be made a part of the record of our proceedings here. It will be included as a part of it.

[The prepared statement of Senator Taft follows:]

PREPARED STATEMENT OF SENATOR ROBERT TAFT, JR., A U.S. SENATOR FROM THE STATE OF OHIO

I should like to take this opportunity to express my thoughts on the series of hearings which the Joint Economic Committee has held to mark the 30th anniversary of the Full Employment Act of 1946.

This long series of hearings has been a depressing experience, perhaps one of the most frustrating I have faced in all my years in Washington. It has been an exercise in myopic pseudo-economic and mutual backslapping among those who still think that we can spend our way out of an inflationary recession.

There seems little doubt that most members of the Committee went into the hearings with the preconceived notion, totally unsubstantiated by either economic theory or historical experience, that public spending is a faster way to create jobs, especially permanent jobs of a worthwhile nature, than cutting taxes to stimulate private spending on consumption and investment.

A public jobs program is almost entirely service-oriented. It does little to stimulate economic growth and future job creation.

What happens when we cut taxes for consumers? Even the most Keynesian textbooks point out that tax cuts can be just as stimulative as spending increases. The consumer is left with more of his takehome pay. Consumer spending and saving go up, stimulating the consumer goods industries and providing incentive for those industries to hire workers, and providing investment funds, either through consumers' savings accounts, or by increased business profits.

What happens when we cut taxes for business? It allows firms to retain more of their profits from existing operations, and to anticipate higher retained earnings from expanded operations. It simultaneously makes expansion more desirable, and helps provide the funds.

The upshot of such tax cuts is two-fold:

First, when the consumer spends on consumer goods, he ends up with something he really wants, not something some bureaucrat has selected for him.

Second, when the business tax cut is spent on investment, or when consumer spending stimulates investment, we end up with a new factory, or farm, or mine. These go on providing new jobs long after the investment is finished. They provide jobs immediately, when they are under construction (a point that had to be hammered on at the Committee by one of the witnesses), and thereafter, while they are in operation. The immediate jobs are in the construction trades, and in the industries providing the steel, glass, pipes, concrete, and machinery that go into the new plant. The permanent jobs go to the workers hired to run the new plant, producing whatever it is that the consumers had called for.

Instead of this, the Committee has steadfastly clung to the notion that tax cuts do not work, in spite of the success we have had with them, in the early 'twenties under Republicans, and in 1963, under President Kennedy. The Committee has determined, with no hard studies to back them up, that public jobs are quicker and better.

When we cut taxes, we end up with new factories which go on producing and hiring for years. When we hire people to pick up papers in the park, for the same amount of money, we end up with a nice clean park for the untrained, unskilled, unemployed former Public Works employee to sit in, contemplating his good fortune at having had a public job once upon a time.

The Committee spent almost no time on the problem of capital formation. That means that the Committee spent no time on the sort of permanent growth we need. Wages are determined by the amount of land and equipment that a worker has to work with. Countries with a large capital stock per worker have high wages. Countries with a growing capital stock per worker have growing wages.

At no time did the Committee check with other free world nations to find out their experience in these matters. Most of the rest of the developed industrial world has been on a crash capital formation program since 1940. At that time, the U.S. had twice the per capita income of Sweden or Switzerland. In 1974, both these countries surpassed us in per capita income. The economic models attribute this to their high rates of investment, caused in turn by their low rate of taxation on growth capital. At no time did the Committee consider this approach.

What sort of approach to growth did the Joint Economic Committee take? It held a series of hearings entitled "The Limits of Growth," or "Why We Should Pretty Well Give Up On Progress." I think it was incredible for the Committee to yield to this fashionable anti-growth mystique at a time when so many of our people are unemployed. This chic attitude is held only by the prosperous; for they are the only ones who can afford it. Other countries, now as advanced and developed as the U.S., are still growing, and faster than the U.S., in spite of the fact that they lack our abundance of natural resources. How can Sweden, which is two-thirds frozen marshland, and Switzerland, which is three-quarters Alps, continue to outstrip us in productivity increases without that fact registering on the Congress?

We sorely need a fresh look at the concept of government control of the economy. We need to give up the preconceived notion that Washington knows best. We need to look at history, and at the examples set by other countries, with an open mind. A little common sense and scientific method, applied to our economic problems, will serve us far better than will the intellectual incest that marked these hearings.

S. 50, a bill which would supposedly solve our unemployment problem, would require the government to conduct monetary and fiscal policy in the optimum manner, to produce full employment. If we knew the optimum manner in which to conduct monetary and fiscal policy, we would not be where we are today. I have seen no evidence at these hearings that the Joint Economic Committee knows best. Indeed, I have heard repeatedly the old myth that easy

money leads to low interest rates. The Committee seem either to be completely unaware of the effect of easy money on inflation, and of inflation on interest rates, or they do not care to take a time frame of more than six months into account. Looking across countries, tight money lowers inflation and in the long run lowers interest rates, because it eliminates or reduces the inflation factor, and can do so at full employment. Germany, Switzerland, and Sweden in the 'fifties and early 'sixties are prime examples. At the other extreme, Latin America has frequently experienced rapid money creation, as easy as could be, followed by inflation of 100% and interest rates of 105%.

I shudder to think where the planning recommended by a Committee as inexpert as this would lead us. And the interest rate myth is not the only one that has been demonstrated repeatedly. There is the myth that tax cuts cannot stimulate job creation; the myth that the country benefits just as much from a public service job as from one formed in response to consumer purchases; the myth that investment does not create jobs until after it is completed; the myth that public service jobs produce goods that expand supply and hold prices down, when this is obviously the role of private industrial jobs; and the list goes on.

Another section of S. 50 would have the government provide special incentives for industry to locate in depressed areas. If industry has been fleeing such areas because of genuine economic reasons, such as depletion of mineral resources, a fall in demand for the particular products of the region, or the development of new technology that renders the resources of another area more valuable in production of a product, this will merely tax the entire nation to subsidize industries that are going to be producing less for the same input than they could produce elsewhere. Total national income will be reduced. There is also the ludicrous possibility that this much-vaunted government planning program will provide subsidies to the very industries in states such as Ohio which are in trouble because government planners have forbidden them to buy the natural gas they need to keep operating, because the planners think they know better than the free market where the gas should go and how much it should cost.

Where will it all end?

Probably with a new Committee, holding a new set of hearings on the 30th anniversary of S. 50, trying to write a new bill to get the government still more deeply involved in picking up the pieces of an economy it shattered in the first place!

Chairman HUMPHREY. May I say that I want to thank one of the networks this morning for their description of our day's activities. As we left here yesterday, Mr. Burns, I said that we were going to have a true extravaganza here today, and that we had two the stellar performers, and some of us had walkon parts, but we really welcome Mr. Burns who has come to us with some personal sacrifice, I might add. He has been wrestling with a little bout of cold and flu and he has come today and we thank you very much.

Mr. Greenspan, we have had you here so many times you must begin to feel this is like home, even though at times not as comfortable. I realize that. But I assure you it is all in the best of good American style and no acrimony, nothing but respect.

Mr. Burns, please proceed with your presentation.

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

Mr. BURNS. Well, I want to thank you for giving me the opportunity, I did not realize that I was to make a presentation this morning. However, I will be glad to speak for a few minutes.

This is the 30th anniversary of the Employment Act and my own association with the Employment Act goes back many years, and

looking at the head table I see an old friend, who looks very young—and probably still is very young—and yet he has been on this Joint Economic Committee, I believe, since 1950. In any case, when I arrived in this city in 1953, he was there always attending meetings of the committee and asking stimulating questions and my friend Jacob Javits and you, Senator Humphrey, have been associated with this effort for years.

I am almost in a mood of reminiscence, partly because I am getting on in years, partly because I haven't prepared myself for this morning. [Laughter.]

You know when I got here in 1953, the Council of Economic Advisers was in shambles and there was great uncertainty within the Congress as to whether the Council should be continued. President Eisenhower was uncertain whether to do so or not, and I was assigned the responsibility of formulating a plan for organizing economic advice within the executive establishment. There was very little interest in the Council at that time. Congressmen were disillusioned, the President was disillusioned, and others.

I went to work. Your father, Senator Taft, was of great assistance to me at the time and he believed, in the Council and I persuaded Jesse Wolcott who was then Vice Chairman of the Joint Economic Committee, persuaded Joe Dodge, then Director of the Budget, persuaded Nelson Rockefeller, who was then chairman of the governmental reorganization committee of some sort, persuaded Herbert Brownell, the Attorney General and the President himself that the Council ought to be reconstituted.

I wrote a reorganization bill. We made some changes in the machinery of the Council. That was passed by the Congress, but then the problem arose of appropriating money for the Council the chairman of the Appropriations Committee at the time was the Congressman from—a very conservative Republican Congressman—upstate New York, John Taber.

And John Taber didn't like economists. He thought they were evil people and there were too many of them in any case, and he did not see why good money should be spent on a Council of Economic Advisers.

And he just refused to make an appropriation available, and he was czar of the Appropriations Committee, and there we were and 1 day he sent a bristling letter to the White House saying that the old gang is still in control and the White House is not cleaning house as the President had promised and there is this wild fellow, Arthur Burns, who is appointing a number of radicals to his staff and giving them fancy salaries—and he supplied names and all.

Well, this letter was submitted to me in due course and the letter was a complete fabrication and at that point I decided I had better have a visit with John Taber. So I went to see John Taber and showed him this letter and I said:

Now you submitted false information to the White House. I am sure you did it innocently, but I am here to tell you that every word in this communication is simply untrue.

I said:

I am here to tell you more than that. I have been around here several months waiting to get the Council organized and you have blocked my path at every

turn, and Mr. Taber, you had better make up your mind, and I am going to give you just about 2 or 3 days to do it. You are going to support the Council or I go home. I have other things to do.

And John Taber looked at me and he said, "Young man"—I was young at that time [laughter]—"I like the cut of your chin and I'm going to support you. I don't need 2 days." And he did.

A new friendship developed in this city and when economists needed money for a census, they would come to me and I would go to John Taber, and money became available.

Well, this is a very serious enterprise, Senator Humphrey.

I struggled with the concept of unemployment, the concept of full employment, for many years. I have watched my fellow economists and I have watched you and your colleagues in the Congress debate numbers. What is the unemployment rate that is to be associated with full employment? Or, full employment corresponds to what unemployment rate?

Well, some people say 4 and others say 3 and others says 5 and others say $5\frac{1}{2}$ and still others say, it used to be 4, and now it is 5 or $5\frac{1}{2}$.

I have deplored this number's game—nobody really knows what he is talking about when he throws these numbers around, and I refuse to have participation in any of it.

And yet, we do have a problem, a problem in Government, in determining whether or not full employment exists and how we may get to it.

Thinking about that problem, I delivered a lecture in I believe it was 1963 and I delivered the same lecture once again at the 20th anniversary of the Employment Act, in which I presented a concept of full employment that I thought made operational sense at the government level. The concept substantially came to this, that two conditions are required for the existence of full employment: First, the number of men seeking—the number of individuals seeking jobs is equal to the number of jobs seeking individuals, men or women.

And second—that is, at prevailing wages. This equality exists at prevailing wages—and second that the labor market is so organized, that those who are willing, able and seeking work either have jobs or can find jobs in relatively short period or are available for retraining.

Now, that concept of full employment made very good sense to me then and it still does. I persuaded, with much diligent effort some of my friends in the Labor Department to organize a statistical system that would make it possible to function with this concept, but they ran into opposition and perhaps didn't bring enough energy to the task and job vacancy statistics did not flourish and now they have been abandoned, and therefore, whatever promise this concept may have is a concept for the future and one that we cannot work with at present.

More recently, being keenly aware of the agony of unemployment, being keenly aware of the fact that this country has changed since my boyhood—very few of us have the opportunity any longer of going back to the folks on the farm when we lose a job in the city. Ours is now an urbanized society. Family ties are not as strong as they used to be. Many individuals lead lonely lives.

In this stage of the evolution of our society, I have come to the conclusion that Government has a responsibility of acting as an employer of last resort.

Now, to many this is a radical concept, but I think, as you all know, I am a fairly conservative economist. I believe strongly in a free-enterprise system, and I have tried to meet my own objective with respect to what is desirable in our society within the context of a strong, free enterprise economy.

Now, to improve—first of all, I think, Government has the responsibility of releasing the energies of private enterprise so that more jobs will be created and that these jobs be good ones for our people. I think we have neglected investment in our country. I think we have overtaxed investors, overtaxed business enterprise, and I think reforms in that area would speed capital investment and enable us to bring our costs down and in the process become more competitive in the world—although we haven't done badly in that respect in the last few years.

I think secondly that we have gone much too speedily in legislating and administering environmental and safety programs. The purpose is excellent, but we have been careless over the years, and I don't think we can, or should try, to correct for all of our carelessness in a very short time.

I would stretch out our environmental, our timetable for achieving our environmental and safety goals.

I think that would improve job opportunities in this country. Many jobs are being held back by all kinds of lawsuits and much of the investment that we have these days is going into plant which will do nothing to low cost production, although it will give us cleaner air, which we need—well, we have got to be more realistic, I think, in that respect.

In the third place, I think we need keener business competition in our country in many areas and reform of our antitrust laws I think would be a good thing; tighter enforcement of these laws would be a good thing. We have a maze of anticompetitive regulations and I think we ought to get rid of much of that.

Fourth, I think that our labor-market policies need to be reviewed. This is an area that, oh, political people don't like to enter but I don't think we can continue neglecting what we are doing to our labor markets.

I think the Federal Minimum Wage Law is responsible for a great part of our unemployment, particularly among teenagers. I think the Davis-Bacon Act is responsible for much of the unemployment in our construction industry. I think we have become—I think that we have liberalized our unemployment insurance legislation to the point where a fair number of people, not energetic, not ambitious, would rather stay on unemployment insurance than go out and look for a job. I think we ought to review our labor market, our labor legislation, and beyond that, our Federal-State Employment Service has never been very efficient.

With modern technology, we should have a nationwide, computerized job bank, and I have been fighting for that for years, and we still don't have it. There is a great deal we can do in that direction.

Beyond that, if we still have unemployment, as we may. I think the Government should serve as employer of last resort, but at a wage that would be unattractive—deliberately unattractive—so that individuals would be helped to get by for a short period of time but they would also have a strong incentive to create opportunity for themselves, to find a job for themselves—a regular job for themselves—in private industry or a regular job in government.

Well, Senator Humphrey, I have taken more than 5 minutes, I am afraid, but I want to thank you for giving me the opportunity, and I am sorry that I have not had the time to prepare a formal statement.

Chairman HUMPHREY. Mr. Burns, I am really pleased that you didn't have time to prepare a formal statement, because you have given us not only some very valuable and interesting historical background and, by the way, a new insight on my part. I didn't know you had brought all of these radicals into Government, but I think that story about yourself and Congressman Taber is one of the little priceless vignettes of American politics, and we thank you for contributing it to what is ordinarily not the most appealing record, namely the Joint Economic Committee where we are dealing with statistical evidence so often.

But your observations that you have given us today, along with the splendid address which you gave at the University of Georgia which you brought to the hearing for our colleagues and the record, outlining some of the points that you have emphasized, I think are most helpful, and I am sure that you will recognize that there will be discussants that will want to review that with you. Your address, Mr. Burns, will be placed in the record at this point.

[The address follows:]

THE REAL ISSUES OF INFLATION AND UNEMPLOYMENT

(Address by Hon. Arthur F. Burns, Chairman, Board of Governors of the Federal Reserve System, at the Blue Key Honor Society Annual Awards Dinner, the University of Georgia, Athens, Ga., September 19, 1975)

I am pleased to be here at the University of Georgia and to have the opportunity to address this distinguished audience. Tomorrow promises to be an exciting day for you, and you will need all the rest you can muster. I shall therefore not waste many words as I share with you my concern about our nation's future.

Our country is now engaged in a fateful debate. There are many who declare that unemployment is a far more serious problem than inflation, and that monetary and fiscal policies must become more stimulative during the coming year even if inflation quickens in the process. I embrace the goal of full employment, and I shall suggest ways to achieve it. But I totally reject the argument of those who keep urging faster creation of money and still larger governmental deficits. Such policies would only bring us additional trouble; they cannot take us to the desired goal.

The American economy has recently begun to emerge from the deepest decline of business activity in the postwar period. During the course of the recession, which began in late 1973, the physical volume of our total output of goods and services declined by 8 per cent. The production of factories, mines, and power plants fell even more—by 14 per cent. As the over-all level of economic activity receded, the demand for labor rapidly diminished and unemployment doubled, reaching an intolerable 9 per cent of the labor force this May.

The basic cause of the recession was our nation's failure to deal effectively with the inflation that got under way in the mid-sixties and soon became a

dominant feature of our economic life. As wage and price increases quickened, seeds of trouble were sown across the economy. With abundant credit readily available, the construction of new homes, condominiums, and office buildings proceeded on a scale that exceeded the underlying demand. Rapidly rising prices eroded the purchasing power of workers' incomes and savings. Managerial practices of business enterprises became lax and productivity languished, while corporate profits—properly reckoned—kept falling. Inventories of raw materials and other supplies piled up as businessmen reacted to fears of shortages and still higher prices. Credit demands, both public and private, soared and interest rates rose to unprecedented heights. The banking system became overextended, the quality of loans tended to deteriorate, and, the capital position of many banks were weakened.

During the past year many of these basic maladjustments have been worked out of the economic system by a painful process that could have been avoided if inflation had not gotten out of control. As the demand for goods and services slackened last winter, business managers began to focus more attention on efficiency and cost controls. Prices of industrial materials fell substantially, price increases at later stages of processing became less extensive, and in many instances business firms offered price concessions to clear their shelves. With the rate of inflation moderating, confidence of the general public was bolstered, and consumer spending strengthened. Business firms were thus able to liquidate a good part of their excess inventories in a rather brief period. Meanwhile, as the demand for credit diminished, tensions in financial markets were relieved, and the liquidity position of both banks and business firms generally improved.

These self-corrective forces internal to the business cycle were aided by fiscal and monetary policies that sought to cushion the effects of economic adversity and to provide some stimulus to economic recovery. On the fiscal side, public employment programs were expanded, unemployment insurance was liberalized, and both personal and corporate income taxes were reduced. On the monetary side, easier credit conditions were fostered, resulting in lower interest rates and a rebuilding of liquidity across the economy.

With the base for economic recovery thus established, business activity has recently begun to improve. Production of goods and services turned up during the second quarter and is continuing to advance. The demand for labor has also improved. Both the number of individuals at work and the length of the workweek are rising again, and unemployment has declined three months in a row. Retail sales have risen further, and of late residential construction has joined the recovery process.

Along with these favorable developments, however, some ominous signs have emerged. Despite an occasional pause, inflation once again may be accelerating. By the second quarter of this year, the annual rate of increase in the general price level was down to 5½ per cent—about half the rate of inflation registered in the same period a year earlier. But over the summer, prices began to rise more briskly.

This behavior of prices is partially worrisome in view of the large degree of slack that now exists in most of our nation's industries. Price increases in various depressed industries—aluminum, steel, autos, industrial chemicals, among others—are a clear warning that our long-range problem of inflation is unsolved and therefore remains a threat to sustained economic recovery.

History suggests that at this early stage of a business upturn, confidence in the economic future should be strengthening steadily. A significant revival of confidence is indeed underway, but it is being hampered by widespread concern that a fresh outburst of double-digit inflation may before long bring on another recession. By now, thoughtful Americans are well aware of the profoundly disruptive consequences of inflation for our economy. They also recognize that these consequences are not solely of an economic character. Inflation has capricious effects on the income and wealth of a nation's families, and this inevitably causes disillusionment and discontent. Social and political frictions tend to multiply, and the very foundations of a society may be endangered. This has become evident in other nations around the world, where governments have toppled as a result of the social havoc wrought by inflation.

If we in the United States wish to enjoy the fruits of a prosperous economy and to preserve our democratic institutions, we must come to grips squarely

with the inflation that has been troubling our nation throughout much of the postwar period, and most grievously during the past decade.

A first step in this process is to recognize the true character of the problem of inflation has its roots in the structure of our economic institutions and in the financial policies of our government. All too frequently, this basic fact is clouded by external events that influence the rate of inflation—such as a crop shortfall that results in higher farm prices, or the action of a foreign cartel that raises oil prices. The truth is that, for many years now, the economies of the United States and many other countries have developed a serious underlying bias toward inflation. This tendency has simply been magnified by the special influences that occasionally arise.

A major cause of this inflationary bias is the relative success that modern industrial nations have had in moderating the swings of the business cycle. Before World War II, cyclical declines of business activity in our country were typically longer and more severe than they have been during the past thirty years. In the environment then prevailing, the price level typically declined in the course of a business recession, and many months or years elapsed before prices returned to their previous peak.

In recent decades, a new pattern of wage and price behavior has emerged. Prices of many individual commodities still demonstrate a tendency to decline when demand weakens. The average level of prices, however, hardly ever declines. Wage rates have become even more inflexible. Wage reductions are nowadays rare even in severely depressed industries and the average level of wage rates continues to rise inexorably in the face of widespread unemployment.

These developments have profoundly altered the economic environment. When prices are pulled up by expanding demand in a time of prosperity, and are also pushed up by rising costs during a slack period, the decisions of the economic community are sure to be influenced, and may in fact be dominated, by expectations of continuing inflation.

Thus, many businessmen have come to believe that the trend of production costs will be inevitably upward, and their resistance to higher prices—whether of labor, or materials, or equipment—has therefore diminished. Labor leaders and workers now tend to reason that in order to achieve a gain in real income, they must bargain for wage increases that allow for advances in the price level as well as for such improvements as may occur in productivity. Lenders in their turn expect to be paid back in cheaper dollars, and therefore tend to hold out for higher interest rates. They are able to do so because the resistance of borrowers to high interest rates is weakened by their anticipation of rising prices.

These patterns of thought are closely linked to the emphasis that governments everywhere have placed on rapid economic growth throughout the postwar period. Western democracies, including our own, have tended to move promptly to check economic recession, but they have moved hesitantly in checking inflation. Western governments have also become more diligent in seeking ways to relieve the burdens of adversity facing their peoples. In the process they have all moved a considerable distance towards the welfare state.

In the United States, for example, the unemployment insurance system has been greatly liberalized. Benefits now run to as many as 65 weeks, and in some cases provide individuals with after-tax incomes almost as large as their earnings from prior employment. Social security benefits too have been expanded materially, thus facilitating retirement or easing the burden of job loss for older workers. Welfare programs have been established for a large part of the population, and now include food stamps, school lunches, medicare and medicaid, public housing, and many other forms of assistance.

Protection from economic hardship has been extended by our government to business firms as well. The rigors of competitive enterprises are nowadays eased by import quotas, tariffs, price maintenance laws, and other forms of governmental regulation. Farmers, homebuilders, small businesses, and other groups are provided special credit facilities and other assistance. And even large firms of national reputation look to the Federal Government for sustenance when they get into trouble.

Many, perhaps most, of these governmental programs have highly commendable objectives, but they have been pursued without adequate regard for their cost or method of financing. Governmental budgets—at the Federal, State,

and local level—have mounted and at times, as in the case of New York City, have literally gotten out of control. In the past ten years, Federal expenditures have increased by 175 per cent. Over that interval, the fiscal deficit of the Federal Government, including government-sponsored enterprises, has totalled over \$200 billion. In the cultural fiscal year alone, we are likely to add another \$80 billion or more to that total. In financing these large and continuing deficits, pressure has been placed on our credit mechanisms, and the supply of money has frequently grown at a rate inconsistent with general price stability.

Changes in market behavior have contributed to the inflationary bias of our economy. In many businesses, price competition has given way to other forms of rivalry—advertising, changes in product design, and “hard-sell” salesmanship. In labor markets, when an excessive wage increase occurs, it is apt to spread faster and more widely than before, partly because workmen have become more sensitive to wage developments elsewhere, partly also because many employers have found that a stable work force can be best maintained by emulating wage settlements in unionized industries. For their part, trade unions at times seem to attach higher priority to wage increases than to the jobs of their members. Moreover, the spread of trade unions to the rapidly expanding public sector has fostered during recent years numerous strikes, some of them clearly illegal, and they have often resulted in acceptance of union demands—however extreme. Needless to say, the apparent helplessness of governments to deal with this problem has encouraged other trade unions to exercise their latent market power more boldly.

The growth of our foreign trade and of capital movements to and from the United States has also increased the susceptibility of the American economy to inflationary trends. National economies around the world are now more closely interrelated, so that inflationary developments in one country are quickly communicated to others and become mutually reinforcing. Moreover, the adoption of a flexible exchange rate system—though beneficial in dealing with large-scale adjustments of international payments, such as those arising from the sharp rise in oil prices—may have made the Western world more prone to inflation by weakening the discipline of the balance of payments. Furthermore, since prices nowadays are more flexible upwards than downwards, any sizable decline in the foreign exchange value of the dollar is apt to have larger and more lasting effects on our price level than any offsetting appreciation of the dollar.

The long-run upward trend of prices in this country thus stems fundamentally from the financial policies of our government and the changing character of our economic institutions. This trend has been accentuated by new cultural values and standards, as is evidenced by pressures for wage increases every year, more holidays, longer vacations, and more liberal coffee breaks. The upward trend of prices has also been accentuated by the failure of business firms to invest sufficiently in the modernization and improvement of industrial plant. In recent years, the United States has been devoting a smaller part of its economic resources to business capital expenditures than any other major industrial nation in the world. All things considered, we should not be surprised that the rate of improvement in output per manhour has weakened over the past fifteen years, or that rapidly rising money wages have overwhelmed productivity gains and boosted unit labor costs of production.

Whatever may have been true in the past, there is no longer a meaningful trade-off between unemployment and inflation. In the current environment, a rapidly rising level of consumer prices will not lead to the creation of new jobs. On the contrary, it will lead to hesitation and sluggish buying, as the increase of the personal savings rate in practically every industrial nation during these recent years of rapid inflation indicates. In general, stimulative financial policies have considerable merit when unemployment is extensive and inflation weak or absent; but such policies do not work well once inflation has come to dominate the thinking of a nation's consumers and businessmen. To be sure, highly expansionary monetary and fiscal policies might, for a short time, provide some additional thrust to economic activity. But inflation would inevitably accelerate—a development that would create even more difficult economic problems than we have encountered over the past year.

Conventional thinking about stabilization policies is inadequate and out of date. We must now seek ways of bringing unemployment down without becoming engulfed by a new wave of inflation. The areas that need to be explored are many and difficult, and we may not find quickly the answers we

seek. But if we are to have any chance of ridding our economy of its inflationary bias, we must at least be willing to reopen our economic minds. In the time remaining this evening, I shall briefly sketch several broad lines of attack on the dual problem of unemployment and inflation that seem promising to me.

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

Second, we must face up to the fact that environmental and safety regulations have in recent years played a troublesome role in escalating costs and prices and in holding up industrial construction across our land. I am concerned, as are all thoughtful citizens, with the need to protect the environment and to improve in other ways the quality of life. I am also concerned, however, about the dampening effect of excessive governmental regulations on business activity. Progress towards full employment and price stability would be measurably improved, I believe, by stretching out the timetables for achieving our environmental and safety goals.

Third, a vigorous search should be made for ways to enhance price competition among our nation's business enterprises. We need to gather the courage to reassess laws directed against restraint of trade by business firms and to improve the enforcement of these laws. We also need to reassess the highly complex governmental regulations affecting transportation, the effects on consumer prices of remaining fair trade laws, the monopoly of first-class mail by the Postal Service, and the many other laws and practices that impede the competitive process.

Fourth, in any serious search for noninflationary measures to reduce unemployment, governmental policies that affect labor markets have to be reviewed. For example, the Federal minimum wage law is still pricing many teenagers out of the job market. The Davis-Bacon Act continues to escalate construction costs and damage the depressed construction industry. Programs for unemployment compensation now provide benefits on such a generous scale that they may be blunting incentives to work. Even in today's environment, with about 8 percent of the labor force unemployed, there are numerous job vacancies—perhaps because job seekers are unaware of the opportunities, or because the skills of the unemployed are not suitable, or for other reasons. Surely, better results could be achieved with more effective job banks, more realistic training programs, and other labor market policies.

I believe that the ultimate objective of labor market policies should be to eliminate all involuntary unemployment. This is not a radical or impractical goal. It rests on the simple but often neglected fact that work is far better than the dole, both for the jobless individual and for the nation. A wise government will always strive to create an environment that is conducive to high employment in the private sector. Nevertheless, there may be no way to reach the goal of full employment short of making the government an employer of last resort. This could be done by offering public employment—for example, in hospitals, schools, public parks, or the like—to anyone who is willing to work at a rate of pay somewhat below the Federal minimum wage.

With proper administration, these public service workers would be engaged in productive labor, not leaf-raking or other make-work. To be sure, such a program would not reach those who are voluntarily unemployed, but there is also no compelling reason why it should do so. What it would do is to make jobs available for those who need to earn some money.

It is highly important, of course, that such a program should not become a vehicle for expanding public jobs at the expense of private industry. Those employed at the special public jobs will need to be encouraged to seek more remunerative and more attractive work. This could be accomplished by building into the program certain safeguards—perhaps through a Constitutional amendment—that would limit upward adjustment in the rate of pay for these special public jobs. With such safeguards, the budgetary cost of eliminating unemployment need not be burdensome. I say this, first, because the number of individuals accepting the public service jobs would be much smaller than the number now counted as unemployed; second, because the availability of public jobs would permit sharp reduction in the scope of unemployment insurance and other governmental programs to alleviate income loss. To permit

active searching for a regular job, however, unemployment insurance for a brief period—perhaps 13 weeks or so—would still serve a useful function.

Finally, we also need to rethink the appropriate role of an incomes policy in the present environment. Lasting benefits cannot be expected from a mandatory wages and price control program, as recent experience indicates. It might actually be helpful if the Congress renounced any intention to return to mandatory controls, so that businesses and trade unions could look forward with confidence to the continuance of free markets. I still believe, however, that a modest form of incomes policy, in some cases relying on quiet governmental intervention, in others on public hearings and the mobilization of public opinion, may yet be of significant benefit in reducing abuses of private economic power and moving our nation towards the goal of full employment and a stable price level.

Structural reforms of our economy, along some such lines as I have sketched, deserve more attention this critical year from members of the Congress and from academic students of public policy than they are receiving. Economists in particular have tended to concentrate excessively on over-all fiscal and monetary policies of economic stimulation. These traditional tools remain useful and even essential; but once inflationary expectations have become widespread, they must be used with great care and moderation.

This, then, is the basic message that I want to leave with you: our nation cannot now achieve the goal of full employment by pursuing fiscal and monetary policies that rekindle inflationary expectations. Inflation has weakened our economy; it is also endangering our economic and political system based on freedom. America has become enmeshed in an inflationary web, and we need to gather our moral strength and intellectual courage to extricate ourselves from it. I hope that all of you will join in this struggle for America's future.

STATEMENT OF HON. HUBERT H. HUMPHREY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Chairman HUMPHREY. It is now my privilege to make some comment here. I think that most of my colleagues and our participants here today know that I have been, along with a host of others, deeply concerned over the developments in our economy of recent years.

I look back over the period of the 1950's and the 1960's and while there was some price instability and we suffered from recessions, I think it is fair to say that in the recent 20 months or so that we have had the most serious recession and the highest level of unemployment and the sharpest turndown in production that we have had since the Great Depression, and it is because of that series of obvious facts that we direct ourselves today, once again, to the evaluation of the Employment Act of 1946 which is public law, and to see whether it is adequate and also whether or not it has been adhered to.

I sometimes feel that Government, as contrasted with citizens, feels that it has no obligation to live by the law. The citizens are required to do so under impactive penalty.

But law is law. We have laws that govern the Central Intelligence Agency; we have laws that govern the FBI; we have laws that govern the IRS; we have laws that govern all agencies of Government and we have laws that relate to the citizens.

Now, the Employment Act of 1946 is a law. It is not just a statement of noble purpose. It wasn't just a sense of the Senate resolution, and it wasn't just a resolution that was adopted by a host of do-gooders: It was passed. It was debated. It was signed by the President of the United States, and it is public law.

Now that law called upon the Government of the United States—and that means all branches of the Government, all institutions of Government—to effectuate policies which would promote maximum production, maximum employment, and maximum purchasing power. It is my judgment that that law has, from time to time, been conveniently ignored.

So here we have the 30th anniversary of the Employment Act, an anniversary upon which we find ourselves farther from our goals that were established than we were 30 years ago. Such a situation is clearly not an occasion for any rejoicing or singing the hallelujah chorus, but an occasion for reassessment.

It is an occasion to ask why. Why were these goals not attainable, or not attained?

Why have our goals been only imperfectly realized?

Why are they farther from realization today than at any time in the last 30 years?

Why is our doubt about our ability ever to achieve full employment—and I accept the definitions which have been handed out here or have been stated as of yesterday and as of today, namely, full employment is that condition when those who are willing to work and able to work are able to find the work that will provide them with at least a modicum level of income and standard of living.

So why are we in doubt about our ability to achieve full employment with reasonable price stability and why is this doubt greater than ever?

Why do our economic policymaking institutions seem to serve us less well today, yesterday, the last 5, 10 years, than they have in the past.

Or, is this something of a temporary nature with peculiar circumstances surrounding it that may pass away?

It is also an occasion to ask, and I think the most important question, what shall we do? We are all experts on problems. We have fantastic, statistical-gathering organizations to point out our misery. We even developed in this committee the misery index, which is a combination of unemployment statistics and inflation.

Having perfected our ability to ascertain the misery, we haven't done very well in providing the prescription to alleviate the pain and the misery. And I don't mean just Government.

However, I think it ought to be stated very clearly Government does have an effect upon the economy and that is what Government is for. It is not neutral; it is there for a purpose.

The whole Constitution is a document of action which the Government of the United States is supposed to promote the general welfare or is supposed to establish justice, or it is to provide for the common defense and other great necessities of our people.

I think it is time to propose changes in our policymaking structure after having examined it most carefully, and to press for the adoption of these necessary changes.

Now, what changes are needed is obviously subject to discussion and debate and decision. It is time to update our Government machinery to meet new situations, a new type of work force. Things are different. The period of the thirties, the country was, in large measure, rural. Today it is highly urbanized.

In the period of the thirties, we didn't know about multinational

corporations or conglomerates to any degree. But today, they are a matter of institutional economic fact. This is not to prejudge their merits, because there surely are arguments on both sides as to merit or liability.

Because I believe that it is time to update our Government machinery on economic policy, looking ahead and not looking back, I therefore have introduced, along with other members of the Joint Economic Committee in cooperation with Members of the House of Representatives who are not on this committee, such as Congressman Hawkins, a proposal known as the Full Employment and Balanced Growth Act of 1976.

In the Senate, it is S. 50; in the House, H.R. 50. This act is designed to strengthen and supplement the Employment Act of 1946.

Now those of us who are legislators know that proposals such as this are subject to revision and to adaptation, but the purpose is clear. The purpose of the proposal is to design a set of institutional—or to design machinery for arriving at decisions. It is a decision-making process that I think is at the heart of our problem.

The question is whether we have a coordinated decisionmaking process or a decisionmaking process that coordinates the economic facilities and the economic institutions of the Government or whether we have a series of institutions or a series of agencies and instrumentalities that more or less operate on their own?

The failure to make wise and timely use of overall—what they call macroeconomic policy—economic policy in the 1970's has been compounded by the failure to supplement fiscal and monetary policy with the broad range of additional policies needed to deal with our complex economy.

I think most of us, as traditionalists, recognize the importance of fiscal and monetary policy. The problem, in a democratic society, is that people are involved, and the theory sometimes punishes the people. And as one witness said here not long ago, the price stability gained at the price of ever-greater poverty for some or degradation for some is a price stability policy that is indefensible.

In other words, if price stability is to be gained at the price of 7 million, 8 million, 10 million people being left unemployed, then that policy is politically and morally indefensible.

Now theoretically, it is, I suppose, defensible in that if you can wait long enough, possibly fiscal and monetary policies operating through the private economy will produce the necessary results, or the required results.

But again, I point out that governments based upon the consent of the governed, governments based upon the will of the people, cannot maintain policies over a prolonged period of time which extract from a minority of the people incredible sacrifice, suffering and pain in order to placate and satisfy just the majority of the people.

The test of moral government is not only what it does for the majority, but how it responds to the needs of the minority. The moral equation of democratic government is justice, and not just justice for some, but justice for all. And I don't believe we can discuss economics merely in dollar terms or statistical terms. We have to discuss economic policy with the human equation being a fundamental part of it.

Now I recognize that our transfer payments, I recognize that the many social programs that we have effectuated in the past, legislated over the years, has eased the pain.

I have often wondered what would happen to this country had we not have had old-age security, pensions, unemployment compensation, food stamps, welfare, supplemental—SSI, as we call it, the supplemental incomes.

Might I say that these programs were legislated over tremendous opposition, unbelievable opposition. Now everybody looks upon them at least as necessary. Some people feel that they have not been properly administered, others feel they are too costly, but there is no one that I know of that really is taken seriously that recommends their abolition.

So we have cushioned the pain, to be sure. We have, in a sense, moderated the pain. But we have not, as yet, got at the source of the trouble.

I believe it requires intelligent people in a democratic society to look at why it is that this country over the long period of time has a higher level of unemployment than any other industrialized nation in the world.

Now there may be reasons and answers—because of the composition of our population, because of the size of our country, because of a number of things.

But at least we ought to know why.

Second, I think we need to ask why was it that in every other recession, prices declined, but in this recession prices increased?

Why these unique circumstances?

I have no satisfactory answer.

Why is it that in every recession or depression that this country has experienced in the 200 years of its history up until this one as the recession deepened, deflation took place, not inflation?

This time it was inflation and recession, the twin evils, at the same time, a unique set of circumstances that never before has been evident to plague our society.

This is why I believe that new approaches are necessary. I would like to believe that what we have gone through is only a temporary matter, but I don't believe we can believe that.

And I'd like to believe that the methodology that we have used and the treatment has been effective, but I don't think so. I think it has been the most costly treatment or the most costly approach to the problems of recession and inflation that this Nation has ever known.

There are very few people who seem to understand the incredible difficulty that American business is going through, the losses the people have sustained in the market, the huge number of bankruptcies that have taken place in our private economy, and not just because of Government regulations but because of lack of purchasing power and ill-advised and ill-applied economic policy.

And again, while we can say that some suffering has been relieved or removed because of unemployment compensation, union contracts with union benefits, welfare, and food stamps, there isn't anyone that I know of who thinks that this is an adequate response to a prevailing condition.

So how can we improve policymaking, to achieve our goal of full employment?

While we can't rely on fiscal and monetary policy exclusively to achieve our employment goal, we must do a better job of setting output and employment targets each year which overall economic policy should try to achieve.

I think one of the weaknesses that we have had is the unwillingness or the failure to set reasonable targets for us to look to.

I have, at times, been critical of Mr. Burns and the Federal Reserve—not Mr. Burns as such, but the Federal Reserve—and I have never forgotten one response when you said, Mr. Burns, well, what are your goals? What does the Congress want us to do? What is the objective that you seek to attain or achieve?

And I think it was a very responsible response, that we, in the Congress, that are the people's representatives we push and shove and at times scream and holler, but we have never really said to the Government, to the Federal Reserve System, nor have we said to the President nor anyone else that here is what we want as a goal. This is what we ought to be shooting for, this is what we ought to be looking toward, and we will measure our performance on that basis.

Instead of that, we talked in generalities and at times even in specifics about the rate of inflation or the wholesale price index or the consumer price index, we have complained and we have screamed about it, but we have never said, all right, in the year 1976 it is our goal and it is by law, by resolution of the Congress, that we are instructing the instrumentalities of the executive branch and the other agencies of government and we, in the Congress, taking our fair share of the responsibility to lower the unemployment rate a precise figure, as a goal, or to lower the inflation rate, and then to try to pursue policies that would bring it about.

Now, I am not one that believes that government alone could do this, but I do believe that it is necessary for government, at least, to set the standard.

Second, we need better economic planning. Instead of careening from crisis to crisis, we should take the time to set long-range priorities and plans, at least to a degree, for labor, capital and the resources needed to satisfy priorities, and we must have a number of supplementary policies in our economic tool kit, ready to apply, a permanent countercyclical antirecession grant program for State and local governments to enable them to maintain employment during recession.

Temporary public works projects to be triggered when the national unemployment rate rises above, $4\frac{1}{2}$ or whatever percentage points we set it. These jobs would be phased out as unemployment drops. And then we should have assistance to chronically depressed areas, regions and areas, in the form of job training for the work force and better availability of capital to encourage industrial development.

Finally, we need a reservoir for those, who through no fault of their own, are unable to find jobs in regular, public employment, or in the private sector. I envision this as a relatively small individual program for the permanently disadvantaged.

Although some people express concern about increasing public jobs—and indeed, there are defects in these jobs, if they are not carefully designed—I find such jobs, even imperfect, far superior to increasing income maintenance and welfare payments.

I think the United States of America has been buying itself trouble at a terrible cost of waste of production and human resources. [The prepared statement of Chairman Humphrey follows:]

PREPARED STATEMENT OF SENATOR HUBERT H. HUMPHREY

A STRATEGY FOR FULL EMPLOYMENT AND BALANCED GROWTH

During the thirty years since the enactment of the Employment Act of 1946, its famous mandate "to promote maximum employment, production and purchasing power," has become fully incorporated into the litany of national goals—to which all must give at least lip service.

It is easy to forget that, like other great national documents to which time has leant its mantle of respectability, the Employment Act was the child of heated controversy and reluctant compromise. A distinguished historian of modern economic policy describes it this way: "Every phrase in the (Employment) Act is a monument to a battle of the year long legislative war that preceded its passage. The biggest guns of ideology and pressure, conservative and liberal, business and labor, had been engaged in the fight. There has been in our generation no other confrontation on so massive a scale over the basic character of the American economy. When the smoke cleared it was impossible to tell who had won."¹

It is still not clear who won. Full employment is still an elusive goal and a controversial concept. The "maximum employment, production and purchasing power" demanded by the Employment Act has been achieved only sporadically during the past thirty years.

THE RECORD OF THE EMPLOYMENT ACT

This is not to say that the Employment Act has not brought great benefits. It has. The procedures established by the Employment Act have served, not only to ward off any repetition of the Great Depression, but—with exceptions—to keep the unemployment rate and the initiation rate within a somewhat narrow range.

The exceptions have, of course, been painful. The unemployment rate averaged 6.8 percent in 1958 and 6.7 percent in 1961. In 1975, as we all know, it soared far outside the range of previous Employment Act experience, averaging 8.5 percent.

There have been two really serious episodes of inflation during our thirty years under the Employment Act. The first came at the very beginning when consumer prices rose 34 percent (or an average of 11 percent per year) during the immediate postwar years 1946, 1947, and 1948. The second episode has been very recent indeed. Consumer prices rose 29 percent (or an average of 9 percent per year) during 1973, 1974 and 1975.

Despite these distressing episodes of high unemployment and high inflation, it is worth remembering that during the 24 year period from 1948 to 1972, consumer prices rose at an average annual rate of only 2.3 percent. During those same years the unemployment rate averaged 4.8 percent.

When it is remembered that this period spans both the Korean War and the Vietnam involvement—two periods when economic management was especially difficult—I find the record of overall price stability from 1948 to 1972 impressive. By contrast, the unemployment rate during this period was certainly higher than it should have been. Even so, it compares very favorably not only with the pre-Employment Act experience of the thirties but also with the 8.5 percent of 1975 and the 7.6 percent of February, 1976.

It is perhaps fair to conclude that during most of its life the Employment Act has served us well but far from perfectly. That, however, is a question for the historians to debate. The immediate dilemma which must be confronted

¹ Herbert Stein, statement included in the supplement to the Joint Economic Committee symposium, "Twentieth Anniversary of the Employment Act of 1946," pp. 143-152.

at this Thirtieth Anniversary Conference is that the comfortable and familiar institutions which have evolved under the Employment Act no longer serve us adequately in the 1970's. During the 1950's the unemployment rate averaged 4.5 and the rate of consumer price increase 2.0 percent per year. In the 1960's the unemployment rate was 4.8 percent; the inflation rate 2.3. In the first half of the 1970's, the unemployment rate has averaged 5.9 percent and the inflation rate 6.6 percent.

True, the worst is for the moment behind us. Both unemployment and inflation will be far less in 1976 than they were in 1975. However, the 5 to 6 percent inflation and 7-plus percent unemployment expected for this year are a painful contrast to the 1950's and 1960's, imperfect as the performance of those decades may have been.

THE NEED FOR REASSESSMENT

An anniversary upon which we find ourselves farther from our goals than we were thirty years ago is clearly not an occasion to ask "why." Why have our goals been only imperfectly realized? Why are they farther from realization today than at any time in the last 30 years? Why is our doubt about our ability ever to achieve full employment with reasonable price stability greater than ever? Why do our economic policy-making institutions seem to serve us less well than in the past?

It is also an occasion to ask "What shall we do." It is a time to propose changes in our policy-making structure and to press for the adoption of these changes. It is time to update our government machinery to meet the new challenges of the 1970's and the 1980's. I have therefore introduced, along with other Members of the Joint Economic Committee, the Full Employment and Balanced Growth Act of 1976 (S. 50) which is designed to strengthen and supplement the Employment Act of 1946.

In raising questions and considering institutional changes, the costs we suffer—the enormous waste of human and capital resources—by continuing to tolerate excessive unemployment and unnecessary inflation should be ever in the forefront of our minds. These costs—this waste—will not be banished by the modest economic recovery now underway.

What have been the economic costs of this recession?

Consumers and business have lost \$500 billion thus far in income and production that would have been theirs at full employment. Between now and 1980, the economy could lose an additional \$800-900 billion because the economy will not be operating at capacity. This amounts to an income loss of over \$6,000 for every man, woman and child in the U.S. by 1980.

The total loss in Federal, State and local revenue from this recession could exceed \$400 billion by the end of this decade.

In the depths of the recession, more than a quarter of our productive capacity was idle. Even after 9 months of recovery underway, capacity utilization was below 80 percent.

The true number of unemployed far exceeded the 8.9 percent peak unemployment rate as conventionally measured. When discouraged workers and the part-time unemployed are included, the unemployment rate soared above 12 percent in 1975 and still remains close to 10 percent.

Even if the economy grew 6 percent in real terms not only this year, but every year for the remainder of this decade, the unemployment rate would still be above 5 percent in 1980. By itself, growth—even at a rate which would be unprecedented historically over a sustained 5 year period—will only diminish, not eliminate, the waste of our precious resources. To reach full employment with reasonable price stability will require not just monetary and fiscal policies which sustain economic growth, but a wide range of supplementary policies to give directions to that growth.

CAUSES OF RECENT POOR ECONOMIC PERFORMANCE

Why has U.S. economic performance deteriorated in the 1970's? The full answer is complex and may exceed our intellectual grasp at the moment. Nonetheless, some of the causes of poor performance are clear and should be recognized.

First, and perhaps most important, fiscal and monetary policy have been badly mishandled. Policy was overly restrictive in 1969, helping to precipitate

the 1970-71 recession. By contrast, in late 1972, when moderate restriction would have been appropriate, both fiscal and monetary policy underwent a shift toward expansion, helping produce the demand pressures which contributed to sharply rising prices during 1973. Table I documents these fiscal and monetary policy changes and shows changes in real output and prices during these periods.

The errors of 1969 and 1972 admittedly are easier to identify in retrospect than they were at the time. In any case, they are dwarfed by the more dramatic errors of 1974. In 1973 and 1974 the interaction of inflation and the progressive income tax system dramatically and unexpectedly increased Federal tax receipts. From late 1972 to mid 1974 the full employment surplus (that is, the estimated surplus which would result if the unemployment rate could be kept constantly at 4 percent) rose by over \$40 billion—a massively restrictive swing which has no precedent in modern economic history. At the same time growth of the money supply was held to about 5 percent—a rate which sounds reasonable until it is remembered that this was the period during which the economy had to absorb severe external price shocks, including a quadrupling of world oil prices.

The result of these restrictive policies is now history. Instead of using policy to minimize the impact of external shocks on the domestic economy, we allowed these shocks to throw us into the most severe recession in 40 years.

TABLE 1.—FISCAL AND MONETARY AGGREGATES AND REAL OUTPUT GROWTH, 1968-75

[Seasonally adjusted annual rates]

	Federal Government surplus or deficit (billions of dollars)		Percent change in the money supply	Quarter	Percent change in real gross national product	Percent change in gross national product deflator
	Actual budget	Full-employment budget ¹				
1968:						
1st half.....	-10.9	-8.5	7.8	1	3.9	5.2
2d half.....	-8	1.8	8.1	2	7.2	4.7
				3	4.8	3.8
				4	1.1	5.7
1969:						
1st half.....	+11.6	+11.4	4.6	1	3.8	4.4
2d half.....	+5.5	+10.9	1.9	2	1.8	5.3
				3	1.4	6.4
				4	-1.4	5.0
1970:						
1st half.....	-7.0	+7.3	4.7	1	-1.4	6.2
2d half.....	-17.4	+4.8	5.7	2	+2	5.0
				3	3.0	3.7
				4	-3.9	5.6
1971:						
1st half.....	-21.2	+1.0	9.5	1	9.2	6.2
2d half.....	-22.8	-.2	3.5	2	3.0	5.8
				3	2.8	3.4
				4	3.5	3.6
1972:						
1st half.....	-16.7	-5.8	8.3	1	7.6	5.8
2d half.....	-17.9	-10.9	10.1	2	7.9	2.8
				3	5.3	3.4
				4	8.5	4.7
1973:						
1st half.....	-9.2	3.4	7.0	1	8.8	6.5
2d half.....	-4.7	11.6	4.9	2	.2	7.2
				3	2.7	7.4
				4	1.4	8.8
1974:						
1st half.....	6.6	20.6	5.4	1	-3.9	9.8
2d half.....	16.8	29.9	3.9	2	-3.7	10.0
				3	-2.3	12.5
				4	-7.5	13.4
1975:						
1st half.....	-78.0	-9.3	5.7	1	-9.2	7.7
2d half.....	*-69.5	-6.0	2.8	2	3.3	4.3
				3	12.0	7.1
				4	5.4	6.5

¹ Estimates of hypothetical surplus or deficit which would have resulted at a constant 4 pct rate of unemployment.

* Preliminary.

Sources: Department of Commerce, Federal Reserve Board of Governors, Council of Economic Advisers.

The errors of 1974 could have been recognized and rectified at the time. That they were not is a serious indictment of the politico-economic process. It is compelling evidence that our policy-making process and institutions require reform.

There has been some reform. The Congressional Budget Act of 1974 has greatly enhanced the ability of the Congress to act rationally on fiscal policy. These new procedures served us well in 1975. The public should know that the economic recovery in 1976 is largely the product of *Congressional* budget decisions taken during the past year.

The new budget procedures have brought our policy making machinery only part way into the modern age, however. Further changes are needed. The decision making process still suffers from the failure to set specific overall economic targets and from the failure to consistently keep monetary policy in harmony with fiscal policy.

The failure to make wise and timely use of fiscal and monetary policy in the 1970's has been compounded by the failure to supplement macro-economic policy with the broad range of additional policies which are needed to deal with the complex world of the final quarter of the twentieth century. Policy must be concerned with the parts of our economy as well as with the whole. In the past few years, the U.S. economy has been affected by events as diverse as the disappearance of anchovies off the coast of Peru, the quadrupling of world oil prices, and the amount of rainfall in my own state of Minnesota.

MODERNIZING OUR POLICYMAKING STRUCTURE

It is not always possible for national policy fully to offset the consequences of particular events, but we can do better than we have so far. Specifically, how can our policy-making structure be improved?

First, systematic procedures for setting specific quantitative targets for output, employment, and purchasing power should be instituted. Second, all the appropriate agencies of government, including very importantly the Federal Reserve, should be required to follow policies designed to achieve those goals. Third, a time frame for achieving long range goals must be developed through a sensible, democratic planning process. Finally, the government must develop a much more sophisticated understanding of what is happening in particular markets, on both the labor and price side, how existing government policies influence the operation of those markets, and how government policies can be altered to improve the functioning of markets.

The process of reaching agreement on specific economic goals should begin with the requirement that the President in conjunction with each Economic Report, propose interim numerical goals for employment, production, and purchasing power. These short-term goals should be accompanied by a long-term full employment goal consistent with the minimum level of frictional unemployment necessary for efficient job search and mobility in the labor force, and a timetable for achieving the goal. Initially, I believe we ought to set a goal of achieving a 3 percent unemployment rate in no more than four years, which is what we have done in the Full Employment and Balanced Growth Act of 1976, (S. 50).

The President should also be required in each Economic Report to make a determination of the extent to which aggregate monetary and fiscal policy can be relied upon to achieve the goals of full employment, production, and purchasing power. This is necessary in order to identify the limits of aggregate monetary and fiscal policy, and determine the extent to which price-incomes policy, direct employment policies, and other supplementary policies are necessary.

New institutional requirements should also be placed on the Federal Reserve to make it a full partner in national economic policy-making. The Federal Reserve Board should be required to submit to the President and Congress, shortly after the transmission of the President's Economic Report, an independent statement setting forth its intended policies for the year ahead, and the extent to which these policies will achieve the economic goals proposed by the President. If the President determines that Federal Reserve policies run counter to the achievement of the goals proposed in the Economic Report, the President should make recommendations to the Federal Reserve and Congress to ensure closer conformity of monetary policy with the achievement of national economic goals.

Finally, the Congress should review the President's proposed goals and the independent report of Federal Reserve policies, and, in conjunction with its analysis and debate on the budget resolution, set national economic goals and fiscal policy for each year. The Congress should also determine if further guidance to the Federal Reserve on monetary policy is necessary.

THE NEED FOR PLANNING

Annual economic goals should be set in the context of a longer-run overall plan for reaching and maintaining full employment, reasonable price stability and an equitable distribution of income.

If we do not begin to plan, and instead continue to career from crisis to crisis, our economic performance will continue to be damaged, the confidence of our citizens in the institutions of the economy and government will decline further, and the viability of our mixed, capitalistic system will be threatened.

Let me elaborate a bit on why we need long-range planning in this country. We need such planning in order to establish long-range goals and meet our most important needs. We live in a world of finite resources and must make choices as to what to do and when to do it. If we carefully set out long-range priorities, there will be time to carefully consider alternative policies, and proceed in a sensible manner.

We also need to set long-range goals to push ourselves and the nation to do the very best. Economic and social goals are not just technical considerations for economists, but are broad choices that reflect the moral tone and spirit of a society.

Planning can also assist us in developing information and understanding about the long-run supply side of the economy: our population trends, labor force participation, the supply of certain skills, the availability of capital and natural resources, and our capabilities more generally. We also need to know more about production and resource flows among industries. Better information can help minimize future shortages and bottlenecks.

Economic planning is needed to prepare for contingencies. If employment policies that could be promptly implemented at the beginning of a recession were available it would not be necessary to wait a year or more after a recession begins before corrective policies were implemented. Instead of designing accelerated public works programs just in time for the upturn of the business cycle, a shelf of programs and policies should be ready for implementation at the first signs of a recession.

Finally, economic planning will help us rationalize the long-range impact of government policies and programs on the economy and avoid duplication and contradiction in government activities. The economy, we must remember, is an integrated whole and, as long as policy is undertaken in a fragmented way, the results will be unsatisfactory. Agricultural production objectives will continue to be set without consideration given to transportation, fertilizer, or energy requirements. Export promotion schemes will continue to encourage the shipment of commodities abroad that are in short supply here at home. Out-moded rules and regulations will continue to waste resources and aggravate inflation.

One can see that the arguments for planning are in large measure based on efficiency considerations. If we look ahead, set priorities, examine the supply side of the economy, and consider alternatives, we are likely to establish more effective policies and programs. A more comprehensive framework for the economy will also force us to reexamine government policies and programs that don't work. Zero base budgeting, capital budgeting, and other specific economy in government measures fit neatly into such a planning system. Proper planning is true economy in government, where there is enough time to seriously evaluate programs and make changes. Such a process is far superior to short-run gimmicks to slash the budget or set arbitrary spending ceilings.

RESTRAINING INFLATION

We also must develop comprehensive and innovative policies to restrain inflation. Little of the recent inflation has been due to excessive government spending, and there is no significant tradeoff between jobs and prices at the present time. Most of the inflation has been due to food and energy price increases, devaluation of the dollar, a recession-induced decline in productivity,

and price increases in concentrated industries. All of this means that, in addition to the proper use of monetary and fiscal policy, micro-policies to restrain inflation are necessary.

First, in conjunction with our economic planning effort, we need to develop better information on the supply side of the economy so that shortages and bottlenecks can be spotted and dealt with. Long-term national food and energy policies are needed. Improved information and management of exports may also be necessary. Finally, outmoded government rules, regulations and programs that waste resources and raise prices should be eliminated or changed.

Second, we need to forcefully restrain excessive price increases in non-competitive industries. Prices in such areas should be monitored and, if certain increases threaten to seriously undermine efforts to restrain inflation, public hearings should be held to determine their validity. Vigorous anti-trust enforcement should be pursued. Wage increases must also be carefully considered although our recent inflation has not in any significant way been caused by excessive wage increases.

A COORDINATED STRATEGY FOR REDUCING UNEMPLOYMENT

The Employment Act of 1946 envisaged primary reliance on fiscal policy as the means to achieve "maximum employment, production and purchasing power." Fiscal policy was and is crucial. In the last thirty years we have learned, however, that monetary policy, price-incomes policy, and a variety of policies for dealing directly with specific problem areas in the economy also are essential. Failure to make skillful and continuing use of a co-ordinated set of these various policies helps explain why the goals of the Employment Act have been only partially realized. Today, with an economy which is more complex than ever and in which the disparities of income and opportunity among different regions and different subgroups of the population are so enormous, a fully stocked tool kit of economic policies is more urgent than ever.

Implicitly, Congress and the President have recognized the need for policies to supplement our traditional macroeconomic tools. The training programs adopted in the early 1960's were a recognition that some disadvantaged groups needed training and counseling to enable them to compete in the labor force, regardless of how favorable the overall economic climate was. Programs of this type have been continued, though not always at an adequate level, and the Comprehensive Employment and Training Act of 1973 (CETA) incorporates them as a continuing element of employment policy.

In the early 1970's for the first time since the Great Depression, Congress adopted temporary public service employment as a means of alleviating recession-related unemployment. In late 1974, public service jobs were again provided in response to sharply rising unemployment. Finally in 1975 Congress for the first time passed legislation (later vetoed by the President) establishing a countercyclical program to provide temporary assistance for State and local governments during this recession in accordance with their unemployment rate.

These measures have supplemented, not substituted for, more traditional policy measures. They mark a basic shift in our strategy for achieving full employment. Unfortunately, they have been adopted in a fragmented, uncoordinated manner. In 1974, for example, public service employment was passed only after the unemployment rate had risen from 5.1 to 7.2 percent, and even today, the program supports only 300,000 jobs. Likewise, countercyclical grants to State and local governments were passed by Congress early in 1976 but later vetoed by the President. These delays clearly reflect the need for a more permanent set of countercyclical policies that can be triggered quickly when economic activity falters, as well as for continuing efforts to assist those who have difficulty finding and holding good jobs even in times of general prosperity.

COUNTERCYCLICAL MEASURES

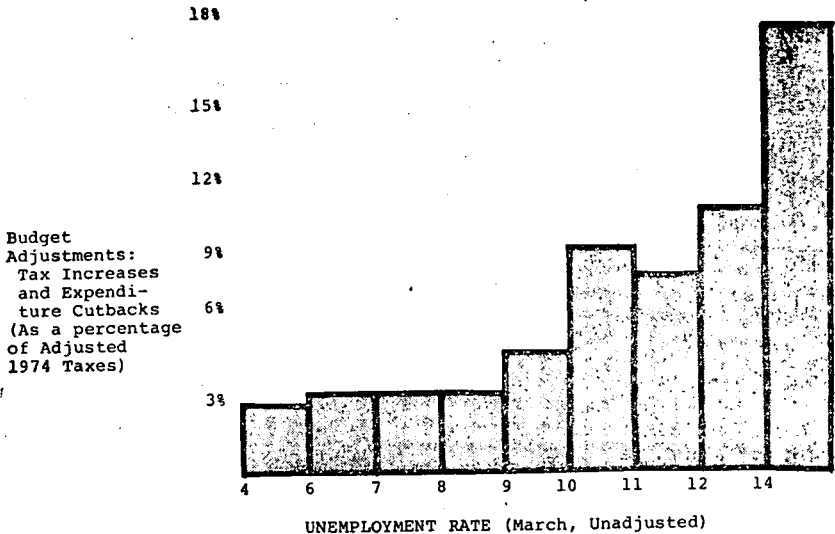
The lack of formal coordination between Federal, State and local governments often has led to inconsistent and ineffective execution of national economic policy. This lack of coordination is particularly manifest during periods of high unemployment. Recessions produce large revenue shortfalls for State and local governments and increased expenditures for many unemployment

related services. Each percentage point increase in the national unemployment rate reduces State and local government tax receipts by approximately \$6 billion and increases State and local government expenditures by millions more. In 1975, for example, State and local government revenues fell \$27.4 billion short of full employment levels due to the recession.

These revenue shortfalls and increased demands for services force State and local governments to undertake austerity measures to maintain balanced budgets or to limit the size of their budget deficits. The results are tax increases, cuts in current service levels and capital construction delays or cancellations—actions which directly undermine and contradict Federal government efforts to stimulate the economy. There is a direct relationship between high unemployment rates and restrictive budget actions. As shown in Chart I, States and localities that possessed healthy economies were able to minimize restrictive budget actions in Fiscal 1976 because they experienced modest expenditure growth and continuous revenue growth. State and local governments that experienced high unemployment, however, were forced to undertake major expenditure reductions and tax increases exacerbating economic decline in areas that already experienced the most severe unemployment problems.

CHART I

BUDGET ADJUSTMENTS BY LOCAL GOVERNMENTS IN FISCAL 1976:
A sample of 106 jurisdictions



Source: Joint Economic Committee

State and local governments constitute a major sector of the economy, spending over \$200 billion annually and employing one out of every seven American workers. Restrictive budget actions in such a large sector of the economy will inevitably affect the pace of economic recovery. It is unrealistic and in most cases illegal for State and local governments to undertake supportive fiscal policies of their own through deficit spending. Since most of the restrictive budget adjustments result directly from the failure to achieve national economic objectives, the Federal Government has a clear responsibility to partially redress the hardships that its economic policies have created. Furthermore, only the Federal Government has the resources and the flexibility to channel assistance to the most severely depressed State and localities, thus preventing the concentration of restrictive budget actions in areas that are already the most depressed.

The principal and initial element of any comprehensive strategy to coordinate Federal, State and local government economic policies should be a permanent program of counter-cyclical assistance to State and local governments. This program would provide general purposes assistance to State and localities whenever the national unemployment rate exceeded a predetermined trigger level. The total amount of assistance that is available should vary with the national unemployment rate and the magnitude of State and local government expenditures. More aid should be available as the recession deepens and the program should phase out after recovery is well underway. The assistance should be distributed to individual governments on the basis of a formula that takes into account the total amount of own sources revenues raised by that government and the level of unemployment within its jurisdiction.

The total amount of this assistance should be sufficient to stabilize and local government budgets, so budget policies at all levels of government are combined into one consistent and coherent fiscal policy.

Along with countercyclical grants, other lines of defense during economic downturns should be public employment, public works projects and direct stimulus to employment in the private sector. In each case the policies and the unemployment triggers for these policies should be carefully thought out and set in place *before* a recession begins. A national unemployment rate of 4 or 4.5 percent and local employment rates slightly above that should automatically trigger job creation programs.

We presently have an emergency public service employment program in operation. While I strongly support continuation of this program I recognize the need for reforms—reforms which will answer some of the recent criticism directed at public employment. First, with the enactment of a permanent countercyclical grant program, there will be less of an incentive for State and local governments to transfer regular employees to CETA payrolls, and as a result net job creation would be sharply improved. Secondly, a permanent program triggered at a specified unemployment rate would allow State and local governments to identify those projects which are of greatest benefit to the community and to put new public employees to work on these projects when the program is triggered by rising unemployment. Furthermore, a trigger which reduces these programs as unemployment declines again allows for better planning on the part of State and local government and would eliminate the uncertainty which surrounds the current funding of some sections of CETA. Recessions provide the opportunity to utilize otherwise idle workers on highly useful community projects. These chances to build, renovate, and improve community facilities should be viewed as what they are—opportunities. We should be ready to grasp these opportunities when they occur.

A program to deal with recession related unemployment should not, however, be limited to job creation in the public sector. There are a number of innovative measures to stimulate job creation in the private sector which the U.S. has never seriously considered.

We need to explore new means for encouraging private sector job development. Presently, 85 percent of the labor force is employed in the private sector, and most of the growth in jobs should be concentrated in the private manufacturing, construction, service and agricultural sectors, rather than the government sector.

CHRONICALLY DEPRESSED REGIONS AND STRUCTURAL EMPLOYMENT POLICIES

All regional and local economies do not experience simultaneous changes in economic conditions. Some approach full utilization of labor and capital resources before the national economy reaches full employment. Others lag well behind national indicators. Some remained chronically depressed for long periods.

Aggregate fiscal and monetary policies are not designed to respond to the widely varied economic conditions that individual regions experience. This structural inadequacy becomes increasingly acute as the economy approaches full employment. At that point, additional monetary and fiscal stimulus only places upward pressure on wages and prices in tight labor markets, while doing little to reduce unemployment in depressed areas. More specific policies should be developed to reduce unemployment in regions and areas, particularly core areas of central cities, and rural areas that do not participate fully in national economic prosperity.

There are many related reasons that certain regions or areas do not fully share the benefits of economic growth. Migration of jobs may reduce the availability of employment opportunities, members of the labor force may lack the skills necessary for employment, investment capital may be unavailable, energy sources may be completely unavailable or too costly and the deterioration of public services may accelerate the exodus of jobs and middle-income families. Certainly, there is no simple answer that will reverse this downward spiral. Rather, an integrated strategy is necessary that will upgrade the skills of the labor force, provide the capital necessary for investment, prevent the deterioration of public services, and offer positive incentives for the development of new employment opportunities.

One component of this regional economic development strategy should be a Domestic Development Bank to make low interest loans to businesses and State and local governments for the purpose encouraging private sector investment in chronically depressed areas. The bank should make long-term loans at interest rates that are not higher than Treasury borrowing costs plus service charges. The major purpose of this bank should be to increase the availability of jobs in areas that experience unemployment rates consistently and significantly in excess of the national average.

In addition to special financial aid to chronically depressed areas, we must also strengthen existing programs to train disadvantaged workers. This includes workers with outdated skills, workers in depressed areas who have no marketable skills, and those who need remedial education in addition to training. A number of studies have shown that on-the-job training is an especially useful tool in aiding disadvantaged workers to compete in the job market.

Presently, Federally-supported training programs are coordinated through the prime sponsors set up under CETA. While these programs have by and large been quite successful, the amount of Federal support to job training and development has declined in real terms for the last several years. We should not allow these training programs to be reduced. In fact, job training support should be increased, especially during economic downturns when we should seize the opportunity for retaining workers idled by recession.

YOUTH UNEMPLOYMENT

The special problems faced by young people entering the labor force for the first time persist whether the overall rate of unemployment is close to 4 percent or 8 percent. Even in 1969, when the overall unemployment rate averaged 3.4 percent, the rate for 16-19 year olds was 12 percent. In 1975, when overall unemployment averaged 8.5 percent, the teenage unemployment rate jumped to 20 percent. These double-digit unemployment rates extend also to young adults 20-24 years old. In many inner city ghettos, the unemployment rate for young people exceeds 50 percent.

The total number of teenagers and young adults who were jobless in January 1976 was 3.7 million—almost half the total number of Americans unemployed.

Many of these young people will lose the opportunity to develop job skills and work experience, to experiment with different kinds of jobs, and to adjust to the demands of the labor market—a healthy process which normally precedes entry into a career job.

Younger workers are also much less likely to be eligible for unemployment compensation. During 1975, only 30 percent of those under 25 were eligible for benefits, compared to more than 75 percent of those over 25.

Prolonged unemployment increases the incidence of crime, drug abuse, and other forms of behavior that can ruin a person's chance of achieving a productive life in the future and that seriously increase the social costs of continued high unemployment.

High unemployment rates among youth result from many factors, including lack of work experience, inadequate job skills, poor job counseling, the weak work attachment of many students, and the rapid influx into the labor market in the past few years of those born during the postwar baby boom. The problem of youth unemployment will remain severe for the rest of this decade as the baby boom children of the 1950's move into the labor force. As Chart 2 shows, however, the teenager labor force will begin to shrink in the second half of this decade.

CHART II

PERCENT CHANGE IN TOTAL LABOR FORCE OVER 5 YEAR PERIODS, BY AGE GROUP, 1970-1985

percent change from:

	1970 to 1975	1975 to 1980	1980 to 1985
Total Labor Force	7.9	11.4	6.2
16-19 years old	15.8	-5.7	-14.5
20-34 years old	19.7	22.1	6.0
35 years old and over	0	6.7	9.7

On the other hand, the teenagers of the late 1960's and early 1970's are moving into the adult labor force. Many of them have serious family or financial responsibilities. In devising policies in the second half of the 1970's, we must be aware of the sharp growth in the 20-34 year old labor force, and the need for training and full-time jobs among workers under age 25.

To meet the particular needs of youth, we should consolidate existing youth employment and training programs. Furthermore, we must combine these with better job counseling at the high school and college level. This means a more effective partnership between schools and businesses and labor unions. A smoother transition from school to work would be enhanced by apprenticeships and on-the-job training in the private sector. And finally, as part of a comprehensive youth employment strategy, teenagers and young adults should be eligible for jobs in public employment projects, including conservation, rehabilitation of inner cities, etc.

JOB RESERVOIRS

Whatever structural policies are implemented, there is likely to be some residual of people especially difficult to employ. The President should be required through the Secretary of Labor to establish special means for training

and locating jobs for these people in the private sector and, to the extent that this is not successful, to provide public employment. It is anticipated that this will be a small number of people if the other policies and programs I have mentioned are implemented.

In sum, although some people express concern about increasing public jobs, and there can be defects in these jobs if they are not carefully designed, I find such jobs far superior to increasing income maintenance and welfare payments. Extending unemployment compensation and increasing food stamp payments, as those payments relate to the recession, enormously increases the cost of government, debilitates the quality of the labor force, and encourages poor work habits. For 1975, for example, recession related income transfer payments are estimated at \$20-25 billion.

We should substitute work for such income maintenance and welfare to the maximum extent consistent with the needs and handicaps of those eligible for such programs.

But the advantages of full employment go far beyond reducing welfare payments. Full employment could add \$800-900 billion to the nation's income between now and 1980, which could mean savings of \$6,000 for every man, woman and child in the United States. Total Federal, State and local tax revenues could be increased by over \$400 billion, which would virtually eliminate the red ink of government deficits we have had for years. Welfare costs would be down, we would have less crime and, most importantly, the people who have been unemployed would feel they had a purpose in our society.

I believe full employment is a principal way to restore the spirit and direction of America. The Full Employment and Balanced Growth Act of 1946 (S. 50) is one blueprint for how we can do that.

Chairman HUMPHREY. Our next participant is Mr. Greenspan.

STATEMENT OF HON. ALAN GREENSPAN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. GREENSPAN. Thank you, Mr. Chairman.

Since I believe I will probably have ample opportunity to engage in the general discussion, I will limit my opening remarks to just a few words.

I think that we are all aware, at this stage, that we are in the process of coming out of the worst recession since the 1930's, as you have pointed out. And by any measure, there is no question that this recession has taken a vast and tragic toll in human suffering and economic cost, and I think essentially because of that, we cannot afford to go through what we have just been through again.

And I think, therefore, we must be certain that the policies we pursue in the months ahead and the way we view economic policy, must be calculated to sustain a steady and durable economic recovery, policies which will bring the unemployment rate down as rapidly as is feasible in a manner which will keep it down, and not a full series of policies which will create a wholly new instability in our economy and a situation which could be far worse in the years immediately ahead.

We do talk about specific numerical targets for jobs and I think that I would subscribe to what Mr. Burns has said about the specific numbers involved. I would also like to make a further point, that when we talk about a particular goal, whether it be 3 percent, 4 percent or 5 percent unemployment, we must remember that we are talking about the jobs part of that in the context of permanent, productive and high-paying jobs, jobs with a future, and that we must be careful not to seek, as a goal, a statistic. And I think there

is a tendency, too often, when we look at this type of job goal or unemployment goal, to recognize that it is a proxy for a very broad and very important issue with respect to maintaining the type of job markets, the type of full employment, the type of productivity, the type of standard of living which the American worker has been accustomed to.

I think we all must be aware that that is what we wish to achieve, as well as the total concept of job creation and full employment.

Just let me say, in closing, that above all we must continue to reduce the inflationary pressures which have plagued our economy in recent years, because I believe, perhaps more than anything else, that it is the inflationary instabilities which we have experienced which have perhaps inhibited job creation and undercut the type of viable growth this economy needs; that this type of inflationary instability has perhaps done more to create the unemployment and the terrible difficulties that this country has had in recent years.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Our next panelist in response is Congressman Bolling.

**STATEMENT OF HON. RICHARD BOLLING, A U.S. REPRESENTATIVE
IN CONGRESS FROM THE FIFTH CONGRESSIONAL DISTRICT OF
THE STATE OF MISSOURI**

Representative BOLLING. That you, Mr. Chairman.

I don't think I will talk economics. I think I will talk about how I see we must proceed to obtain a new consensus or a new compact on how we should deal with the economy, and to do so, I have to talk a little history. And what Mr. Burns said about his experience when he first came to Washington is a part of that history.

There is only one member of this committee today, my distinguished friend from Alabama, who used to be my Congressman, Senator Sparkman, who was here when the Employment Act was passed and he has been a member of this committee from the very beginning.

And when the Employment Act was passed, virtually everybody in the United States expected the United States to go back into a depression. And the Employment Act, which is far from perfect, has accomplished quite a remarkable lot, and if I see it correctly, it was in legislative form the result of a very hard-fought compromise, and that result spread across both a spectrum of party, and also a spectrum of ideology.

There were a great many very powerful businessmen, financiers, who were involved in the Employment Act, as well as a great many other people in labor and liberal groups that were involved in the Employment Act. And nobody was really pleased with the outcome, but it provided a framework in which the political process could work and the two principal goals of the Employment Act could be considered each year.

Now, when there was a Truman in the White House, I think it would be safe to say that there was a great deal more concern about employment than there was about price stability. And when Presi-

dent Eisenhower and Mr. Burns were there, there was more concern, I would think, in the early days, about price stability than there was about employment.

And I won't go on to make the contrast, because in every case, both matters were considered.

Now that compact, that consensus, whatever you want to call it, that result of a hard-fought legislative battle over a new creation, I think, served us rather well, and I don't happen to be able to pick a partisan date that suits me as to when it stopped serving us well.

I think on the 20th anniversary of the Employment Act, ironically, it was clear that a Democratic administration and a Democratic Congress, much abetted by the unwillingness of Republicans to deal with the matter, failed to have the tax increase that was essential to prevent the kind of inflation that has plagued us ever since.

Now I happen to think that the policies of the Nixon administration were often pernicious and I would be happy to argue them, but this is not the time to do it—but the point is, that the act served us well, until about 1966, and now the act and its goals simply are not adequate to the problems that confront us.

The economy has changed drastically. Not only are prices more rigid, but wages are more rigid. Not only do we have a higher level of unemployment when we come out of a recession that we used to, we also have a greater threat of inflation than we used to, and we need a new consensus or compact or whatever, because the old one isn't good enough.

Now, just the other day, I think we started the action end of that, when there was introduced a new Humphrey-Hawkins bill, and I would like to say that the gentleman who spoke first here today, although he didn't appear very much involved in this, was fully involved in the creation of a viable piece of legislation in the Full Employment and Balanced Growth Act.

Speaker Albert has been working on this for about 1½ years, and he has been working on it in a way which was designed to achieve results rather than to achieve fame for anybody in particular, and Senator Humphrey and Congressman Hawkins and their staffs and many others have been involved for months in draft after draft to move a piece of legislation which was a concept which couldn't fly into a piece of legislation which would serve the function that I have described of setting up the kind of legislative battle that would lead, ultimately, to a compact.

I don't have any idea what that legislation should contain in the end. I have my own predilections, my own prejudices, my own views, and they would certainly differ from a variety of other people's, but the point is that the society is going to have full employment with price stability only if the greater community makes that decision, not just the Congress, even with the Executive. It is going to have to be something that is gone into so carefully that its results represent a rational approach to the great majority of the movers and shakers in this society.

Too often, the political process is ignored as we begin to deal with these kinds of matters.

I am informed—I haven't had a chance to check it out—that just the other day for the first time the administration indicated an in-

terest in appearing and testifying on the Humphrey-Hawkins bill. If that is so, the issue is beginning to be joined, and the product will be the result of the political-legislative process and it will work almost exactly as well as it is understood by the leaders of the community who are not politicians, and the community, as far as I am concerned, is the United States of America.

So I think this is an historic week, and as we did not do in 1966, I think on our 30th anniversary we are starting something constructive. In 1966, I think we were watching something destructive and reminding ourselves of how well things had gone up to that point.

I hope very much that this year we will be able to join that legislative battle and get leaders of all segments of this society involved in working out the ultimate compromise. I think that is the way, and the only way, that we are going to get full employment.

Thank you.

Chairman HUMPHREY. Thank you, Congressman.

Our next panelist—and we have two to complete this and then we go to the discussants—is Senator Jacob Javits.

Senator Javits.

STATEMENT OF HON. JACOB K. JAVITS, A U.S. SENATOR FROM THE STATE OF NEW YORK

Senator JAVITS. Thank you, Mr. Chairman.

Mr. Chairman, the Chinese have an expression, "Every long journey starts with a first step." It seems to me that the first step, which we are taking now and which we hope we will be joined in by the American people, is an absolute sense of outrage, an absolute sense of outrage that the most productive society upon which the sun has ever risen must tolerate 7 million unemployed and with an enormous attitude in official circles that it is irremedial, that we can't do anything about it.

Now, this, I feel, we simply cannot accept, and the people of this country cannot accept. When Franklin D. Roosevelt promised us 50,000 planes just before World War II and made 100,000, that's the American spirit. This blind abdication of responsibility which is the root, in my judgment, of our trouble, is a profound national deficiency which I hope very much that this outcry, and that is what it needs to be here, must correct.

Now, Mr. Chairman, let's be very realistic. I am a politician like all the rest of us here. A President can be elected notwithstanding 7 million unemployed. There are still 86 million who are employed. But again, that is not our country, that is not its morality, that is not its sense of decency, that is not its sportsmanship. Hence, the correction of this basic imperfection of our society, structural imperfection which makes us feel that a governmental policy must accommodate 7 million unemployed is simply wrong, unacceptable and, in my judgment, un-American. It is just not our way.

Accordingly, I think we all have to interest ourselves very deeply in what is to be done.

Now, Senator Humphrey and Congressman Hawkins have come forward with a methodology. There are certain basic substantive

policies which need to be followed, but I would like to divide my short discourse in two: the methodology and then the substantive policy.

Now, the Humphrey-Hawkins bill, in which I have joined because I am very anxious to forward all of these efforts, as I will demonstrate in a minute, is a very interesting approach to the methodology which we need to adopt. I have offered my own, also with Senator Humphrey, in the balanced growth and national economic planning bill, and it seems to me that the more we talk about this, and by the way, I will see that an analysis of the bill is distributed to my colleagues and to the discussants and anyone else that wants it, but the basic assumption of the bill is that the economy will perform better if there is some kind of long-term planning and some agency to monitor it. Second, that our economic choices and tradeoffs, our national decisions which we have to make as a nation, and that the only way to do that is by form of indicative, not mandatory, planning. I believe that everything that has been said indicates the essential truth of that fact, and that essentially what we are dealing with is shall we plan nationally with respect to our resources so as to deal with full employment and assure full employment. Furthermore, I think we ought to excise the 3 percents, the 4 percents, the 5 percents, et cetera. The only standard of national satisfaction that we are dealing adequately with the promise of the 1946 act is that any able-bodied American who wants to work can work, and that, I think, is the essential thrust of Mr. Burns' employer of last resort—any American who wants to work can work.

Let's forget about the percentages. We all know how untrue they are today, and the panel that sat yesterday where the discussants are sitting, with whatever mistakes it may have made was united on one thing, and that is it is true in America, that there are millions of people who want to work, who don't want to draw the dole or unemployment compensation or anything else, who can't work, and there is something deeply wrong in our society.

So I have offered this planning bill with Senator Humphrey and I am delighted in that association, because we are all on the same track, and I joined the Humphrey-Hawkins bill for the very same reason that he joined the Humphrey-Javits bill.

The other thing is that I have also offered a suggestion in S. 472 if we can't get a full employment statute for a Federal Full Employment Board whose sole care will be the adequacy of employment in the country.

Now, just a few minutes on substantive matters.

Vice President Rockefeller made an extremely interesting statement before this committee yesterday, in which he recommended eight measures, basic policies for substantive action which, in his opinion, would combine best the private and the public sector, and I believe that those are splendid, Mr. Chairman.

I associated myself with them yesterday, I associate myself with them again. And essentially what he said is we can achieve what is called full employment—we all know that doesn't mean every single person is actually working—but we can achieve full employment by the utilization of both the tensions and the sense of community that

occurs between the public and the private sector. That is why I have emphasized planning so very strongly.

I would just like, if I may, to move into those eight points very quickly.

Productivity programs in industry, which are very, very far behind the times—we are at the bottom, not at the top of the heap internationally, an extraordinarily strange position for the United States, and this will take an upgrading of skills and a facility of the adoption by labor and management of new and improved work rules and industrial processes, and I think the reason why we are so slow in that and why trade unions often seem so sticky is that the worker does not have an adequate piece of the action.

He not only has to have his reform pension plan and the other bedrock assurances which we give him but he also, in my judgment, has to have a direct piece of the action through profit-sharing and/or stock ownership. And that will finally get you the people's capitalism which is really the United States of America.

Second, Vice President Rockefeller recommended retaining our leadership in science and technology. One of the most abysmally depressing documents is to show how far behind we are—take for example, Germany and Japan, in what we are spending for research and development, both publicly and privately. We have a very archaic view of money in this country. We think we are in terrible danger because we owe \$600 billion. I wouldn't care if we owed a trillion dollars provided our gross national product was \$3 trillion.

Any industrial country worthy of its salt feels the same way.

I would like to say to my chairman, these prices have stayed up, partially because of administered prices, inadequate trust laws, et cetera, but mainly because America has lost its boldness and its vigor. That is why business and workers are losing confidence in our country.

That is why your prices have stayed up. They've allowed them to stay up because we've lost our spirit of enterprise. I wouldn't say it is irremedial. I don't accept any such thing or any such word for the American economy, but it is a big problem for us, and we are in the process now of getting out.

The Vice President also spoke of a reformulation of our tax policy, plant modernization, getting to work on an enormous effort to improve our own sources of energy which, in his judgment, would cost \$100 billion. America wasn't afraid to spend \$100 billion in World War II every year. And we ended the war richer and bigger and more powerful than we had ever been before, because we spent it to defeat tyranny, and that is not wasted money.

And it is the same with this energy proposition.

Well, Mr. Chairman, I have taken more time than I should have.

I would just like to close as follows: we are a unique society; we all agree on that. And the unique societies have to modernize too. And our modernization, in my judgment, now can be summed up in three words.

One, we, too, like the rest of the world, have to plan, and we are no longer a frontier society. We cannot afford to get up and navigate by the seat of our pants. So some form of planning statute is essential.

Second, the worker has to have a piece of the action. Businessmen have to learn not to be afraid of workers on their board because they own stock, just like anybody else. They ought to welcome them.

And third, America has got to be bold again, in terms of research and development, in terms of capital investment, and in terms of dealing with the rest of the world.

The world is not going to get smaller, or more constricted. If we don't do these things we will pass from the scene, as many other great nations have.

But if we do, we have an excellent chance to lead the world into a new dawn, and that is what we are talking about here.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Senator Javits, I am sure that I speak for all of us when I say we are grateful and thankful for your leadership.

[The prepared statement of Senator Javits follows:]

PREPARED STATEMENT OF SENATOR JACOB K. JAVITS

This is the 30th Anniversary of the Employment Act of 1946. The irony of the situation lies in that we are further away from the promise of that legislation now than we were then. Rates of unemployment formerly totally unacceptable, today are greeted with a remarkable degree of equanimity. Unemployment has become just another economic issue and trade-offs between unemployment and inflation are weighed in the balance as competing policies, not as profound national deficiencies.

I have not lost sight of our commitment of a full employment policy. This year, I reintroduced the Full Employment and Job Development Act, which I originally had introduced in 1973. Even before the recession hit and before our unemployment rate started to soar, there was an obvious need for a "Full Employment Board" to spearhead efforts to get people back to work, as well as to pursue the object of full employment as a national goal for the future. This independent Board, consisting of 5 full-time members appointed by the President, would study the employment problems of the Nation and make annual recommendations to the President and Congress to implement policies directed toward full employment. The Board would be the first step in trying to develop a comprehensive, rather than the present haphazard, approach to the unemployment problem.

In addition, I introduced, together with Senator Humphrey, the Balanced Growth and Economic Planning Act of 1975. In order to achieve the goal of full employment, we must not legislate in a vacuum. All aspects of our economy must be considered in any national employment policy. I believe that our long-term economic outlook could be far more serious if we do not begin to deal wisely with certain fundamental and structural aspects of the economy.

Because I wish to forward initiatives intended to achieve full employment as a reality and not just a phase, I have joined with Senator Humphrey and others in cosponsoring S. 50, the Full Employment and Balanced Growth Act of 1976, because of its potential for the fulfillment of the promise of legislation of 1946. However, even with the latest changes in this bill, much work will have to be done and further modifications are necessary. We cannot possibly expect that all the provisions can be enacted and, in fact, we may find, unfortunately, that even its target of 3 percent adult unemployment as unrealistic or impossible to reach in the near-term. This should not mean termination of our examination of the problem of derailment from our proclaimed goals. On the contrary, necessity makes us now focus on the issue more clearly than ever.

There is nothing more implicit in the very fabric of our free enterprise society than the promise of full employment. The pledge of the Employment Act of 1946, "to promote maximum employment, production and purchasing power," has been honored more in the breach than in the observance. We have not even defined what full employment is or could be, and there are many

differing views on the definition. We only know when it does not exist, and we scream when it "hurts" by saying that unemployment is at an "unacceptable" or "intolerable" level. There is now a growing recognition—paralleling in a sense the evolution toward recognition of the need for comprehensive national health insurance—that legislation is needed to accomplish the objective of full employment over the long-term. A "can do" approach to the whole issue of eliminating unemployment is needed. Policymakers must face the fact that something must be done about the truly shocking fact of over 7 million persons unemployed, which our Federal Government is accepting as practically irremediable.

In my view, the private, not the government sector is the place where full employment policies must have real fruition—that is what our people want—but with the public sector as a backup as an employer of last resort. We have massive programs to hire people in the public sector, but, at best, these temporary jobs are designed to be transitional. Full employment does not mean full employment make work. Rather in our capitalist system it means harnessing the energies of the private sector to make a more productive and viable economy—for our country and people everywhere.

We have not utilized the private sector's position in our labor market in identifying problems within its sphere. This is an area where a full partnership among management and investors, labor and Government can be formed to identify present and future demands of the labor markets. As these manpower projections are determined, these three groups could develop their apprenticeship and manpower programs specifically to respond to the need. While there have been scattered attempts in the past to accomplish this objective, there needs to be greater coordination and participation of the private sector—that is where the responsibility lies—and Government must facilitate, not retard it.

Our changing economy has caused structural unemployment problems of dislocation, lack of training, and the need for relocation. Our recent efforts have been to decentralize and decategorize our manpower programs. With the cyclical upswing in our economy more new entrants can be absorbed to a larger work force and workers are slowly—albeit too slowly—finding their way back into jobs. But, significant segments of the population are being left behind. Blacks are still a disproportionate number—double that of whites—of the unemployed. The rate of teenage unemployment has remained constant at 19 percent—almost three times the national unemployment rate—with urban minority teenagers at almost twice that.

The economic base of urban areas is deteriorating in many instances, and will continue to do so as businesses find it more attractive to move to the suburbs; thereby further eroding the economic climate in the cities. We need to undertake programs to deal specifically with these problems. While this may seem like a return to the categorical programs of the 1960s, a review of any block grant policy is now necessary because of the present exigencies.

The time has come for us to look with a fresh view at the state of the economy, and the role of Government in its operation. The popular notion stated strongly by the President, that the less government the better government, should be examined closely. New points of departure lead to profitable discussion and an interchange of ideas. It is these new concepts and innovative approaches that may not instantly be implemented or become law, but the discussion that it engenders can be very fruitful in asking the questions which define the problems.

It is this dialogue that is so valuable in developing the participation of various segments of our society, with each contributing its unique perspective. Hopefully, discussion will hasten the development of a true full employment policy, designed in a cost effective and humane way.

It is a national goal we share as a people and are determined to implement as national government policy.

Chairman HUMPHREY. Our next panelist from the Joint Economic Committee is the distinguished Congressman from Ohio, Clarence Brown, who is the ranking member on the House side of the minority and who has been a very significant force in this committee.

Congressman Brown.

STATEMENT OF HON. CLARENCE J. BROWN, A U.S. REPRESENTATIVE IN CONGRESS FROM THE SEVENTH CONGRESSIONAL DISTRICT OF OHIO

Representative Brown of Ohio. Thank you, Mr. Chairman.

If this 30th anniversary observance of the Employment Act is to mean more than a political show in a Presidential election campaign year, I think we should do more than point with pride or view with alarm. We should use the occasion to reassess our objectives and the methods by which we have tried to reach them.

It has, after all, been almost a full generation.

In looking back at the 29 years of annual statistics since the Employment Act was passed, there are good reasons to both point with pride and view with alarm. We can be proud of the fact that the average unemployment rate during those 29 years was a little less than 4.9 percent and that we had 9 years when the annual average unemployment rate was under the full employment target of 4 percent set by the Committee for Economic Development in 1946.

But we must view with some alarm the fact that 7 of those 9 years of under-4-percent unemployment were war years: 3 years, the Korean war and 4 years, the Vietnam affair. And even more alarming is the fact that the years lagging the years of lowest unemployment saw the highest jumps in inflation as reported by consumer and wholesale price indexes.

We must be concerned that price stability and our classic definition of full employment apparently have some problems coexisting. If price stability is one of the twin goals, perhaps we should look at these years when it was achieved and see what the unemployment rate was.

During a nonwar decade from 1955 through 1964, relative price stability, about 1½ percent increase per year, was achieved, but alas, the unemployment rate in that decade averaged 5.4 percent, 5 percent even in the first 5 years and 5.7 percent in the second 5 years.

No policy maker in a free society would deliberately seek increased unemployment as a policy goal, to cure inflation, to achieve price stability, or for any other purpose. Everyone wants full employment with price stability.

But, conversely, why would any leader seek artificial employment levels if it would mean sharp inflationary price instability that robs the elderly and the poor and those on fixed incomes who are least able to deal with the instability in prices.

The problem is, what do we mean by full employment and price stability?

I suggest full employment may mean something different today than it did in 1946, and that we should try to revise our assessments of what these terms mean and how we should try to achieve them.

Faulty concepts and failure to understand the intricacies of unemployment statistics may cause us to go down wrong policy trails in our effort to achieve full employment, an area we may later regret.

At the present time, we are properly moving in the right direction, with unemployment down from its peak of 8.9 percent reached in

May of 1975, to a level of 7.6 percent last month. That is a healthy correction, and the pace of unemployment production seems to be quickening in the last couple of months.

The key question is: What goal are we after? When the Unemployment Act of 1946 was enacted, the general consensus then, and it has carried over to now, was that 4 percent unemployment is "full employment."

However, we are living in quite a different world today than in 1946. We need to rethink the measurement of full employment, the survey methods for determining unemployment, the methods of sustaining the unemployed, the nature of frictional unemployment and the structural changes that have taken place in our labor force over the past three decades.

The U.S. Department of Labor, the Joint Economic Committee or someone should undertake a thorough and extensive analysis of the concept and definition of full employment.

First we should consider the fact that many Federal, State and local programs have been enacted, or achieved, by labor and industry to help soften the blow of unemployment, and we should be proud of it.

Unemployment compensation has been greatly liberalized as have workman's compensation, pension programs, welfare, early retirement, health benefits, food stamps, day care centers, medicare and medicaid plans and many other public services which soften the social and economic impacts of unemployment, if not the psychological impacts.

These don't terminate unemployment, however, but they make it somewhat more tolerable for the unemployed.

Second, we should look at the changes in the nature of the work force. In 1929, the 49,440,000 people in the work force were 64.4 percent of the population between 16 and 65, and there were probably higher percentages of the under-16-year-olds and the over-65-year-olds working then than there are now because of the more recent tightening of child labor laws and stricter adherence to fixed standards with the more general development of private pension plans to supplement social security.

By 1947, when the Employment Act was new, the percentage was still about the same, 64.9 percent.

But by 1975, the percentage of the labor force to those 16 to 65 was up to 71.2 percent. The entry of women into the work force has risen from 27.9 percent in 1948 to 39.4 percent in 1976.

Now, for the benefit of my colleague from Massachusetts who is here, that is not to suggest that the pre-1946 housewife was not working. Chances are she put in a full day on the family laundry, gardening, sewing, canning, but chances also are that she was not counted in the work force, either as employer or unemployed.

In those days, the head of the household wage earner was more often than today the sole wage earner. Today there may be two major wage earners in a family. In those days when the sole family breadwinner was unemployed, the impact on the family was considerably more devastating than where one of a pair of family wage earners is temporarily unemployed today.

In that light, 4 percent unemployment then may have had a greater social impact and meant more shrinkage in spending and savings than a greater percentage of unemployment would today with another wage earner in the family and all of the economic and social supports we have built into the system since then.

Third, there is the training nature of frictional unemployment, those persons unemployed due to the technological shifts of whole industries or who are not properly equipped to make transitions from disappearing jobs to new jobs.

In some industries, it may be very difficult today to teach a highly skilled old craftsman new skills of a more intellectual nature required by technical change.

In other industries, the job it once took years of apprenticeship to learn may be replaced by a machine which can be operated readily by very little training.

Unemployment caused by changes in technological sophistication must be measured in aggregates of individual problems to determine how much frictional unemployment is correctable and how much of it is optional or endemic, and will either cure itself, or may have incurable causes.

The teacher who left the work force 20 years ago to raise her family may have to be retrained for a new job before she will find employment today because her profession is currently glutted, but the plant nurse, laid off from an industrial slowdown, may well be unemployed by choice for awhile because she may wish to enjoy a few weeks off with unemployment compensation before she goes back to work in a local hospital where she will be welcome whenever she is ready.

In this frictional unemployment category, we should also list unemployment due to problems of location or personal difficulties. The alcoholic worker may not be able to hold a job in the best of times, even though he possesses a skill in great demand, and the most skilled worker may never find a job in a geographically depressed area. These are specialized problems, unlikely to respond to massive programs of Federal employment. A generalized jobs program by the Federal Government as an employer of last resort may have merit in a generalized and lengthy depression, as in the 1930's variety when it is deemed desirable to redistribute wealth in order to stimulate the economy by putting money into the hands of those who will spend it, although there are still many who feel that such efforts were not impressive in their success until World War II helped in recovery from the Great Depression.

Even regional development programs may not help the alcoholic or lure the nurse back to duty before she wishes to be reemployed. But there should be continuing support for mechanisms to retrain the aerospace engineer or the linotype operator when his industry folds up or his skill becomes obsolete, and there are training programs which must be undertaken for social reasons to help achieve equality of opportunity for segments of our economy which have been shortchanged in training by the nature of our past society.

But these training programs must be specific to the trainee and his potential skills in relation to his area, and the job needs of the

future. A government clerical job for an aerospace engineer would be an economically wasteful, dead end, and an equally improbable match up for a husky, ghetto teenager of limited literacy.

Specific institutions adept at economically training and placing such employees to match up to the jobs that will exist as the present recovery progresses should be supported now. These would include opportunities in industrialization centers, vocational and technical schools, and the like.

For such training programs to have job openings in which to place their clients, the most massive need is to stimulate job creation. The creation of demand has already been accomplished by inventory reduction during this recession and the return of consumer confidence as a result of a degree of price stabilization and increased personal savings.

The increase in savings has brought some easing of interest rates in the short run and even rays of hope for longer term, lower interest rates. Improvement in the latter is necessary to spur housing starts which underpin the recovery, but any lasting recovery must have expanding plant productivity, and this will require capital investment, considerable capital investment, if we are to meet future national needs for plant modernization, resource development and expansion of productivity for better future standards of living.

The massive investment required calls for us to rethink another of the basic premises of the Employment Act era. At the end of World War II, the United States possessed the only massive national capacity of industrial production in the world. That fact, the Great Depression and World War II made a strong impact on us, an impact that caused our Federal fiscal policies and tax laws and our personal standards to be then tilted heavily toward the encouragement of consumption rather than investment, but our goal of full employment in the next generation, as opposed to the last generation, may be more achievable if we will retilt our system to encourage savings over consumption. The encouragement of investment by less confiscatory tax laws on the individual corporations and financial institutions, by few anticompetitive regulations by government, by more encouragement of conservation, restoration, full utilization, modernization and research and technical development, is fundamental to achieve more job formation in the years ahead.

The time for make-work projects to sustain the unemployed is past in the present recession-recovery economic cycle. Once the recession has begun, it is generally too late to plan sophisticated public works because they simply take too long to put people on the job. Those should already be ready to go, so that they can be started whenever a recession begins.

But it is not too late—it is just the right time, in fact—to encourage the development of private jobs by encouraging existing business and new entrepreneurs with more generous investment and depreciation writeoffs, reduce profits taxes, and even an easing of anticompetitive Federal rules and regulations.

We need to redress the imbalance that has been growing for the last 30 years or so if we are to achieve more consistently in the next 30 years our goals of full employment with price stability, whatever the modern balance between those two figures should really be.

Mr. Chairman, I thank you for the opportunity to make this presentation.

Chairman HUMPHREY. Thank you very much, Congressman Brown.

We will proceed with the discussants, and I would like them to make their statements and their questions, and then members of the committee who have not participated up to now should be given priority on any questioning.

We will start right out with Mr. Byron Johnson, and we will go down the line.

Mr. Byron Johnson is from the University of Colorado and well known to many of us here.

**STATEMENT OF BYRON L. JOHNSON, PROFESSOR OF ECONOMICS,
UNIVERSITY OF COLORADO**

Mr. JOHNSON. I have enjoyed this very much, and I recognize the historic significance of this. It had been my good fortune, Mr. Burns, to join the Executive Office of the President in 1942 at the inflationary height in the summer of 1942 and the President sent down a request that we put together an economic stabilization program and we had 6 weeks on the staff to put that together. He sent it down to the Hill and said, I'll give you 3 weeks to pass this, and if you don't do it, I'll do it by Executive order under my inherent war powers, and that's how we got the first economic stabilization program on the books in the fall of 1942.

I was in the fiscal division, which was the precursor of the Council of Economic Advisers, and my colleague, Grover Ensley, became first Deputy Director and then Director of this Committee, and I have therefore paid some attention over the years to how things have gone.

But during World War II we got along with 1 percent unemployment at best, so I went out to teach at the University of Denver in 1947, I told my students that 1 percent was probably the minimum, 2 percent was acceptable, but at 3 percent we should certainly start taking reverse action to overcome this high unemployment, and that by the time unemployment got to 4 percent, we should ring alarm bells.

In light of that history, I confess I have had great difficulty in following the discussion of the past 10 years, and I have been most distressed by your difficulty with the numbers game, and yet your statements, both in print and here again today, say that you favor full employment.

I think it is important that H.R. 50, or something like that, gets approved to make clear what was left in dispute in 1946, namely that maximum employment meant full employment, and that full employment does have measurable targets, so we can hold administrators and members of the Federal Reserve Board and the Council hold their feet to the fire, because as long as we are foggy, as long as we have a high-fog index, we can expect that the temptation will be to solve our problem for redefinition, and I confess as a classmate and student of my good friend, Walter Heller, I was distressed when he first used the phrase "interim target," because I was sure the word "interim" would get lost, and sure enough, it got lost, so that I cannot escape the feeling that the time indeed has come for new directions, and

Mr. Chairman, at the suggestion of your executive director, my old friend, John Stark, I did prepare a statement on new directions for America under the Employment Act, and also I did prepare a more complete statement on how to restore full employment without inflation, which I won't do more than offer it for your consideration.

Chairman HUMPHREY. We will incorporate it in the record, but I think it would be well for the moment, Professor Johnson, if you would just give us a thumbnail sketch of what you call your new directions.

Why don't you just run that down? We have the time. Actually, it is only 11:30 and you aren't even supposed to be on until a quarter to 12, so you're all right.

Mr. JOHNSON. It seems to me that the failure to define and accept full employment as a goal in 1946 was a fundamental fumble, and I am delighted with H.R. 50 and S. 50 in which you are now, I think, rightly remedying that.

Second, I think the term "maximum production" has been a quantitative analysis trap and that in our society we have got to start looking at the quality of our lives, and I am delighted to see the kind of specific language which is contained in S. 50, because it seems to me it comes to grips with the necessity to start stating some basic social priorities.

I was one of the first graduate students to start looking at Keynes—in fact, I wrote my first paper on Keynes for one Dr. Walter Heller, not yet then a Doctor, and the only people in Washington who asked me about Keynes was the National Resources Planning Board when I came down here for interviews in 1942.

But it was a great step forward during the Great Depression to think in terms of full employment, but we need a qualitative as well as a quantitative approach, to what America is to be, and I am delighted to see that kind of language in S. 50.

Third, I think the phrase "maximum purchasing power" failed to come to grips with the anti-inflation bias which I think is the intent of the committee, but which was never stated clearly in the law. Indeed, you will recall that when I was a Congressman in 1959 and 1960 I was one of the sponsors of sundry bills to try to write into the Employment Act that stable, general levels of prices ought to be made a part of the law. I am delighted to see the progress that I now see in H.R. 50.

Incidentally, this is the finest draft that I have seen of that bill and I want to compliment the drafters and the sponsors for the real progress that has been made, and I appreciate Congressman Bolling's generous compliment to the Speaker for the work that his crew has done behind the scenes.

In the fourth place, it seems to me that we speak of the Employment Act calling for the purpose of creating and maintaining, in a manner calculated to foster and promote free, competitive enterprise. Whatever happened to that phrase?

You know, we've got the private control of output and price, what ever happened to the public review of the private control of output and price? And it was just last month that we celebrated the 200th anniversary—this is a great Bicentennial—Adam Smith's book came out 200 years ago this month, and at least at Boulder our economics

faculty with Ken Bolting writing a play has had a joyful commemoration of that historic event, because the author of modern economics warned us what the dangers were of inflation in the private control of output and price, and it seems to me that when we wrote that into the Employment Act, that was the intent of the Congress, it is consistent with everything from the Sherman Act, and why we have to restate that as though that were a policy to be achieved rather than a policy to be enforced is what I have some trouble with.

So I think it is helpful to have that written into the act.

Fifth, the Employment Act did not address the quality of our lives, and I understand your concern, Mr. Burns, about retreating from speeding up the enforcement of cleaning up the environment, but the younger generation are here—you know, we always say, well, that will take one more generation; they're here and they don't want to wait. I really think the time has come for the Congress to say this is national policy and frankly, as one of the teachers of land economics, I am convinced that in most cases the cleaning up of the environment is, in fact, cost-effective. If it isn't cost-effective, then perhaps our technologies should be linked with the industrialists to see if we can't find cost-effective ways.

But I am wrestling with a rural development program to recycle animal waste, for example, and we are satisfied from the front end analysis that we have done that this is going to be cost-effective. I think there are very many ways in which we can clean up the streams and clean up the air and salvage valuable commodities which are now being wasted and polluting the air and our lives.

Sixth, it seems to me that the Employment Act neglected the international interdependence that is crystal clear to us today. We can no longer live in a world unto ourselves, and I have been depressed that my colleagues in the field of macroeconomics have been so wholly obsessed with gross national product that the notion of gross world product, the notion of how to maximize the welfare of the whole community have been, it seems to me, lost from view.

Seventh, it seems to me that the Employment Act needs to reflect our growing awareness that resources are divisible between renewable and nonrenewable or exhaustible resources, and we must take steps as rapidly as possible to reduce our dependence upon the exhaustible resources, and that means not just to be independent of oil, but to be less dependent upon oil, to be more dependent upon solar, wind, geothermal and other inexhaustible sources.

And so these, it seems to me, Mr. Chairman, are the kinds of new directions, many of which I see reflected in the Employment Act re-draft that you have before you, and with those comments, let me only add one other footnote, and it is really a question, I think, to both of you. I have been deeply distressed that macroeconomists have suffered from amnesia. When they are discussing how to fight inflation, they say, we must have tight money policy, and therefore, since they have forgotten other terms of credit, they speak of raising interest rates to somehow tighten up.

That doesn't make money tighter, it just makes it more expensive. It is the volume of money that is important; not the price of money, and money buys nothing more for you whether you pay 2 percent or

10 percent, and I lived through World War II with 2 percent Federal money, and we managed to fight inflation without raising interest rates.

I think the record of the late forties, early fifties was an abomination and I think the notion that the Fed is independent is an abomination. I was on Wright Patman's subcommittee which held the hearings in 1959 and 1960 on this mythology that the banks own the Federal Reserve. If you go back and read the hearings of that committee, you will find that I think we established beyond a shadow of a doubt that the banks do not own the Federal Reserves. The Federal Reserve is a part of the U.S. Government. Its policies should be to carry out the intent of the will of Congress and the best interest of the country. It is not a handmaiden for the banks, and raising interest rates doesn't even serve the banks, in the long run.

But in any case, I am absolutely convinced that you don't throw gasoline on the fire. The raising of the price of money is, in fact, an inflationary action, so that I would much rather have you fight to accelerate savings by raising downpayments, shorten amortization periods, push interest rates down, then I think you would get the additional housing that would create the private jobs that we all want. It would encourage the small businesses, it would encourage the public construction.

I have just come from being chairman of my board of regents for the university and I have great trouble getting the funds to build the facilities that the place needs because we are looking—even on our bonds, we are looking at 6.38 and 6.8 percent to borrow money and other people are looking at 8.5 to 10.5 percent.

It seems to me that the failure to use other terms of credit than interest rates have been disastrous for the economy for the last 23 years, and I would seriously hope that you would give sober thought to alternative policies in this regard, and also that in retreating from wholly being dependent upon macroeconomics you would recognize that depressions come in divergent pockets of our society, in age, in race, in location, and in sectors of the economy, and that a somewhat more sensitive microeconomic policy in the field of monetary policy might do far more.

The attempt to use the axe to kill the fly, it seems to me, is wrong and I think we need some scalpels to do our surgery and we need the flyswatters for flies and not sledgehammers. Thank you.

Chairman HUMPHREY. Thank you, Mr. Johnson. The statements you have prepared for the committee will be placed in the hearing record at this point.

[The statements follow:]

NEW DIRECTIONS FOR AMERICA, UNDER THE EMPLOYMENT ACT

(By Byron L. Johnson, Professor of Economics, University of Colorado)

1976 is a double celebration. Everyone knows that it is the bicentennial of the signing of the Declaration of Independence, as radical a statement of the right of a free people to govern themselves as was ever penned and made into history. We are rightly proud of the gains it has helped us to make.

Yet we are not fully content. Economic uncertainties and a sense of dissatisfaction with many aspects of our economic and social life call for a New Direction—a new spirit—for America. The second anniversary to be celebrated in 1976 provides an ideal opportunity for taking stock, and establishing the New Directions.

For 1976 is also the 30th anniversary of the passage of the Employment Act of 1946. The generation of experience since then clearly offers an ideal time to reassess our economic goals and objectives, our progress and achievements, and to outline the new directions better suited to our needs and in the years ahead.

The Employment Act suffers from several omissions that have plagued our experience under it. The following seem clear. Others may wish to add to this list.

First, the Congress in 1946 refused to accept "full employment" as a goal. Instead, they finally chose the macro-economic response to the 1930's of "maximum employment, production, and purchasing power." This has become a weak blueprint. Worse yet, in recent years we have used repeated redefinition to retreat from the concepts of Full Employment (suggested by the NRPB, by Sir William Beveridge, and the bill by Sen. Murray, along with Thomas, O'Mahoney, and Wagner, as well as by Rep. Patman), all of which gave rise to the Act.

Administration spokesmen like to report the increase in employment, without attending to the underemployment of millions, and the unemployment of millions more. For a growing labor force has permitted more employment in absolute numbers, while we experience increased unemployment as well.

At the time the Act was passed, an unemployment level of 2% seemed a reasonable and tolerable number, given market frictions, personal circumstances, seasonal factors, and other dynamic forces. Many assumed then that whenever unemployment reached 4%, the nation would begin vigorous corrective action.

Erosion of official and unofficial courage has caused us to tolerate much worse. We use redefinitions to cover our retreat. In the early 1960's, The Council proclaimed a 4% rate of unemployment as an "interim target"—only to have the word *interim* quickly disappear. By 1975 we are offered the hope that unemployment may get back down to 7%!!

New Directions for the Employment Act in 1976 require a return to the intent of Full Employment, making clear that goal by striking "those" and inserting "every person" able, willing, and seeking to work will be afforded useful employment opportunities, as the Act states.

Second: The term "maximum production" tends to become a case of the "quantitative analysis trap", to the neglect of qualitative analysis, notwithstanding the phrase "useful employment opportunities". In a society choking on its own air pollution, we find gas guzzling autos produced by the millions as defensible because they represent production, and provide employment.

And in a new era, with no war in Southeast Asia, and with detente with both the Soviet Union and China; we are willing to increase the military budget not so much to provide for the common defense as to assure employment.

Planned obsolescence of all manner of goods and structures assures that ours will remain a throw-away society, with ever-larger trash piles. For the planned obsolescence does provide "maximum employment and production".

The Employment Act in 1976 requires a New Direction, to bring utility of that production, the quality of serviceability, into our guidelines for the future. In this respect, the Employment Act of 1946 is symptomatic of what ails our whole society. It is producer and production oriented, not oriented so as to maximize the public's welfare. Utility, usefulness, serviceability, are elements in production that were once taken for granted, as in "oekonomic"—the management of the household. Yet every school child now knows about The Waste Makers, The Throw-Away Society, Planned Obsolescence—and has these ideas reinforced by his daily experience at home and at school.

In an economy turned upside-down, consumers appear to exist in order to buy from producers! Things sold in the market don't have to work, or be useful—they just have to *sell*. Advertisers help us with suggestions as to things to give the man who has everything!

Yet at the same time, in our society, one-fifth of a nation lives in poverty. Millions have an inadequate diet, and live in substandard housing, and millions risk very limited access to adequate health care.

In a nation still in love with the automobile, one-half of the population are unable to drive, because of age, or disability, or limited income. For them, the public transportation of another era has tended to disappear. Our efforts

to provide alternative transportation for them are as yet minimal, sketchy, and timid. We have brought back the Technology of the past—we have hesitated to introduce the transportation technology of the future, even though many firms would cheerfully supply it.

New Directions under the Employment Act require attention to the quality of our lives, and the things that support our life.

Good food, with the natural endowment of vitamins and minerals, seem simple. But our producer orientation has caused us to surrender to "junk foods" and to artificial colors and flavors. We then take pills to replace what the processors have removed—or they "enrich" the food by artificial means. No wonder the younger generation are turning to "organic" foods—whatever that may mean.

Appliances are now built so that if any element fails, no consumer can expect to be able to repair the element, and no repair shop can afford the labor time to repair or replace the faulty element. Thus it proves less costly to the consumer to replace the entire item than to pay for the work to replace the faulty part. Surely industrial design is capable of producing things with springs, switches, coils, or other elements that could be replaced by an amateur with ordinary tools. As a nation we waste so much each year that a considerable portion of our purchasing power simply replaces otherwise serviceable objects which suffered from one faulty element, not now easily replaced, so the whole item was discarded.

As a New Direction for America, the Employment Act should encourage a qualitative approach to production.

Third, The Employment Act now avoids a clear anti-inflation position. It states only that its goals include "maximum purchasing power". This language has increasingly permitted an approach to price stability that would sacrifice employment in order to help depress the economy, in the hopes (vain ones) that this would help stabilize prices. This is regularly defended as a trade-off, and economists will draw a Phillips Curve to illustrate the view.

Former CEA Chairman Leon Keyserling has properly equipped that "to support more unemployment to hold prices down is to ask the unemployed youth in the ghetto to go without a job so that my third car won't cost more!" By using the phrase "trade-off" we make it appear inescapable, and ignore the fact that the worker whose job is traded off is not able to sit at the trading table.

All of this might have some small redeeming value if it worked. But it doesn't work. Inflation has not been stopped by macro-economic juggling of the rate of unemployment. The Phillips Curve has in fact drifted up to the right, away from the point of origin. We must take steps that will push it back down and to the left, back toward the zero point.

The Employment Act of 1946 does not explicitly refer to a stable general level of prices. From time to time, various members of Congress have sought to add such language, including the author, in 1959 (See Amending the Employment Act of 1946, Hearings of the House Committee on Government Operations, March 25, 26, and April 9, 1959).

Unfortunately, the slow drift upward of prices from the initial passage of the Act until 1965 has been aggravated by events since 1964 until "double-digit inflation" has been experienced. Confidence in the value of the dollar demands a stable general level of prices, with the truly necessary price increases being matched, in the aggregate, by price decreases where increased efficiency and productivity makes this possible.

New Direction under the Employment Act after 1976 demands that a stable general level of prices be added as the intent of the nation. Every effort consistent with the other purposes of the Act should be made so that this goal quickly becomes a reality.

The Joint Economic Committee should focus on this topic in sufficient breadth to bring back something like the wage-price guideposts of the early 1960's. The Government's policy mix should encourage greater use of private borrowing which at stable prices could again be at low interest rates, to stimulate housing and heavy construction.

Fourth, The Employment Act calls for the government to utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote *free competitive enterprise* . . . Yet government policy against monopoly has not been especially sensitive to

price consequences of monopoly. The US has not used all its function to encourage price competition, from abroad as well as at home, and indeed, yields to pressure to resist such competition, all too often.

The dominance of macro-economics for the past four decades has helped micro-economic considerations to fade from public view. The nature of the economy has imperceptibly shifted from many small enterprises to more and more massive and monopolistic enterprises. The drive to further concentration and centralization, the merger movement, the corporate conglomerate, culminating in the multi-national or trans-national corporate giant, has proceeded at such a relentless pace that one would think it were the intent of modern major corporate leaders to prove that Karl Marx was correct in his prediction of such concentration and centralization!

Whatever the early defense for the use of the corporate giant as a better servant of the people, the concept of corporate efficiency today bears less and less relationship to the societal utility of the corporation. The IT&T offer to provide funds to move the CIA toward overthrow of a foreign regime is only the visible tip of an iceberg of monumental indifference to any society except one's own corporation, its assets, its markets, its power, its profits.

Yet "Man is the measure of all things" including all economic activity. If an action fails to serve man's needs, it should be questioned and changed.

New Directions Under the Employment Act after 1976 must relate more effectively to the structure of our economy, to restoring wider opportunities for small, independent, locally-owned, and consumer-oriented enterprises. The proposed Bank for Urban Cooperatives is a step in the right direction. So is the Rural Development Act. But the government must give more vigorous support to its enforcement of the Sherman Act. It may require a combination of programs including such elements as: divestiture of unrelated enterprises, "unlinking" of the chains, tightening of estate and inheritance taxation and their integration with the income tax, a graduated capital levy, and greater encouragement of equity rather than debt financing such as by untaxing corporate dividends in cash except as income to the stockholder.

Fifth, The Employment Act in 1946 did not address the quality of life. It did not look to the nation as consumers so much as producers. A consumer-oriented economy will help provide the public awareness and sensitivity that will provide the support to the New Directions for America.

When our gaze centers first on our real standard of living, rather than just on the money illusion of cash income, we will increasingly demand utility and serviceability in the goods and services we buy, and the nation will learn how to cooperate in the changes needed in our roles and producers.

Will such action reduce employment? Possibly, quite probably. But a high standard of living also includes adequate leisure, and longer vacations. Hence we may be able to move toward a 35 or 30 hour work week, or we may trade longer vacation periods for shorter work weeks. Thus total numbers employed need not drop. Every person ready, willing, and able to work should still be enabled to find truly productive work, in service to himself, his family and his community. More people should be able to afford more adequate housing, better diets, as much education as each can usefully enjoy, and have suitable protections against the hazards of life. . . . And in the process, we may better "insure domestic tranquillity."

Sixth, The Employment Act of 1946 neglects the international interdependence that events now make clear to us all. Energy, food, pollution, and security—these are but current reminders that no nation is really an island, completely autonomous or autarchic, capable of complete self-sufficiency. Not only are all nations interdependent, but the degree of interdependence is increasing.

Yet macro-economics, with its continuing focus on *Gross National Product*, tends to avoid attention to our international interdependence. The Energy Crisis of the past two years has helped increase our awareness—as has the dwindling reserves of food grains.

Where we are importers or exporters, we share with other nations the need for greater international collaboration to assure that the goals we seek for ourselves are attained in ways that enable others to enjoy attainment of their own valid goals. How else can we establish that we love our neighbors as well as we love ourselves?

New Directions under the Employment Act now require greater attention to our mutual interdependence. Freer trade, freer movement of foods and per-

sons, are part of improving the quality of our lives. The fifty United States owe their success to the freedoms we enjoy within and among the 50 States. We should be encouraging greater freedom in an internationally responsible manner among all nations. And we should do this in recognition that we made such a commitment in 1945, in helping draft and then signing the Charter of the United Nations.

Seventh, the Employment Act needs to reflect our growing awareness that resources are divisible between renewable and non-renewable (exhaustible). It should encourage steps to reduce our dependence upon exhaustible resources.

For in truth, every ton of coal, every barrel of oil, every carload of ore, that we use for ourselves now is being taken forever from the Earth's patrimony. This generation has been profligate in robbing future generations of access to such resources. One does not need the dire predictions of the Club of Rome to understand the depletion of Nature's storehouse.

Obviously our economy cannot abruptly terminate dependence upon such non-renewable resources. But by calling continuing attention to the difference and by taking appropriate steps, we can begin to reduce our own wasteful consumption of the relatively scarce natural resources, and encourage transfer to renewable resources.

This action is consistent with a consumer-orientation. For by attention to serviceability, we can lengthen the life of our resources taken from that treasure chest.

Amending the Employment Act as suggested above can provide New Directions for America's third century.

But even more than new laws, or amendments to old laws, America needs a new spirit, a new ethic, a philosophy that recognizes that each of us must serve to the best of our ability, so that all may prosper.

The Congress and the Presidents should join in a re-examination of government to assure greater integrity, higher efficiency, and truer economy.

Every trade, profession, and craft should be giving honor to those who improve design for better service and longer life, who style and build tools and appliances for greater safety and lifetime effectiveness, who rebuild pride in craftsmanship and workmanship, so as to raise the morale of producers, and increase the appreciation by consumers.

With a new spirit, the effective restraint will be self-restraint, and legal process can be addressed to assuring competent performance by rewards for such competence, reserving penalties for abuse of public confidence and the public trust.

Integrity is the root of all virtue. The Nation is hungry for more of it. Let 1976 usher in a new rededication to the promise of America, as well as improved performance seeking to match that promise.

TO RESTORE FULL EMPLOYMENT WITHOUT INFLATION

(By Byron L. Johnson, Professor of Economics, University of Colorado)

This nation pledged itself "to promise and maintain maximum employment, production, and purchasing power." That pledge is in the Employment Act of 1946. There is no problem the nation faces, at home or abroad, that would not be made easier if we were honoring that pledge more effectively.

Clearly there is no simple quick fix. The nation's economy is not going to be restored to health simply by a tax cut, or by a balanced budget, or by tight money, or by high interest rates, or by any other nostrum taken alone, no matter how eloquently espoused by ranking political, journalistic, or academic pundits. The people are weary of oversimplification. They want the truth. They know that wasting 5% or even 4% of the labor force, is a tragic betrayal of the 1946 pledge.

We who were economists in Washington during World War II know that this nation can do better, because it has done better, under far more severe strains than we face now. But we did better when we were general practitioners, not super-specialists. We applied Keynesian macro-economic analysis, but we also applied micro-economic analysis to the specific civilian and military needs of the time. For every worker and businessman lives and moves in micro-economics, whether well or badly, not in macro-economics. And his economic concerns are experienced or felt within those micro-economics. So the intelligent

-and thoughtful citizen knows that the nation's hopes lie in a comprehensive analysis, a full diagnosis, and a combination of steps that will respond to the many needs of the nation. Politicians who would lead us must abandon their habits of oversimplification. Economists must stop leaning so heavily on macro-economics, our favorite over-simplification.

We need an integrated and inter-related program such as we put together when we faced the stabilization problem in the summer of 1942. Its success will not turn on any one step, but on the combination. For in a complex economy, everything does depend upon everything else for its success.

The specific elements of such a program are each fairly familiar. The trouble the public has in understanding lies in part with the economic specialists and politicians who concentrate on some single element, to the neglect of the whole, and the inter-relationship of each part to all the others.

It is not enough to want to fight inflation, as the Administration does. For the high unemployment it tolerates not only has a heavy economic cost—it places an unreasonable social and political cost upon the whole nation.

It is not enough to want to fight unemployment—for the increased rate of inflation that may encourage also reduces people's willingness to undertake long-term investments and risks, and threatens the stability of the entire social and economic structure.

It is not enough to argue that a healthy economy demands a larger share of income devoted to savings and capital formation—for the economy must also meet the needs of both individual and collective consumption, and the nation must also continue to assault poverty, and must share its output reasonably with those who have been retired by reason of age or disability.

We must somehow do all of these things and more in order to achieve full employment without inflation.

Briefly, the Federal Budget has grown so large that budgetary policy must play a vital role in the economy. But monetary policy must join in support of a sound economy. And the fever of inflation must be broken, so that interest rates and other prices favor more steady growth and greater confidence both at home and abroad. To the extent that our national goals require further structural reforms within the economy, we must face up to these as well.

Turning to the specifics—cutting Federal outlays will always be popular, especially if the cuts don't affect those recommending the cuts. Yet no one can defend outlays which are wasteful, or non-productive. There are many places where the budget can be cut sharply:

(a) For example, in an era of detente, of negotiation rather than confrontation, swollen military outlays can be significantly reduced. Preparedness for only one war, hereafter, rather than for two and one-half major wars, permits heavy cuts. Meaningful unification of the armed forces would permit many further economies. It is time to take seriously the suggestion that the Army, Navy, Air Force, and Marine Corps be merged. But let them be merged into the Coast Guard. Three reasons support this: 1) the Coast Guard serves on land, sea, and air in one uniform and under one command; 2) the Coast Guard is accustomed to civilian direction; and 3) the Coast Guard is accustomed to doing useful things in peacetime;

(b) For example, as the nation moves back toward full employment, outlays for unemployment compensation and welfare will be sharply reduced. Furthermore, with growing awareness of the waste of lives from forced retirement, many more workers could then delay their retirement, reducing Social Security costs and other retirement pay. Incentives to postpone retirement should include larger monthly benefits for each year of delay. The whole nation would gain from the increase in productivity.

There may be other budget outlays that should be increased, to save money:

(a) For example, we spend an unbelievably large sum each year on health care, yet fail to achieve reasonably good health for a vast number of citizens. Pre-paid comprehensive health care is being delivered by the better group practice organizations at costs of about \$250 per person per year. At that price, the whole nation could be cared for, equitably and adequately, for less than \$55 billion per year. Yet we are spending more than \$100 billion in both public and private outlays under the present hodge-podge. The Federal government ought to rationalize this system to reduce total outlays, even though more of the total might have to flow through the Federal purse. We could have a healthier citizenry at significantly *lower* public plus private outlays for health care;

(b) For example, our present urban transportation systems are not only increasingly expensive, but they threaten our health and lives, and destroy our urban environment shamelessly and frightfully. They consume vast quantities of scarce petroleum. Costs per person mile escalate, and shifting to buses is not really cutting costs—just shifting them to the general taxpayer. We need a system which will have the amenities of the auto, without its handicaps. Happily several companies are developing automated, elevated, light-weight, transportation systems. Indeed, if the United States does not move soon, and decisively, German and Japanese companies have technology sufficiently advanced that they may soon preempt the market. Such systems must be total transportation systems, hauling LCL freight, the mail, and solid wastes to recycling center—and all of these uses will pay full costs, so the total system can be fully self-supporting, rather than require subsidies. There are very real economics to be achieved, both for households and for business firms, to say nothing of public outlays, from investing in transportation systems that will serve our needs, our energy and environmental concerns, and do so at lower total costs. The initial costs are so high that the first proof tests ought to be funded by the Federal Government. When the economic feasibility and profitability has been proven, local revenue bonds, and even private capital, will be available to help extend the systems to other areas. Because it will take almost a decade to achieve these gains, the nation ought to start now. The longer we wait, the longer it will take, and the higher the costs.

What about the Federal tax revenues? Like many of my former colleagues still in the Congress, I have no enthusiasm for Federal deficits as stimulants. They push the Treasury massively into the money market, soaking up funds, driving up interest rates, shattering the housing market, making new small business ventures more difficult if not impossible, add to the high cost of debt service, and generally feed fears of inflation both at home and abroad. If this be heresy from a liberal Democrat, so be it. In my last visit with my mentor, the late Harold Groves, (whose Public Finance Text dominated the field for 20 years) I found him opposing deficits and urging fiscal discipline. I agree.

Therefore I do not endorse a significant tax cut now. I do endorse meaningful tax reform. Treasury Secretary Barr correctly warned of a taxpayer revolt, back in 1969. Special privilege and loopholes which give tax breaks to those who need them least must now be ended. When Congress thus increases the taxable base, rates will not need to be increased to increase revenues. With a full employment policy, income increases and the tax base increases even more rapidly, thus the budget can move more quickly into a balanced position. Moreover, tax equity is advanced; taxpayer morale gains; our self-respect is regained; and other nations may have the courage to follow our own self-discipline. More significantly for full employment, the reduced pressure on the capital markets will help to bring all interest rates down, thus cutting costs of borrowed money to households, business, and governments alike. Which brings up monetary policy—

It is time to talk about ways to increase the rate of savings, not merely about the needs for capital. An increase in prices for any good or service is generally supposed to cause the market to respond so as to increase the supply. But this has little significance for money. Raising interest rates has done little, and can do little, to increase the rate of savings or the supply of loanable funds. Most savings are programmed by terms of debt repayment, by terms of retirement trust fund programs, by insurance contracts, by retention of corporate earnings, and by depreciation schedules—which together are major sources of funds for capital investment.

The simplest way to increase the rate of consumer savings is to encourage the use of shorter term loans. The more rapid amortization of consumer loans, and of mortgages generally, will do wonders to increase the return-flow of borrowed money back into the savings pool. One of the tragedies of our past acceptance of higher interest rates is that we then accepted longer-term mortgages to help hold monthly payments schedules down, and in the process tied up loanable funds much longer, and reduced the real rate of annual savings.

In addition, the rate of savings can be improved by raising the requirements as to down payments for consumer loans, and for housing (other than lower-priced housing). This will encourage savings in anticipation of major capital outlays.

This program should result in lower interest rates, enabling many more families to qualify for decent housing without requiring any subsidy. This should mean a significant increase in housing construction, a major stimulant to full employment. The result should be higher incomes, higher tax revenues, and lower requirements for housing subsidies and for welfare payments. It should cut interest costs for everyone.

Monetary policy can be much more sensitive, more quickly, to national, local, and other social priorities. For example: (1) Low-priced housing could have low down payments and longer amortization while high-priced homes could require higher down payments and shorter-term amortization. This would improve the rate of savings among those able to save most, while not interfering with wider access to housing by those with least incomes. (2) Local areas suffering from heavy unemployment and from natural disasters could be given access to below-market interest loans from area banks, provided again those banks had continuing favorable access to the Federal Reserve. Such changes in monetary policy would enable local private banks to do quickly and well what we now pay government bureaucrats to do—frequently badly, tardily, and at high cost. Government insurance of 90% of such loans will assure that banks, carrying with the borrower the 10% remaining risk, will act so as to best serve such communities without waste.

An obvious corollary of smaller Federal deficits or of a balanced Federal budget is that the money supply will grow by reason of expansion, not of Federal deficits but rather loans by banks to households and business—made in order to restore full employment. At lower interest rates, the demand for such funds will grow adequately. Federal Reserve policy *must* accommodate that growth.

But will this combination of fiscal and monetary measures stem inflation? Perhaps not, unless other steps occur as well.

As Gardiner Means has shown again recently,¹ there are sectors of the economy in which scarcity, whether natural or contrived by monopolistic practices, makes it easy to inflate price levels. At least three kinds of responses are available:

1. The best response is to take steps to increase supply. This can be done by cutting all barriers to access to foreign sources, both tariff and non-tariff. It can be done with loans to expand output, or by investment credits used selectively against areas of scarcity and inflating prices. Structural reform might also be served by legal assault on monopoly, with divestiture demanded against both horizontal and vertical monopoly wherever market shares exceed 10%. It is too late to speak of "preserving competition." The nation now requires restoring competition. The other alternatives—regulation of monopoly and government ownership—do not have a distinguished record of good service, low costs, and ample supply, in most sectors where they have been applied in the U.S. economy. Neither Republicans nor Democrats are successful Socialists. Nor are all Socialists successful.

2. The next best response, at least for the short-run, is to discharge demand. This can be done in some cases by monetary policy, if consumer credit or business credit is involved, or by persuasion that less scarce alternatives are better, or by selective taxes that discourage demand. If these routes are not available, or fail to work, rationing or priorities allocation can be applied to assure that high priority uses are protected.

The program outlined herein cannot achieve instant success. In all probability, it will be necessary for the government once again to use—

3. The third response, a *temporary freeze* on all prices (this includes wages, the price of labor) until the other steps have had time to stem the inflationary pressures. Such controls accompanying a total program to achieve full employment without inflation are likely to encounter far less resistance than a program of controls standing almost alone against the inflationary tide. When business and labor are told the truth, and see a competent program, they will be more accepting of this temporary step.

This nation owes it to itself, and to its own tradition, to demonstrate that it can do better, that it can and will keep the pledges of the Employment Act of 1946. And we are not alone. Other economically developed nations in the

¹ *Challenge*, September/October 1975, pp. 6-20.

world are having trouble restraining inflation, and maintaining full employment. Economists are doing humanity a great dis-service by hiding behind "The Phillips Curve," and thus supporting even tacitly the proposition that higher unemployment is needed to stop inflation. The Phillips Curve is drifting out of sight—it is a moving target, not a fixed relationship. We must abandon this oversimplification, too. We need much more direct approaches in both macro-economic and micro-economic policy to achieve full employment without inflation.

The needs of this nation are above and beyond partisanship. The continuing use of easy over-simplifications and economic nostrums by either the Executive or the Legislative branch only corrupts public understanding, and destroys public confidence. This quadrennial year is the year to return to telling the people the whole truth. This 30th Anniversary of the Employment Act of 1946 is time to return to its pledges. This start of our third century is time to return to full employment at stable price levels. This election year is the year to put the word "candid" back in "candidate."

THE TRUTH ABOUT INFLATION

(By Byron L. Johnson, Professor of Economics, University of Colorado)

It is tragic that the United States continues to tolerate economic policies that feed inflation, increase unemployment, and disrupt both domestic and foreign markets. If the Republican administration is incapable of giving leadership, the Democratic Congress must do so. We must not permit any repeat of the runaway inflation of the 1920's, for we know what disaster followed, the world around. Those of us over 55 have bitter memories of that entire era, from 1929 to 1945.

The old shortcuts will not work. We dare not return to higher tariffs or imports, unless we want to repeat the tragedies. "Floating the currencies" and the abandonment of fixed currency exchange ratios are today's bankrupt policies that retreat from responsibility. Such policies make clear to everyone that we don't intend to put our own house in order; that we don't intend to cooperate in protecting small investors, merchants or buyers against the deprecations of multi-national corporations and speculators, who are now able to manipulate any currency they wish without corrective action by either the Central Banks or by the International Monetary Fund. We are already repeating the errors of the 1920's. We are forgetting why the United Nations created the Bretton Woods Agreements during World War II, so that those days would not reoccur. Orderly economic growth without inflation, around the world, cannot be achieved without the United States putting its own house in order. Let's tell the public the truth:

The truth is that inflation is not needed for growth, that inflation is a very unfair tax, that inflation is like a cancer, that inflation corrupts personal, corporate and public decision-making.

The truth is that we need to balance the Federal budget, for there is no need to have the US government competing for loanable funds. There exists adequate private and corporation demand for money to increase the money supply without Federal deficits. Either cut wasteful outlays, or increase taxes, or both! Tax reform to distribute the total burden more equitably is always in order. The truth is that every nation needs to increase the rate of savings to accommodate the increasing rate of investment. In the US, an end to deficits will help. It would help more to encourage faster repayment of loans, by using shorter amortization periods. For the repayment of loans and mortgages is one of the important ways to increase the rate of savings. This will help drive interest rates down. At lower rates, more rapid amortization is easier.

The truth is that we need to be more sensitive to the ways loanable funds are put to use. First priority should go to loans which expand output in markets where items are in short supply. Lower cost housing is a clear case. Harnessing inexhaustible energy sources, and other steps to increase energy availability, present clear cases. Public transportation that is economical, efficient, safe, and non-polluting is another clear case. If preferential terms (low down payments and longer terms for amortization, or very low interest rates) are to be used, then such terms should be reserved for such socially desirable purposes. Preferential terms also are needed for disaster relief, for help to depressed or

distressed areas, or to areas publicly identified for encouragement in development. To reduce wasteful uses of credit, merchants should identify the surcharge for credit sales, and encourage payment by cash or check; and higher down payments should be asked where credit is needed or used. The wasteful use of credit impairs the productive uses of credit. The character of the uses of credit are as important as the volume of credit.

The truth is that a growing economy needs a growing money supply. During the Great Depression, the justification for Federal deficits and for preferential loan terms was that these steps were needed to encourage adequate growth. In the 1970's there exists adequate demand for loanable funds. Indeed, inflation now encourages excessive demand and overbuilding, for it appears cheaper to pay the high interest costs than to pay the higher construction costs anticipated if one waits. With an end to inflation, prudence would avoid such costs.

The truth is that a stable general level of prices is needed so that persons will again make decisions on the fundamental merits of proposed transactions, not on their inflationary elements. The truth is that neither this nation, nor any other nation, can expect to maintain a stable price level until it has faced up to a fiscal policy that clearly is anti-inflationary, and to a monetary policy that is clearly responsible, looking to drive down interest rates (for the increase in the price of money is also inflationary), and looking to use credit responsibility to encourage orderly growth.

The truth is that a generally stable level of prices is then possible. If loans or public investments are directed into expanding output in areas of genuine shortages, the market will help hold prices down. Monopolistic practices, contrived scarcity, and the private control of output and price—these are illegal in the US, and the law enforcement will work much better if a competitive market is encouraged to inhibit effective use of price-fixing and rigging.

The truth is that while price controls are never attractive, in the short run they may be necessary, and are useful. With acceptance of the program noted above, both business and labor are more likely to accept temporary controls, because in the short run, a price freeze is needed in order to give the other program elements a period of inflation free time in which to take hold of market forces. The only escape clause that should be permitted during the freeze is for situations where losses threaten the solvency of the business. Then, after pressures have abated, and the freeze has been lifted, stand-by machinery should still be available to impose selective controls which roll back price increases that cannot be fully justified when challenged. It is better to have a shotgun in the closet, and not need it, than to need it and not have it!

The truth is that wage controls are also a form of price control. The truth is also that so long as wage increases only reflect increases in the general level of productivity, increased wages need not increase the general level of the price. But efforts to increase wages more rapidly than productivity is increasing will only serve to push prices up. In practice, this should mean that where major improvements in productivity take place, there should be price cuts—for there are personal service areas that cannot increase productivity and thus where there will continue to be price increases (e.g.: haircuts). Every sector of the economy has a right to participate in increased productivity and lower prices in some sectors serve that purpose. Labor understands this truth and will accept a *total* program.

The truth is that when the US has taken these steps to put its own house in order, other nations will move in the same direction. But, if we in the US with all our talent cannot manage these matters, others will have less hope. As we tackle inflation effectively, a more orderly international market will emerge. Prospects for peace will be materially enhanced. So let us begin.

INFLATION MUST BE STOPPED NOW

(By Byron L. Johnson, Professor of Economics, University of Colorado)

My first official concern with fighting inflation was not as a member of this committee, on which I was privileged to serve in the 86th Congress, but as a staff member of the Fiscal Division of the US Bureau of the Budget, under President Roosevelt, in 1942.

Inflation, following Pearl Harbor, was growing rapidly. Demands of war on two fronts, for our allies as well as ourselves, plus pent-up demand at home, required containment. Federal public spending was shooting upward. The President asked us to prepare the economic stabilization program for use at that time. We fought for higher taxes, stringent credit controls, priorities and allocations of critical materials, strong and adequate wage and price controls. Although tax increases were slow to come, basically we won. We kept interest rates low. We did not delude ourselves or the public with the false allegation that raising the price of money would be an anti-inflationary action.

Having experienced our safe passage through this major crisis as a junior economist, I am appalled at the gross incompetence with which this administration is handling what should be a minor crisis. We see the Federal Reserve Board pouring gasoline on the fires of inflation, but in the name of fighting inflation. Interest rates, the price of money, have been officially raised to new heights. The monetary policies now being favored apply the wrong theory the wrong way to the wrong problem.

Raising interest rates does not necessarily reduce the rate of growth of the money supply. It serves only to raise the price of money, and it feeds inflation. The theory that interest on money is not a price, and a cost-push inflationary force, is pure nonsense. Yet the Federal Reserve defends a price hike as anti-inflationary, while compounding inflation. For the increase in the price of money also feeds the fires of inflation. When banks pay more for money, they must charge more, and borrowers must pay more.

As a result, every buyer of a home today, new or old, is finding the monthly mortgage payments up sharply. Fewer new homes are being built. The result is a growing shortage in the supply of housing. This is pushing housing prices up, even if one can pay cash. This clearly feeds inflation, except for the home builders, who are once again our national whipping boy, and are losing business. We cannot fight inflation with inflation. To justify the ever-higher interest rates by the resulting inflation, *after the fact*, of cost-push inflation of bad monetary policy, is the worst kind of faulty justification.

The real problem is to attain the goals of the Employment Act of 1946, at stable price levels, with a sound dollar. This requires a program that reduces inflationary pressures constructively, that deals equitably with the economy, and all sectors thereof, and that responds to the real needs of the people and the times.

Specifically, there are better ways of using monetary policies to fight inflation (regardless of what we do with fiscal policy). During inflation, policy should seek both to restrain excess demand, and to increase the supply of items whose scarcity is feeding inflationary pressures.

The monetary policies now being used do the exact reverse of what is needed. We are drawing savings down, and away from the investment in housing and in capital plant that would increase supply. Instead, at higher interest more of the loanable funds will go into consumer loans, that are less sensitive to high interest rates—and which are encouraged by the spectacle of rising inflation. Thus present policies feed inflation not only in the price of money, but in their effect upon the use of loanable funds.

There are better ways. To discourage excessive consumer demand, especially for items in scarce supply, the Federal Reserve and other monetary authorities should take steps to increase the amount of down payment required to purchase consumer goods, and to reduce the length of time allowed to repay loans. This not only cuts excessive demand, without raising interest rates, but even more important, it will *accelerate* the rate of savings. The repayment of loans is one of the most significant forms of savings. It is actually what we need now. And with lower interest rates, more people would be able to agree to repay more loans faster, and thus greatly increase the flow of savings. (Parenthetically, one of the tragedies of the repeated use of high interest rates is that it encourages longer periods for repayment, so that the rate of savings is effectively reduced by the policies now used—the reverse of our true needs).

Moreover, high interest rates are a very heavy tax upon the economy, but not a tax paid to the Treasury. Each one percentage increase in the interest rates on the next trillion dollars of new debt contracts adds \$10 billion annually to the burden on the borrowers. And borrowers are facing a 3 to 5% increase over rates of one year ago.

Monetary policy should not carry the whole load. Fiscal policy must help. Now is the time to balance the Federal budget, and to consider the more heroic step of starting to reduce the Federal public debt. The fears that this will be a fiscal drag overlook the strong demand for savings through loans to household and business firms—demand that would be even stronger at lower interest rates. The fact of a surplus in the Federal Budget would provide a form of savings being returned to banks and other holders of the public debt, for them to invest in other productive uses. It would help bring interest rates down, and help hold interest rates down. It would get the Treasury out of competition for relatively scarce supplies of savings, or pressing for undue increases in the money supply. At lower rates, there would be much greater demand on the part of the public for housing and related consumer capital items.

On the expenditure side, it is time to recognize the end of hostilities, and the fruits of detente, and have the budget reflect that our security requirements have sharply decreased. Hence cut military outlays sharply, and free these resources for more productive employments. Invest in upgrading manpower for greater production, and invest in the essential human services. It is time to meet more fully the nation's long term concerns about energy and the environment.

On the revenue side, it may not require any tax increase to balance the budget if the above expenditure policies are adopted. But the long overdue closing of tax loopholes will provide significant additional revenues without any tax rate hike. And the increase in equity from broadening the base will better serve the nation.

To the extent that tax favors are left in the revised tax laws, such favors should be confined to those that clearly serve social goals, including the fight against inflation. Any investment incentives given should be directed toward investment that will increase the supply of items where rising prices indicate scarcity needing to be overcome. In the same way, government loans should give preference to uses which expand competitive production and fight inflationary pressures. One way to attack demand-pull inflation is to assure greater supplies to meet the greater demand. Freer trade is also a good anti-inflationary weapon.

In the short-run, competent wage and price controls are needed, to assure both buyers and sellers that the government means to stop inflation, in its tracks, by a combination of policies that will accomplish that end. A combination of policies adequate to do the job would help increase our exports, help redress our balance of payments without the temporary boost of a grain shortage. Confidence in the dollar would be restored, both at home and abroad. Social justice would be better served.

We must stop using gasoline to fight the fire. We have the kind of monetary and fiscal waters that will put out the fires of inflation. This committee can help secure their adoption. I urge you to take forthright action.

Chairman HUMPHREY. I know, Mr. Burns, that you are taking notes, or mental notes, and we will want you to come back, because I want to encourage good dialog here, and I would kind of like to keep ducking while you are going at it—there are some experts around here.

Our next participant will be Mr. Harrington. We welcome you and ask you for your participation now.

STATEMENT OF MICHAEL HARRINGTON, DEMOCRATIC SOCIALIST ORGANIZING COMMITTEE

MR. HARRINGTON. Mr. Chairman, I would like to just raise a couple of themes, because I think that they impinge very much upon the discussion of full employment in the United States.

First of all, there is a myth which I think the support of this committee and the Congressional Budget Office could do much to dispel which I think inhibits our debate. That myth—and it is not just a Republican myth. It is now even in the Democratic Party—is that

the Government has been doing so much, that we threw so much money at problems, that we acted so radically, that we innovated so much, and that is why we failed.

I would like to point out that the Congressional Budget Office in its report for this year shows that for the last two decades Federal spending has only increased on a full employment basis from 17 to 20 percent.

Second, I would like to point out that the main area of increase has been an area of extremely effective spending, for the aging in the United States. The main spending increases, the quantum leaps in America, have been in social security benefits and in medicare.

I do not know of a single politician, even Ronald Reagan, who is going to come out against social security and medicare.

Third, the committee in its report points out—and this is a fact that I think most Americans do not realize—that Federal employment as a percentage of civilian employment has been going down. What I want to suggest is that we did some good things with our money. We did not act radically.

I think Pat Moynihan really put his finger on it in his book on "The Politics of the Guaranteed Annual Income" when he said in the 1960's the social programs were underfinanced and oversold. We talked as if we were doing so much, we didn't do so much and now, if we are going to do what we have to do, we have to get over the myth that we did so much.

The second point I would like to raise—I am afraid it is sort of a bipartisan point, because it is a criticism of Humphrey-Hawkins, which I support as the focus, which I would vote for in almost any version, or urge someone to vote for—but it is a criticism of Hawkins-Humphrey and Mr. Burns and sort of a criticism of a lot of people, and that is I think this country has got an ideological prejudice, a nonempirical proposition that public employment is bad and private employment is good.

I don't believe you can demonstrate it. I don't believe that overbuilding Florida condominiums and Las Vegas casinos is better than having a decent health system. I don't believe that having the Government nationalize all the losses of the railroads while leaving the profits to the private sector is a rational policy.

I do believe, for example, not that Government should be the employer of last resort but that in some cases it should be the employer of first resort.

I would like to see, and in this I agree with Leonard Woodcock of the UAW and many others, I would like to see publicly owned railroads in the United States—nationalize the profitable as well as the losing sector, and put Americans to work restoring railroads, an environmentally benign, energy-saving form of transportation which was ruined precisely because our lack of planning and our following the corporate priorities of the trucking industry, and the oil industry, et cetera, rather than the national needs, putting the railroads back in some kind of decent shape under public ownership. And I say this, in part because I am a Socialist, but you don't have to be a Socialist to be commonsensical about this—and it is common sense, it seems to me, to understand that public employment, in many cases, can be better than private employment.

One of my criticisms of Humphrey-Hawkins was in the framework of supporting it, is that I think it reflects Mr. Burns' prejudice which I think is very nonempirical, very ideological.

The last point, and then let me very briefly conclude. The last point comes in the minority section of the Joint Economic Committee Report and in Congressman Garry Brown's remarks.

I feel that under the guise of redefining full employment we are about to do something that I am told that the Australians once did with the aborigines: they didn't count them in the census, because aborigines weren't people. And now there is a tendency to say, look, you've now got a lot of teenagers in the labor market; you've now got a lot of women in the labor market, therefore you tolerate higher levels of unemployment, because after all, it's merely teenagers and women.

And I would point out to you that teenage in this case is a euphemism, in many situations, for a generation of black and other minority youths who are being absolutely devastated by the experience of this recession, and I think at a time when women are coming into the labor market and claiming a rightful place in the labor market, to say, well, their unemployment is not as important, in effect, as male unemployment, is tragic.

And I even see this, by the way, in one of the revisions of Hawkins-Humphrey that I didn't like, which was introducing a means test to qualify for a job. Defining the means test in terms of households, I suspect, might be a way of saying, you have to choose between a male employee in the family and a female employee in the family, and I've got a good guess in this society who would lose in that tradeoff.

But finally, Mr. Chairman, I just want to say that for all of my criticisms of this or that aspect of Hawkins-Humphrey, I think this is one of the most important steps that has been undertaken in American society, and perhaps I could even help you by criticizing the bill a bit while supporting it, because I really want to tell Secretary Simon that it is not socialism—in my opinion, it's not half that good—but it's as good as we can get under the circumstances, and I am tremendously happy we are making that step forward.

Chairman HUMPHREY. We thank you very much, Mr. Harrington. As I would have expected, your comment is incisive and helpful and, I would gather, a bit provocative, and we appreciate it very much.

Our next participant is Professor Eisner from Northwestern University, and we have heard from you before, and we welcome your attendance here again.

STATEMENT OF ROBERT EISNER, PROFESSOR OF ECONOMICS, NORTHWESTERN UNIVERSITY

Mr. EISNER. Thank you very much, Mr. Chairman. I am very glad to be here.

I may not be quite as provocative as Mr. Harrington, but I will try.

I think that there are some very important issues that have be-
devised discussion of full-employment policies for now three decades,
and I find them remaining unresolved, resolved, with all due respect

in the statements of Mr. Burns and Mr. Greenspan and of those of a number of committee members.

To begin with, there is this notion abroad in the land and perpetuated over and over that inflation and unemployment are twin evils. They are not twin evils; the situation is asymmetric. There are many things that constitute to inflation that have nothing to do with the rate of unemployment.

I think that in some of its most extreme form you get statements which I think Mr. Greenspan came pretty close to indicating that you have to, above all, combat inflation, and we cannot try to recover from this recession in a way that will contribute to it again, the notion being somehow that the inflation has contributed to the recession.

That was stated very flatly by a Presidential candidate in my State—not the Presidential candidate that Mr. Greenspan, I presume, is working for—but Mr. Reagan indicated very flatly—and these were television spots that came over and over again—that this inflation is what has brought on the recession and unemployment.

I think that is perpetuating a myth to the American people, it is spreading misinformation to a population which has a hard time trying to make out economic realities to begin with.

The reason, in fact, we can associate the recent inflation with the unemployment we have is, I would judge, and I am sure many other economists have, as well, essentially some very misguided policies of the administration in the last several years.

Unless we learn from those policies, and learn correctly, Mr. Greenspan's injunction to avoid getting to this same place again, I think, is not going to be realized.

What we had was an inflation, of course, which was overwhelmingly generated by prices over which we had little control, prices of petroleum products and essential raw materials. In the face of that kind of an inflation, somehow the fiscal and monetary authorities decided the thing to do is to hold down demand. With prices going up, they either permitted or encouraged a very large swing in fiscal policy which gave people essentially less to spend to buy all the other goods and services that could be produced.

For example, in the second half of 1972 when a President aspiring for 4 more years inspired the economy, we had a full-employment budget deficit of \$10.9 billion. In the second half of 1974, we had a surplus of \$29.9—and I try to avoid such technicalities, but I think most of us here know that that is probably the best measure of a \$40 billion swing in the effect of Federal fiscal policy in a repressive direction to hold down demand.

That kind of a swing, that kind of a jolt to the economy, is something that not even an economy as basically prosperous and productive as ours can withstand. That is the lesson of past policy to watch, not the notion that somehow government spending and deficits fueled inflation.

Indeed, I might add, for Mr. Burns' consideration, the observation that in that same period as we swing into what Mr. Greenspan correctly called our worst recession, and by far, since the Great Depression of the 1930's, the rate of growth of the money supply changed from a plus 10.1 percent to a plus 3.9 percent.

Now of course, you know, unsophisticated people may say, well, we had inflation, look, the money supply was growing. In fact, the money supply was growing considerably less than it had grown at the beginning of this period when we swung into a very substantial recession and indeed, into some substantial inflation in 1974.

The fact, then, is that much of our inflation is due, at this point in time in the last several years, to increases in prices of a supply nature and in trying to combat that, we must watch for those kinds of tax policies and regulations which, in fact, simply aggravate the problem of cost and the problem of the supply price, which influences final price.

Now, there is associated with this problem on combating inflation versus unemployment—well, I might just add, you know, another few words here.

If you have any public opinion poll on what the greatest problem facing the economy is, except in our peak unemployment recently, inflation always seems to come out on top. I dare say most of the public does not really perceive what they are suffering from.

If prices went up 12 percent and incomes went up 18 percent, we would all grumble about inflation, but we would tolerate it in good form. When prices go up 12 percent and incomes go up 6 percent, we are in an awful shape, but of course, that is simply reflecting the fact that the gross national product in real terms has declined by 6 percent.

What the public fails to sometimes perceive—and I am not sure that we always educate them properly—is that economics is a hard discipline and the real payoff to the public ultimately is the total volume of goods and services produced. It is not the prices which are chagrined for them, although that can be painful to those who don't find their incomes going up. If the total pie is less, then we have less, no matter what has happened to the price level.

I think we have to put that context around some of the remarks that the chairman has made here, and that Senator Javits has made. The fact, really, is that the unemployed are not the only ones who have suffered from unemployment. Unfortunately, it is too widely perceived that way, and as a consequence—I don't know how elections will turn out. There have been some of my respected colleagues who have been doing studies showing that perhaps, cynically—they're not intending to be cynical—that no matter how bad the situation is or has been people will vote for a party which has been associated with some improvement.

So if unemployment was at 9 percent a couple of years ago and by election time it is declining, people will say, that's great, even though 7.6 percent is still higher than the average bottom of all of our post-war recessions.

So, the real fact is that the unemployment is a distaster to the economy as a whole. We can note that, as a consequence of even our current unemployment, we are producing output at a rate some \$150 billion per year, or \$250 billion per year, less than that which we would be producing if we had merely been projecting along the normal growth path from 1973.

I was among those, I suppose, most horrified; both by the wrongness and the tremendous loss in the war in Vietnam. How many of us have stopped to think that in all of our years of combat in Southeast

Asia that we lost, in total output—the cost of that to the Treasury was about \$150 billion, and that is less than what we have been losing per year in output because of the fact that we simply are not utilizing the skills and labor of all of the people who want to work.

Now, I might add, you know, finally on this inflation-recession business, I wonder how many of you reflected on the remarks—I notice in the bond market by Secretary Simon a day or two ago, very optimistic, predicting a 2 percent rate of inflation before long—I forget now the precise date of that—and also a substantial reduction in unemployment.

Now, how could he be forecasting a great drop in unemployment and a drop in the rate of inflation? I am not at all sure he is right—certainly we all hope he is right—but I wonder if in the back of his mind was the notion that maybe there are some other things happening, maybe, for example, looking at the fact that was also in the papers that the price of sugar fell from 64 cents a pound in world markets fairly recently to about 15 cents a pound.

Now that has nothing to do with Mr. Greenspan's tight budget or Mr. Burns' relatively modest growth in the money supply. That has nothing to do with the notion, for example, that Mr. Burns expresses that "highly expansionary monetary and fiscal policies might, for a short time, provide some additional thrust to economic activity, but inflation would inevitably accelerate." That is from his speech in Georgia in September.

Now, why should we say that? I mean, it is sort of conventional to say, and Mr. Burns is saying what many other respected and learned people—not all as respected and learned as he—will say. Why does expansionary policy, highly expansionary policy, as he says, inevitably lead to inflation. When Mr. Greenspan welcomes the huge drop in unemployment—which our figures seem to show huge, because they are so high to begin with, but still very high?—he apparently is reporting upon a major expansion in economic activity.

Well, that was an expansion in economic activity which apparently has not caused inflation. Why should an expansion in economic activity brought about by conscious Government policy bring about any inflation?

You know, it is utterly unclear. There seems to be a growing notion that somehow if we recover too fast, it is bad. I never heard any doctor prescribe that to a patient, saying: You're awfully sick, but I have decided you should take 4 or 5 years to recover. Otherwise, who knows what the consequences will be?

Well, that is not true for a sick patient and it is not true for the economy.

Now, there are another set of policies and points which emerge in Mr. Greenspan's remarks and Mr. Burns' and those of a number of members of the committee that somehow the thing to do is to stimulate private investment. I was delighted by Mr. Burns' remarks in terms of his faith in the free enterprise economy. I should assure all of you that I will bow to nobody in my defense of that as well and the notion of free competition, a free competition which I think can include competition between Government enterprises and private enterprises.

But how in the world can so many advocates of free competition say: Well, we believe in free competition; we believe in leaving business alone. And then say: But we have to have tax incentives to stimulate private investment.

We have to say, we don't trust the businessman to spend the right amount on plant, on equipment, on training, on research and development. We have decided that the economy needs tampering with and we are going to give them a 10 percent equipment tax credit, or a 12 percent equipment tax credit, something to make them spend more on equipment.

I will submit that investment is very important, capital accumulation is, but in connection with some research I have done—and anybody else can find these figures—if you define capital formation broadly as all of that productive activity today which will contribute to output in the future, including not only plant and equipment purchases by business, but plant and equipment purchases, housing, durable goods by consumers, by Government. If you include as well the huge formation of human capital in education and in job training, do you know what you would find? You would find that the business expenditures for plant and equipment are, at most, some 20 percent of our total capital formation.

Now who is anybody in the Congress and an Administrative office to say, we have decided that capital formation should be exclusively the purchase of plant and equipment by business, and that we are going to encourage?

I would say there is a huge loss of capital formation in this unemployment. There are figures which indicate that 20 percent of those 16 to 19 are out of work, 50 percent of the black ghettos. That kind of unemployment means large fractions of a generation that never get an investment in their own skills and training in job experience, in participation in the economic system which will make them productive in the future.

All of that, I think, should be central to the much welcome discussion that we are having of trying to invigorate the Employment Act and really renew a commitment to full employment in this Society.

Chairman HUMPHREY. Thank you very much, Mr. Eisner.

Mr. Frank Morris is the president of Boston Federal Reserve Bank, and we appreciate your coming to us again.

Might I say that following your presentation I want to permit my esteemed friend, Mr. Burns, to make some rejoinder here. I also think Mr. Greenspan will be back with us so that he can do that.

STATEMENT OF FRANK MORRIS, PRESIDENT, BOSTON FEDERAL RESERVE BANK

Mr. MORRIS. I will leave it to Mr. Burns to comment on the other panelists' remarks on monetary policy. My silence should not be interpreted as agreement.

What I would like to do is to comment on the Humphrey-Hawkins bill, a bill to revise the present Employment Act. I have been studying it for the past few days and I find many things that I like in it and a few things that concern me about it, but to talk about things

that I like about it first, I think it goes a long way toward meeting the need that Congressman Bolling stated, the need to establish a new consensus in this country on economic policy.

First, I like the recognition in the bill that monetary and fiscal policies are inadequate alone to establish the kind of employment and unemployment levels that we would like to see in this country. That if we try to push monetary and fiscal policy too far, we are likely—almost certain—to generate a high rate of inflation, which in turn will lead to recession and unemployment, that we need to have supplemental public employment programs if we are to come close to the kinds of unemployment levels that we talked about in the early days of the Employment Act.

I like the enunciation in the act of the right to a job for every American who is willing to work.

I like the recognition, the explicit recognition, that inflation is a major national problem for the United States, a recognition which was not in the original Employment Act.

I like the emphasis on the need for economic balance as a goal of policy, as well as full employment, because I think in any long-term sense, economic balance and full employment have to accompany each other.

I like the fact that the bill would establish on a permanent basis supplementary employment programs. I think our experience in the past has been to turn these programs on in recession years and then turn them off. As a consequence, we have never been in a position, really, to evaluate very carefully which of these programs are successful, and which are failures.

I think recognition of the fact that a part of our employment program problem is likely to be a chronic one, needing a permanent approach to it is an important part of the act.

And finally, I like the orientation of the act toward a maximum feasible substitution of work for income maintenance. I think there is a growing feeling in this country that we have probably gone too far on income maintenance and not far enough in job creation, and as a consequence we have damaged the incentive structure of the country. It is something we are going to have to address ourselves to.

Now, to point to the things that concern me, the act, the bill states that we should have as our goal a minimum level of unemployment consistent with the frictional unemployment necessary for efficient job search and mobility in the labor force, and it states that this number is 3 percent. Now, one thing that concerns me about enunciating a 3 percent target is that I fear that we may not be able to attain this target without a reform of the unemployment compensation system, and that this is something that the Congress should take a serious look at in the process.

For example, I'll give you one example of what I'm talking about: the problem of temporary layoffs. Our present unemployment compensation system encourages employers to gear their operations to temporary layoffs. It encourages them because our experience rating system does not penalize anywhere near sufficiently the employer who gears his operations to temporary layoffs, and at any one point in time, a significant percentage of total unemployment is reflecting people who are temporarily laid off.

Now, the evidence suggests that 85 percent of people temporarily laid off ultimately go back to work for the original employer. The compensation, unemployment compensation benefits are high enough to discourage a search for work on the part of someone who is temporarily laid off because he has a conviction that well within the time before his benefits run out, he will be rehired by his original employer.

So I think we have got built into our structure a sizeable amount of unemployment which is going to make hitting the target of 3 percent very difficult without a reform of the unemployment compensation system.

And incidentally, I think that one other aspect of this is that the employer who gears his work to temporary layoffs is really pushing a part of his costs of operation onto the rest of society.

So I think first the Congress has to face up to the fact that the attainment of the 3 percent goal will require less liberal income maintenance programs.

The second thing that the Congress is going to have to face up to is the scale of public employment that we are talking about. I think most economists feel that monetary and fiscal policies should be geared to move our economy to a level of unemployment, as we currently calculate it, of somewhere in the neighborhood of 4½ to 5½ percent, that if we push beyond this range we are likely to generate accelerating inflation again.

Well, if you would accept for the purposes of argument these numbers, this means that we are talking about, in the context of the 3-percent program, 3-percent goal, we are talking about 1½ to 2½ million public jobs, which is a massive undertaking, and I think we have a learning process to go through here if this program is to be carried off successfully. I think we have a need for a number of pilot projects to try to figure out how we can do this in a sensible way, because I think if we rush into it without sufficient preparation, the whole idea may be discredited, and we may go back to reliance on income maintenance programs instead of jobs, which I think would be harmful to the incentive structure of the country.

Now, in the area of unemployment, the problem which I think is most troublesome to me is the high level of unemployment among our youth, and this I think is something that the Congress has really got to focus on very heavily.

We, both at the Federal level and at the State and local level, subsidize very heavily with public money higher education for our young people, but we do practically nothing to help the young person who is not going into higher education. This is where our problem lies, it seems to me.

Our educational institutions are not providing our young people who do not go on to college with the kinds of skills needed to prepare them for the labor force.

Now, at the Federal Reserve Bank of Boston we are conducting—we have conducted for several years a small program of our own to train young people in clerical skills. Every 6 months we take on 12 young people, many of them black, Spanish-speaking from the Roxbury area of Boston, people who cannot meet our minimum hiring standards because they can't read and write properly, they can't add

up a series of numbers properly, they do not have the training to bring them into our bank and put them to work on day 1, so we put them in for 6 months on our clerical skills training program, and the results of this program have been very heartening.

We have been running it for several years and we have got a track record now on the people who have graduated from this program. Of these young people, 75 percent are working today either for the Federal Reserve Bank of Boston or for some of the other institutions in Boston who hire them away from us. And that, I think, is a very heartening record. I think if we could multiply this little program of ours a thousandfold, we could really do something constructive to help young people entering the labor force who do not have the skills to find a good paying job.

So I think the Government has a lot to learn. I believe in the concept of employer of last resort, but I also believe that we have got a lot to learn about how to put this program to work.

Thank you, sir.

Chairman HUMPHREY. Mr. Morris, you have been most constructive and I think very helpful to us here.

Let me quickly say that the main thrust of that S. 50 or H.R. 50 is to require the Government to search into the kind of solutions and adaptations that you are talking about.

The bill itself, outside of the supplementary employment features and the countercyclical aspects, is a process, a methodology. You have pointed out again what needs to be thought about in terms of an employment program.

Now, Mr. Burns, I just can't hardly wait here. I know that you have been most patient, and I think you are entitled to lots of time, and we are going to do it this way. We would like to have you and Mr. Greenspan make responses, and then I want my colleagues that have not participated here to get in here.

Would you like to take on a couple at a time or just one at a time?

Mr. BURNS. Well, I'm not in a very quarrelsome mood today. [Laughter.] This is, after all, a celebration of the Employment Act.

I will take—

Chairman HUMPHREY. I want to put you in charge of the Disarmament Commission, Mr. Burns.

Mr. BURNS. I will take advantage of your invitation and make a few comments in reply first to Mr. Johnson and then to Mr. Harrington, and then to Mr. Eisner. I am not going to quarrel at all with Mr. Morris. We do our quarreling in private.

Mr. MORRIS. For the time being.

Mr. BURNS. Mr. Johnson, as far as interest rates in our country go, or for that matter elsewhere around the world, they are dominated by our inflation experience and inflationary fears. You take short-term interest rates at the present time are in the neighborhood—short-term, open market interest rates in the neighborhood of 5 percent, which is lower than the inflation rate.

Now, your long-term rate, yes, is high, uncomfortably high, 8, 9, 10 percent, but within the basic inflation rate of 6 or 7 percent, the real rate of interest is really not high at all.

The fact is that an inflation premium is built into our long-term interest rates in this country, and for that matter, around the world.

If you were to look at interest rates in Latin American countries, you would find that they are in the high, double digit figures. Why, because of the inflation rate.

And let's not lose sight of that factor.

Now, I would like to say a word also about independence of the Federal Reserve System. You will find that you have many supporters who believe that independence of the Federal Reserve System doesn't serve a sound national purpose. I would call just two facts to your attention: first, that we in our country have had an independent central bank, and Germany has had an independent central bank, and they are the two strong independent central banks around the world, and poor though our record of inflation is, it is one of the very best among the nations, and certainly the same is true of Germany. I call that to your attention.

Second, what are we talking about when we speak of, you know, removing, divesting the Federal Reserve of its independence?

Well, you can try to do that, and let's see how. One is to let Congress make monetary policy. That is utterly unrealistic. Monetary policy has to be adjusted not only from month to month, but literally from hour to hour. We operate in the markets—Congress couldn't possibly do it. It doesn't make any sense.

Mr. JOHNSON. But what about some goals? There are none in your present law.

Mr. BURNS. What about what?

Mr. JOHNSON. What about some goals? There are none in your present law.

Mr. BURNS. What about goals?

Mr. JOHNSON. Goals. Shouldn't you be coherent with some national goals? That's what I'm asking for. I don't want day-to-day policy—

Mr. BURNS. Well, I'll comment on that presently, but let me just continue. Next you can certainly put the Federal Reserve under the thumb of the White House, and many people believe that should be done. And people who think in these terms have an idealistic concept of the White House. They think of the Oval Office and its majesty. They think of the President at his desk surrounded by wise advisers, calling on each of them for his opinion, calling in competent, highly qualified public citizens, and then pondering these issues of monetary policy, and finally reaching a decision.

The fact of the matter is, if monetary policy were—found its home in the White House, some fellow in the basement of the White House—he might even be called a Haldeman—would in effect be making monetary policy. I'm not sure you really want that.

Now, as for goals, Senator Humphrey commented on my views on that subject. It is the business of the Congress to set national goals, and obviously we at the Federal Reserve, these goals being specified, being law abiding, being conscientious, we would live within the mandate of the Congress.

Now, we might quarrel with the Congress in setting the mandate, and the Congress might not like the way in which we pursue the the goals set by the Congress, but there can be no question about our living within the law and respecting the law within the best of our ability.

Let me turn to Mr. Harrington.

I admired your eloquence, Mr. Harrington. I was disturbed a little when you stated that you would vote on almost any version of the Humphrey-Hawkins bill. That delighted my good friend Senator Humphrey. But when I thought about that statement you did say almost, and there was a saving grace in that remark.

Now, you spoke also of the Government as serving, in your judgment, at times as employer of first resort, and of course, it should. I have no quarrel with that. I don't think any conservative economist would quarrel with that.

You spoke of nationalization of railroads. Well, I don't know that I have much of a quarrel with you even on that subject. Think of the sorry state in which our railroads find themselves. They have been overregulated by the Government; initiative has been squeezed out of business enterprise; they have been dominated by trade unions; impossible work rules have been imposed on these railroads. And now, with initiative, dynamism squeezed out of most of our railroads, they are ripe for nationalization, not because nationalization is a good thing, but because the railroad industry has been corrupted by Government and by the trade unions.

Next you spoke of my penchant, proclivity towards free enterprise. You are quite right about that. But you commented, there is no empirical basis for that. I suggest that you read an article written by a newspaperman in this room—I see him here—Mark Rowan, an article that he wrote in the Washington Post yesterday on the British economy, and that may indicate to you, as it did to me, that there is some empirical basis for questioning the blessings of socialism.

Now, let me say a word or two to my friend Mr. Eisner. When Mr. Eisner argues that the factors on the supply side are—must bear their share of responsibility for the inflation that we have had, of course he is right, and I agree with him fully. But when he is virtually silent—I may have misinterpreted, Mr. Eisner—on the way in which we have conducted our Federal deficits, I think that is a glaring omission.

Year after year, in good years and bad years, we have run a huge deficit in our Federal finances. What does that mean? It means the Federal Government has pumped more money into the pocketbooks of people than it has taken out of the pocketbooks of people.

You take the 10-year stretch from 1966 through this year, using the estimate for this fiscal year, I think the cumulative deficit in the Federal budget is some \$217 billion, and if we counted in all budget outlays and outlays by Government sponsored enterprise, the figure runs up to about \$300 billion.

So I think our Federal deficits have played an enormous role in causing infaftiflon in our country.

MR. EISNER. May I just raise a question there, Mr. Burns?

Why do you indicate that a deficit must increase the quantity of money? You can control the money supply. All you have to do is see to it that the deficit is financed exclusively by the selling of bonds if your concern is the money supply.

MR. BURNS. Well, Mr. Johnson just commented on the will of the Congress, Senator Humphrey has commented on the will of the

Congress. If the Congress proceeds to appropriate money at such a rate, for us to fight the Congress would hardly be in conformity with the congressional will.

Now, now and then, of course, we do resist. We lean against the wind, and we have done that. Also, if what you wish to say is, Mr. Eisner, is that we have made mistakes in the Federal Reserve, of course we have made mistakes. Now, the—I'm sorry that Congressman Bolling isn't here. I think he put his finger on the start of all of our difficulties within the past decade. He was wrong by 1 year, but his generalization was valid.

You go back to the year 1965. What did we do in that year? We had the second installment in the reduction of the personal income tax. We had the second installment in the reduction of the corporate income tax. We legislated a sizable reduction in excise taxes. We inaugurated Great Society programs. We financed, got under way huge financing of the war in Vietnam. And, I'm sorry to say that while the Federal Reserve in December 1965 made a symbolic gesture by raising the discount rate, and all hell did break loose when that happened, we did not followup sufficiently in our open market policy in 1966.

Representative BROWN of Ohio. That was also the beginning of the time of real off-budget financing, too.

Mr. BURNS. Yes; and that has been growing.

Chairman HUMPHREY. But I would like to also cite that the rate of unemployment was under 4 percent and the rate of inflation was under 4 percent.

Representative ROUSSELOT. Unemployment has always been low in wartime.

Chairman HUMPHREY. There was not a war in 1965, knock that off.

Mr. EISNER. Unemployment hit 4 percent in 1965 before there was any substantial escalation.

Mr. JOHNSON. The very month the Federal Government normally makes its tough economic decisions inside the executive—it was a terrible blunder, in my opinion, for the Fed to preempt the President's necessity to face up to the budgetary situation in preparing his budget and the recommendations for January of 1966. The timing by the Fed took the Congress off the hook and gave the American public the wrong impression that you had done something meaningful.

It was—I'm glad you said it was a blunder, but the blunder was most of all bad, it seems to me, in terms of timing. You should have held the executive's feet to the fire and Congress's feet to the fire for a couple of more months.

Mr. BURNS. Well, one can argue that.

Representative BROWN of Ohio. Well, to tighten it up too much would have resulted in further crowding out, and you had in 1967 and 1968 a kick in the teeth to the housing market because of what happened to interest rates.

Is my memory failing in that?

Mr. BURNS. I wanted to say one word more on your comment, Professor Eisner, on tax incentives.

If I understood you correctly, you argued, here, oh, awful conservatives like Alan Greenspan, Arthur Burns, Clarence Brown, others, argue that tax incentives are desirable. You go on to say that arguing in this fashion we are expressing a certain distrust, a certain lack of confidence in the business community. If we trusted businessmen, why do we have to give them tax incentives.

Now, that was the drift of your argument, if I understood it correctly.

Mr. EISNER. Yes; I would say that's implicit. I'm sure you don't intend that, but that clearly is implicit. You wouldn't leave the economy to itself.

Mr. BURNS. All right, so I've understood you correctly.

Now, when we talk about tax incentives, what are we talking about in order to stimulate investment? We are talking about reducing taxes on investors, reducing taxes on business.

Who imposed the high and in some instances nearly confiscatory taxes? It was Government who did that. It is therefore those of us who plead for tax incentives are simply pleading for a correction of a governmental mistake. And we have in mind very much what has been happening in a country across the Atlantic, a wonderful land which is suffering from its own confiscatory taxation.

Mr. EISNER. The remedy is to eliminate confiscatory taxation. I doubt that the corporate profits tax would be called confiscatory, but I for one would strongly advocate eliminating the corporate profits tax, integrating it with the individual income tax, but not have a special loophole for purchase of equipment or anything else. Don't start—I think that—I'm not a specialist on the British economy, but if anything breaks the British economy, it is nominally high tax rates, huge tax rates, and then loopholes on capital gains, loopholes on this and that. That leaves business paralyzed. All it can do is engage in those activities for which Government offers an excuse.

Representative BROWN of Ohio. It discourages formation of productive capacity, doesn't it?

Mr. EISNER. The greatest discouragement to capital formation is the recession itself, and if you look at these figures, you'll find that business expenditures for plant and equipment in real terms took a drop of—I believe Mr. Greenspan may have the figures handy—but I'd say of about 20 to 25 percent in the recent recession. Perhaps it is larger.

That has nothing to do with changes in tax policy. I would let business invest when it considers investment opportunities profitable. If they are not profitable because of the general malaise of the economy, there is the job of the Congress, the monetary authority to do something.

Representative BROWN of Ohio. But our objective ought to be to make the pie larger. It ought not to be just simply absorb those people who aren't getting a piece of the pie and trying to spread them around among the other people.

Mr. EISNER. Precisely, and if the pie is made larger, the demands for goods and services is greater, if more is being produced. I would rely upon our free enterprise American system, American business

to spend money, to expand, to do what is necessary where it appears necessary. If it is to build a new plant, you build a new plant, but—

Representative BROWN of Ohio. But Professor Eisner, it isn't just the demand that enlarges the pie. You have to have the resources and the production to enlarge that pie, and sometimes those don't necessarily produce more jobs, they produce more goods and sometimes more services.

Mr. EISNER. Well, that may be. You know, for example, Mr. Burns referred to the matter of making us competitive in foreign markets. I would say, we all know that the industry in which we are most competitive, so to speak, is agriculture. We have a tremendous advantage. We could export great amounts of agricultural produce.

Now, when you offer tax incentives to American business, what you are saying is, we are going to tilt the system, not necessarily just in favor of investment. In fact, what you will be doing is tilting the system to those capital intensive industries that use a lot of equipment, and that means you would tend to make us less competitive in the areas that are not getting that kind of tax advantage.

Representative BROWN of Ohio. But agriculture is a capital intensive industry. Certainly per worker it is.

Mr. EISNER. We'd have to check as to the extent of the equipment rate of benefits to agriculture as compared to the steel industry or automobiles industry, places that are tremendously intensive in terms of tax—

Chairman HUMPHREY. There is no tax credit on land.

Representative BROWN of Ohio. I'm not talking about land. I'm talking about those big pieces of equipment that are used on farms.

Mr. EISNER. There is some. I think, you see, that unfortunately, I believe, is one of the myths. You have something like a tax credit which overwhelmingly helps heavily capital intensive, concentrated industry, but every little farmer, every small businessman will lobby Congressmen and say, well, we can't take that away.

I remember before the, I believe it was the House Budget Committee, and Mr. Conable indicated, you know, you can talk as an economist. You can tell us to get rid of the corporate income tax credit instead of having an equipment tax credit, but you don't face the political problem.

Well, why don't we face up to that? All economists will say, if taxes are too high, lower taxes. Don't look for new exemptions, new incentives. But instead, I guess, eliminating the corporate tax would look very unprofitable, I suppose, politically.

Mr. BURNS. You have no quarrel with me. I would prefer a reduction of the corporate income tax to an increase in the investment aspect.

Mr. EISNER. Good. I knew you did, Mr. Burns.

Representative BROWN of Ohio. I share that position, too. I do not think you should suggest that capital incentives are not productive of jobs, because I think they are, very clearly.

Mr. EISNER. But there are many things productive of jobs, though, from public employment to private employment, to job training

programs, to educating people so they can work. In fact, this strikes me as a most indirect, farfetched way of encouraging jobs. If you want to cut a tax that will directly affect jobs, I would cut payroll taxes. I would do the exact opposite of what President Ford proposed, of raising our payroll tax for social security from 5.85—or from 11.7 to 12.3 percent.

If you are worried about unemployment among youth, it is utterly absurd and folly to add to the fact that young people are difficult to employ, have high unemployment, to give the employer an additional cost of paying for social security benefits he is not going to realize for 40 or 50 years.

Representative BROWN of Ohio. The minimum wage.

Mr. EISNER. The minimum wage, I—there are lots of political problems in the minimum wage, and I would say that if you can't—would meet the problem of the minimum wage essentially by guaranteeing through effective action that everybody in our productive society is able to produce enough to make it profitable for an employer to hire him, and if there are people who are untrained and not in the job market, young people—and that is where the shoe really pinches—who you feel will not be worth it to an employer, there is a good place then for the government to intervene, if necessary, to have subsidies, to see to it that it becomes profitable to hire young people, that is an investment in capital which you could not expect the free enterprise system to make, because no employer can train a young worker, take the chance that he'll turn out good, and figure, gee, what has he gained.

If the guy does turn out well, then he can't own him as he can own a piece of equipment. He can go somewhere else.

Representative BROWN of Ohio. The timing of that, though, it seems to me, is when the recovery begins. You had that kind of a system at the end of World War II, when you had a GI bill program that subsidized industry to hire people and train them and then reduce the amount of subsidy that they got as they worked toward journeyman level, but that has to be done at a time when you have got the recovery under way.

That may be appropriate at this time, but if they are not going to do it anyway, they are not going to be stimulated to make an investment.

Mr. JOHNSON. You have young people coming into the market every year, Congressman, and it seems to me that paying for the on-the-job training out of Federal funds becomes the finesse that he is talking about to achieve the same purpose without taking on the political battle of trying to fight the minimum wage. In other words, you guarantee the minimum wage, but—you're going to spend the public dollar anyway of paying for the guy's education, whether it's in the vocational school, occupational college, junior college, or a university, so why not pay it on the job to the employer, but require there be some real, on-the-job training so that that person can make that progress up the career ladder.

Representative BROWN of Ohio. But that then becomes a subsidy so that you would pay—

Mr. JOHNSON. It's a subsidy, but it avoids the political question which he was raising with you that if you directly attack the minimum wage, you are going to lose. If you say you are going to provide on-the-job training, you can win. The purpose is served. Why fight about the method?

Representative BROWN of Ohio. If it's a chicken and you call it a swan, it becomes a swan, right?

Mr. JOHNSON. Right. It's prettier.

Chairman HUMPHREY. We should remember that every one who has gone to college has been subsidized. So a little subsidization to people that are trying to learn how to get a job in something beyond higher education is not, I think, without—is not beyond our means.

I don't like this elitist argument that we've all got to have a college education in order to be worthy of American citizenship. Some people may just want to learn how to weld. They might want to learn how to repair a TV. They might even want to learn how to put on a roof. It might be helpful. And it doesn't help to get a Ph. D. to do that. I'm not against Ph. D.'s or M.A.'s. I just don't think they necessarily are required for everybody.

I'd like to just quickly join in so we can get some facts in here. Then I want Mr. Greenspan to get in it.

I asked our staff person here to give me a little idea on the percentage of Federal tax revenues coming from corporate income tax, because there was word about confiscatory taxation. In the 1950's, 33 percent of all tax revenue came from the corporations. Today it is 14 percent.

The real going tax rate on corporations is about 38 percent; and the banks, it is 11 percent.

Now, if you have got an income of around \$40,000 a year, you'd have to give me about \$40,000 a year personal income, you pay 38 percent tax. So the corporate—I believe—I want to say that I think a lot of tax changes are needed, and I tend to agree with what is said here, that if you want to make adjustments, do it on the corporate tax rate.

I believe in capital formation, and I think it is essential that we put our minds to it. But I don't think we ought to scare people. I don't think we ought to say the corporate taxation is confiscatory because it is not, and if it were, how come all these private planes? It isn't confiscatory.

I don't think we ought to say that it has gone up, because it has gone down.

Representative BROWN of Ohio. But it's a double dip.

Chairman HUMPHREY. Well, double dip or not, there is still plenty of dip.

Mr. HARRINGTON. Senator, at the same time that the corporate taxes are going down, the social security portion of Federal revenues, which is the most regressively based portion, was going up dramatically.

Chairman HUMPHREY. The fact is that in the 1950's, the average share of the Federal tax revenue was 33 percent from corporate income. Today it is 44 percent.

I'd like to just say one other quick thing about inflation control.

The two biggest items on inflation were centered here today, over which the President didn't have any control, or Mr. Burns or Congress. But from the point of view of our inflation rate, we were in the best position on both, because we had a larger share of domestic production in both than any other industrialized country in the world. We had the larger share. We had food in abundance, and therefore, we did not suffer the same inflationary pressures from food prices that other people did, recognizing that it might—I recognize the world market, but our prices domestically for food have been less than other prices in other parts of the world.

Second, on fuel, we produced approximately 65 percent or better of our own fuel, domestic fuel resources. We imported about 35 percent. It is up a little bit now. But again, we had lower fuel costs than any other industrialized nation in the world, and those are two terrific items in a budget.

So the two items that have been the biggest factors in inflation rates worldwide were food and energy, and in both of those items we were in a very favorable position. That doesn't mean we didn't suffer from them. And I think the point is made—

Mr. BURNS. I cannot follow you.

Chairman HUMPHREY. You cannot?

Mr. BURNS. No, because the prices we pay for fuel are at the international level—

Chairman HUMPHREY. Not at all. We had a fixed price on our 65 percent of our domestic oil production, Mr. Burns. We were paying an average of \$7 a barrel for oil here while the rest of the world was paying an average of \$11, because we did not let the oil companies raise their prices on domestic fuel. And even today we are paying an average of \$9 as compared to \$13. So we did get a benefit on fuel, I mean, rightly or wrongly. And the oil companies didn't like it. I'm not arguing whether we did the right thing or not. I think we did. But we paid less for it.

And on food we obviously paid less because we did not have to pay the international costs of shipping and of handling and storage which goes into the international market.

Representative BROWN of Ohio. I should point out, Senator, that the price that we are paying for energy is going up rapidly because of that price freeze. I think it now exceeds 45 percent, and that price freeze means that we are going to pay more and more for that \$13 barrel of oil.

Chairman HUMPHREY. Well, in the meantime—

Representative BROWN of Ohio. To somebody else, outside the country.

Chairman HUMPHREY. We have improved fuel efficiency, industrial efficiency; the cost to American industry today on fuel for the same amounts is appreciably less because we have improved our fuel efficiency. We have companies that have gone into other companies, like DuPont, has a segment of their company that teaches fuel conservation, so that while the fuel costs have gone up, we have also gotten better use out of our fuel. We know that.

Mr. Greenspan, do you want to get in this business? You have been over there. We don't want to let your fertile and active mind

go unused. I want you to get in there and take them on now for a while.

Congressman Brown and I will shut up.

Mr. GREENSPAN. After that introduction I am speechless.

Chairman HUMPHREY. Don't get speechless on me.

Mr. GREENSPAN. I won't.

Well, I've enjoyed just sitting here for a change and listening. It has not usually been my luxury to do so.

I would like to raise a couple of issues which I think directly relate to the basic discussion this morning. They are somewhat unrelated, but I think not necessarily.

The first is the relationship between inflation and unemployment, and I think rather than look at the historical record and try to discuss the various complex macroeconomic equations we tend to construct, I think I'd just like to point out something about the current period, the most immediate period of what I think is very well worth observing.

It is fairly obvious to anyone who is looking at the particular set of numbers that we have observed in the last several weeks that there is a very perceptible improvement in confidence in our economy. That is you can see it in the consumer area, you can begin to see it stirring in the business investment area, and where I think it is very perceptibly coming from is the decline in the instability, the decline in the inflationary patterns that have existed in this economy for a number of years, and I think that the decline in the Consumer Price Index, which you may be aware, Mr. Chairman, was 0.1 in the release that came out this morning, which we considered to be obviously quite favorable—I think what we are seeing is that as this instability simmers down, the extraordinary reluctance on the part of the households to buy goods, to be aggressive in the consumer markets, is changing.

I mean, we have seen not only the indexes of consumer confidence rising, but we are now beginning to see finally the savings rates falling, most immediately manifested in the extraordinary pickup in passenger car sales during the month of February and in March, and this to me is suggesting that the uncertainties, the risk premiums, the concerns of our household in purchasing are a function of the degree of inflation.

Also, we are beginning to see similar stirrings going on in the business investment area, where the high degree of uncertainty and risk induce, probably, although the evidence here is difficult to come by, a marked increase in risk premiums in investment activities. That is, we are getting a much higher rate of return required in the last several years to initiate investment than has existed in previous years.

I think with the simmering down of inflation, with the simmering down of instability and uncertainty, I think that is beginning to change as well, and hence, the recovery that we are looking at right now to a very substantial extent rests upon the reduction of inflation itself.

Now, the interrelationship that we get between inflation and unemployment and growth is a very complex one, and I would

scarcely say, as Professor Eisner indicated that I would say, that fast growth implies inflation. I don't believe that at all. I think it is quite possible to get very significant growth without inflation, but also vice versa, I think it is quite possible to get stagnant growth in an inflation environment. I don't think these are closely tied in the way that we can conventionally see them.

So that what I am indicating—as far as, I think, a terribly important, but very rarely discussed, policy issue at this point—is to further reduce the degree of uncertainty about the future and the general concern, and I think we will continue to see the type of recovery that we have observed in the last 2 or 3 months, which I have indicated previously, I think, is obviously well in excess of our forecasts and I think most anybody else's forecasts that I can see.

And I might also say that this particular phenomenon of inflation, uncertainty, risk, and investment, is manifesting itself in the other major industrial countries in the world, and so that this is not a simple problem which is United States oriented at all. And I think that we have to focus on a recognition that if we allow inflationary instabilities to reemerge in this particular period, we are going to very likely go into the same sort of economic malaise that hit us through the period prior to—well, really, throughout the mid-1970's.

Now, Mr. Chairman, on a second and somewhat unrelated point, but I think something we ought to be thinking about, really gets to the nature of looking at this whole question of what we mean by unemployment and a recognition that there are so many different types of unemployment which require different focuses and different remedies. And the one thing which I think we rarely tend to realize except technicians is that when we talk about excessively high rates of unemployment, which there is no question they are at the moment, and there is no question that there are vast numbers of people who are in extremely dire straits—I think that one doesn't have to look at the numbers to observe that phenomenon—but that it is not, it is not 7 million people who are going to be unemployed for 1 or 2 years. We have a different type of problem.

If in fact the 7 million unemployed were the same people, I would say the types of remedies we are talking about would have to be completely different.

What we are observing is the usual, extraordinarily rapid turnover that exists in our labor markets, and that we have, say, 30 million spells of unemployment a year, and that far greater number of people experience unemployment once or twice and sometimes three times a year than the average involved. And what this means is that the vast amount of unemployment is 2, 3, and 4 weeks, and that the average is sometimes 6, and in a period like now, I suspect, although we don't have the data, it is probably closer to 10.

Now, the reason I raise this as an issue is that it is very important that the types of policies which we have applied to this problem confront the nature of the problem and not something else, and here one of the reasons I am concerned about, one, the nature of some of the broader programs of public service employment—and I would like to collaterally say a few things good about unemployment insurance, although a number of people I think have said things with which I agree.

Because of the fact that the vast proportion of unemployment at any particular time is represented by people who will be back in having jobs within periods of reasonably small number of weeks, it is a mistake to draw them out and put them at jobs or give them types of jobs which could deflect them from searching for the jobs with a future, the jobs which are high paying, the jobs which are productive, and I think we must be very careful, not matter how we come to on some of these policies, to make certain that what we are doing is confronting the real problem.

And here, one of the reasons why I think it is important to recognize that unemployment insurance does serve a great and I think more than a cushioning sort of a problem, is that it is very difficult to fashion a program which cushions the unemployment problem when the period is indeterminate. And in that sense, what unemployment insurance does it it adjusts itself automatically, whether a person is unemployed for 4, 8, 12, or 16 weeks, when he goes back and gets a job, that is over with.

And I think that one of the difficulties that we have with a number of these other types of programs is you lock in people in types of jobs which I think in very many instances makes their future employment opportunities a lot less than they would otherwise be, and I would merely suggest that when we think in terms of unemployment, it—I think I've forgotten who said this—it certainly does affect the vast number of people, but in a way not only—in one sense because there are so many more people unemployed at one point, but I think that we have a tendency, and I think unfortunately some of our policy discussions too often seem to assume, even indirectly, even perhaps even unconsciously, that when we talk about high levels of unemployment, it is the same people all the time.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Thank you.

Congressman HECKLER, I know that you have questions you wanted to ask.

Representative HECKLER. Yes, I do, Mr. Chairman.

I would like to thank you for structuring this really meaningful conference, and for your continued leadership and your in-depth investigation of the problems of unemployment which brought you even to the important, in my sense, but perhaps in a national sense rather obscure site of Fall River, Mass., in search of a meaningful understanding of the problems of unemployment.

And I think this conference today, yesterday and today, these have been very, very important sessions, and they have been very, very stimulating. I am so envious of all of my colleagues who have this sense of certainty about the answers, and the panelists as well, and I have to confess that my own mood is a nagging skepticism, that I am the unpersuaded juror.

As impressed as I am with the rhetoric which all of you have articulated, and indeed, as certain as I am that I will extract the best proposals each has offered, perhaps offering them again later as my own, but the fact is that despite all of this I think I have become too disillusioned over the failures of programs which arouse great expectations, of the failures of the Great Society to really resolve the problems of poverty, the failure of the Economic Opportunity Act

to really provide economic opportunity for everyone. All of these failures are too real in my mind, and my own sense of hope, when I voted for many of these programs, has turned to, I think, almost a sense of disillusionment.

Now, I am deeply troubled about unemployment. I have a district in which there is 12 percent unemployment, and I see this as a moral problem for the country, one which we must address. But we must not address it in such a way as to create new expectations, and again, the inevitable disillusionment and bitterness. And that is what I would hope to avoid.

I have recently visited the People's Republic of China where I saw the work ethic in such a full blown representation that I was envious again. And I asked many of the Chinese why they were working so hard in this society, and they discussed the preconditions to their revolution and to the world in which they find themselves. They earlier felt they were the property of the society or the landowners or the vested interests, and now they felt a share in the nationbuilding, and they were willing to work for it.

And that seems to me to underscore the significance of the profit sharing proposal which one of the panelists has mentioned today, Senator Javits.

I think this is very important, that people share in the profits. I am deeply concerned about the fact that when we discuss unemployment, there isn't enough emphasis or sensitivity to the unemployment among women, and I am very delighted that Mr. Harrington raised that issue because I think that is a very real problem in this society, and I hope that Mr. Greenspan will include in the next report of the Council of Economic Advisers, an analysis of the impact on women which was missing in this year's report.

Nonetheless, I still am left with many questions, and the questions do not go to the goals of the legislation, because I think they are desirable, in fact imperative. But my questions are really relevant to the situation in which we find ourselves today, to what are the politically viable alternatives which will give real meaning to this legislation. And I look at the—listened to the proposal for the reduction of corporate taxes, and that's not politically viable. And on the other hand, we heard Mr. Burns talk about a reduction in the minimum wage for certain categories of workers, and that is not politically viable.

So what we are really looking at, in my judgment, at this point in the abstract, since we cannot affect all the other related issues in one piece of legislation, for jurisdictional reasons and others, looking at this proposal today, as it stands, and adding it to all of the other legislation and the costs of other legislation on the books, what are we doing to the question of inflation and what are we doing to the economy today if we were to pass one more piece of legislation without having the opportunity to change those other legislative issues that the panelists have individually commented upon.

Now, Mr. Eisner, I wonder what is your response, if we cannot change the corporate tax structure, and if Mr. Burns, if his proposal on minimum wage and your proposal on subsidies for training youth are not politically viable—and I really do not feel that they are, then what would you say, what would the impact of the Humphrey-Hawkins bill be on inflation?

Mr. EISNER. Well, first I should quickly say that as far as the corporate income tax goes, I did not mean to suggest eliminating it really as a method of tax reduction. The proposal generally is simply that individual taxpayers pay—include corporate income, their share of it—

Representative HECKLER. Right.

Mr. EISNER. On a cursory but not studied reading of the Humphrey-Hawkins bill, I do find it a generally quite attractive proposal, and I don't see that it should contribute to inflation in any way.

You run into many problems in something like this as to how to avoid unintended effects, and I believe Mr. Harrington raised one which I think you picked up which was very important, and I also caught it in reading. You know, you have a proposal that public employment be available particularly on the basis of income in the family or how many wage earners there are in the family, and that is just a disastrous interference with individual freedom and particularly a discouragement for women working and of young people.

So I guess the important thing would be to take that proposal and I'm sure in the legislative process it will be carefully scrutinized and get all kinds of expert testimony and push ahead with it.

Representative HECKLER. Do you feel that there would be any impact on inflation if we—

Mr. EISNER. No; I don't see how it would be an impact on inflation. That is, to the extent you are having people produce more, it may—if they are not producing things that go to the market, or are competitive with market production, then it is true you will be increasing demand, but that would enable people to buy more. And with all due respect again to Mr. Greenspan's remarks of a few moments ago suggesting that there is a lot of salvation to be found in the attitudes of people, in their psychologies, and if they therefore are not too worried, the economy will advance. Not being a psychologist, I have always been a little bit skeptical of this kind of an explanation.

I would say that the economy advances when somebody is spending more to buy our goods or services, either Government, business, or private nonbusiness purchasers.

Now, you can't have it two ways. If you want greater purchasing power to produce more, then you have to have that, and to say that may be inflationary I think is indicating a lack of real commitment to full employment and prosperity, and I think that indeed has been the critical problem now over 30 years. Every time there is a serious effort to try to promote full employment, except in time of war, people hold back saying, "but that may be inflationary."

Now, there can be inflationary problems when we get unemployment in some sense too low, but it has hardly ever been that. In fact, I would argue in our kind of economy you can never worry about that except in times of war, so I hope we won't have to worry about it particularly. And I would say that the Humphrey-Hawkins has nothing to do with inflation. If it does anything by promoting more people, by somehow encouraging training, increasing the supply of labor, it would tend to make more products available at lower cost and reduce inflation.

But I wouldn't think of it as having much to do permanently with inflation at all.

Representative HECKLER. Do you look upon the goal of public employment as desirable in itself, or as a temporary answer to the problem of the jobless person who ultimately should find a place in the private sector. If that is the case and you feel the private sector is going to provide the long-term and best-compensating job opportunities, then should the public employment be slightly less attractive than the jobs in the private sector, thereby allowing the incentive of the private market to lure that person back into private employment?

Mr. EISNER. I would not take the position I understand Mr. Burns to take, of making the public employment entirely unattractive. I think one should be concerned—

Representative HECKLER. I do not think that he said it should be entirely unattractive; less attractive, substantially less attractive.

Mr. EISNER. Yes, but very substantially. I think it might be a mistake in terms of allocation of resources for the Government to pay, let us say, a full private industry wage to people who are not able to produce that much on a long-term basis because that would tend to promote uneconomic operations. I would say, however, that there is a lot of Government activity which would be highly productive, where people could be hired to do things at which they would be fully capable of producing an income equivalent to those in private industry, and I would not discourage that. That is to say, you know, that we don't really value help in our educational process or in cleaning our land or in police forces or anything else.

I might add just in connection with Mr. Greenspan's remarks on unemployment insurance that I can see some problem, which I am sure Mr. Greenspan is aware of, as are all economists, and that is that there are—without saying that that's a major source of our unemployment, no doubt many people with unemployment benefits figure, well, I don't have to look that hard for a job, or I can afford to quit this job and I will get some benefits, but I'm a little bit puzzled at why in that context he would not want to encourage the availability, perhaps insist upon public employment rather than unemployment benefits.

That is, I would think that if a person were told, well, you have unemployment benefits for 4 or 8 weeks but then you've got to go to work on some Government job or else you lose it, you might get some of these people to opt for looking a little bit harder for private employment.

Representative BROWN of Ohio. I just read in the Times of 30 steps to ease inflation. You have at least three governments in the world, the British, the Italian, and the Argentine that are apparently about to collapse because of inflation rates, primarily.

Now is that not a danger? Is there no stability danger in inflation?

Mr. EISNER. Well, I may come perilously close to suggesting that inflation is not a problem. I can imagine catastrophic inflation which would demolish the economy, but that is really not the problem. You know, we have spectacles of very prosperous economies with a lot of inflation.

You know, my good colleague, Milton Friedman, south of me in Chicago, was fond of saying, you know, you can show high growth in inflation or low growth. I think Mr. Greenspan has just indicated

you can have unemployment sometimes with inflation and sometimes expansion with it or without it.

The problems of the Italian economy, even for those of us who view it from afar, are pretty deep. There is a very ineffective governmental system with huge amounts of graft and corruption, and I am no specialist—

Representative BROWN of Ohio. Large public employment.

Mr. EISNER. That could be. If you have wasteful public employment, that could do it, but it is not the inflation per se. I mean, if their economy were growing, if output were increasing, if they were close to full employment—

Representative BROWN of Ohio. Through Government employment now?

Mr. EISNER. Through either means, whatever the means. If the real output is growing. Of course, if the Government is simply hiring more people and having them sit on their shovels and do nothing, then people will feel a depressed standard of living.

But there is an economic crisis when people do not have the goods that they need, and that is the real problem.

Chairman HUMPHREY. All right.

Congressman ROUSSELOT, you want to comment?

Representative ROUSSELOT. I think the time has really passed for too much more comment. I have enjoyed the chance to be here and sit for 2 hours and listen. That is a new experience for me, and I guess it is good discipline.

I really would have liked a chance to—

Chairman HUMPHREY. Why don't you take it now?

Representative ROUSSELOT. I don't want to take the time of other people. Everybody keeps moving on to lunch or wherever they're going. I don't want to be the one to hold everybody up.

I was hoping we could discuss more extensively—in the Banking and Currency Committee, we have talked many times about the impact of unemployment insurance and its length—not the fact that we don't need it. As Mr. Burns has said many times, when he was in the academic community during the 1930's, they generated the idea of unemployment insurance to cushion the ability of the lower income people to be able to adjust to other jobs and give them a chance to adjust, whereas the wealthy didn't need the adjustment because they usually had savings and other things to cushion their adjustment when they were confronted with unemployment.

But the question that I have is that unemployment insurance that is 65 weeks has become highly expensive and—I mean for the length of time—and is there a question whether, as Mr. Eisner says, the person tend to wait until the last—not all of them do, obviously—but do they tend to wait until the last 4 or 5 weeks before they seriously look for a job?

Well, in all cases, they of course do not, but I would like to put it in the record, Senator, a letter from Arthur Burns which was a response to questions that I had raised on this issue of unemployment insurance and the extent of time.

Chairman HUMPHREY. We will put that in the record at this point. [The letter referred to follows:]

CHAIRMAN OF THE BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
Washington, D.C., March 11, 1976.

HON. JOHN H. ROUSSELOT,
House of Representatives,
Washington, D.C.

DEAR MR. ROUSSELOT: Your letter of March 1 requested information on research studies dealing with the effects of unemployment insurance on incentives to work. This question has only recently begun to receive much attention, and the results of the studies undertaken to date must therefore be regarded as tentative. Nevertheless, I think you would find some of them of interest.

Kathleen Classen of the Public Research Institute studied the effects of unemployment insurance on job search and the duration of unemployment in a paper entitled "The Effect of Unemployment Insurance: Evidence from Pennsylvania." This area was also investigated by Stephen Marston in a paper entitled "The Impact of Unemployment on Job Search," (*Brookings Economic Papers*, 1975). Both of these scholars concluded that unemployment insurance benefits reduce the intensity with which an unemployed person seeks a job, and this tends to increase the duration of unemployment.

There are two papers by Martin Feldstein that you may find of interest—"Unemployment Compensation: Adverse Incentives and Distributional Anomalies" (*National Tax Journal*, 1974) and "Unemployment Insurance: Time for Reform" (*Harvard Business Review*, 1975).

The GAO has also conducted a recent study entitled *Problem of Filling Job Orders and Placing Job Applicants in Massachusetts*. In this study, it was found that the Massachusetts Division of Employment Security was able to place workers who did not receive unemployment insurance benefits in new jobs much more readily than workers who received such benefits.

I believe a searching review should be made by the Congress of our present unemployment insurance programs and their effect on workers' incentives. If I can be of any further assistance to you in such an endeavor, I would be most happy to do so.

Sincerely yours,

ARTHUR F. BURNS.

Representative ROUSSELOT. Mr. Burns discusses several Brookings economic reports and another one that was done on the effect of unemployment insurance in Pennsylvania, a very detailed study, and I am sorry we didn't get more time to get into the minimum wage, because I really think that does have a substantial derogatory impact on youth and, in some cases, women.

I see our panelist, Mr. Harrington, shaking his head, and I am sorry I really haven't had a chance to talk to him about the benefits of socialism, because I really would like to hear about all the benefits of socialism in England. That's the glaring—

MR. HARRINGTON. One word, Senator, because I am afraid we are going to suffer from the English example for the next 10 years.

Representative ROUSSELOT. I hope we don't.

MR. HARRINGTON. I wish the Congressman might look at the Swedish example, where unemployment is under 2 percent. Second, in considering—

Representative ROUSSELOT. If I might respond to that, they also give tremendous tax credits to their business to encourage them to create new jobs and new equipment and they give tremendous incentives to their private sector to produce jobs.

MR. HARRINGTON. Of course.

Representative ROUSSELOT. They don't rely just on government.

MR. HARRINGTON. Of course. But all I am saying is that the British thing is going to be driven to death.

One last point on Britain—

Representative ROUSSELOT. Oh, it's not driven to death. We just don't want to go down the same road.

Mr. HARRINGTON. All right.

One last point on Britain, I would just point out to you that the Heath government spent 3½ years in giving massive governmental subsidies to private business and had enormous public borrowing for that purpose. And what bothers me is that we are in danger in this society of coming to a very facile generalization, because in a society with a welfare state of some substance a crisis has occurred, we will say that because it is a welfare state it is on account of the welfare state.

In reality, I think the English situation is much more complex and involved English capitalism as well as English socialism, if you will, it involves the Conservative Party as well as the Labor Party. I think we have to be very careful—

Representative ROUSSELOT. It is true also that the nationalization of major industries has been a massive failure.

Mr. HARRINGTON. I am afraid that they did what we are doing with the railroads: They nationalized all of the industries that were totally messed up by British capitalism. I wish that on occasion somewhere in this world we would nationalize a going concern.

Chairman HUMPHREY. Well, I hope that we would keep the conversation somewhat within the purviews of the American scene. We are celebrating our bicentennial. I no longer thought we were a colony.

Go ahead.

Mr. JOHNSON. I just wanted to add a comment on unemployment compensation.

I don't think most persons who have been unemployed long relish being unemployed. There is a psychologically debilitating effect there and I think most of us recognize that continued unemployment is something that they would cheerfully give for any kind of a good job.

I think the notion that after 13 weeks they might be referred to a public employment for a chance to keep their skills up would be a very major step forward. I join in deploring the 65 weeks. If we spend that kind of money, why not have the person working and have the community getting the benefit of that.

So I would not want my silence to be an expression of agreement.

I also want to add one footnote to Congresswoman Heckler's comment, I think a counsel of either cynicism or despair by appointed or elected officials is devastating to the public. I think if those of us who hold public office are not willing to keep the faith, as Adam used to say, the public really is being served very badly by us, and if we feel that cynical or that despairing, we really ought to resign.

Chairman HUMPHREY. Well, now, gentlemen, we have come to a point where we are going to let our panelists retire and enjoy a luncheon.

Let me just add for the record a letter I received from Mr. Leonard Woodcock in reference to the endorsement by the UAW's

Convention of the Full Employment and Balanced Growth Act of 1976 known as the Humphrey-Hawkins bill, and I will ask that it be included in the record at this point.

[The letter referred to follows:]

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE
AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA-UAW,

Detroit, Mich., March 18, 1976.

HON. HUBERT H. HUMPHREY,
*U.S. Senate,
Washington, D.C.*

DEAR SENATOR HUMPHREY: I regret not being able to attend the Joint Economic Committee's National Conference on Full Employment.

I would appreciate it if, at the Conference, you would indicate that my absence is due to the UAW's Collective Bargaining Convention—which is meeting March 18–20—and that the Convention adopted today the attached resolution endorsing the proposed "Full Employment and Balanced Growth Act of 1976" and urging its speedy passage.

Sincerely,

LEONARD WOODCOCK,
President.

Enclosure.

FULL EMPLOYMENT AND NATIONAL ECONOMIC PLANNING, ADOPTED MARCH 18,
1976, UAW COLLECTIVE BARGAINING CONVENTION, DETROIT, MICH.

The opportunity to find a job at decent pay must be made a fundamental economic right. A worker without a job is robbed of his human dignity and the chance to enjoy self-fulfillment.

Persistent unemployment is a pervasive problem in the nation which impinges on all other social ills. Being without a job and without the hope of finding a job corrodes confidence in our way of life, generates insecurity and is an economic dead-weight amounting to billions of dollars in lost goods and services.

A full employment economy is in the best interests of employers, since those who earn are the customers who purchase the goods and services offered by the employers. It is in the best interests of the workers because their job security and the enhancement of their standard of living depend on having a job and the economic security that goes with it. It is the interests of the nation as a whole because full employment is essential for economic stability and social tranquility. Full employment is the key to a general prosperity, with full production, a stable economy and a government with a social conscience.

For nearly three decades the Full Employment Act of 1946 has promised but never mandated a national policy of full employment. The millions of the chronically unemployed and the millions of cyclically unemployed are testimony to the failure of our nation to move beyond stated policy to the actual implementation of a full employment program.

Moreover, the past three decades have also seen the use of a sophisticated "numbers game" whereby "full employment" is defined as an every-increasing percentage of unemployment. Involuntary unemployment is morally unacceptable in a democratic society which takes pride in its political Bill of Rights but fails to guarantee an economic Bill of Rights to its people.

Those of little faith and even less compassion argue that full employment cannot be achieved without substantial rates of inflation. We maintain that full employment and inflation are not inseparable partners. Indeed, genuine full employment will help to fight inflation and make possible an ever-increasing improvement in the quality of life.

For years now, only lip-service has been given to the notion of a full employment economy. Except in wartime the nation has never mustered its economic will to eradicate unemployment. In fact, however, fulfillment of the goal of full employment can be achieved.

Proposed legislation, known as the Hawkins-Humphrey bill, has been introduced in the House (H.R. 50) and Senate (S. 50). Its title is the "Full Employment and Balanced Growth Act of 1976." The most recent (March 10,

1976) version of that bill provides the basis for effective legislative action.

It specifies that every adult able, willing and seeking to work has a right to useful employment at a fair rate of compensation. The federal government is to take action so that their unemployment rate will not be more than 3 percent, and to achieve that within 4 years. In addition, the federal government is to undertake special programs aimed at unemployment among young people.

The bill recognizes that traditional government activity—through fiscal and monetary policy—has not been sufficient to achieve and maintain full employment, and provides that supplementary employment policies are to be utilized. These policies would include public service employment, public works grants to state and local government, and other activity aimed at cyclical and structural unemployment.

A most important feature of the bill is that it specifies procedures for democratic national economic planning to achieve full employment as well as other important social goals such as: development of energy, transportation, food, small business, and environmental improvement programs, improved health care, education, day care, and housing, etc.

In short, the Hawkins-Humphrey bill would clearly establish a national full employment policy, and would create the mechanisms needed to implement that. Further improvements could be made in the bill; that is true of every piece of legislation; nevertheless its enactment would be a true breakthrough in the struggle for economic justice. Many individuals and groups—including UAW and AFL-CIO leaders—have participated in the development of this bill. Therefore, it is expected that support for the bill will be widespread and enthusiastic.

The UAW will make a major effort, by every level of the Union, in the U.S., to bring about speedy passage of the Full Employment and Balanced Growth Act of 1976.

The UAW fully supports the principles and provisions of that Act as set forth in the Hawkins-Humphrey bill (H.R. 50 and S. 50). We will support feasible proposals which would further improve the bill, but such activity must not be allowed to substantially delay congressional action. Now is the time for enactment of effective full employment legislation; nothing could be a better Bicentennial event.

A national petition drive to secure widespread individual endorsement of the Act has been initiated by the National Committee for Full Employment. The UAW endorses that petition drive and will participate in that effort.

Chairman HUMPHREY. I should also like to note that on the matters that we have been talking, just to fill the record here a little, that there are 1½ million workers who have been unemployed or out of work for over 6 months. I say this because I think Mr. Green-span made a point that there are different types of unemployment and we need to, as we look at any legislative proposal, be cognizant of the different types of unemployment, but here are 1½ million of them—and by the way, that 1½ million will be without benefits very shortly, because the funds are all used up, which poses another problem that no one has really directed their attention to.

I also note that the 1975 national average weekly unemployment benefit paid by the States was \$70. That's gross; \$70 a week. In this day and age, that is not exactly living it up.

There are a number of States that paid unemployment compensation benefits less than the average—Mississippi paid \$48 a week; Texas, \$54 a week; New Mexico, \$55 a week; Oklahoma, \$56 a week; Tennessee, \$57 a week; and I also include at this point reference to the rates of unemployment that have existed in other countries over a 10-year average from 1962 to 1973—that is before the high unemployment rates, and when we were having relatively good employment as well.

Japan, 1.3; France, 1.8; Germany, 1.3; United Kingdom, with all of its problems, 2.4; and during that same period of time, our un-

employment rate was up over 5 percent on the average.

So we still have problems of unemployment that we cannot afford to ignore or to pretend that they are nonexistent.

I wish that Mr. Burns had not left, because he made such a humorous comment about the White House and monetary policy. I can only think of one thing worse than having it made in the White House and that is a group of people making it who have a special interest in high interest rates. I consider that a conflict of interests.

I think that political leaders making monetary policy and trying to be specialists would be a disaster, but I do think that political people have the responsibility to set goals and to set targets. That is what the political process is for, and then we rely on the so-called experts or technicians to help us accomplish those goals.

But if the Federal Reserve banking system essentially becomes the province of the bankers, that is an outright conflict of interests, and when I see five members of the Federal Reserve Board being from the banking establishment and two from the academic community and no one representing industry, no one representing manufacturing, no one representing agriculture—and it was said here agriculture needs credit—and no one representing labor or the consumer, it seems to me that that is a stacked deck.

Now that does not mean that we ought not to have prominent banking people—I think they ought to be there—but I am speaking now of the Federal Reserve Board, not the Federal Reserve banks in their respective districts. I am talking about what is supposed to be a Government entity, because the Federal Reserve bank out in the district is a different animal entirely than the Federal Reserve Board. The Federal Reserve Board is a public policy board with members appointed by the President and confirmed by the Senate.

We don't confirm the members of the Board of Minneapolis of the Federal Reserve Board; those are not confirmed at all by us. We have nothing to do with them per se as a member of Congress.

Now, we didn't confirm our good friend here, Frank Morris, who has given us outstanding testimony today. That comes out through the Federal Reserve bank system of his region.

I just think people that use credit ought to have something to say about its supply, that's all. And I don't think that a Congressman ought to tell you what the credit ought to be, but I do think the central bank ought to have better representation.

It has been my prejudice and just my point of view, and I don't want Congress to have to run the system.

I would finally add that the purpose of the Humphrey-Hawkins bill is not to see that within 1 year, there is no projection of putting people on massive Government payrolls.

The emphasis, as has been stated here, even as a point of criticism, was to rev up, to stimulate the private economy, and how?

By trying to have the President in cooperation with the Council of Economic Advisors to present to the Congress annual goals for production, employment and purchasing power. Congress would then debate these targets and would resolve them one way or another, and the Federal Reserve Board would be required to issue a report either concurring with these targets or explaining why the Fed would not conduct the monetary policy necessary for achieving them, to get some accountability.

And then, might I add that the President would be required, under this act, with the advice, extending the jurisdiction of the Council of Economic Advisors, to present to the Congress that kind of tax proposal, fiscal policy, the kind of employment policy, training policy, manpower policy, whatever is required, to try to achieve a goal.

For example, if we had this now in the year 1976, would it be impossible to say that at the end of 1976 unemployment should be not more than 6 percent, that is a goal; or that gross national product should have a real increase of 8 percent; that is a reasonable goal.

And if you did that—and said that the inflation rate should not exceed 4 percent; then you direct the policies to the Congress of the United States and the Congress debates those policies to see whether or not those goals and policies are ascertainable, and if those targets are ascertainable in the judgment of the elected officials, then policies must be effectuated to accomplish them.

Not that the Government does it, but if it requires, for example, a change in the tax system, better investment, or more training as has been said—and I think the point has been well made here that capital accumulation is not merely in money, but in skills.

If those activities are necessary, then we ought to go at them.

I believe, and I want to say very frankly, that I never feel that any legislation that is introduced is the ultimate. It is a projection. It is an expression of hope. It is a point around which you focus attention.

But we need to decide just one question, because it is here. Are we going to permit the rate of unemployment to exist for the next 3 or 4 years that no one in the Government has estimated will be less than 5 percent by 1980? Are we going to permit more and more people to lose their unemployment compensation benefits, to be on welfare, to be on the dle, or are we going to provide some other alternative?

That is all it boils down to.

I don't think there is any other choice. You just can't have a maybe attitude here. You have to make up your mind to try to do in our system—and I say in this capitalistic, or mixed system; it isn't just capitalism, it is a mixed system—are we going to put the emphasis there in every way we know to get the employment expanded and unemployment absorbed?

Let's assume that miracles are performed. Let's presume that we have a 10 percent real growth in GNP, which would mean that by the end of this year, calendar year 1976 we could have 6 percent unemployment.

That's about the best we could get; wouldn't that be right, Mr. Greenspan? About 6 percent?

That leaves you 5½ to 6 million people unemployed. Let's say that of that 5½ or 6 million, only 2 million are really long-term unemployment. I think you make a well-established point; there is a lot of transitional unemployment, mobility; there is the constant movement in our labor force. Well, let's say there are 2 million. What are you going to do with them? What kind of waste are we willing to tolerate?

I think then the question becomes simply this—and these are real alternatives—either you have an income—maintenance program for them, because you can't let them starve, or you have an income-maintenance program for them—of what? Well, at least you would have to get it up to the poverty levels—or you have an employment program for them. There isn't anything else.

You can't put them to sleep. That's it.

And so I think that what we are really talking about here is structural reformation of economic policymaking machinery on the one hand, structural analysis of the unemployment problem in the country, the labor force, and then facing up to the gap, the lag, between the ability of the private sector as well as upfront Government employment.

I think that point is well made. The ability of private employment plus upfront Government employment, which is just regular service, to absorb the unemployed.

If it can't absorb it, then the question becomes how do you handle the human equation. Because economics loses its meaning as a science when it gets down to the point where it says, well, we can forget 2, 3, 4, 5 million people.

I repeat what I said at the beginning, that no public policy can be justified for price stability that requires as the price as stability ever increasing destitution on the part of a substantial number of our fellow citizens. You can't do that.

That is exactly like saying that is the way you get law and order is that if there are too many people on the streets, you shoot them. You can't do that.

It is a terrible thing that has happened in this country that we have gotten down to the point where we are arguing about details when we really ought to be asking ourselves not the question of whether we ought to do it, but simply the question of how we ought to do it.

Fortunately, the witnesses here today are all of the mind that we ought to do it, and now the question is, which is the best way?

This afternoon, we will have policies for achieving full employment. We have explored the problem; now we will bring in the clinic: Walter Heller, former chairman, Council of Economic Advisers; Alice Rivlin, Director of the Congressional Budget Office; Leon Keyserling, former Chairman, Council of Economic Advisers; Eli Ginsburg, Chairman of the National Commission on Manpower Policy; and Mr. Hendrik Houthakker of Harvard University, a former member of the Council of Economic Advisers.

So we have a panel of five very eminent people.

The discussants will be William Spring of Boston University; Stanley Frankel of the Ogden Corp.; Hugh O'Malley of the Small Business Service Bureau; and Jules Sugarman, chief administrative officer of the city of Atlanta, Ga.

Following that panel, we will have audience participation, for anyone who wishes to get up and ask a question or make a speech.

Representative ROUSSELOT. Mr. Chairman.

Chairman HUMPHREY. Yes.

Representative ROUSSELOT. I would like to bring to the attention of my colleagues, and to those participating in this conference, an innovative solution to the problem of unemployment and recession

in our Nation. The Jobs Creation Act of 1975, H.R. 10015, introduced by Representative Jack Kemp (R.-N.Y.) and cosponsored by myself, is a viable free-enterprise alternative to the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1976. The Jobs Creation Act, which currently enjoys the support of over 80 Members of the House of Representatives, would emphasize the role of the private sector, rather than the Government, in providing employment for the Nation's jobless and in sustaining a strong recovery. It would accomplish this through appropriate tax incentives, capital investment tax credits, accelerated depreciation allowances, and other appropriate measures to encourage capital formation and otherwise promote a vigorous strengthening of the free-enterprise system.

I have two things I would like to put into the hearing record: A copy of the bill, H.R. 10015, together with the remarks of Representative Jack Kemp and myself concerning the legislation.

Chairman HUMPHREY. Do you have it here?

Representative ROUSSELOT. Yes, I do.

Chairman HUMPHREY. It will be included.

Representative ROUSSELOT. And second, in my own district we have tried now for 3 years a Re-Employment Action Committee (REAC), which helps the jobless, and I would like to submit for the record some of the results of that.

Chairman HUMPHREY. That is the one that we heard of when we were in Los Angeles?

Representative ROUSSELOT. That is correct.

Chairman HUMPHREY. It has an enviable record, I might say.

Thank you, the material will be included in the hearing at this point.

[The material referred to follows:]

94TH CONGRESS
1ST SESSION

H. R. 10015

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 3, 1975

Mr. KEMP (for himself, Mr. RAILSBACK, Mr. DON H. CLAUSEN, Mr. CLEVELAND, Mr. TALCOTT, Mr. ROUSSELOT, Mr. COLLINS of Texas, Mr. MILLER of Ohio, and Mr. LAGOMARSINO) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To accelerate the formation of investment capital required to expand both job opportunities and productivity in the private sector of the economy.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled;*
3 That this Act may be cited as the "Jobs Creation Act of
4 1975".

5 SEC. 2. TABLE OF CONTENTS.—

- Sec. 1. Short title.
- Sec. 2. Table of contents.
- Sec. 3. Tax credits for qualified savings and investments.
- Sec. 4. Individual retirement accounts, savings, and bonds.
- Sec. 5. Exclusion from gross income of amounts received by an individual as dividends from domestic corporations.
- Sec. 6. Limited exclusion of certain capital gains.

2

Sec. 7. Extension of time for payment of estate tax where estate consists largely of interest in closely held business.

Sec. 8. Interests in family farming operations.

Sec. 9. Adjustment of corporate normal tax rates.

Sec. 10. Adjustment of corporate surtax rate.

Sec. 11. Increase in corporate surtax exemption.

Sec. 12. Increase in investment credit.

Sec. 13. Increase in class life variance for purposes of depreciation.

Sec. 14. Capital recovery allowances.

Sec. 15. Alternative amortization period for pollution control facilities.

1 TAX CREDITS FOR QUALIFIED SAVINGS AND INVESTMENTS

2 SEC. 3. (a) IN GENERAL.—Subpart A (relating to
3 credits allowable) of part IV of subchapter A of chapter 1
4 of subtitle A of the Internal Revenue Code of 1954 is
5 amended by adding at the end thereof the following new
6 section:

7 **“SEC. 43. INCREASED SAVINGS AND INVESTMENTS BY IN-**
8 **DIVIDUALS.**

9 “(a) IN GENERAL.—There shall be allowed to an indi-
10 vidual, as a credit against the tax imposed by this chapter
11 for the taxable year, an amount equal to 10 percent of the
12 increase in the total amount of qualified savings deposits and
13 investments such individual made during such year over the
14 amount of total qualified savings deposits and investments of
15 the individual made during the prior year.

16 “(b) LIMITATION.—The credit allowed by subsection
17 (a) for a taxable year shall not exceed \$1,000 (\$2,000 in
18 the case of a joint return under section 6013).

19 “(c) DEFINITIONS.—For the purposes of this section—

20 “(1) QUALIFIED SAVINGS DEPOSITS AND INVEST-

1 MENTS.—The term qualified savings deposits and invest-
2 ments means—

3 “(A) amounts deposited in a savings deposit or
4 withdrawable savings account in a financial insti-
5 tution;

6 “(B) amounts used to purchase common or
7 preferred stock in a domestic corporation;

8 “(C) amounts used to purchase a bond or other
9 debt instrument issued by a domestic corporation;

10 “(D) amounts equivalent to increases in the
11 surrender value of life insurance and annuities se-
12 cured from domestic life and mutual companies.

13 “(2) FINANCIAL INSTITUTION.—The term ‘finan-
14 cial institution’ means—

15 “(A) a commercial or mutual savings bank
16 whose deposits and accounts are insured by the Fed-
17 eral Deposit Insurance Corporation or otherwise
18 insured under State law;

19 “(B) a savings and loan, building and loan, or
20 similar association the deposits and accounts of
21 which are insured by the Federal Savings and Loan
22 Insurance Corporation or otherwise insured under
23 State law;

24 “(C) a credit union the deposits and accounts
25 of which are insured by the National Credit Union

1 Administration Share Insurance Fund or otherwise
2 insured under State law; and

3 “(D) a life insurance or mutual company duly
4 chartered by a State, territory, possession, or Dis-
5 trict of Columbia, and in good standing there-
6 with.”.

7 (b) TECHNICAL AMENDMENT.—The table of sections
8 for such subpart A is amended by adding at the end thereof
9 the following:

“Sec. 43. Increased savings and investments by indi-
viduals.”.

10 (c) EFFECTIVE DATE.—The amendments made by
11 section (a) of this section shall apply to qualified savings
12 deposited and investments made after December 31, 1974.

13 INDIVIDUAL RETIREMENT ACCOUNTS, SAVINGS, AND BONDS

14 SEC. 4. (a) Section 219 (b) (1) (relating to the maxi-
15 mum deduction for retirement savings) of part VII of sub-
16 chapter B of chapter 1 of subtitle A of the Internal Revenue
17 Code of 1954 is amended by striking out “\$1,500” and
18 inserting in lieu thereof “\$2,000”.

19 (b) Section 408 (relating to individual retirement ac-
20 counts) of subpart A of part I of subchapter D of chapter 1
21 of subtitle A of the Internal Revenue Code of 1954 is amend-
22 ed by striking out “\$1,500” in the three instances in which
23 said figure appears and by inserting in lieu thereof “\$2,000”.

1 (c) Section 409 (a) (relating to retirement bonds) of
 2 subpart A of part I of subchapter D of chapter 1 of subtitle
 3 A of the Internal Revenue Code of 1954 is amended by strik-
 4 ing out "\$1,500" and by inserting in lieu thereof "\$2,000".

5 (d) The amendments made by subsections (a), (b),
 6 and (c) of this section shall apply to taxable years beginning
 7 after December 31, 1974.

8 EXCLUSION FROM GROSS INCOME OF AMOUNTS RECEIVED
 9 BY AN INDIVIDUAL AS DIVIDENDS FROM DOMESTIC
 10 CORPORATIONS

11 SEC. 5. (a) (1) Subsection (a) of section 116 (re-
 12 lating to partial exclusion of dividends received by individ-
 13 uals) of part III of subchapter B of chapter 1 of the Internal
 14 Revenue Code of 1954 is amended to read as follows:

15 "(a) EXCLUSION FROM GROSS INCOME.—Gross in-
 16 come does not include amounts received by an individual
 17 as dividends from domestic corporations."

18 (2) The section heading of such section 116 is amended
 19 by striking out "**PARTIAL EXCLUSION**" and inserting in lieu
 20 thereof "**EXCLUSION**".

21 (3) The table of sections for part III of subchapter B
 22 of chapter 1 of such Code is amended by striking out the item
 23 relating to section 116 and inserting in lieu thereof the
 24 following:

"Sec. 116. Exclusion of dividends received by individuals."

6

1 (4) Section 643 (a) (7) of such Code is amended by
2 striking out “partial exclusion” and inserting in lieu thereof
3 “exclusion”.

4 (b) The amendments made by the first subsection of
5 this section shall apply to taxable years beginning after
6 December 31, 1974.

7 **LIMITED EXCLUSION OF CERTAIN CAPITAL GAINS**

8 **SEC. 6. (a) IN GENERAL.**—Part III (relating to items
9 specifically excluded from gross income) of subchapter B
10 of chapter 1 of the Internal Revenue Code of 1954 is
11 amended by—

12 (1) redesignating section 124 as section 125, and

13 (2) inserting immediately after section 123 the fol-
14 lowing new section:

15 **“SEC. 124. LIMITED EXCLUSION OF CERTAIN CAPITAL**
16 **GAINS.**

17 **“(a) GENERAL RULE.**—In the case of a taxpayer other
18 than a corporation, gross income for the taxable year does
19 not include an amount equal to the net section 1201 gain
20 resulting solely from the sale or exchange of securities, to
21 the extent that such amount does not exceed \$1,000.

22 **“(b) EXCEPTION.**—Subsection (a) does not apply to a
23 taxpayer who is subject to the tax imposed under section
24 1201 (b).

25 **“(c) DEFINITIONS.**—

26 **“(1) NET SECTION 1201 GAIN.**—The term ‘net-

1 section 1201 gain' has the same definition it has under
2 section 1222 (11).

3 “(2) SECURITIES.—The term ‘securities’ has the
4 same meaning it has under section 165 (g) (2).”.

5 (b) TECHNICAL AMENDMENTS.—

6 (1) Section 1202 of such Code (relating to deduc-
7 tions for capital gains) is amended by adding at the end
8 thereof the following new sentence: “No amount of such
9 excess shall be allowed as a deduction under this section
10 to the extent such amount is excluded from gross income
11 under section 124.”.

12 (2) The table of sections for part III of subchapter
13 B of chapter 1 of such Code is amended by striking out
14 the item relating to section 124 and inserting in lieu
15 thereof the following:

“Sec. 124. Limited exclusion of certain capital gains.
“Sec. 125. Cross references to other Acts.”.

16 (c) EFFECTIVE DATE.—The amendments made by this
17 section apply to sales or exchanges of securities occurring after
18 December 31, 1974.

19 EXTENSIONS OF TIME FOR PAYMENT OF ESTATE TAX
20 WHERE ESTATE CONSISTS LARGELY OF INTEREST IN
21 CLOSELY HELD BUSINESS

22 SEC. 7. (a) ELIMINATION OF REQUIREMENT OF UN-
23 DUE HARDSHIP.—Section 6161 (a) (2) (relating to exten-
24 sion of time for paying estate tax) of subchapter B of chap-

1 ter 62 of the Internal Revenue Code of 1954 is amended
2 by striking out "undue" before "hardship".

3 (b) **EFFECTIVE DATE.**—The amendment made by sub-
4 section (a) shall apply only with respect to estates of de-
5 cedents dying after December 31, 1974.

6 **INTERESTS IN FAMILY FARMING OPERATIONS**

7 **SEC. 8. (a) IN GENERAL.**—Part IV (relating to tax-
8 able estates of citizens or residents) of subchapter A of chap-
9 ter 11 of the Internal Revenue Code of 1954 is amended
10 by adding at the end thereof the following new section:

11 **"SEC. 2057. INTERESTS IN FAMILY FARMING OPERATIONS.**

12 " (a) **GENERAL RULE.**—For purposes of the tax im-
13 posed by section 2001, the value of the taxable estate shall
14 be determined by deducting from the value of the gross
15 estate the lesser of (1) \$200,000, and (2) the value of the
16 decedent's interest in a family farming operation continually
17 owned by decedent or spouse during the 5 years prior to the
18 date of his death and which passes or has passed to an indi-
19 vidual or individuals related to him or his spouse.

20 " (b) **SUBSEQUENT DISQUALIFICATION RESULTS IN**
21 **DEFICIENCY.**—The difference between the tax actually paid
22 under this chapter on the transfer of the estate and the tax
23 which would have been paid on that transfer had the interest
24 in a family farming operation not given rise to the deduction
25 allowed by paragraph (a) shall be a deficiency in the pay-

1 ment of the tax assessed under this chapter on that estate
2 unless, for at least 5 years after the decedent's death—

3 “(1) the interest which gave rise to the deduction
4 is retained by the individual or individuals to whom such
5 interest passed, and

6 “(2) the individual or any of the individuals to
7 whom the interest passed resides on such farm, and

8 “(3) such farm continues to qualify as a family
9 farming operation.

10 “(c) DEATH OF SUBSEQUENT HOLDER.—In the case of
11 the subsequent death of an individual to whom the interest
12 in a family farming operation has passed, his successor shall
13 be considered in his place for purposes of paragraph (b).

14 “(d) DEFINITIONS.—

15 “(1) FAMILY FARMING OPERATIONS.—A ‘family
16 farming operation’ is a farm—

17 “(A) actively engaged in raising agricultural
18 crops or livestock ‘for profit’, within the meaning of
19 section 183, and

20 “(B) over which the owner or one of the
21 owners exercises substantial personal control and
22 supervision.

23 “(2) RELATIONS.—An individual is ‘related’ to the
24 decedent or his spouse if he is that person's father,
25 mother, son, daughter, grandson, granddaughter, broth-

1 er, sister, uncle, aunt, first cousin, nephew, niece, hus-
2 band, wife, father-in-law, mother-in-law, son-in-law,
3 daughter-in-law, brother-in-law, sister-in-law, stepfather,
4 stepmother, stepson, stepdaughter stepbrother, step-
5 sister, half brother, half sister, or in the absence of any
6 of the above his next of kin.”.

7 (b) The amendments made by this section shall apply
8 to taxes imposed by section 2001 after December 31, 1974.

9 ADJUSTMENTS OF CORPORATE NORMAL TAX RATE

10 SEC. 9. (a) ADJUSTMENTS OF CORPORATE NORMAL
11 TAX RATE.—Section 11 (b) (relating to the normal tax
12 imposed on corporations) of part II of subchapter A of
13 chapter 1 of subtitle A of the Internal Revenue Code of
14 1954 is amended to read as follows:

15 “(b) NORMAL TAX.—The normal tax is equal to the
16 following percentage of the taxable income:

17 “(1) 22 percent, in the case of a taxable year
18 beginning before January 1, 1975, and

19 “(2) 20 percent, in the case of a taxable year
20 beginning after December 31, 1974.

21 For purposes of applying the percentages of tax set forth
22 in the preceding table in the case of a corporation which
23 is a component member of a controlled group of corporations
24 (within the meaning of section 1563), the taxable income
25 of the other component members of such group shall, under

1 regulations prescribed by the Secretary or his delegate, be
2 taken into account.”.

3 (b) The amendments made by this section shall apply
4 to taxable years beginning after December 31, 1974.

5 ADJUSTMENT OF CORPORATE SURTAX RATE

6 SEC. 10. (a) ADJUSTMENT OF CORPORATE SURTAX
7 RATE.—Section 11 (c) (relating to surtax imposed on cor-
8 porations) of part II of subchapter A of chapter 1 of Subtitle
9 A of the Internal Revenue Code of 1954 is amended to read
10 as follows:

11 “(c) SURTAX.—The surtax is equal to the following
12 percentage of the amount by which the taxable income ex-
13 ceeds the surtax exemption for the taxable year:

14 “(1) 26 percent, in the case of a taxable year end-
15 ing before January 1, 1975, and

16 “(2) 22 percent, in the case of a taxable year be-
17 ginning after December 31, 1974.”.

18 (b) The amendment made by this section shall apply to
19 taxable years beginning after December 31, 1974.

20 INCREASE IN CORPORATE SURTAX EXEMPTION

21 SEC. 11. (a) IN GENERAL.—Section 11 (d) (relating
22 to surtax exemption) of part II of subchapter A of chapter
23 1 of the Internal Revenue Code of 1954 is amended by strik-
24 ing out “\$50,000” and inserting in lieu thereof “\$100,000”.

25 (b) TECHNICAL AND CONFORMING AMENDMENTS.—

1 (1) Paragraph (1) of section 1561 (a) (as in ef-
2 fect for taxable years beginning after December 31,
3 1974) (relating to limitations on certain multiple tax
4 benefits in the case of certain controlled corporations)
5 of part II of subchapter B of chapter 6 of the Internal
6 Revenue Code of 1954 is amended by striking out “\$50,
7 000” and inserting in lieu thereof “\$100,000”.

8 (2) Paragraph (7) of section 12 (relating to cross-
9 references for tax on corporations) of part II of sub-
10 chapter A of chapter 1 of the Internal Revenue Code of
11 1954 is amended by striking out “\$50,000” and insert-
12 ing in lieu thereof “\$100,000”.

13 (3) Section 962 (c) (relating to surtax exemption
14 for individuals electing to be subject to tax at corporate
15 rates) of subpart F of part III of subchapter N of chap-
16 ter 1 of the Internal Revenue Code of 1954 is amended
17 by striking out “\$50,000” and inserting in lieu thereof
18 “\$100,000”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 December 31, 1974.

22 INCREASE IN INVESTMENT CREDIT

23 SEC. 12. (a) INCREASE OF INVESTMENT CREDIT TO 15
24 PERCENT.—Paragraph (1) of section 46 (a) (determining

1 the amount of the investment credit) of part IV of subchap-
2 ter A of chapter 1 of the Internal Revenue Code of 1954 is
3 amended to read as follows:

4 “(1) GENERAL RULE.—

5 “(A) FIFTEEN-PERCENT CREDIT.—Except as
6 provided in subparagraph (B), the amount of the
7 credit allowed by section 38 for the taxable year
8 shall be equal to 15 percent of the qualified invest-
9 ment (as defined in subsection (c)).

10 “(B) TWELVE-PERCENT CREDIT.—In the case
11 of property—

12 “(i) the construction, reconstruction, or
13 erection of which is completed by the taxpayer
14 before October 1, 1975, or

15 “(ii) which is acquired by the taxpayer
16 before October 1, 1975,

17 the amount of the credit allowed by section 38 for
18 the taxable year shall be equal to 12 percent of the
19 qualified investment (as defined in subsection (c)).

20 “(C) TRANSITIONAL RULE.—In the case of
21 property—

22 “(i) the construction, reconstruction, or
23 erection of which is begun by the taxpayer be-
24 fore October 1, 1975, and

1 “(ii) the construction, reconstruction, or
2 erection of which is completed by the taxpayer
3 after September 30, 1975,
4 subparagraph (B) shall apply to the property to
5 the extent of that portion of the basis which is prop-
6 erly attributable to construction, reconstruction, or
7 erection before October 1, 1975, and subparagraph
8 (A) shall apply to such property to the extent of
9 that portion of the basis which is properly attribut-
10 able to construction, reconstruction, or erection after
11 September 30, 1975.”.

12 (b) REPEAL.—Section 46(c)(3) (relating to the
13 definition of qualified investment for public utility property)
14 and section 46(e) (relating to the limitation in case of
15 certain regulated companies) of part IV of subchapter A of
16 chapter 1 of the Internal Revenue Code of 1954 are repealed.

17 (c) EFFECTIVE DATE.—The amendments made by sub-
18 sections (a) and (b) of this section shall apply to taxable
19 years beginning after December 31, 1974.

20 INCREASE IN CLASS LIFE VARIANCE FOR PURPOSES OF
21 DEPRECIATION

22 SEC. 13. (a) IN GENERAL.—Section 167(m)(1) (re-
23 lating to class lives for purposes of depreciation) of part VI
24 of subchapter B of chapter 1 of the Internal Revenue Code

1 of 1954 is amended by striking out "20" and inserting in
2 lieu thereof "40".

3 (b) EFFECTIVE DATE.—The amendment made by this
4 section applies to property acquired or the construction of
5 which is begun after December 31, 1974.

6 CAPITAL RECOVERY ALLOWANCES

7 SEC. 14. (a) Except as otherwise expressly provided,
8 whenever in this section an amendment or repeal is expressed
9 in terms of an amendment to, or repeal of, a section or other
10 provision, the reference shall be considered to be made to a
11 section or other provision of the Internal Revenue Code of
12 1954.

13 (b) Part VI of subchapter B of chapter 1 is amended
14 by adding after section 188 the following new section:

15 "SEC. 189. CAPITAL RECOVERY ALLOWANCE.

16 "(a) GENERAL RULE.—In lieu of the deduction pro-
17 vided by section 167 the taxpayer may elect, in accordance
18 with regulations prescribed by the Secretary or his delegate,
19 to take a deduction for capital recovery with respect to any
20 section 189 property. Such election may not be revoked
21 except with the consent of the Secretary or his delegate.

22 "(b) SECTION 189 PROPERTY.—For purposes of this
23 section, the term 'section 189 property' means—

24 "(1) tangible personal property, or

16

1 “(2) other tangible property (including a building
2 and its structural components) but only if such prop-
3 erty—

4 “(A) is used as an integral part of manufac-
5 turing, production, or extraction or of furnishing
6 transportation, communications, electrical energy,
7 gas, water, or sewage disposal services, or

8 “(B) constitutes a research facility used in con-
9 nection with any of the activities referred to in sub-
10 paragraph (A), or

11 “(C) constitutes a warehouse or storage facility
12 used in connection with any of the activities referred
13 to in subparagraph (A), or

14 “(D) constitutes a pollution control facility
15 which is used to abate or control water or atmos-
16 pheric pollution or contamination by removing, al-
17 tering, disposing, or storing of pollutants, contami-
18 nants, wastes, or heat.

19 Such term includes only property with respect to which a
20 deduction for depreciation (or for amortization in lieu of de-
21 preciation) would be allowable if the taxpayer did not make
22 an election under this section. The preceding sentence shall
23 not be construed to limit or deny a deduction under this
24 section for any taxable year prior to the taxable year in

1. which a deduction for depreciation (or for amortization in
 2. lieu of depreciation) would first become allowable with re-
 3. spect to any property.

4. “(c) AMOUNT OF DEDUCTION.—The deduction allowed
 5. for any taxable year with respect to property which is the
 6. subject of an election under subsection (a) shall be any
 7. amount elected by the taxpayer which does not exceed—

8. “(1) in the case of section 1245 property (as
 9. defined in section 1245(a)(3)) or property described
 10. in subsection (b)(2)(D) of this section, the amount
 11. determined by applying to the acquisition costs of such
 12. property the applicable percentage set forth in the fol-
 13. lowing schedule:

“For the year which is—	The applicable percentage is—
The taxable year in which the acquisition costs were paid or incurred -----	40
The first taxable year after such costs were paid or in- curred -----	24
The second taxable year after such costs were paid or in- curred -----	18
The third taxable year after such costs were paid or in- curred -----	12
The fourth taxable year after such costs were paid or in- curred -----	6

14. “(2) in the case of section 1250 property (as
 15. defined in section 1250(c)) other than property de-
 16. scribed in subsection (b)(2)(D) of this section, the
 17. amount determined by applying to the acquisition costs
 18. of such property the applicable percentage set forth in
 19. the following schedule:

“For the year which is—	The applicable percentage is—
The taxable year in which the acquisition costs were paid or incurred -----	20
The first taxable year after such costs were paid or incurred -----	16
The second taxable year after such costs were paid or incurred -----	14
The third taxable year after such costs were paid or incurred -----	13
The fourth taxable year after such costs were paid or incurred -----	11
The fifth taxable year after such costs were paid or incurred -----	9
The sixth taxable year after such costs were paid or incurred -----	7
The seventh taxable year after such costs were paid or incurred -----	5
The eighth taxable year after such costs were paid or incurred -----	3
The ninth taxable year after such costs were paid or incurred -----	2

1 “(d) ACQUISITION COSTS.—For purposes of this sec-
2 tion, the term ‘acquisition costs’ means any costs paid or
3 incurred to acquire section 189 property which would be
4 taken into account in determining the basis of such property
5 under section 1012. The taxable year in which such costs or
6 any portion thereof are paid or incurred shall be the first
7 year in which the taxpayer either obtains title to the prop-
8 erty, or has the incidents of ownership such as possession,
9 use, and risk, even though legal title for security purposes
10 remains in the vendor or another. If the acquisition costs of
11 an item of section 189 property are paid or incurred in more
12 than one taxable year, the maximum deduction under sub-
13 section (c) shall be computed separately with respect to each
14 portion of such costs which are paid or incurred in a different
15 taxable year.

16 “(e) CARRYOVER OF UNUSED DEDUCTIONS.—If in any

1 taxable year the taxpayer elects to deduct less than the
2 maximum amount deductible under subsection (c), the
3 excess shall be carried forward and be deductible in any suc-
4 ceeding taxable year.

5 “(f) CROSS REFERENCE.—

**“For special rule with respect to certain gain derived
from the disposition of property the adjusted basis of
which is determined with regard to this section, see sec-
tions 1245 and 1250.”.**

6 (c) Section 46(c)(2) (relating to the investment
7 credit) is amended by adding at the end thereof the following
8 new sentence: “The useful life of any property which is
9 the subject of an election under section 189(a) shall, for
10 purposes of this subpart, be the useful life that would other-
11 wise have been used in computing the allowance for deprecia-
12 tion under section 167 had the taxpayer not made such an
13 election.”.

14 (d) Section 57 (relating to tax preference items) is
15 amended by adding at the end thereof the following new
16 subsection:

17 “(d) EXCEPTION.—Notwithstanding any other provi-
18 sion of this section, no part of any amount allowed as a
19 deduction for capital recovery under section 189 shall be
20 considered an item of tax preference.”.

21 (e) Paragraph (2) of section 1016(a) (relating
22 to adjustments to basis) is amended by inserting “capital
23 recovery,” before “and depletion.”.

1 (f) Paragraph (2) of section 1245(a) (relating to re-
2 computed basis) is amended by inserting "or for capital
3 recovery under section 189" after "or for amortization under
4 section 168, 169, 184, 185, 187, or 188" each time such
5 phrase appears therein.

6 (g) Paragraph (3) of section 1245(a) (relating
7 to the definition of section 1245 property) is amended by
8 inserting "or to the allowance or capital recovery provided
9 in section 189" after "the allowance of amortization pro-
10 vided in section 185".

11 (h) Paragraph (3) of section 1250(b) (relating to
12 depreciation and adjustments) is amended by inserting
13 "capital recovery," after "obsolescence,".

14 (i) Paragraph 1250(c) (relating to the definition of
15 section 1250 property) is amended by inserting "or to the
16 allowance for capital recovery provided in section 189"
17 after "the allowance for depreciation provided in section
18 167".

19 (j) The amendments made by this Act shall take effect
20 on January 1, 1975, and the amendment made by subsec-
21 tion (b) shall apply only to acquisition costs paid or in-
22 curred on or after such effective date.

1 ALTERNATIVE AMORTIZATION PERIOD FOR POLLUTION
2 CONTROL FACILITIES

3 SEC. 15. (a) IN GENERAL.—Section 169 (relating to
4 amortization of pollution control facilities) of part VI of
5 subchapter B of chapter 1 of the Internal Revenue Code of
6 1954 is amended by—

7 (1) striking out “60 months” in subsection (a)
8 and inserting in lieu thereof “60 months or 12 months”,

9 (2) striking out “60-month period” in subsection
10 (a) and inserting in lieu thereof “60-month or 12-
11 month period”, and

12 (3) striking out “60-month period” in subsection
13 (b) and inserting in lieu thereof “60-month or 12-
14 month period”.

15 (b) EFFECTIVE DATE.—The amendments made by this
16 section apply to any new identifiable treatment facility (as
17 defined in section 169 (d) (4) of such Code) acquired or the
18 construction, reconstruction, or erection of which is begun
19 after December 31, 1974.

[From the Congressional Record, Feb. 5, 1976]

A FREE ENTERPRISE ANSWER TO INFLATION AND RECESSION

(By Hon. Jack G. Kemp of New York in the House of Representatives)

Mr. KEMP. Mr. Speaker, I have taken this special order today to permit the Members, like myself, who believe in limited Government and free enterprise solutions to our Nation's problems to present alternatives to the New Deal-type answers being offered by so many today on the Democratic side of the aisle.

We also must say, in all candor, that while we applaud the leadership of our President in coming up with a comprehensive plan for the Nation's economy, we must as a group speak out against the huge budget deficit being proposed to the American people, much of which, of course, is the result of fiscal irresponsibility of previous Congresses and administrations.

Outrageous deficit spending financed by huge increases in the money supply and unlimited Government borrowing is strangling the productivity of the American free enterprise system. Government is choking to death the incentives and capital investment necessary to generate jobs, the goods and services so necessary to increase the wealth of this Nation.

It took 186 years for this Nation to reach a \$100 billion budget. It took only another 9 years to reach a \$200 billion budget. It took 3 more years to reach a \$300 billion budget, and at the rate we are going within just a very few short years over 55 percent of the total private income of America will be taken by Government in the form of taxes by Government in the form of taxes at one level of the Government or another.

The time is overdue for the implementation of policy providing for an enduring economic recovery. It is time for the adoption of a plan which will work, not only in the short run but also on a more permanent basis. And, it is time for an economic recovery which does not sow the seeds of another recession or additional inflation.

During the past several weeks, an impressive number of Members have participated in the preparation of a fiscally responsible, free market policy for economic recovery.

Our policy may not be politically popular or possible but it is, nonetheless, time tested—it reflects the lessons of economic history.

The statement, together with those who have participated in its formulation, follows:

STATEMENT OF ALTERNATIVE ECONOMIC POLICIES

We believe that solutions to our dual economic problems of inflation and recession lie in returning decision-making to the people through the forces of the marketplace—letting the people decide what to produce, sell, and buy, and at what price levels. The pricing mechanism of the marketplace, derived from the interaction of supply and demand, is a more efficient, productive and stable regulator of the economy than government can ever be. No government agency or official is as capable of making such decisions as are the people through the voluntary exchange of goods and services. To believe otherwise is to deny the basic tenets of democracy and liberty.

We also believe increased productivity—not compulsory rationing, allocations or regulations and controls—is the basic answer to our problems. We believe prosperity to be related directly to the amount of capital invested in increased production. We believe over-concentration on consumption, fostered by government policy, has led to inadequate attention to the production which results in improved efficiency, more jobs at higher pay, and more goods at less cost.

Finally, we believe our economic ills—from heavy inflation to rising unemployment, from high interest rates to inadequate capital formation, from exorbitant fuel costs to anti-competitive regulatory practices—have one root cause: Policies of government, principally those of the Federal government which cause or contribute to inflation.

We, therefore, propose the following:

Controlling the run-away growth of government and the soaring increases in Federal expenditures and deficits, in an effort to better balance the budget. This would reduce the need for government borrowing from the capital markets and would put a brake on the inflationary expansion of the money supply.

The enactment of job-creating, accelerated capital formation techniques,

sufficient to insure the full productive capacity of this country and the millions of jobs which would flow from such full capacity. Such measures would include:

A tax reduction for both small business and corporations, to spur production; and,

A permanent increase in the investment tax credit, to allow long-range planning in order to help avoid a repetition of this recession.

Giving protection against inflation to the individual income tax payer by indexing income tax brackets, thus taking the "windfall profit" out of inflation for the government when taxpayers slide into higher tax brackets solely as a result of government-created inflation.

The removal of anticompetitive regulatory practices of the Federal government, practices which drive production down and prices up.

That a limitation, established as a percentage of aggregate national personal income, be placed on the level of revenue taken each year by the Federal government.

Increased reliance on the laws of supply and demand to conserve fuel and to increase production, including the deregulation of natural gas and domestic crude oil.

That increases in the money supply be tied more directly to increases in national productivity, thus eliminating the price rises which accompany expansionary monetary policies.

We believe these measures should be adopted and enacted. We intend to push actively for them.

SIGNATURES

Jack F. Kemp, of New York.

Bill Archer, of Texas.

William L. Armstrong, of Colorado.

Robert E. Bauman, of Maryland.

Robin L. Beard, of Tennessee.

Clair Burgener, of California.

Don Clancy, of Ohio.

John B. Conlan, of Arizona.

Philip M. Crane, of Illinois.

Robert W. Daniel, of Virginia.

Sam Devine, of Ohio.

Barry M. Goldwater, Jr., of
California.

William F. Goodling, of Pennsylvania.

Tennyson Guyer, of Ohio.

Tom Hagedorn, of Minnesota.

Marjorie S. Holt, of Maryland.

James G. Martin, of North Carolina.

John Y. McCollister, of Nebraska.

W. Henson Moore III, of Louisiana.

William M. Ketchum, of California.

Trent Lott, of Mississippi.

Ralph Regula, of Ohio.

J. Kenneth Robinson, of Virginia.

John H. Rousselot, of California.

Richard T. Schulze, of Pennsylvania.

Keith G. Sebelius, of Kansas.

Floyd Spence, of South Carolina.

Steven D. Symms, of Idaho.

Charles Thone, of Nebraska.

David C. Treen, of Louisiana.

This statement establishes the framework for our remarks here this afternoon, and it outlines the problems we see in other proposals being advanced.

We welcome the support of other Members, from both sides of the aisle, with whom we did not have an opportunity to confer before the statement's release.

I would like to amplify, from my own understanding of the issues at hand, on the points raised through the statement.

THE CAUSES OF OUR ECONOMIC ILLS

Policies of government, principally those of the Federal Government, cause and contribute to inflation. Only when we understand what caused our problems can we set about on a true course to correcting them, insuring to ourselves and our posterity that our leaders will not repeat them.

The solutions to our economic problems can hardly lie, therefore, in further reliance upon government decisionmaking—government interference in the economic affairs—in the private economic lives—of the people.

No matter how well intentioned or how well administered the programs of government may be, they can never duplicate the efficiency, productivity, and diversity of the economic marketplace—a marketplace composed of the countless millions of decisions made every day by the American people on what to buy and what to sell based upon their priorities not government's. No government agency or official is capable of making such decisions as well as or

better than the people. To believe otherwise—and such a belief is too frequently reflected in many of the proposals for remedial action which we hear in these times—is to deny the basic tenets of democracy and liberty.

Advocates of big government purport that there is almost no sphere of the national life in which the Government may not legitimately intervene.

The liberty view, on the other hand, holds that—just as the Government produces little and must be limited in its power to siphon off the fruits of labor of the private sector—so must large areas of the national life, on principle, be cordoned off from Government interference, no matter how well intentioned.

It is, therefore, incumbent upon a legislator who believes in a free society to oppose, in deed as well as word, certain types of legislative initiatives on the grounds that the Government should not involve itself at all in those types of matters.

It seems that at a time when virtually everyone is calling for reduced Federal spending, so as to reduce the pressures of inflation and taxes, that we have an opportunity to examine the existing programs with a view toward ending the funding of those less than essential programs. We must seize this opportunity.

In terms of this continued advocacy of big government, let us look at the Democratic Party leadership's proposals for economic recovery.

AN ANALYSIS OF THE DEMOCRATIC PARTY LEADERSHIP'S PROPOSALS

They have proposed mandatory and presumably permanent wage and price controls, or at least, minimally the placement of controls on a selective basis for some critical industries. They have done this despite the fact that higher prices and wages are the results of, not the causes of, inflation; they have their cart before the horse, once again.

These are the kinds of controls which destroy the bargaining process—individual or collective—between employees and employers, a process essential to a free society.

These are controls which deprive industry of the capital investment funds which are needed for jobs, to increase productivity, and to increase the supply of goods required to drive prices downward. These are also controls which cause innumerable shortages of goods which the consumers both need and want. They are patterned after the control devices which have failed time and time again, from Rome in A.D. 301 to America in 1971-74. It seems to me that after our experience with the beef freeze—and shortages in over 600 other goods—some would have learned enough so as not to repeat their errors. Apparently this is not the case.

They also propose an expansion of the public service jobs program, one not unlike the "make work" programs of the thirties. They propose this despite the fact that these jobs are essentially nonproductive and that all funds from them must come from taxes or expansion of the national public debt—either of or both of which make inflation and recession worse. This program deprives the private sector of the economy of the fullest means to create real, permanent jobs—tax-generating jobs instead of tax-consuming ones. This is truly a counter-productive program, taking out of the nongovernment sector the very capability it must have to reduce unemployment permanently.

They also propose the rationing of gasoline, the most patently unfair and inequitable of all the fuel conservative measures under consideration. Dramatically increased supplies, which could come about through deregulation, would accomplish the same objectives—bringing demand and supply into harmony, without penalizing the people. If there is rationing, there is no way it can be made fair, when applied on a case by case basis.

The Democratic leadership also proposes the revival of the Reconstruction Finance Corporation, a Government chartered and operated "corporation," to bail out failing businesses with the taxpayers' dollars, forcing those taxpayers to save a company whose products they had already indicated they did not wish to buy in sufficient quantities to keep it afloat. If they had, the company would not be ailing in the first place. This corporation's functions would needlessly duplicate our existing system of 14,000 banks and other private lending institutions. This program would reward inefficiency and poor management over and against companies which succeed, produce, create, and preserve jobs and pay, rather than consume, taxes. It's a rewarding of failure; that's what the corporation's role would be. It would be using borrowed money to

lend to companies who—because of excessive Government deficit-induced borrowing—could not borrow enough capital on their own to remain competitive.

They propose the allocation of credit by the bureaucracy in Washington instead of by the free choice of the people and our vast, highly competitive private credit system, permitting bureaus and boards and bureaucrats to decide what or whatever is to be purchased by the people. It gives to the bureaucracy the role of determining what is productive and what is speculative, as to the uses of available capital. And, keep in mind, that Government itself is draining off huge amounts of capital in order to pay the deficits; over 62 percent of the available capital in this country was preempted by the Federal Government during calendar year 1974 to finance its deficit. I cannot help but believe, that if Thomas Edison had gone to such a bureau and asked for money to invent and develop the light bulb, as an alternative to whaleoil lamps and candles, they they would have said, "No," on the basis that the venture was too "speculative." We say: Let the incentives of the marketplace determine what is speculative and what is productive—determined by the total of the decisions made by vast millions of people through their buying or abstention from buying.

They propose the reform of our tax laws, under the euphemism of closing loopholes. They do not mention that the largest so-called loophole is the personal deduction for real estate taxes and interest paid on home mortgages by homeowners, without which few homes could be built and purchased, reforms which typically add additional burdens to the tax load already being borne too heavily by the middle class. We are opposed to the elimination of such incentives. We need tax reform, but it ought to be on the basis of logic and economics, not catch phrases.

They also propose, through offering a variety of programs, some in wholly new fields for the Federal Government, a massive increase in Federal spending. Few actually say they favor it, but that is the inevitable result of the proposals being offered. These proposals for new spending are being made despite the fact that this would result in increased deficits—the principal factor fueling inflation and pushing up interest rates; despite the fact that this would mean additional reliance on Government instead of increased independence from it; despite the fact that such spending is simply taken from our already over-burdened people; and, despite the fact that such spending would take further from the non-Government sector of the economy the private means to deal with the very social problems to which Government programs would be addressed. It used to be that Government was the last resort, to be relied upon when when the private sector had failed. Now, as soon as a problem is spotted, actual or potential, the clamor is for the Federal Government to rush in and spend money. We cannot abuse ourselves with such folly any longer.

WHAT'S RIGHT AND WHAT'S WRONG WITH THE ADMINISTRATION'S PROPOSALS

I am pleased with many of the President's proposals to overcome our economic ills. I believe that many are clearly within the best interests of the Nation to implement, as soon as possible. I applaud the President's leadership in identifying much of what is amiss in our economy today and clearly speaking for the pricing system.

I believe there is much merit to his proposals to place a 5-percent ceiling on increases in Federal salaries, retirements, pensions, and so forth, through June 30, 1976.

I agree with his proposed moratorium on new spending programs for fiscal year 1976. I just wish he had proposed a moratorium on new spending per se, so that we could have held the line on fiscal year 1976 spending at the level of fiscal year 1975 spending.

I agree that we should provide additional incentives to public utilities to expand energy supplies to meet rising demands, for an increase in supply, in relation to demand, will permit utility costs to be driven downward.

I agree that a deregulation of domestic crude oil and new natural gas is called for. This would result in an appreciable increase in oil and natural gas supplies. At a time when hundreds are being furloughed in industry—not be-

cause of capital shortages or inadequate demand, but because oil and natural gas are not adequately available—we believe these to be sound measures.

We applaud across-the-board corporate tax cuts, those which will lead to the capital formation requisite to expansion of machinery and plants in an effort to enhance efficiency, for it is that enhanced efficiency—producing a product at less cost—which will stimulate job-producing demand. Of course, the catch to this proposal is that it is contingent on congressional approval of the plowing back, through tax cuts, of the \$30 billion of additional revenue generated by the \$3 per barrel tax on oil.

We are, on the other hand, concerned over several other proposals offered in the state of the Union and related messages.

No matter how strong the rhetoric against inflation-creating budget deficits the fact remains that we will have deficits of at least \$30 billion this year and \$52 billion next; they will probably end up being much more. The impact of these deficits in generating worsened inflation are economically inevitable; it will hurt the economy.

Here, in these deficits, are the potential seeds of a worse economic picture. In hopes of stimulating the economy through deficit spending, it may actually be slowed. In a shift from dealing with inflation to recession, we are concerned that the short-term anti-recession measures may worsen our long-term abilities to combat inflation.

CHAIRMAN MAHON'S REPORT ON THE BUDGET

On Monday of this week, the distinguished and learned chairman of the Committee on Appropriations, Mr. MAHON, addressed the House, as he does after the submission of each budget, on the implications and ramifications of the proposed budget for fiscal year 1976. As is customary for that presentation, the chairman simply put forth the facts on what the budget says and what it does not say. It is, undoubtedly, the most accurate and penetrating analysis yet done on the implications of the budget.

I cannot overly stress how honored I am to be now serving, on the Committee on Appropriations, in the shadow of this man and his stewardship of that committee. The reasoned, reflective voice of truth, removed from considerations of partisanship, is what he has, is now, and will continue to bring to the deliberations of that Committee and Subcommittee. The Nation needs that.

Let me quote, briefly, from his remarks of this week, for they are of profound importance to understanding what confronts us:

The budget proposes outlays of \$349 billion. But in my judgment, the Government will never live within that. The spending will be much higher.

* * * * *

The budget calls for spending in fiscal year 1975 of \$313.4 billion and \$349.4 billion in fiscal year 1976. This is an increase from 1974 to 1975 of \$45 billion and from 1975 to 1976 of \$36 billion. This will cause a unified budget deficit of \$34.7 billion in 1975 and \$51.9 billion in 1976, but the total additional increase in debt will be \$52.8 billion in 1975 and \$67.6 billion in 1976—an increase of \$120.4 billion over 2 years. If that will not shock the American people to the marrow of their bones then we as a nation are insensitive to the fiscal situation which confronts us.

* * * * *

The total increase in the amount of the debt which must concern us over the next 18 months is not the \$87 billion increase in the United budget but the likelihood that we will go into the capital market for as much as \$150 to \$170 billion just on the matters proposed in this budget. That amount, alarming as it may be, does not reflect the liability associated with loans guaranteed by the Government.

The implications of the chairman's remarks are grave for all of us who are charged with the constitutional responsibility of exercising fiscal and monetary responsibility.

Let me put before this House, in chart form, what the chairman put before us several days ago:

PROJECTED FEDERAL DEBT INCREASES

(In billions of dollars)

	Fiscal year—		Total
	1975	1976	
Projected unified budget deficit.....	34.7	51.9	86.6
Borrowing from the trust funds.....	+8.3	+3.1	+11.4
Borrowing to finance off-the-budget agencies.....	+13.7	+10.4	+24.1
Other financing.....	-4.1	+2.2	-1.9
Subtotal: projected real base deficit.....	52.8	67.6	120.4
Effects of congressional refusal to support President's proposed selected spending reductions.....	+5.9	+17.0	+22.9
Subtotal.....	58.7	84.6	143.3
Possible congressional action on proposed tax cuts offered by the President.....	+4.3	+19.0	+23.3
Total.....	63.0	103.6	166.6

Mr. Speaker, charts on proposed expenditures and new obligational authority reflect similar increases and possible actions and inactions; thus, in addition to the announced projected debt rising by these additional amounts, so too will expenditures and new obligational authority rise accordingly.

The likelihood of the Federal Government borrowing nearly \$170 billion or even \$100 billion from the capital markets in this Nation over the next 18 months is staggering. Interest rates would soar to even new record highs; and there would be little, if any, money left for private borrowing by manufacturers, homebuilders, et cetera. Inflation would rise steadily as the Federal Reserve System pumped up the supply of new money—through extensions of credit to boost available funding for borrowing. A deeper recession and higher inflation could well set in. Thus, these measures—designed to get us out of recession—would actually put us further into it, all caused by trying to cure our problems with inflated dollars.

The policies which we have today outlined are better, more effective, faster, and more enduring ways in which to bring our country out of this recession, to provide millions of jobs—through the nongovernment sectors of the economy—and to do so without additional reliance on the taxpayer. These policies will stop inflation. They will stop the recession. They will restore the economy.

**FEDERAL BUDGETS SHOULD BE BALANCED TO HOLD DOWN INFLATION
AND INTEREST RATES**

I propose a reduction in the runaway growth of Federal budgets, holding the total level of expenditures down to the level of projected revenue. This is a goal of budget balance, free from the deficits that are our No. 1 problem.

We must help eliminate the deficits from Federal financing. To do otherwise is blatantly counterproductive, for it is this borrowing of money from the Nation's capital markets by the Federal Government which drives up interest rates and drives down available capital for private individuals and businesses, and it is the monetizing of the national debt which produces the additional increase in money stock which causes inflation.

How does this process work?

When Government spends more than it takes in, it still must pay its bills. It pays those bills through borrowing funds from the same financial institutions that lend them out privately, to businesses, to contractors, to prospective home purchasers, et cetera. The more capital Government takes out of the markets, the less remains.

Thus, competition for those dollars remaining allows those institutions to set higher rates of interest. This, in and of itself, reduces the amount of speculative capital, because those with speculative ventures cannot nearly as well afford to pay the higher rates of interest. But, the effect is higher interest rates, and when businesses, contractors, home purchasers, and so forth, cannot borrow, recession is the inevitable result, meaning the loss of productivity and jobs.

The Federal Government, unlike you or me, has another way to pay off its bills. The Government may pay off a portion of its new debt by monetizing

it—a process by which the Federal Reserve System extends credit to its member banks, through “high-powered” money devices. If the money supply increases faster than production, higher prices are always the result. There has never been a dramatic increase in money supply in the last century which has not been followed by a dramatic increase in prices. As the rate of inflation goes up, so too does the rate of prices, following by a few months to a year.

The conclusion to be drawn from this is that deficit spending must be substantially reduced—with the eventual goal of balancing the budget.

THE ESSENTIAL CHARACTER OF CAPITAL FORMATION

I am proposing the enactment of capital formation inducing laws at the earliest opportunity. A corporate tax cut would aid significantly in making capital funds more available to industry, business—large and small—and home construction.

There are additional policies which would help to accomplish the same objectives, including amendments to the capital gains tax structure, increasing the exemption of interests and dividends from savings and similar institutional investments.

Prosperity rests—more than on any other determinant—on the amount of capital invested per person within an economy. In other words, the more capital invested per person, the greater the economic growth and the better the standard of living—in real, not inflated, dollars. Our laws have ignored this cardinal rule of economics during recent years, favoring instead those policies which have led to a decline in the rate of capital investment.

Our present Federal tax structure encourages overconsumption and discourages investment, because the tax laws place a significantly heavier burden on savings and investment than on consumption. Taxwise, it is now preferable for the taxpayer to consume and spend instead of producing and saving. The tax policy which underlies the present tax structure has resulted in laws which have stifled needed capital formation and economic growth. It should be reversed.

That the economy of the United States needs vast increases in capital outlays is demonstrable.

In a recent editorial, entitled “Productivity: The Rest of the World Is Catching Up,” the Washington Post depicted our situation this way:

Since 1960 productivity increases in this country have been the lowest of any of the major industrial countries, and our rate has hardly been better than the average for all the other industrial countries together.

This principal measure of prosperity—capital investment—gives much credence to the editorial. According to an extensive study of the Joint Economic Committee, gross private domestic investment in the United States last year was only 15.7 percent of gross national product. By contrast, Germany invested 26 percent, France 28 percent, and Japan 37 percent.

Minimally—to curb inflation and to maintain a “socially acceptable level of unemployment”—the United States should raise its investment rate to 18 to 20 percent. To stop inflation and to send unemployment back down to the lowest rate in the past 10 years, a much greater investment rate would be required.

Yet, even to maintain the 15.7, 1973 rate, the United States will have to invest over \$4.5 trillion—\$4,500 billion—in capital over the next 12 years. Under present tax policy and laws, it will be difficult for this amount to be raised. To the degree that it is not raised, our prosperity will be further threatened.

TAX REFORM IS NEEDED TOO

The enactment of job-creating, accelerated capital formation techniques, sufficient to insure the full productive capacity of this country and the millions of jobs which would flow from such full capacity, is needed.

Such measures would include a tax reduction for both small business and corporations, to spur production. They would also include a permanent increase in the investment tax credit, to allow long-range planning in order to help avoid a repetition of this recession.

A personal income tax cut can also be feasible in the sense that stimulated consumption will decrease the surpluses which have caused many layoffs. And,

if additional personal funds are put into savings, then additional borrowing—badly needed for home construction and corporate borrowing—will be spurred. But, we should be aware that if the supply of money in the hands of consumers is increased and the number of goods remain the same or decrease as inventories are reduced, then prices will go up, not down. Thus, there are counter-productive dangers in enacting solely a personal income tax cut of which Government, the Congress, and especially the people ought to be fully aware.

These are important factors in aiding our economic recovery. One of the best things for the economy right now would be measures that strengthen natural recovery forces that are contained in the profit motive and work incentives. An effective method would be to winnow an effective across-the-board tax cut of the measures incorporated in the budget and at the same time to drastically cut Federal spending so the resulting deficit would not further deplete the Nation's capital.

It must be understood that the secret of recovery does not lie in mere artificial stimulation of consumer demand. There must be a restoration of real, useful production that will in turn be employed efficiently by market forces. Unless there is a beginning made toward that end, there will be no recovery and those pessimistic projections in the budget could prove to be optimistic instead.

CANADA HAS CUT ITS CORPORATE TAXES AND UNEMPLOYMENT IS WAY DOWN

Two years ago, Prime Minister Pierre Trudeau succeeded in obtaining a reduction in corporate income tax from 49 percent to 40 percent.

Advocating and pushing through the proposal required strong leadership.

What happened once the proposal was enacted?

Canada became a magnet for outside capital, even as it generated it internally. Successive surveys of capital spending plans showed jumps from 9 percent to 13 percent, then to 20 percent.

Unemployment is at 5.6 percent, notably less than ours.

The tax reduction was coupled with an innovation which allowed the progressive tax brackets, major deductions, and exemptions each year to be adjusted to hold down dollar-level increases in government revenue which would result solely from inflation. This is important, because here in the United States, if inflation amounts to 10 percent in a year and one gets a 10-percent wage increase to offset it, one's real purchasing power is still reduced because the taxpayer will through his wage increase move into a higher tax bracket solely because of inflation.

On January 1, because inflation averaged 6.6 percent in 1973, the Canadian tax brackets were adjusted upward by 6.6 percent, in effect denying the Government a \$400 million inflation reward. This indexing device destroys one of the incentives for Government leaders to continue to allow inflation. On January 1, 1975, the brackets will move up to 10.1 percent, saving the taxpayers \$750 million. If one believes—and I certainly do—that government's threat to individual liberty can be measured in terms of the growing percentage of the people's livelihood which is taken in the form of taxes, I think one can see the importance of restraining the growth of government in this manner.

I think this proposal ought also to be incorporated in a major tax revision.

Did all of this add up to a staggering deficit—because of reductions in revenues associated with the tax cuts? Not at all. This is one of the most remarkable aspects of the Canadian tax cut. A year ago, the Finance Minister projected a deficit of \$450 million in the current year as a result of these tax cuts, but there has been so much real economic growth that revenue increases are adding up to a \$250 million surplus. Those figures may be small to us, but remember their entire budget is much smaller than ours, too.

INDEXING INCOME TAXES AND THE TRANSFER PAYMENT PROBLEM

Government actually has a motive in fostering inflation. We must eliminate that motive, that incentive to create and maintain inflation.

As inflation occurs, demands are created within the work force for higher wages. When those higher wages are obtained—even if it is just to keep pace with the rate of inflation—the wage earner will slide from a lower tax bracket to a higher one. Government reaps a benefit in two ways. First, since more money is being earned, there is more base to tax. Second, as a person slides

from one bracket into another, he slides into a higher rate of taxation, because of the progressivity in our tax laws—the more money you make, the higher rate at which it is taxed. Of course, if inflation went up 12 percent, and wages went up 20 percent, one would be subject to an additional tax on that amount—8 percent—over the rate of inflation.

I believe that income tax brackets should be indexed.

There is another reason, an important one, why we should make a careful reexamination of our individual income tax laws and the way in which those laws redistribute income among those who generate taxes and those who consume them. This is known, among the economists, as income transfer. It is an important phenomenon, for the percentage amount being transferred, through Federal policies, including our tax laws, from those who produce to those who consume or depend upon government largess, increases annually.

The Wall Street Journal recently editorialized on this problem. I include the full text of that editorial, for I think it is of profound importance to the deliberations of the Committee on Ways and Means and of this House during this session :

THE TRANSFER PAYMENT EXPLOSION

It was encouraging to hear Eric Sevareid of CBS comment favorably on President Ford's proposals to at least begin to bring federal spending under control. For more than a decade, most Americans have tended to assume that the U.S. is so rich it could do just about anything. Mr. Sevareid was apparently shocked to learn that if present trends continue, by 1985 half the national income will be controlled by government. What this means, of course, is that half of all national income will be taken in taxes.

That prospect in itself is cause for alarm, but what is even more troubling is the reason for this growth of government. Spending is not increasing by leaps and bounds because of military requirements. It is not growing because government is rebuilding cities, constructing dams or financing scientific research and development. It is mushrooming at a steadily accelerating rate because of government commitments to give cash to people who are not producing after extracting it from people who are producing. We are in the midst of an explosion in transfer payments.

As recently as 1965, government transfer payments to individuals came to a modest \$37.1 billion. Last month, federal, state, and local governments were disbursing cash to individuals at an annual rate of \$155.9 billion, for which no services are rendered. These include Social Security pensions, government pensions of all kinds, unemployment benefits, black-lung money, food stamps, welfare payments and health insurance benefits. While the payments are of course defended on grounds of compassion, they are having a serious effect on the economy, by steadily breaking down the relationship between reward and effort. The following table is revealing :

	Government transfer payments (in billions)	Wages and salaries	Transfers as percent of wages and salaries
1965.....	\$37.1	\$538.9	6.9
1972.....	103.2	626.8	16.5
1973.....	117.8	691.7	17.0
1974.....	139.8	751.1	18.6
December 1974 ¹	155.9	765.4	20.4

¹ December figure is at an annual rate.

What the table doesn't show is the great burst since October, when a rapid triggering of unemployment, welfare, and food stamp benefits coincided with a slide in wages and salaries. In two months, wages and salaries dropped by \$7.6 billion at an annual rate and transfer payments advanced by \$8.3 billion. The December 1974 over December 1973 annual rates showed an increase in wages and salaries of \$46.1 billion and an increase in transfer payments of \$33.3 billion. With the bottom of the economy not in sight, it seems highly likely that in 1975 transfer payments will grow more than wages and salaries.

It is taken as axiomatic that production is maximized when taxes are zero,

i.e., output is greatest when employers and workers can keep everything they produce. The nation benefits from taxes, even though production is not maximized, when it employs receipts in ways the private sector cannot—providing general government, police and fire protection, national security, etc. Helping the poor, the elderly and weak is certainly an important function. From the figures one would assume it is being discharged far better now than five years ago, though the improvement is certainly not reflected in political rhetoric.

The problem is that the tradeoff between lower production and general benefits has a breaking point when private production can no longer carry the burdens placed on it by government. The nation has been flirting with that breaking point for a long time, but seems to have reached it in October. Present and future taxes, which have to be raised to finance government deficits, are now so high that it is more beneficial for more and more producers and workers to not work than to work.

Any serious attempt to solve the nation's economic problems has to focus on this explosion of transfer payments. Mr. Severeid's concern with government spending has to come to grips with the implications of the following table:

FEDERAL BUDGET

(In billions of dollars)

	1970	1975	Increase
Total.....	196.6	304.4	107.8
Transfers.....	66.6	134.2	67.6
Defense.....	77.5	82.0	4.5
All other.....	52.5	38.2	35.7

The only reason we have for even cautious optimism about the future is that, at long last, a few brave policymakers, politicians and opinion shapers seem willing to break the bad news to the public. President Ford made a good start in his State of the Union Message. Mr. Severeid made his contribution. Now, somehow, the news has to get to Capitol Hill.

ESTABLISH A LIMIT ON FEDERAL REVENUE

Federal, State, and local tax collections have risen markedly, as percentages of national income, during the past half century. In 1929, such tax collections constituted only 13 percent of total national income; by 1950, it had risen to 26 percent; and by 1972 it had risen to 34 percent. The increase is even more dramatic when compared to total national personal income: 1930, 15 percent; 1950, 30 percent; and 1972, 43 percent. If present trends continue, by 1985, total Government's share of national personal income will have increased to 54 percent—54 cents out of every \$1—more than half the people's earnings. As I said earlier, by the year 2000, it will have increased to nearly 67 percent of all personal income.

Government spending—and the raising of revenue requisite to that spending—has a historical ceiling beyond which it invites either or both the collapse of the economic strength of a nation or the loss of freedom.

Government must realize that it cannot indefinitely tax the people at constantly increasing levels without destroying the people's ability to support themselves and their families.

The Congress has tried for nearly 200 years to control total spending by controlling the overall level of appropriations as each individual appropriations bill came to the floor. These efforts—commendable though they may be and successful though some may have been on occasion—simply have not worked sufficiently.

The reason these efforts have not worked is that the intentions which underlay them are not directed at the one point where more effective control really could be exercised: at the level of revenue, of income.

We have for too long tried to control spending only where the money flows from the Treasury. In other words, we are trying to plug holes in the Treasury's dike or to heighten that dike, when, instead, we should be trying to control the level of water behind it.

It is always easier to control a problem at its source. The source here is the level of revenue raised by the Government from which programs are then funded. To deal with the question of expenditures alone is to work only with the result of our problem, spending, instead of its cause—too much being taken from the taxpayers with which to do that spending.

When an institution knows that it will have a known amount of dollars with which to work, it typically devises means of spending those dollars. It is human nature. Parkinson's law, thus states that spending rises to meet income. That is a truth demonstrated by our national experience as a government. There is a more modern corollary to Parkinson's law which, however, more accurately describes the tendencies of Congress; present spending rises to slightly exceed present income in expectation that future increases in income will cover that spending. When an institution operates from those premises—and the Congress has operated from those premises for years—it means an ever-increasing amount of dollars being taken from the taxpayers.

We cannot, of course, as the legislative branch of the Federal Government—and without an elaborate amendment to the United States—establish revenue and budget outlays ceilings binding on all governments—Federal, State, and local.

We can, however, establish such ceilings with respect to the Federal Government. That is what Title I of the Fiscal Integrity Act is all about.

It would establish for each fiscal year a revenue and budget outlays limit for the Government. No appropriation could be made for any fiscal year by the Congress in excess of the revenue and budget outlays limit for that fiscal year.

How would the limit work?

The revenue and budget outlays limit for each fiscal year shall be the amount derived by multiplying the estimated aggregate national income for such fiscal year by a "Federal revenue factor."

Thus, from the first year of the operation of this provision, a ceiling in relation to national income is established on Government revenue and spending. As the economy grows, new dollars would be available for existing or new programs, but a greater percentage of the people's income would not be available.

One should note that a cut in outlays is accompanied by a cut in revenue—and vice versa—so that cutting revenue will not result in creating more of a deficit—as is now a danger—and cutting outlays should result in a cut in taxes.

The bill specifically requires that, if during any fiscal year the revenue of the Government exceeds the established limit for that year, the amount in excess shall be used for the payment of the public debt of the Government. It cannot be carried over to be spent on programs during a subsequent fiscal year.

What if an emergency arises—such as a large-scale war or severe economic crisis—which absolutely requires spending beyond the revenue level?

In that case—that emergency—a resolution passed by no less than two-thirds of each House of Congress may suspend the limitation, but only to the extent necessary to meet that particular emergency and only for that fiscal year within which the resolution was passed. If the suspension is to be continued beyond that fiscal year, the Congress must pass a new resolution allowing it. A vague, general, "times are tough" emergency resolution would not be allowable. The provisions of the bill guard against that happening.

It should also be made clear that the power of the House Committee on Ways and Means and the Senate Committee on Finance with respect to tax reform is not impaired by this bill. Within the overall revenue limitation, those committees can carry out any degree of tax reform—increase certain taxes, reducing others—eliminating old taxes, imposes new ones—deemed necessary. The limitation is that the total revenue collection not exceed that percentage established in relation to aggregate national income for that period.

ENERGY MEASURES

I believe the most effective fuel conservation device is to remove Government interference and to place greater reliance on the price mechanism of the marketplace. This will result in three immediate benefits:

First, incentives to conserve; second, incentives to produce; and last, incentives to develop alternative sources of energy.

I voted earlier this afternoon to defer the imposition of the fee on foreign oil imports, the fee imposed by the President through Executive order last month. That measure to defer the fee passed; it will soon be law.

I voted against the tax or import fee for several reasons. I believe, as the experts have pointed out, that the fee could artificially push up the cost of gasoline by as much as 7 to 10 cents per gallon; heating oil and other petroleum products and derivatives will similarly cost more. I believe those additional costs will reduce consumption only marginally, and that it is that decreased consumption which was one of the two aims of the use of the import fee.

Additionally, there is little reason to believe that this action alone will create sufficient pressures on the oil producing nations to reduce their prices. I see, therefore, no reason why the people should be forced to bear this additional, Government-imposed cost.

The policies of the Federal Government created the domestic shortages and the dependency on foreign oil imports in the first place. Now, that same Government wants the people, not itself, to pay higher costs, with Government on the other hand to benefit from receipt of the fees. This is another example, in my opinion, of Government asking the people to "take it on the chin," when it is Government which ought to be required to suffer the hardship instead.

There is no easy answer to our energy problems. In order to reduce our dependence on imported oil and, therefore to more efficiently protect ourselves against another oil embargo, we must begin to develop the capability of being independent of foreign oil for domestic energy. Encouraging maximum domestic energy production must be our prime concern. From experience we know that the pricing mechanism of the free market is the most equitable, economical and productive way to allocate scarce resources.

I support deregulation of natural gas and decontrol of domestic oil, together with positive incentives for capital investment in energy research and development. I am convinced that this is the way to permanent energy recovery.

In the broad overview of options, our alternatives are, at best, limited. Regulation of oil and gas against deregulation; rationing against supply and demand; import tariffs, taxes, fees, or quotas against tax incentives and disincentives for domestic and foreign energy investments respectively. These are the major points of contention, and the major points to be decided in the formulation of a comprehensive approach to energy.

Increased Federal controls would probably force the Federal Government to impose a quota to limit imported oil, as a readily available means of forcing domestic market investment in both new and old energy sources. Even with this negative incentive, the bulk of costly research and development would still have to come from the Federal Government. Price controls would also be imposed to prevent the reduced oil supply from forcing the price out of reach. Rationing, to allocate available supplies would then almost certainly follow.

With an import fee, import quota, and/or rationing in effect—even if coupled with corporate tax incentives and "plowbacks" for energy related investments—consumer prices would not reflect accurately the limited supply and large demand for oil products, and thus, the investable capital would be substantially reduced, causing little or no R&D by industry. These events would be counter-productive to our long-range goal of developing adequate energy.

In our present economic state, and at a time when there are other urgent domestic priorities to consider in the expenditure of tax dollars, an increase in federal outlays for research and development projects in new energy areas would place a drain on the economy it could not support.

There is no question that deregulation of natural gas at the wellhead and decontrol of domestic oil will result in higher prices at first. However, it is important to note that the increased cost at the wellhead represents only 20 percent of the total cost of gas at the burner tip. The estimated increase that I see as most realistic is about 10 percent at its peak. With decontrols—combined with measures to eliminate foreign investment tax credits and with windfall profit taxes on any additional profits not reinvested in energy development—individuals and businesses would be deciding which uses of energy should be reduced or foregone, rather than the Federal Government. Continued regulation, on the other hand, would effectively drive the price up as it caused greater dependence on imported liquefied natural and on synthetic natural gas.

The experiences we have had in the past several years with Federal regulations and controls on the pricing system in the free market—the failures as-

sociated with the Federal bureaucracies inefficient and anticompetitive interference with supply and demand—leads me to the conclusion that decontrols are the key to effective domestic energy recovery.

Because I strongly support deregulation as the most positive means to establish energy priorities, I believe better alternatives exist to the import and proposed excise tax on domestic crude. First, deregulation will permit the price of oil to rise. Combined with a fee, tax, or quota on imports, that price would be greatly accelerated and would place too heavy an immediate burden on the economy. Certainly, western New York would be severely hurt by action of this nature. Our supply of Canadian oil would be reduced immediately, as would our access to Arab oil and domestic oil. Considering the particularly hard effects energy shortages have already had on the economy of our area—United States Steel, for example, just laid off 1,500 people in its Buffalo plant—I seriously doubt that we could survive a sharp curtailment of our direct oil supply.

My alternative proposal is a combined tax incentive, directed at energy-related investments, and a tax disincentive, directed at foreign investments and non-energy-related investments.

At the present time, American companies investing abroad in energy related areas are given a tax credit for taxes paid to foreign governments. At the same time, royalties paid by those companies to foreign governments or quasi-government entities are treated by the U.S. Government as taxes, and are, therefore, also credited. My proposal would treat royalties as royalties, not as taxes, thereby eliminating that credit, and reduce the credit for foreign taxes over a period of years—perhaps 5—to a defined minimum level.

I am not really convinced that a so-called “windfall profit” tax is necessary. Logic and good business sense both point toward the use of additional profits for reinvesting in increasing production from which to meet rising demand; after all only through that increased production can a company maintain its place within the industry. If, however, a windfall profits tax is imposed, I would fully support a “plow-back” provision—like that which was in the bill reported by the Committee on Ways and Means last session, allowing companies to use additional income for energy-related research, development, deployment, exploration, recovery, and production without the assessment of the windfall profit tax on that amount so reinvested.

The treatment of foreign taxes and domestic taxes should be closely coordinated to assure maximum incentives for domestic production.

In short, while this type of program would bring American dollars back to the United States through reduced foreign investment incentives, it would positively reinforce the incentive to invest domestically in energy resources and potential energy sources. I am convinced that this would be a highly effective program. It would not cause a massive drain on the economy, nor would it immediately reduce the supply of oil imports. It would not drastically reduce our gross national product, and it would not cause gas lines at service stations.

In line with efforts to conserve energy and promise mass transportation, I am considering a provision for a “horsepower” tax on all new automobiles sold in the United States. The tax would be a graduated one, ranging from no tax on low horsepower cars, up to approximately \$500 on high horsepower cars.

The Washington Post of January 26, 1975, editorialized on what they see will happen, in a real world context, if rationing is instituted in this country. That editorial follows:

[From the Washington Post, Jan. 26, 1975, as reprinted in the Congressional Record]

HOW TO RATION GASOLINE

Let us suppose, for a moment, that you are the person to whom President Ford assigns the job of designing a system to ration gasoline. The President thinks that rationing is a terrible idea and wants to cut consumption by raising prices and taxes instead. But a great many well-intentioned senators and congressmen think that rationing is much fairer. We are now going to suppose that they win the coming fight, a rationing law is enacted, and you are appointed to set up the operation. The basic program is clear. There remain only

a few minor issues of policy that a sensible person like yourself should have no difficulty resolving quickly and—to repeat the key word—fairly.

The first question is to whom to give ration books, and your first inclination is to give them to every licensed driver. That brings you to the family in which both parents and all three teen-aged children have licenses. If they have five ration books, the kids can continue to drive to school. You think that they ought to take the school bus, and you revoke the kids' coupons. But then you learn that they all have part-time jobs—one of them plays the xylophone in a rock band—and they will be unemployed if they can't drive. You get a call from the White House telling you not to contribute to unemployment, which is rising. You give in, and return the kids' ration books. That gives the family five times as much gas as the widow across the street whose three children are all under 16.

Continuing the crusade for fairness, you take up the case of Family A, whose harassed father has to commute 30 miles to work every day, and Family B next door, whose father runs a mail order business out of his basement. Family B goes to the beach every weekend—very inexpensively because, as the congressmen made clear, the point of rationing is to avoid raising prices. Score another point for fairness and turn to the case of two suburban communities, a mile apart, one of which has bus service to and from central city and the other of which does not. Reasonably enough, you give less gas to people in the community with buses—until you discover that none of them works in the central city. They all seem to work in other suburbs, most of which have no public transportation. Your response, obviously, is to make everyone in the United States fill out a form showing where he works. Then you hire a computer firm to identify those who can get to their jobs by public transit in less than 90 minutes with no more than three transfers; they will get fewer coupons. There are certain difficulties in enforcing these rules, as you concede to several congressional committees, but you expect to be able to handle them with the expanded appropriations that you have requested to hire more federal gas investigators.

Now that you are beginning to get the hang of the thing, you will want to proceed to the case of the salesman who flies to an airport and rents a car. If you issue gas to the rent-a-car companies, the salesman might be tempted to use one of their cars to take his family on a vacation. But the salesman's personal coupons won't cover company trips. Now you have to decide how much gasoline to give to companies, and which business trips are essential. You might turn that over to the staff that you set up to decide which delivery services are essential and how to prevent delivery trucks from being used for personal business.

By the way, you have to consider the rural poor—for example, the laborer who lives far out in the country. Some weeks he's employed far from home and commutes hundreds of miles. Some weeks he finds work nearby. Some weeks he's unemployed, particularly when the weather's bad. You post a prize for the formula to cover that one.

You are beginning to discover the great truth that simple rules are never fair, and the fairer the system gets the more complicated it has to become.

Even in World War II, when there were only one-third as many cars and the national dependence on them was far less pronounced, it was necessary to set up boards of citizens in every community to rule on a flood of special requests, hardships, grievances and challenges. It is a method that requires, unfortunately, a massive invasion of personal privacy. Americans accepted it then as a temporary wartime expedient. But the present emergency is not temporary.

A year ago, when the Nixon administration was considering rationing, the planners suggested simply giving everyone the same number of coupons and letting people buy and sell them legally on a "white market," as they called it. But in a white market the laborer with the long trip to work would have to bid against the family that wants to drive its station wagon to Yosemite for its vacation. Under President Ford's price scheme, at least the country would know roughly what the increased price of fuel would be. In a white market, no one could say how high the bidding might go, or how widely it might fluctuate from one season to another.

Congress, and specifically the Democratic leadership, is behaving rather badly. Its committees have been exploring the economics and technology of energy with considerable skill for more than two years, and they understand

the choices as well as the administration does. The Democratic leadership's cries for further delay now are hardly more than a plea merely to postpone unpleasant but urgent decisions. A year ago, when President Nixon asked for rationing authority, Congress said that rationing was unpopular; the law never passed. Now that President Ford proposes the other alternative, higher prices, congressmen cite polls to show that people would prefer rationing.

In the present state of general indecision, the most widely popular decision is probably the one represented by Gov. Meldrim Thomson of New Hampshire. Gov. Thomson opposes both rationing and higher prices. He would prefer, evidently, simply returning to the halcyon days of 1972 before the energy squeeze took hold of us. It is a pleasant idea. But it is not, unfortunately, one of the real choices—not even for New Hampshire.

Mr. ROUSSELOT. Mr. Speaker, the proposals which we are presenting today to restore stability to our economy and relief from inflation and recession are the only workable and lasting solutions.

Our proposals include:

A balanced budget—reducing Federal expenditures to balance with anticipated revenues.

Tax cuts that will be made possible by the reduction in Federal spending.

Repeal of regulatory laws which allow Federal intervention in the private sector discouraging competition, raising prices, and otherwise promoting inflation.

These solutions would allow the free market to function to deliver goods and products at competitive prices to all consumers—returning the basic decision-making power to the people. While some of the Members in this House are advocating stronger Federal regulation, our proposal is to get the Federal Government out of the business of controlling consumer supply and demand. We completely reject the regulatory climate of wage and price controls, controlling interest rates, and allocating credit which rob each American of freedom of choice and prevent the return to a healthy economy.

Our Nation is currently experiencing double digit inflation and recession which is primarily the result of the Federal Government's interference and regulation of the economy, and to believe that further control is the answer is pure folly.

Our current economic problems are rooted in the actions of the Federal Government, and it is illogical to allow further intervention in the private sector to correct a situation which has primarily been caused by governmental regulation. If Members of this body are truly interested in reversing the inflationary trend that has now led to recession, they should be more concerned with fiscal discipline of the spending of tax dollars rather than imposing controls on the private sector. The ideas of regulating wages and prices, interest rates, and consumer credit are completely unworkable and inequitable.

WAGE AND PRICE CONTROLS

During my service in Congress, I have discussed the results and consequences of controls in great detail in statements on the floor of this House, and in views included in House Banking Committee reports on this issue. Congress finally got the message when it rejected any extension of the control authority beyond April 30, 1974.

Economic controls cause distortions and shortages. During our recent experience with controls—1971-74—shortages emerged in all industries, and in early 1974, Congress received extensive information from private industry representatives on the extent and consequences of the commodity shortages. Following are some examples of the seriousness of this situation brought about by this interference in the economy:

First. In a statement to the Senate Banking Committee on January 30, 1974, O. Pendleton Thomas, chairman of the board and chief executive officer of the B. F. Goodrich Co. stated:

In those sectors where prices are controlled, serious shortages and black markets are occurring. Each day we are faced with a lengthening list of actual or potential shortages of critical raw materials including tallow, rubber solvents, zinc oxide, titanium dioxide, carbon black, process oils, epoxy resins, antioxidants, polyester and nylon fibers, and synthetic rubber. In some cases, the severity of these shortages has been compounded by suppliers being forced out of business. In recent weeks, for example, one supplier of bead wire, which

is used in tire construction, was forced to close its West Coast plant because of the inability to gain approval to raise prices sufficiently to assure an adequate return on investment. Another diversified supplier recently eliminated bead wire from its product lines.

Controls on domestic prices have also stimulated exports of certain raw materials, many of which are already in short supply in this country, especially chemical feedstocks. During the first ten months of 1973, the combined exports of toluene and butadiene used in synthetic rubber production were 270 percent higher than during the same period of 1972.

When conventional economic forces are permitted to function, imports into this country are a significant factor in the supply of critical materials. During recent world shortages our price controls have prevented the inflow of materials—instead, as I have just indicated, exports of some materials have been accelerated, seeking the higher world market prices, thus compounding our problem.

Second. In a March 8, 1974, statement to the House Banking Committee, John C. Datt, director of congressional relations for the American Farm Bureau Federation, discussed the effects of controls on food production:

Due to controls, prices of fertilizers in this country became so out of line with world prices that a sizeable portion of our domestic production moved into foreign markets to the detriment of U.S. food production. This was recognized belatedly by the Cost of Living Council in November, and fertilizer controls were removed; however, there is reason to believe decontrol may have come too late to maximize U.S. farm production in 1974.

Price controls have played a role in the energy crisis. Uncertainty created by economic controls is one of several factors that have brought new refinery construction to a halt. Indications are that this same uncertainty has contributed to a decline in oil and gas exploration in this country.

Agriculture is now facing a shortage of baling wire. Much of our baling wire is imported. Domestic prices frozen at levels unrelated to world prices have contributed to an extreme shortage of wire in this country since American farmers and ranchers are prohibited from bidding for supplies in the world market.

The unwise, though relatively brief, attempt to control beef prices in 1973 brought chaos in the industry—and shortages at the meat counter. It was costly to farmers and to consumers. In fact, the reductions in beef supplies which have resulted in price distortions in recent months are more a result of the abortive controls imposed last year than any other single factor. Furthermore, these controls contributed nothing to the stabilization of the economy.

Third. The Associated Builders and Contractors, Inc., discussed construction industry shortages in its statement to the House Banking Committee in March 1974:

The basic question is one of supply and demand. Experience has shown that controls create shortages and whenever there are shortages there is upward pressure on prices. Why do controls produce shortages? The plain fact is that if a price ceiling makes it unprofitable to produce an article those in the business of producing it find it sensible either to cut its production or to stop producing it entirely.

. . . On the list of recent critical shortages, according to the experience of a firm facing the shortage problem, are lumber, steel and steel products, paper products, hardware, copper wire and copper cabling, trucks, aluminum bar and tube, electrical components, and paint. These are just some of the items which are basic to construction found to be in critically short supply by firms which use them.

Wage and price controls are actually harmful to the economy. The stimulation of competition in the free market is the only route to a healthy economy. In a competitive market, prices respond quickly to changes in supply and demand, and prices are the barometer of the economy. The price mechanism is the best possible allocator of our resources as well as our goods and products. Tampering with this delicate balance only leads to disruptions, distortions, and shortages—conditions which prevent economic growth.

INTEREST RATE CONTROL

It has been suggested that the Federal Government should regulate interest rates. However, this type of action would do nothing to correct the causes of rising interest rates.

Deficit spending puts pressure on the Federal Reserve to finance the deficits by increasing the supply of money in the economy. This is a particularly relevant point when considering that the President's budget submitted to Congress this week calls for an almost \$55 billion deficit in Federal funds during fiscal year 1976. This excessive increase in the money supply creates a chain reaction—it increases prices which in turn push interest rates upward over the long run as lenders raise rates to compensate for the inflationary impact generated by the growth in the money supply. Excessive growth in the money supply at rates estimated to range between 10 and 12 percent occurred in the first years of the 1970's. However, a restrictive growth in the money supply—like what we are now experiencing at a rate estimated at 3.2 percent—forces the private sector to absorb the Government's deficit, and also pushes up interest rates.

Clearly interest rates can be brought down by congressional fiscal reform bringing Federal spending into balance with anticipated revenues, and it is on this point which Congress should concentrate its efforts. This would allow the increase in the money supply to be tied to real growth such as growth in national productivity.

CREDIT ALLOCATION

This week a subcommittee of the House Banking and Currency Committee is holding hearings on credit allocation proposals. Credit allocation is an attempt to set priority areas for consumer lending and redirect the allocation of bank credit to national priority areas. Such an action does not, however, guarantee that funds will be available for lending in any specific areas.

This interference in the money market and with the free market mechanism of distributing capital further ignores the causes of rising interest rates and tight money. It would again involve the setting up of a Federal bureaucracy to administer what can be best handled by the free market. It ignores economic interrelationships and attempts to isolate certain segments of the economy. One result of credit allocation could be shortages in industries that are not priority areas—industries which contribute not only goods and services, but also jobs and incomes to working people in that industry. In addition, there is some speculation that such a program could also cause upward pressure on interest rates.

This is the time for Congress to examine all areas of governmental intervention in the private sector which discourage competition, raise prices, or otherwise promote inflation in the economy. There can be no question but that the Government has contributed to the upward pressures on costs and prices from tariffs, import quotas, price supports, and other laws which protect segments of the economy from market forces. At the President's Conference on Inflation in September 1974 the following list was suggested as target areas for regulatory reform—this list was generally adopted by the economists who participated in the Economists Conference on Inflation preceding the main conference:

RECOMMENDATIONS TO IMPROVE ECONOMIC EFFICIENCY AND PRICE AND COST STRUCTURE OF THE ECONOMY

(Originally presented at the Sept. 23, 1974, Meeting of Economists, New York City)

PART I

- (1) Repeal the interest rate ceiling on long-term government bonds.
- (2) Repeal of the private express statutes that provide the post office with a monopoly of first class mail.
- (3) Outlaw state prorationing of oil and gas.
- (4) Repeal the Connolly Hot Oil Act.
- (5) Terminate the embargo on uranium imports.
- (6) Amend marketing order legislation to prohibit restrictions on the interstate movement of specified types of agricultural products, supply controls for products, state fluid milk price and output control, and production quotas on individual producers.
- (7) Repeal the meat import act.
- (8) Repeal import quotas on dairy and other farm products.

- (9) Remove all route and commodity restrictions imposed on ICC licensed motor carriers.
- (10) Approve automatically railroad and truck rates within a zone of reasonableness.
- (11) Repeal the antitrust exemption of railroads and trucking rate bureaus.
- (12) Reduce or eliminate entry barriers into trucking.
- (13) Abolish rate and entry controls for inland water carriers and freight forwarders.
- (14) Approve automatically all air fares, including discount fares, within a zone of reasonableness.
- (15) Authorize existing CAB licensed carriers to extend their operations into any markets while at the same time permitting them to withdraw from unprofitable or undesired markets.
- (16) Authorize charter carriers to wholesale seats to travel agents.
- (17) Make capacity-limiting agreements among the airlines subject to the antitrust laws.
- (18) Eliminate regulation Q and other regulations which prevent savings institutions from paying competitive rates for deposits.
- (19) Terminate the "voluntary" quota agreements for steel and textiles.
- (20) Make merchant and passenger ship firms subject to the antitrust laws for any conference agreements.
- (21) End "voluntary" quotas on other foreign exports to U.S.
- (22) Prohibit resale price maintenance.

PART II

- (a) Repeal legislation now preventing the sale of surpluses from the stock-pile.
- (b) Prohibit unreasonable restrictions on union membership, such as prior apprenticeship and excessive entrance fees.
- (c) Abolish union operated hiring halls.
- (d) Repeal the Davis-Bacon Act and similar laws concerning wages paid under government contracts.
- (e) Repeal legislated further increases in the minimum wage.
- (f) Deregulate the wellhead price of natural gas.
- (g) Terminate crude petroleum allocation and oil price controls.
- (h) Repeal the Jones Act governing coastal shipping.
- (i) Abolish subsidies for ship construction and operation.
- (j) Make such auto safety devices as the seat belt interlock system, heavy duty bumpers, and air bags voluntary rather than mandatory.

Congress must act now to get the Federal Government out of the business of regulating the private sector, and must act to bring Federal spending into balance with anticipated revenues. It is these actions and these actions alone which will start our country on the road to lasting economic stability.

Mr. KEMP. Mr. Speaker, I appreciate the gentleman's remarks. His statement concerning the credit allocation scheme of some of our friends on the other side of the aisle reminds me of a letter which appeared in my morning newspaper. It said: "The only way to keep this Nation from going totalitarian is to impose gasoline rationing and wage and price controls in the country immediately." Is that not an incredible contradiction in terms?

It is interesting that the liberal community, which is so antitotalitarian in its rhetoric, is coming up with solutions which indeed lead to totalitarianism, and led to the tragic situation in Great Britain, where we find almost 70 percent of its total industry is now nationalized. Professor Von Hayek's book, "The Road to Serfdom," chronicles how it could be possible here.

Mr. Speaker, I thank the gentleman for his contribution.

JOB-HUNTERS FIND HELP: AGENCY MANNED BY UNEMPLOYED

(By Mike Ward, Times Staff Writer)

An agency that uses federal funds to help the unemployed does not sound like the pet project of a conservative congressman.

But the Re-employment Action Committee (REAC), which helps the jobless

through offices in Alhambra, Azusa and Pomona, owes its existence to one of the nation's most conservative congressmen, John Rousselot (R-San Marino).

And while REAC uses federal funds, it prides itself on virtues dear to conservatives: a tight budget, local control and self-help.

REAC administrator Paul Weisend, professor of business management at Cal Poly U Pomona, said REAC was initiated by a commission appointed by Rep. Rousselot but functions as a non-political agency.

REAC is sponsored by Citrus College and receives federal Comprehensive Employment and Training Act funds through the county. The current yearly budget is \$77,000.

The funds finance three offices where persons out of work can seek counseling, help in preparing resumes and information on available jobs.

Weisend said the state Employment Development Department is too swamped these days to give the kind of individual attention which REAC offers. He added that he is not critical of the state employment office because its workload is enormous when the unemployment rate is high.

But many jobless persons, he said, need someone to talk with about their job prospects, need advice on how to get a job and need help in evaluating their assets in the job market.

The REAC offices are run by individuals who have empathy with the unemployed because they are jobseekers themselves. REAC hires them on a temporary basis with the understanding that they should look elsewhere for permanent employment.

Donna Kingwell, who ran the Azusa REAC office until she left in December to join a political campaign staff, said the fact that she was unemployed for a while gave her a better understanding of the problems of the jobless.

She said she believes that most people out of work are sincerely interested in finding a job and are not content to draw unemployment benefits. But, understandably, she said, they want a job that's comparable in salary to what they had in the past.

"I've been in the unemployment line myself, and I wasn't willing to accept the first \$2 an hour job that came along," she said.

"The individual has the right to say, 'No, I don't want that job.'"

At the same time, she said, REAC doesn't waste its time with those who won't keep the job interview appointments or help themselves.

REAC gets all kinds of job-seekers, from the unskilled to the professional.

Some skilled persons, such as machinists, have a fairly easy time finding jobs, Ms. Kingwell said. But there are occupations where the job market is extremely tight and people who have been laid off must think about changing careers.

Ms. Kingwell said REAC encourages job-seekers to think of their hobbies and other interests that might lead to employment. The job possibilities are not always obvious. For example, she said, one young man just out of the Navy had a background of painting ships. He tried to get civilian painting jobs, but couldn't.

She suggested he use his painting knowledge to seek a sales job in the paint department of a home building supply store. He went out that afternoon and was hired.

In another case, an aerospace engineer found that looking for work in the aerospace field was hopeless, but REAC helped him find a job with a bank. The bank needed someone for a special position requiring knowledge of engineering and banking, and the engineer is now a bank vice president.

REAC has been placing 40 to 50 persons a month from its offices at 315 U. Azusa Ave., Azusa, and 130 E. First St., Pomona. REAC opened an Alhambra office in January at 1342 E. Main St., and officials hope it can place 25 to 30 persons a month.

REAC places 20-30% of its job applicants.

In addition to counseling job-seekers. REAC staff members call on businessmen to generate job listings.

Weisend said many employers aren't actively seeking new workers, but have jobs they would fill if they found the right persons.

"Only about 20% of the job openings are visible," he said.

The REAC staff tries to find the hidden jobs and encourage employers to fill them.

Weisend said REAC operates on a low budget in relation to the number of persons placed. One reason the budget is low is that REAC does not try to provide job training.

Weisend said there are plenty of schools offering occupational training if a person needs to acquire a skill.

He sees REAC as a temporary program to combat high unemployment. The unemployment rate nationally is now 8.3%, but Weisend said many economists think the rate is closer to 10%. In any event, he said, once the unemployment rate drops to 5%, REAC will go out of business.

REAC's creation goes back to 1971 when Rousselot appointed a human resources commission to find ways to help persons affected by massive layoffs in the aerospace industry.

Rousselot said unemployment engineers in the West Covina area organized a group called Experience Unlimited to help each other find jobs and this volunteer, self-help approach was the inspiration for REAC.

The original concept was for REAC to be supported by private donations. But donors did not leap forward and there was no time to solicit contributions, Rousselot said, so REAC turned to government for support.

REAC began in a limited way under sponsorship of the city of Monroevia and then came under sponsorship of Citrus College last year. Citrus helps manage the program, but funding come from the federal government through the county.

Rousselot said Supervisor Pete Schabarum has been instrumental in obtaining funds for REAC.

Rousselot said he has never believed the answer to unemployment lies in spending billions of federal dollars. But, he said, he thinks REAC is a good use of federal funds.

"I wish all federal agencies were run as effectively as this," he said.

One thing REAC tries to do, he said, is deal with unemployment on the community level.

The persons involved with REAC have a missionary dedication to the project, he said.

As project administrator, Weisend puts in long hours and his wife, Fern, performs many secretarial tasks, such as preparing fund applications. Volunteers from a wide range of occupations serve on REAC committees.

Rousselot said every community with an unemployment problem needs REAC or some other vehicle to help the jobless. He compared REAC to a volunteer fire department that stands by ready to help neighbors when the need arises.

Rousselot said he is convinced there are "a fantastic amount of job opportunities available," but many of the jobs are hidden. And it takes an agency like REAC, he said, to encourage employers to make those jobs available and to direct qualified applicants to them.

Rousselot said too many communities ignore the plight of the unemployed. "You can't just wish the problem away," he said.

Chairman HUMPHREY. Thank you very much, Mr. Greenspan and panelists. The committee stands recessed until 2 p.m. this afternoon.

[Whereupon, at 1:30 p.m., the committee recessed, to reconvene at 2 p.m. the same day.]

AFTERNOON SESSION

Senator JAVITS [presiding]. The committee will come to order.

The Chair has asked me to preside until he gets here, which will be in about 15 minutes, and I would like to announce to the very distinguished members of the panel and to the discussants that, unhappily for me, I must leave at 3 p.m., but Senator Humphrey and other members will be here to carry on.

May I express the gratitude of the committee to all of you for your attendance. You are very busy people of great distinction and it will be our moral duty to see that your testimony and what the discussions produce is turned into action for our country, which is our common aim.

This morning's panel represented the public sector, the administration and congressional opinion. This afternoon, we will be hearing

from the other vital half of the two decisionmaking components in our society, the private sector, and we are deeply grateful to those who have formerly served, or are serving right now, like Ms. Rivlin, in a capacity of serving the American people here in Washington.

Of course, the reputations of all concerned are extremely well known.

We would like to call your attention to the fact that in our discussion this morning in which, hopefully, some of you may have participated, there was a discussion of what full employment really means in terms of percentages or other standards. The general feeling was that we were all committed to the same thing, but we had different definitions of the goal.

Mr. Burns, for example, defined the goal of full employment of allowing anybody who really wants to work, and is able to work, to find a job within a relatively short period of time in the economy.

Alan Greenspan, along with some of our discussants, stated that we needed to leave out of our vocabulary any effort to tie full employment to a specific figure, like 3 or 4 percent, and what we are looking for is productive work, real employment. Structural changes, along with institutional reforms along the lines of the Humphrey-Hawkins bill, and along the lines of my planning bill, joined by Senator Humphrey, would give us a methodology for a change of structure in our situation.

We have discussed public service jobs, a public works program, and stimulative tax relationships for the private sector. Also, subsidies for on-the-job training, the minimum wage impact on teenage unemployment, and generally I think that covers this morning's highlights—oh, yes, we discussed the possibility of reducing the corporate income tax as a stimulus to employment and instead substituting other special tax indulgences, like the investment tax credit.

Now, that is generally a very, very brief rundown of this morning.

First, we will proceed by calling on the panel. Anyone who has a statement will have it incorporated into the record, without objection, and panel members each will speak for 5 minutes and the Chair will call on Mr. Heller first, then on Ms. Rivlin, and the rest of the panel in the order they are seated.

Then we will hear from our discussants who are, respectively, William Spring, the Director of the Regional Institute on Employment, Training and Labor Market Policy and has a fine record in the field; Stanley Frankel, vice president of the Ogden Corporation, and now on the President's Advisory Council on Youth Opportunity; Hugh O'Malley, the Small Business Service Bureau, specializing in consumer affairs and formerly the attorney general of Massachusetts.

If it is agreeable to the panel, Mr. Heller, would you please proceed?

STATEMENT OF WALTER W. HELLER, REGENTS' PROFESSOR OF ECONOMICS, UNIVERSITY OF MINNESOTA, AND FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. HELLER. Mr. Chairman, I confess I was told to take 10 to 12 minutes, and I will admit that even to make that I will have to

Speak, as one of our newsmen said about Senator Humphrey, at the speed of 100 words a minute, with gusts up to 200, and I will do my best.

What strikes me as strange, Mr. Chairman, in fact, unreal, on the occasion of the Employment Act's 30th anniversary, is that we basically have to fight the battle of full employment all over again. The words of the Employment Act are still there, but the commitment is not. No policy that projects unemployment at 6½ percent in 1978 and takes 5 years to get back to 5 percent—as President Ford's budget does—can be called anything but a rejection of the spirit of that act. And careful analysis, it must be added, shows that under proposed White House policies, that dismal projection is too optimistic.

A willing White House could breathe new life into the act that has served the country so well during most of its 30-year life. But a President whose leitmotiv is "we must stop inflation cold," and whose main anti-inflation weapon consists of huge buffer stocks of unemployment and idled industrial capacity can hardly be expected to provide that new spark of life.

A rededication to the principles of the act—and even more, a firm and binding commitment to those principles—may well require a new national debate and new legislation. The Humphrey-Hawkins Full Employment and Balanced Growth Act of 1976 provides the focus around which that debate should now take place.

The conference itself can be thought of as the kickoff of the congressional debate. It faces two critical assignments. First, to crystallize and define the national will on full employment. Second, to find new ways to carry out that will.

For the U.S. economy in 1976-77, in an economy running at least \$150 billion a year below its potential, the Keynesian prescription of stimulating aggregate demand can work rather well, spurring expansion without rekindling inflation.

While it has to be flanked by more direct and imaginative job-creating measures, the basic thrust must come from expansionary fiscal and monetary policy. But prescribing successfully for an economy just emerging from the pneumonia of deep recession remains far easier than curing the chronic headache of excessive unemployment coupled with excessive inflation. A balanced policy must seek new ways not only to generate full employment but also to hold inflation at bay in the process.

It is not an exaggeration to say that the country and the Congress face a critical fork in the economy policy road in 1976.

We can either follow the economic "austerity trail," haunted more by fears of inflation than by concern for the unemployed, beset by doubts about the capacity and resiliency of the U.S. economy, darkened by the shadow of public protest against big government, and studded with "go slow" signs posted by the White House.

Or we can follow the economic "prosperity trail," deeply concerned about unemployment and slack, yet confident in the great potential and adaptability of the U.S. economy; reassured by receding inflation and no excess demand in sight; and aware that the public may oppose big spending and bothersome controls, yet

support good programs and measures to speed the return to full employment.

To be sure, this road is posted with 55-mile-an-hour speed limit signs—but also with reminders that the minimum speed is 45 miles per hour.

But if the prosperity trail, the only acceptable one, is to lead to true and sustainable full employment, new ingenuity and new resolve will have to be applied to both job creation and inflation prevention.

Granted, the first step must be a more aggressive fiscal-monetary policy to take up some of the \$150 billion-plus slack in the economy. This means keeping the Federal Reserve's foot off the monetary brake and lifting the President's foot off of the fiscal brake. It means that both the Congress and the White House must keep in mind that fiscal responsibility and fiscal restraint are not synonymous.

Indeed, in terms of its impact on jobs and output, it is the President's budget that is fiscally irresponsible—it would deal a withering blow to the focus of economic recovery in 1977. So the first exercise in ingenuity will be for Congress to find ways and means of vetoing the President's fiscal program and exerting some leverage on the Federal Reserve to maintain an accommodative stance.

But fiscal and monetary policy alone cannot surmount the abiding problem that confronts us all: First, to create the 12 to 14 million jobs required between now and 1980 to absorb both the stream of new entrants into the labor force and the huge pool of unemployed workers and, in the process, cutting down the intolerable disparities between blacks and whites, men and women, teenagers and middleagers, core city residents and suburbanites, and so on; and second, doing so without touching off a new round of demand inflation later in the seventies.

This job simply cannot be done by pumping up the economy and assuming that the flow of job-creating demand will find its way neatly into the nooks and crannies and hollows where chronic unemployment exists.

So monetary-fiscal stimulus for expansion will have to be carefully coupled with more sharply targeted measures to improve labor information and mobility, to train and upgrade and employ the disadvantaged, and to tide the unemployed over with temporary jobs and retraining rather than transfer payments alone.

In the realm of direct job creation and measures to upgrade the work force, this conference will have the benefit of far more expert counsel than I can provide. The outstanding studies by the Congressional Budget Office—from whose head, Ms. Alice Rivlin, you will be hearing this afternoon—the superb work done by the Urban Institute, the contribution by other members of this afternoon's panel, and, indeed, the provisions of the Humphrey-Hawkins bill itself point the way for a frontal assault on the job problem.

Let me add just a couple of general thoughts on the subject. The first addresses itself to the criticism by both conservative and liberal students on the subject that temporary job assistance like the public service jobs program has been too costly, involves too many delays, and has sometimes been used for job substitution rather than job creation.

But it still remains true that the shortest distance between two economic points is a straight line, that if we want to use Federal money to create jobs, the most direct way to do it is to fund and fill jobs that are waiting to be done.

If the principle is sound, which it is, one should merely be able to improve the "delivery system." The policy resolve should be to eliminate the detours, sharp curves, and soft shoulders, not to abandon the road.

Second, one should carefully distinguish between the temporary employment programs to tide over those who are thrown out of work or denied a job by recession and slack from the continuing programs that are needed to reach those outside the economic mainstream. Here programs on the pattern of the job corps, the summer youth programs, job opportunities program, antidiscrimination measures, and a variety of other measures, and a variety of other steps to upgrade the skills and provide job experience for the disadvantaged must be developed and strengthened. All this is familiar ground.

Just as aggregative measures have to be interwoven with sharply focused structural measures in tackling the jobs problem, we have to employ a similar dual approach to the inflation problem. We have to gear policy to cope with the supply and price disturbances that disrupt demand management.

The oil price explosion was only one—albeit the most spectacular—example of sharp changes in supply prices that touch off major shifts in real income and buying power and require major fiscal and monetary adjustments to offset the resulting effects on aggregate demand.

Recent studies show that a considerable part of the doubling of industrial commodity prices, other than food and oil, in 1972-74—traces to speculative buying. The prices of primary metals, for example, rose 40 percent more than one can account for by past relationships of prices to the needs of the industry.

What lessons should the policymaker draw from this? First, that demand management alone—relying on those buffer stocks of the jobless and of excess capacity to contain inflation—is an inadequate answer in not only human but economic terms. The building up of buffer stocks of strategic raw materials in slack times to throw into the speculative breach during the next commodity squeeze—not to mention the vital need for buffer stocks of oil and food—ought to be a basic ingredient of stabilization policy.

Second, economic policy will have to develop more delicate sensors and antennas as well as a more agile response mechanism, first, to minimize surprises and, second, to maximize the speed of response to external shocks and developing internal bottlenecks. Policymakers might still be surprised, but they would not, one hopes, be quite so astonished.

The recent reform of the congressional budget process puts Congress in a new and better position to adapt its fiscal policy to changes in the economic environment. Whether this requires more formal economic planning and programing is an open question that the Humphrey-Javits bill and its backers in Congress and the economics profession will keep very much alive.

Out of the give-and-take on this issue, one may hope for at least a firm commitment in the White House and Congress to lift and lengthen the sights of the political process in dealing with economic policy—a commitment to draw on better data, horizon-scanning, and future-focused analysis for earlier detection of emerging trends, threats of shortages, and danger signs in both the national and international economy. It may require a White House agency, side-by-side with the Council of Economic Advisers, to give form and focus to this function.

In the face of powerful producer groups—labor, business, farmers, and so on—no long-run policy can deliver both full employment and contain inflation without some curbing of price and wage appetites.

On both sides, there is enough clout, enough market power, to enforce income claims that add up to more than the total output pie at existing prices.

We must find a formula for lowering the norm for price and wage advances in the noncompetitive sectors of the economy, must develop and apply some guidelines and restraints for concentrated industries and powerful unions that will curb the price-wage and wage-wage spirals. And the time to install such limited restraints is precisely when the economy is operating far below its output potential. Once it gets there, it is too late—only more onerous controls will then do the job.

In the grander design, an incomes policy must seek an economic disarmament agreement in which labor and management agree to settle for slower advances in money income in exchange for less inflation, that is, without sacrificing real income. To forge such a social contract—and to provide the tax or other inducements, especially to labor, to initiate and maintain it—is at best a difficult task. But unless ways are found to deescalate income claims, the prospect of attaining full employment without either unacceptable rates of inflation or unwanted degrees of wage-price control remains clouded.

The U.S. economy of the midseventies has enough leeway for expansion to permit a long advance toward our employment objectives. Good analysis and good policy could achieve some significant output goals without a resurgence of inflation.

But without some innovative social engineering, skilled economic management, and good luck, the country will again face hard choices and uncomfortable trade-offs between jobs, prices and controls in the late seventies.

So, in the fourth decade of the Employment Act's life, a redoubled commitment both to make full employment—the right to a job—a reality and to shield the country from intolerable inflation in the process should be at the top of our economic agenda.

Chairman HUMPHREY [presiding]. Mr. Heller, we thank you very much for your statement, and I am sure that Senator Javits indicated the format that we will have—your presentations and then the discussants afterwards. We are in the process here on this side of listening and prodding.

Ms. Alice Rivlin, we welcome you here. Alice Rivlin is the Director of the Congressional Budget Office and one of our most respected and admired public servants, and we are really happy to have you here.

STATEMENT OF MRS. ALICE M. RIVLIN, DIRECTOR,
CONGRESSIONAL BUDGET OFFICE

Ms. RIVLIN. Thank you, Mr. Chairman. I am delighted to be here to celebrate the 30th anniversary of the Employment Act and the Joint Economic Committee.

I think perhaps the most important thing to be said about the Joint Economic Committee is that it has, over the years, raised the level of debate about economic issues, almost unbelievably, provided a forum for discussion of economic policy, and has had a significant influence on that policy.

Unfortunately, it is often revealed that there are no easy answers. If we all perceive now that things are more complicated than they were thought to be 30 years ago and that we do not always know what to do about the economy, it is partly to the credit of the Joint Economic Committee.

One change over that 30 years is clearly the degree of public awareness and concern with economic statistics. The unemployment rate, the consumer price index, the wholesale price index, industrial production, all are front-page news every month with analysis and caveats about what the changes might mean or might not mean.

This is generally good, if one believes that more information leads to better policy, but I wanted to say one thing today about the focus on the unemployment rate. Perhaps economists, in focusing on the unemployment rate, have tended to mask the real importance of what unemployment represents. The unemployment rate, after all, is a proxy—it is not important in itself, it is a proxy for the underutilization of the whole economy.

In a recession, sales fall, production falls, incomes fall, profits fall. The unemployed themselves bear the heaviest burden of this underutilization of economic capacity, but they do not bear it alone. I stress this, because, as I go about the Hill, I have had a number of Congressmen and Senators say to me, "But unemployment only affects 7.6 percent, or 9 percent, or whatever it is, of my constituents, and inflation affects everybody."

I think that is an error to which the focus on the unemployment rate has contributed, and we should, perhaps, be thinking more generally of the rate as a proxy for costs of underutilizing our economy which, like the costs of inflation, are very generally spread.

But unemployment rates are also a proxy for something else, for differential chances in life among the various groups of the population. The fact that the black unemployment rate is higher is a reflection of a lot of things: Of lower education levels, of past and present discrimination, and of the nature of the jobs that blacks hold.

Recession widens the absolute difference between black and white unemployment rates.

Teenage unemployment is high, and that is, in itself, a symbol of the fact that we don't have a good way of getting young people into steady jobs in the labor market.

One would expect somewhat higher unemployment rates among teenagers as they shop around for jobs, but surely not as high as present rates, and not the huge increases in the unemployment rate resulting from a recession. The population in the 16- to 24-year-old bracket accounts for about 20 percent of the labor force, but this

group accounted for nearly half of the recession-induced unemployment increase between 1973 and 1975.

Women are a somewhat different case. They do not necessarily have high unemployment rates because they hold bad jobs. They are concentrated in the steady job, white-collar occupations and they don't shift around very much. There, the problem is partly the crowding of females into occupations considered female, and therefore, a job market results which is not open to males and females alike.

So we have these two problems. Nobody is disagreeing really on the direction of change, the aggregate unemployment rate is too high, and the differentials are too wide. But we have to work on these two problems at once, on the low level of economic activity and on the problem of equal opportunity.

The best single thing that one could do to change the differentials, to help the unemployment rates of blacks and women and teenagers, would clearly be to get the overall rate down, but this won't solve the differential problem by itself. It is still true that one has unacceptable levels of unemployment among blacks, women and teenagers, even when the white adult male rate is at the full employment rate.

This is not just a sad cost barrier imposed on these groups. It reflects a barrier to the economy running at full capacity. In a world in which women and blacks could compete for the same jobs, one could run the economy at higher capacity without running into inflationary problems, without running into bottlenecks, and without the white male unemployment rates beginning to rise before full employment is achieved for everybody.

This suggests, of course, what Walter Heller was mentioning a minute ago in that I regard inflation as still a problem, when one is talking about how far to go with reducing unemployment by any means, or particularly by fiscal policy and monetary methods.

One has to admit, as an economist, that inflation is an area of tremendous uncertainty at the moment. We aren't very sure, any of us, about what to do about it.

It is true that in the last couple of years we have seen inflation unrelated to tight labor markets and to the things we used to think that inflation was related, but it doesn't mean that the Phillips curve has been repealed and we can now have a rapid return to low unemployment rates by fiscal policy and monetary means alone without worrying about inflation.

We have to move with some caution, and one has to, I think, still rely on past analyses of past relationships to get some idea of where the danger points might be if one moved too rapidly with economic stimulation. The estimates we have done at the Congressional Budget Office have raised a red flag—if we move below 4 percent unemployment or if we move to 4 percent too quickly—we will have an inflationary problem.

No one is absolutely sure about that, but analysis of the past would lead one to that conclusion.

Hence, we have the question of how much to use fiscal and monetary policy and how much to seek other instruments, such as public service employment or counter-cyclical grants that might increase the number of jobs with a lesser inflationary cost.

The question is clearly the mix of policies. We have at least four kinds of policies available for the Congress to use. There is fiscal and monetary policy where one does have to weigh the risks of inflation against the gain of the reduction in the unemployment rate.

There are various kinds of what might be called targeted job problems aimed at reducing recession unemployment faster than one might do it with aggregate policy; and there are various kinds of targeted jobs in training and other kinds of programs aimed at a different objective, that of reducing the differentials in the unemployment rates even at full employment—and one doesn't have to wait until one gets to full employment to do some of those kinds of things.

The dilemma that has to be kept in mind as the Congress formulates these different kinds of policies is that the different objectives do lead to the design of different kinds of programs. If one is really using public service employment to combat recession, then one wants to make the pay rates reasonably low and the jobs not too attractive so that people will move out of public service employment as the economy improves.

On the other hand, if one is using public service employment to bring people who do not otherwise have good job skills into the labor market and let them work their way into better jobs, it creates a different kind of a program in a longer term sense. It is a more difficult thing to do, but presumably just as necessary.

Finally, there is the question of unemployment compensation, which is a very necessary program at a high level of unemployment. But as one looks across at the Federal budget at the various choices, it is clear around \$19 billion is being spent to pay people not to work and only about \$5.3 billion is spent on jobs creation, and one wonders if that is an appropriate allocation of Federal resources.

Let me end where Walter Heller ended: It does not seem, from an analytical point of view, that there is any magic number below which we cannot push unemployment. It is a question of the will and it is a question of choosing the right mix of policy.

Chairman HUMPHREY. Thank you very much, Ms. Rivlin.

[The prepared statement of Ms. Rivlin follows:]

PREPARED STATEMENT OF HON. ALICE M. RIVLIN

Mr. Chairman, Members of the Committee, and Invited Guests: Unemployment continues to be a focus of national attention and debate. It represents a waste of human resources that is reflected in a lower level of output of goods and services than could potentially be produced. Unemployment also places an undue burden on the individuals concerned. Not only is there the loss of income associated with joblessness, but skills deteriorate, seniority may be lost, not to mention the damage to an individual's sense of pride and self-esteem. Because the probability of being unemployed is higher for some persons and groups than others, full employment is not only the economic problem of restoring full-capacity production levels, but a social problem as well. Even at high levels of aggregate employment, differentials result in unequal chances.

Society can use four kinds of strategies to deal with unemployment: The first is expansionary fiscal and monetary policy; the second, targeted expenditure and tax programs that increase public and private employment; third, unemployment can be reduced by government programs that train and educate potential workers and that facilitate the functioning of the labor market. Finally, the government can supply direct cash assistance to reduce the financial burdens of unemployment.

All of these have costs, however. Fiscal and monetary policy tend to accelerate inflation as they reduce unemployment. Targeted employment programs

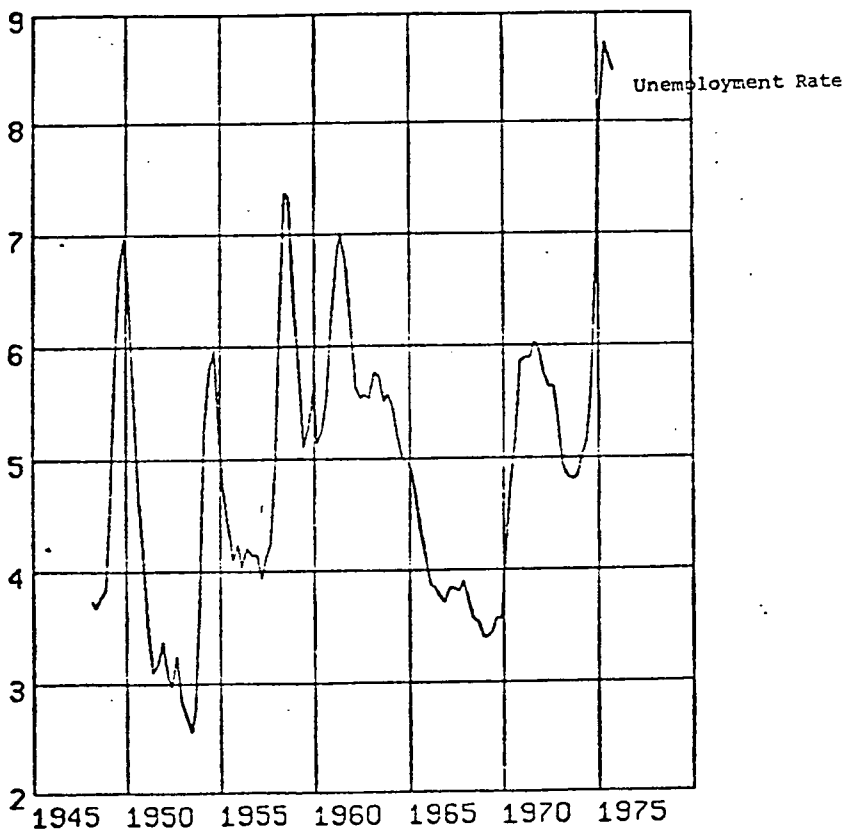
and training programs work only imperfectly. Unemployment assistance ameliorates the effects, but does not attach the basic problem. What is needed is a mixed strategy that combines the strengths of all of these.

I. BACKGROUND

During the three decades following the passage of the Employment Act of 1946, unemployment has varied widely. During the early 1950s, the unemployment rate fell below 3 percent and in 1975 the average unemployment rate was 8.5 percent. Over this time period, six major recessions and recovery cycles have occurred. While most of the variation in unemployment is the result of cyclical movements in the demand for goods and services, the unemployment rates achieved in relatively good times are higher than many people find acceptable. As shown in Chart 1, unemployment in the United States has not fallen below 4 percent since 1970. Thus, the definition and achievement of full employment and the choice of an acceptable combination of unemployment and inflation rates remain central issues within the federal policy debate.

CHART 1

The Unemployment Rate, 1945-1975



Source: Bureau of Labor Statistics

During the early years following enactment of the Employment Act, fiscal and monetary policies were the dominant mechanisms for lowering unemployment. During the 1960s, the federal role in facilitating and regulating the labor market (e.g., through equal employment opportunity policies) and in increasing work education and skill levels expanded dramatically. In the late 1960s and 1970s, the duration of unemployment compensation benefits and the fraction of workers covered increased and direct federal involvement in the unemployment compensation system expanded.

Two major questions need to be answered as the Congress considers the development of an effective and appropriate anti-unemployment policy:

How high a level of employment can be achieved using fiscal and monetary instruments alone before the inflationary effects become intolerable?

What are the effects of different mixes of the available anti-unemployment instruments on unemployment, employment and inflation during periods of high and low unemployment?

The federal budget provides one view of the current employment policy. In fiscal year 1976, \$5.3 billion in outlays are devoted to programs that create jobs directly. Outlays for programs that train and educate potential workers (including federal aid to education as a long-run antiunemployment program) are \$18.3 billion, and approximately \$19.9 billion in unemployment compensation benefits will be provided to unemployed workers.

The causes of unemployment are varied and create the demand for a mixed federal full employment strategy. Unemployment is both a cyclical and structural phenomenon. As such, it can be caused by a number of factors such as inadequate aggregate demand for goods and services; structural imbalances between the skill levels of available workers and the requirement of jobs; disparities between the geographic locations of workers and jobs; seasonal imbalances between the availabilities of workers and jobs; short-term layoffs or furloughs of workers by employers experiencing shortfalls of demand; and occupational and other barriers to certain disadvantaged groups in the labor force. Unemployment might also be increased or perpetuated by income assistance programs that aid the unemployed.

Just as its causes vary, so does the level of unemployment vary among segments of the labor force. Among the patterns that have been reflected over time and during the current recession are:

1. By Family Status: Although family heads normally have lower rates of unemployment, their unemployment has increased dramatically during the current recession. In January 1974, 1,533 household heads were unemployed. By November 1975, this number had grown to 2,980,000. Over a similar time period, the unemployment rate for household heads increased from 2.9 to 5.6 percent.¹

2. By Age: Younger workers have higher unemployment rates during periods of low aggregate unemployment and suffer disproportionately from recession-induced employment.² Although 16-24 year old workers account for only approximately 20 percent of the civilian labor force, they accounted for approximately 48 percent of the recession-induced unemployment between 1973 and 1974.

3. By Race: Nonwhite workers—of all sexes and ages—have higher unemployment rates than do their white counterparts during periods of both low and high unemployment. The gap between the unemployment rates of whites and nonwhites has grown from 4.3 to 6.1 percent during the recent recession.³

4. By Education: Unemployment rates of more educated workers are consistently lower than those with less education. In March 1975, the unemployment rate of college graduates was 2.9 percent while the rates for workers who had not graduated from high school and for all workers were 15.2 and 9.2 percent, respectively.⁴ Less-educated workers also account for disproportionate shares of recession-induced unemployment.

¹ Unpublished Bureau of Labor Statistics data.

² Recession-induced unemployment is calculated by subtracting the unemployment during periods of low aggregate unemployment from that during periods of high aggregate unemployment.

³ "The Impact of Economic Recovery on Unemployed Nonwhite and White Americans: A Preliminary Assessment," Congressional Budget Office, December 5, 1975.

⁴ Derived from *Manpower Report of the President*, April 1975.

5. By Type of Work: During recessions workers in some industries are more susceptible to high unemployment rates than their fellow workers. For example, workers in the manufacturing (for both durable and nondurable goods) and construction industries account for disproportionately high shares of recession-induced unemployment.⁵

Although the economic recovery is now underway, many workers are still unemployed. As shown in Chart 2, in February 1976, the average unemployment rate was 7.6 percent and the rates for teenage and nonwhite workers were even higher. The unemployment rates of workers in cyclically volatile occupations and industries also remain high: for instance, the unemployment rates for construction workers and nonfarm laborers were 15.5 and 14.1 percent in February 1976.

CHART 2

UNEMPLOYMENT IN FEBRUARY 1976

	Unemployment rate (percent)	Number of individuals unemployed (thousands)
Total unemployment.....	7.6	7,100
Males over 30 yr old.....	5.7	2,917
White.....	5.0	2,296
Nonwhite.....	11.2	590
Females over 20 yr old.....	7.5	2,522
White.....	6.7	1,960
Nonwhite.....	12.2	560
Teenagers 16 to 19 yr old.....	19.2	1,697
White.....	17.1	1,358
Nonwhite.....	35.2	330
Occupation:		
Professional and technical.....	3.6	489
Craft and kindred.....	6.7	808
Nonfarm laborers.....	14.1	693
Industry:		
Construction.....	15.5	668
Manufacturing—nondurable.....	8.1	713
Wholesale and retail trade.....	8.4	1,418
Government.....	4.4	693

Source: Bureau of Labor Statistics.

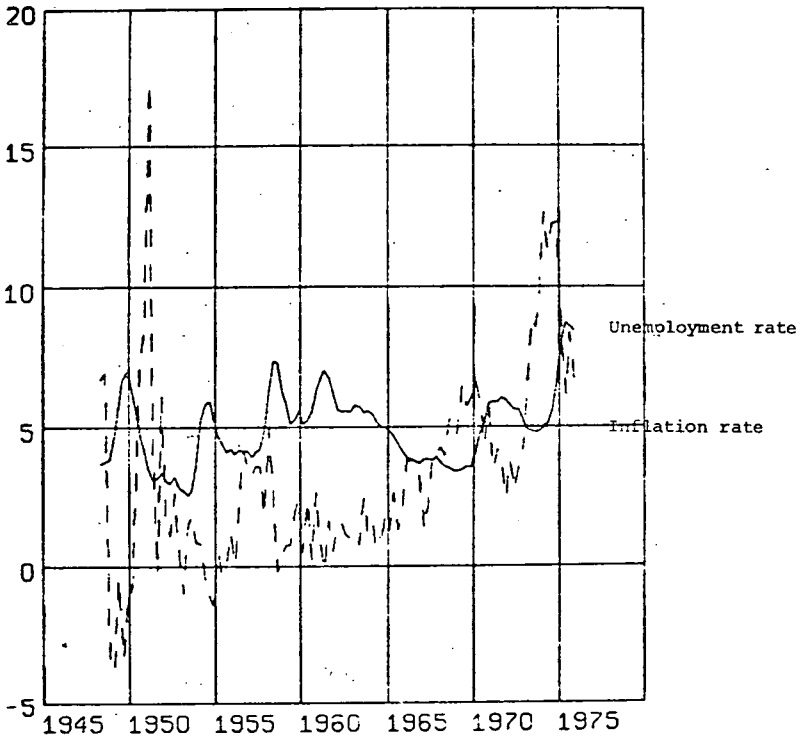
II. WHAT IS FULL EMPLOYMENT?

Much of the unemployment in the United States today is the result of the depressed state of the economy. Restoration of a high level of demand for goods and services is a necessary condition for achieving full employment, although high demand will not do the job by itself.

Indeed, one fear is that a rapid increase in demand, propelled by an expansionary monetary and fiscal policy, would rekindle the inflation that only recently has begun to subside. A question that any full-employment strategy must address is how far unemployment can be reduced by raising aggregate demand without threatening another outburst of inflation. While it is not true that unemployment and inflation always go in opposite directions—the last few years have demonstrated that they can both go up together—high unemployment has been associated with low inflation and vice versa, for most of the last three decades. This is shown in Chart 3.

⁵ *Ibid.*

Inflation* and Unemployment, 1947-1975



*Inflation is measured by the rate of change in the Consumer Price Index.

Source: Bureau of Labor Statistics

The chart also shows that for the last four years the unemployment inflation trade-off has deteriorated badly, with intolerably high levels of both going together. Various explanations of the perceived worsening of the trade-off have been suggested: increased monopoly power of business and labor that facilitated inflationary demands for higher profits and wages; a shift in the demographic composition of the labor force that increased the proportionate representation of teenagers and women—two groups whose relative high unemployment rates can be attributed in part to factors other than inadequate aggregate demand; and an expanded system of unemployment insurance and income transfers that might increased measured unemployment by facilitating longer spells of unemployment, encouraging people to stay in the labor force when they otherwise would have dropped out, and perhaps causing some work disincentive. More generally, it has also been suggested that the expectation of inflation has in itself accelerated inflation as those who had the power to hedge in advance, did so.

None of these explanations has been proven. What is true, however, is that continued inflation or threat of inflation since 1970, has led the federal government to pursue a more restrictive economic policy than would have been consistent with full employment.

III. FISCAL POLICY AND FULL EMPLOYMENT

Historical evidence alone cannot provide a definitive answer to the question of how far fiscal and monetary policy can bring the economy toward a full-employment goal. Unemployment rates below 4 percent were consistent with low rates of inflation in the early 1950s. Yet when unemployment fell below 4 percent in the late 1960s, inflation began to rise and in 1973, inflation took off once again when unemployment was 4.6 percent. Because we're currently experiencing a legacy of inflationary expectations that has followed in the wake of recent high rates of inflation, it is extremely difficult to predict how much inflation would be associated with any fiscal and monetary policy strategies adopted today.

However, it is likely that monetary and fiscal policies could bring unemployment substantially below its current rate of 7.6 percent without exacerbating inflation in the short run, although the long run effects of a more expansionary policy in accelerating inflation would be greater. In its Annual Report, released this week, CBO projected that if federal spending and tax programs are extended through 1977 on a current policy basis, the unemployment rate would be in the 6.4 to 6.9 percent range by the end of 1977. Inflation is projected to be in the 4.7 to 6.2 percent range in 1977. What would be the implications for inflation and unemployment if a more expansionary fiscal policy were adopted?

CBO has simulated the potential inflationary impact of achieving various unemployment targets. The analysis is based on the assumption that these targets are achieved through standard fiscal and monetary policies, not special tax incentives or jobs programs.⁶ The ranges shown for the inflation rates reflect different assumptions about the influence of past price changes on wage changes.

In these simulations, it was assumed that expansionary policies were enacted beginning in 1976:III (the third quarter of calendar year 1976), with the unemployment target achieved 24 months thereafter (in 1978:II) and remaining there through 1980. Further, it is assumed that wages and prices are allowed to rise unchecked, that is, no wage and price controls are imposed as the expansionary strategy is pursued.

TABLE 1.—PROJECTIONS OF INFLATION FOR DIFFERENT UNEMPLOYMENT TARGETS

(In percent)

Unemployment target for 1978:II.....	5.0	4.5	4.0	3.5
Percent change in Consumer Price Index for 1978.....	5.0-7.5	5.3-7.8	5.6-8.2	5.9-8.6
Percent change in Consumer price index for 1980.....	4.8-7.8	5.3-8.4	5.9-9.1	6.5-9.9

Table 1 shows the estimated change in the Consumer Price Index associated with achieving various unemployment rate targets in 1978:II. The effect is shown both for 1978 and for 1980. The two most noticeable effects in the table are that inflation is high, related to past history, and that inflationary effects lag, becoming greater later on than they are at the time unemployment is cut.

Predicted inflation even for a 5 percent unemployment target is high, relative to experience in the 1950s and early 1960s. This most likely reflects a legacy of inflationary expectations generated in 1973 and 1974 that will require time to work out of the system. The difference between achieving a 4 percent, versus a 5 percent unemployment target, is 0.6 to 0.7 percentage points on the CPI in 1978 and 1.1 to 1.3 in 1980. When unemployment was reduced to 3.5

⁶The simulations are based on a two-equation wage-price model in which there is a lagged mutual interdependence between wages and prices; price changes depend in part on wage changes and wage changes depend in part on current and past price changes. A technical paper describing the model in detail is available from the Fiscal Analysis Division, Congressional Budget Office.

percent in these simulations, inflation increased somewhat more, with near "double-digit" rates becoming a threat by 1980. (The high end of the range, 9.9 percent, was derived from an accelerationist version of the simulation model in which the response to wage changes to past price changes is assumed to be unity in the long run.)

Fiscal policy alternatives

There is no single unemployment rate that denotes "full employment." The choice of a degree of fiscal stimulus depends ultimately on how much inflation one is willing to live with; (or whether one views wage and price controls as a feasible and effective supplement to fiscal policy). For purposes of illustration, CBO has simulated three sets of fiscal policy alternatives that would provide an added stimulus to the economy to reduce unemployment to 4.0 percent range within two years (with inflation rates between 5.6 and 8.2 percent at that time and between 5.9 and 9.1 percent by 1980). To achieve 3.5 percent unemployment (and added inflation) somewhat more stimulus would be required; to achieve 4.5 percent unemployment (and less inflation) less stimulus would be needed.

Three sets of policy alternatives: increased government spending (80 percent purchases; 20 percent transfer payments), tax cuts (80 percent personal; 20 percent corporate), and a combination of the two, are shown in Table 2. Although the paths to the 4.0 percent unemployment target can be timed in different ways, the timing used in this illustration causes unemployment to fall most rapidly in the first year, and then to approach the unemployment target slowly in the second.

Changes in spending and taxes are shown relative to the current policy budget as reflected in the Second Concurrent Resolution on the Budget by Congress. In the current policy budget, the tax policies currently in force are extended and outlays are adjusted for inflation and changes in the number of persons eligible for benefits. If the current policy budget remained in force, unemployment would be in the 6.2 to 6.4 percent range by the middle of 1978 with inflation running from 5.0 to 6.0 percent.

Achieving 4 percent employment by mid-1978 would require larger budget deficits. The size of the additional deficit would depend on the expenditure/tax package selected, since tax cuts are less stimulative dollar-for-dollar than additional outlays. If government outlays only were increased, the deficit in mid-1978 would be \$35 billion to \$40 billion higher than if the current policy budget were followed. With the combined fiscal strategy, the deficit would be from \$70 billion to \$75 billion higher than for a current policy budget by mid-1978.

For purposes of these simulations, monetary policy was assumed to be more expansionary than projected for a current policy budget but less than fully accommodative. That is, interest rates were allowed to increase somewhat in response to the more expansionary fiscal policy. If monetary policy were fully accommodative, then the increased deficit associated with achieving the 4.0 percent unemployment target would be lower.

It should be emphasized that the estimates in Tables 1 and 2 are based on assumptions about relationships that may not hold in this particular recovery. The private economy could be stronger or weaker than is projected here. Crop failures here or abroad, a major strike, a rapid rise in short-term interest rates—all contrary to the assumptions underlying these estimates—would change the outlook for inflation and unemployment.

It is clear, however, that a rapid return to full employment would require very large departures from a current policy budget. A more gradual path of recovery, bringing unemployment into the 4 percent range by 1980, would require less fiscal stimulus from the federal budget. Further measures such as public service employment and tax incentives especially designed to encourage employment might have a greater job-creating potential per dollar of federal government outlay. If such measures were part of the overall budget policy, the expenditures and tax changes required to reach the 4 percent unemployment target would be somewhat less.

IV. CAN WE DO BETTER?

Because insufficient demand for goods and services is not the only cause of unemployment, fiscal and monetary policy alone cannot be relied upon to eliminate it altogether. It is unlikely that aggregate demand measures could

reduce unemployment much below 4 percent without risking another round of high inflation, and, indeed, the inflation that goes with the rapid approach to 4 percent discussed in the last section is substantial. Thus, other measures must be sought to reduce unemployment still further.

Before considering the policies needed to achieve full employment, it is important to examine some factors that contribute to the persistence of unemployment even in tight labor markets. This in turn provides a basis for evaluating alternative full-employment goals (in terms of the percent of the labor force unemployed) as well as considering the potential effectiveness of alternative full-employment policies.

Job-related factors

Certain groups of individuals—blacks, teenagers, women, and the unskilled—have high rates of unemployment even when the overall demand for labor is high. As shown in Table 2, the average unemployment rate for adult white males in high-employment periods since 1950 has been only about 2.3 percent, compared with 5.3 percent for black males, 9.8 percent for white teenagers, 27.8 percent for black teenagers, and 3.4 percent and 6.8 percent for white and black women, respectively.

This persistent inequity, even in prosperous times, suggests that the relatively high unemployment experienced by some groups will not be remedied by fiscal and monetary policies alone. When unemployment is already low, such policies may only increase demand for skilled, adult white males, driving up their wages without much effect on unemployment and wages for other groups.

To a large extent, the relatively high employment rates of certain groups are related to the jobs these people hold when employed. Blacks, teenagers, and the unskilled have one thing in common. They tend to hold jobs at the bottom of the labor market hierarchy. They predominate as laborers and low-level sales and service workers. Although they are disproportionately represented in the industries with high employment variability, even in stable industries they have relatively high unemployment rates. They become unemployed frequently, because they are fired, because they quit, and because they leave and reenter the labor force. There is little incentive for employer or employee to maintain a long-term relationship since there is little, if any, on-the-job training and hence, no pay-off to seniority. Job satisfaction is low, and this also weakens job ties. The employer can find an equally unskilled replacement and the worker can expect to find another equally poor job, particularly in tight labor markets. Duration of unemployment is not long on the average for these groups, but unemployment occurs frequently.

TABLE 2.—FISCAL POLICY ALTERNATIVE TO ACHIEVE A 4.0 PCT UNEMPLOYMENT TARGET IN 2 YEARS¹

[Dollars in billions]

	1976:III	1976:IV	1977:II	1977:I	1977:II	1977:III	1977:IV	1978:I	1978:II
Unemployment rate (percent)	(7.1-7.5)	(6.6-7.0)	(6.0-6.4)	(5.3-5.7)	(4.7-5.1)	(4.2-4.6)	(3.9-4.3)	(3.8-4.2)	
I. Increased Government purchases only; change in Government expenditures		\$5.0	\$18.0	\$34	\$53.0	\$67.0	\$85.0	\$89.0	\$89.0
II. Tax cut only; change in taxes		-10.0	-35.0	-64	-99.0	-121.0	-145.0	-157.0	-157.0
III. Combined fiscal strategy; change in Government expenditures		2.5	9.0	17	26.5	33.5	42.5	44.5	44.5
Change in taxes		-5.0	-17.5	-32	-49.5	-60.5	-72.5	-78.5	-78.5

¹ These policies represent changes from the current policy budget as reflected in the Second Concurrent Resolution on the Budget. Monetary policy is assumed to be more expansionary than is projected for a current policy budget, but less than fully accommodative.

For teenagers, frequent job changes may reflect an attempt to sample the job market, and hence, may be productive in the long run, enabling the youth to seek an occupation he most enjoys. For blacks, the unskilled, and disadvantaged persons, however, frequent job changes reflect a lack of upward mobility in the labor market hierarchy, engendering an attitude of futility and alienation in a society attuned to progress and individual opportunity.

The situation for women workers is somewhat different. While some women workers, particularly blacks, hold very low-level jobs, many women hold fairly stable, white-collar jobs, such as secretary, nurse, and teacher. The major barriers facing these women are occupational. Most women are concentrated in a small number of occupations where women predominate.

Frequency of unemployment is not as serious a problem for women as for blacks and teenagers since women hold more stable jobs and quit rates are no higher than for men. Rather, they experience more longer spells (durations) or unemployment because, once unemployed, they spend more time looking for work. If they are second earners in a family, women might take longer to find a job because there is less urgency to take the first offer available. Women may also be less flexible in their job requirements due to their lack of mobility and their household responsibilities. Some analysts contend, however, that family characteristics play little if any role in explaining duration of female unemployment. According to this view, limited opportunities in the job market and limited aspirations of women themselves have produced an excess-supply situation in traditional female occupations as women have entered the labor force in increasing numbers without broadening their occupational representation.

One could argue that unskilled individuals, teenagers, and women will always have relatively high unemployment rates. For the unskilled, there will always be a weak job attachment, particularly in society whose ethic is progress and individual opportunity. In some other industrial countries of Europe and Japan, unskilled workers change jobs less frequently, jobs are taken for life and there is a strong resistance to layoffs on the part of labor unions. Yet in those countries, there is less chance of an individual improving his lot by finding a better job and upward mobility is less likely.

Frequently sampling of various jobs may enable a teenager to select a career and hence, some of the high rates of teenage unemployment may reflect a necessary adjustment to the realities of work. Women, too, given the established pattern of sex role behavior may incur more unemployment than men, even if all occupational barriers were removed. Some married women, for instance, may view their jobs as secondary to their household responsibilities, and hence may remain unemployed longer due to inflexible job requirements.

Even for those with a looser attachment to the labor market, jobs that provide some sort of on-the-job training and upward mobility within their firm will increase incentives for both employer and employee to maintain the work relationship. As a short-run measure, subsidized training programs to upgrade skills could both increase the employability of such workers and strengthen their job attachment. By reducing turnover for disadvantaged workers, such policies would reduce the high-unemployment rate, allowing an increase in the full-employment target.

Reducing teenage unemployment would also mean a higher full-employment goal. To the extent that a certain amount of "sampling" of the labor market is deemed desirable, the acceptable unemployment rate is likely to be somewhat higher for teenagers than for other groups. However, some measures to reduce teenage unemployment could be effective. These include improved career and vocational counseling and increased career and vocational emphasis in school curricula that would reduce the incidence of job mismatches and job search through trial and error. Training programs that ease the transition from school to a working environment might also be beneficial.

Measures to reduce the cost to employers of hiring teenagers might also offset some of the risks associated with such hiring (such as lack of previous work history and anticipated high turnover rates). One such proposal is to reduce the minimum wage for teenagers. But minimum wages do result in higher wages for those workers who are able to obtain employment, and thus other measures could be sought to reduce the cost to employers of hiring teenagers and other low-productivity workers. Exemption from social security taxes or outright subsidies to firms hiring teenagers are possible alternatives. Since such measures might displace unskilled adult workers from jobs, however, their results are not unambiguously favorable.

In the case of women, unemployment results in part from limited job opportunities and barriers to entry from many occupations. It may also be traced to attitudes held by women themselves who limit their goals to traditional female pursuits. If, by breaking down occupational barriers and widening women's labor market goals, as well as ending discrimination against females, women become more equally distributed among occupations then it is likely that female unemployment will decline more rapidly in response to overall economic growth. More competition between women and men in the labor market as women increase their labor force participation and attachment could potentially moderate inflationary wage pressures in occupations traditionally held by men. In addition, career counseling and retraining may widen occupational choices and reduce excess supply problems in certain female-dominated occupations. Special programs for older women reentering the labor force after the child-bearing years have been extremely successful in reducing female unemployment in some European countries.

Targeted employment policies and the full employment goal

As shown in Table 3, adult women represented 35.6 percent of the labor force in 1975 compared with 26.8 percent in 1950. Teenagers are 9.5 percent of the labor force today compared with 6.8 percent in 1950.

Suppose that measures to broaden the occupational distribution of women could bring the female unemployment down to within 0.5 percentage points of the male rate. Teenagers are likely to have much higher unemployment rates than adults, even under optimal conditions, but their unemployment rates could conceivably be brought to within 2 percentage points of the adult rates with appropriate transitional counseling and training programs. (Experience in other countries suggests this is not an unrealistic target.) Finally, imagine that upgrading skills and improving chances for upward mobility among blacks could bring their unemployment rates to within 0.5 percent of the rate for whites.

If effective policies to achieve these goals had been pursued in 1973, the overall unemployment rate would have been 3.3 percent rather than 4.9 percent. In 1956, the overall unemployment rate would have been 3.3 percent rather than 4.1 percent. That is, in 1956 the unemployment rate would have been 0.8 percentage points lower; in 1973, it would have been 1.6 percentage points lower. Thus, it appears that special measures to reduce high unemployment rates of those particular demographic groups would, if effective, contribute even more today to reducing unemployment (and raising the full-employment target) than in the past. It should be noted, however, that measures to increase the access of these demographic groups to jobs predominantly held by adult white males are likely to raise the unemployment rate for adult white males somewhat. Thus, the effect on the overall unemployment rate could be overstated. However, even if the full-employment unemployment target could be reduced by 1 percentage point as a result of measures to reduce the relatively high unemployment rates of blacks, women, and teenagers, such measures combined with expansionary fiscal and monetary policy could potentially bring the overall unemployment rate to the 3 percent range.

TABLE 3.—UNEMPLOYMENT RATES BY DEMOGRAPHIC GROUPS IN SELECTED HIGH EMPLOYMENT PERIODS

	1951: II ¹	1952: IV ¹	1953: II ¹	1956: I	1957: I	1966: IV	1968: IV	1969: II	1973: IV	Average (all periods)
White:										
16 to 19 yr.....	7.6	8.1	6.8	10.6	10.2	10.7	10.6	10.7	12.8	9.8
Male 20 and over.....	2.3	2.2	2.3	3.0	2.8	2.1	1.8	1.8	2.8	2.3
Female 20 and over.....	4.0	3.0	2.5	3.5	3.7	3.3	3.2	3.4	4.2	3.4
Nonwhite:										
16 to 19 yr.....	(2)	(2)	(2)	16.1	18.7	23.7	25.3	25.0	28.2	22.8
Male 20 and over.....	(2)	(2)	(2)	7.1	6.8	5.0	3.8	3.6	5.4	5.3
Female 20 and over.....	(2)	(2)	(2)	7.2	6.2	6.8	6.1	6.1	8.1	6.8
Total.....	3.1	2.8	2.6	4.0	3.9	3.7	3.4	3.4	4.8	3.5

¹ Unemployment rates by race are not available before 1954. These numbers apply to all races taken together.

² Not available.

Source: Bureau of Labor Statistics.

TABLE 4.—CHANGES IN THE DEMOGRAPHIC COMPOSITION OF THE LABOR FORCE

Year	Share of labor force (percent)				Percent growth over 5-yr period			
	Number in labor force	Adult male (20 and over)	Adult female (20 and over)	Teen-agers (16 to 19)	Total	Adult male	Adult female	Tenn-agers
1950.....	62,208	66.4	26.8	6.8				
1955.....	65,023	64.8	28.9	6.3	4.5	1.9	12.9	(2.9)
1960.....	69,628	62.6	30.4	7.0	7.1	3.6	12.5	18.3
1965.....	74,455	60.2	31.8	7.9	6.9	2.9	11.8	22.1
1970.....	82,715	57.0	34.2	8.8	11.1	5.2	19.4	22.6
1975.....	92,613	54.9	35.6	9.5	12.0	7.8	16.5	21.6
1980 ¹	99,809	56.3	35.6	8.1	7.8	10.5	7.8	(8.0)
1985 ¹	105,716	57.1	36.4	6.6	5.9	7.4	8.3	(14.5)
1990 ¹	110,576	57.2	36.6	6.2	4.4	4.9	5.2	(1.1)

¹ Projections.

Source: Manpower Report of the President, April 1975.

Unemployment insurance

The foregoing has emphasized high unemployment rates for certain demographic groups in the labor market. A different sort of effect on the measured unemployment rate stems from the unemployment insurance system and other income maintenance programs.

Unemployment insurance is sometimes thought to increase the amount of unemployment, in good times and bad. For one thing, it may increase the length of time an unemployed person spends between jobs; the income support provided enables him to seek a preferred job rather than being forced to accept any work at the risk of starvation. In addition, the availability of unemployment insurance will increase measured unemployment to the extent that it provides an incentive to potentially discouraged workers not to drop out of the labor force. Further, in some cases, the unemployment insurance system may even result in a work disincentive because some individuals may prefer to collect unemployment benefits rather than work.

Some empirical evidence suggests that measured unemployment is perhaps as much as 0.3 to 0.7 percentage points higher under the existing unemployment insurance system than it would be with a much more limited system. The net effects of this disincentive are probably greater during periods of low unemployment when jobs are actually available. However, it is not possible to distinguish whether this is due to a work disincentive, the retention of potentially discouraged workers in the labor force, or to an increase in the time devoted to job search. While a work disincentive may be viewed as an undesirable result of unemployment insurance, it is not at all clear that providing income support for potentially discouraged workers or for a more productive job search for unemployed individuals is undesirable.

V. JOB CREATION

Fiscal and monetary policy to reduce unemployment rapidly run the danger of accelerating inflation. Improvements in the job market like those discussed in the last section work only slowly. Thus, to reduce unemployment still further in the short run, special programs to provide jobs for the unskilled and disadvantaged who have high unemployment in good times can provide major help. Jobs can be designed to strengthen the job attachment of these individuals: by enhancing their skills, providing unemployment stability, and a vested interest on the part of the individual and the employer to maintain the work relationship. Further, the jobs should provide new opportunities that widen the participation of such groups in the labor market and increase their chances for upward mobility. Such jobs could be public sector jobs that would provide a transition to regular private sector employment, or they could be subsidized private sector jobs: the cost to employers of providing such transitional experience to unskilled and disadvantaged workers would be temporarily reduced until the transition is completed.

A number of targeted expenditure instruments can reduce unemployment or maintain it at lower levels than those achievable by fiscal policy alone.

Properly designed, they may have less inflationary impact than broad fiscal and monetary instruments. Such measures include:

1. **Public Service Employment**—Job creating programs that either fund jobs in state and local governments or in federal programs. These programs can be used either countercyclically by hiring workers who remain unemployed even during periods of low aggregate unemployment.

2. **Accelerated Public Works**—Countercyclical programs that fund manpower intensive and short-term public works projects during periods of high unemployment.

3. **Countercyclical Assistance to State and Local Governments**—Aid to state and local governments designed to allow them to maintain services and employment levels during periods of high unemployment.

4. **Employment Tax Credits and Wage Subsidies**—Tax expenditures and direct outlays aimed at increasing or maintaining employment in the private sector. These can be used either countercyclically or to reduce unemployment during periods of low unemployment and they can either be general subsidies or targeted toward less skilled workers and new or additional jobs.

5. **Job Guarantees**—Programs that combine job placement services, private sector employment subsidies; and public service employment programs in order to publicly guarantee employment to workers. These may be used either countercyclically or to further reduce unemployment beyond those levels achievable by general fiscal and monetary instruments.

The effects of these expenditure programs and tax policies are uncertain because most of them have not been tried on any substantial scale. When implemented as demonstrations, they have not been carefully evaluated.

The net effect on employment of such programs is a function of the extent to which they add new jobs rather than simply replace existing jobs, the average salaries of the jobs they provide, and the proportion of their outlays accruing to wages and salaries. Their effect on the unemployment rate depends on the proportion of the newly created jobs that are held by formerly unemployed individuals. Both public service employment and countercyclical aid to state and local governments may be used to employ former state and local employees. To the extent that these individuals would have been laid off if federal support had not been provided, their jobs should be counted positively as direct program effects. To the extent that these state and local workers would have been otherwise employed by these units of government but have been shifted to payrolls supported by federal funds, fiscal substitution occurs and net program effects decline.

CBO has estimated the effects of a number of these programs. A countercyclical public service employment program with average salaries of \$7,500 and nonwage costs of 10 percent will probably increase employment by 73,000 to 121,000 per \$1 billion in outlays within twelve months following their initiation.⁷ Because these outlays will create tax payments and the additional employment will reduce unemployment compensation benefits, the net budget cost per \$1 billion of outlays will be approximately \$470 million.

The net effects of accelerated public works and countercyclical revenue sharing are different from those of public service employment because of differences in wage levels; proportions of expenditures going to wages; and expected rates of fiscal substitution. A countercyclical revenue sharing program might increase employment by 70,000 to 97,000 jobs at a net budget cost of approximately \$580 million per \$1 billion in outlays. An Accelerated Public Works program could create between 57,000 and 70,000 jobs per \$1 billion in outlays at a net budget cost of approximately \$525 million.

To compare these targeted programs with a broader application of fiscal policy, a general increase in government purchases would increase employment by 40,000 to 70,000 jobs per \$1 billion in outlays. This is a bit more than half the estimated effect of public service employment.

The effects of tax and tax expenditure instruments oriented to stimulating increased private sector employment are more difficult to predict. There has

⁷ See "Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives," Congressional Budget Office, September 2, 1975, assuming 25-75 percent fiscal substitution and 1.6 multiplier.

been little experience with employment tax credits, and the responses of private employers to subsidies that reduce labor costs are highly uncertain. These provisions may alter employment patterns in one of two ways. A provision which provides workers with incentives to enter the workforce will increase the supply of labor and, if demand is sufficient, reduce the unemployment rate. Second, employers' demand for labor may be increased directly by reducing the cost of labor relative to the cost of capital through targeted tax expenditures.

Currently, the earned income credit offers a credit to low income earners in an attempt to induce more people into the workforce. This credit is not a universal approach to reducing unemployment since it is only available to low income workers who have dependent children. The credit to employers for employing public assistance recipients under the work incentive (WIN) program is the only tax provision which is explicitly designed to increase the demand for labor. A 1975 amendment temporarily broadened this credit to apply to other AFDC recipients besides those in the WIN program.

One possible new approach using the tax system would be an employment tax credit designed to increase the demand for labor by providing a tax credit to employers for hiring more people. An ETC would tend to increase the amount of labor and decrease the amount of capital used. Substituting an employment tax credit for the existing investment tax credit would provide some incentive for firms to hire more labor rather than buying additional capital equipment. The short-run employment effect would have to be weighed against the long-run effect of reducing overall productivity in the economy.

Furthermore, tax credits have no magic. They are one way of distributing federal funds, and they do so in a fashion which harms the tax system and possibly public confidence in it. Thus, unless there is a compelling reason, direct subsidies would appear to be preferable to more tax expenditures.

The long-term and short-term effects of a job guarantee policy are even more difficult to estimate. To the extent that high unemployment rates for disadvantaged groups in the labor force result from frequent job changes associated with job satisfaction and attempts to improve one's labor market position, the guarantee of a job is not likely to reduce unemployment for these groups unless the job provides some upward mobility that will increase job attachment. However, if public service jobs are made more attractive than private sector alternatives, workers will be drawn from the private sector, increasing the cost of the public jobs programs and driving up wages in the private sector. Over the longer run, however, this could result in improved working conditions in the private sector.

Chairman HUMPHREY. I hope that our discussants are taking copious notes, because what I want to provoke here is not so much a discussion on the part of the staff of the JEC or myself or my other colleagues, but an interchange between the panelists and those of you we have invited, because this record will supplement normal congressional hearings.

I am going to vary our listing here a little bit, and for one reason only, that since Mr. Keyserling was a former Chairman of the Council of Economic Advisers and was Vice Chairman at the time this act became law, I thought we would hold him up as a sort of a swing hitter, in order to have a perspective from the beginning to the present.

Mr. KEYSERLING. After what I have heard thus far, Mr. Chairman, I would be delighted to speak last.

Chairman HUMPHREY. We will get you involved later.

I think we will ask Mr. Hendrik Houthakker of Harvard University to proceed.

Mr. Houthakker, I believe that Senator Javits presented your background here in a short synopsis form, so we thank you and appreciate your coming.

STATEMENT OF HENDRIK S. HOUTHAKKER, PROFESSOR OF
ECONOMICS, HARVARD UNIVERSITY

Mr. HOUTHAKKER. Thank you, Mr. Chairman. As a former member of one of the institutions helped out by the Employment Act and as one who has had the privilege of testifying before this committee many times, I am happy to be present at the celebration of the 30th anniversary and I share the feelings expressed by the other panelists that the celebration is really an occasion for stocktaking.

Although the unemployment rate that we have at the moment does not give a very accurate picture of the state of the labor market, the recent behavior of the economy raises serious questions about the relevance of the Employment Act of 1946 to contemporary conditions.

We have not yet found a good way of combining reasonably full employment with reasonable price stability. The Employment Act itself fails to address this dilemma, but public concern forces policymakers to counteract inflation even at the expense of employment, and thus to ignore the law. Even if the public were prepared for it, continued inflation would probably not ensure continued high employment.

Our political and economic system derives its strength from widely dispersed private initiative with the Government playing an essential but limited role. While Government intervention has been growing, its contribution to the public welfare has come under increasing criticism. This is in part because many Government programs of recent years were enacted on the basis of good intentions rather than adequate analyses of their likely effects. By the time their effects can be assessed, many of these programs have acquired a constituency of their own and are considered politically untouchable. As a result the discretionary element in Federal expenditures, so necessary to carry out the mandate of the Employment Act, has virtually disappeared.

The general level of taxation is so high that only tax reductions can be seriously contemplated. As a result, the Federal budget is in chronic deficit and fiscal policy difficult to execute.

Moreover, many of the Government programs of recent years are in the nature of transfers, which means that those who pay for them do not consider the benefits part of their real income. Although it is often suggested that these programs are paid for by "the rich," or could be paid for by them if tax loopholes were eliminated, the fact of the matter is that the bulk of the tax revenue comes from ordinary working people, and that no conceivable amount of tax reform can alter that basic fact significantly.

These working people and their unions, therefore, look at their after-tax incomes when it comes to wage demands and labor force participation. The macroeconomic effects of large transfer programs merit more study than they have had so far. It is conceivable that the greater disposition of married women to look for outside work is less the result of Women's Lib than of falling real incomes after tax; since many of these wives cannot find work at prevailing minimum wage rates, they add to the unemployment rate.

The same illusions about who ultimately pays lies behind the

idea of sharing with States and local governments. Many of its defenders argue as if the Federal Government has large sources of revenue that are available only to it. The fact is that by and large, the taxpayers are the same at all levels of government.

Because of the mistaken belief that grants from Washington come free to lower levels of government, the latter are encouraged to make expenditures they would not have made from their own revenues; generous pension schemes for State and city employees adopted in the last few years are an example.

Now that revenue sharing has also become politically untouchable, the opportunities for fiscal policy are further reduced.

The gradual emasculation of fiscal policy has shifted the burden of macroeconomic policy to the monetary authorities whose decisions are largely independent of political control—and perhaps that is just as well. The economic fluctuations of recent years appear to result largely from changes in monetary policy, both here and abroad. Monetary policy operates to a large extent on nominal, rather than real, GNP and is therefore a clumsy tool for correcting unemployment.

The performance of monetary policy, and for that matter fiscal policy if it could still be practiced, depends critically on the response of money prices and money wages to variations in aggregate demand. Unfortunately this response appears to have become weaker over time, partly as a result of government intervention in the form of regulation, price controls, import quotas and the like.

Congress in particular has been far too eager to interfere with the price mechanism. Perhaps the outstanding case in point is energy, where recent legislation has made us more vulnerable to exploitation by OPEC than we need to be.

It is too often overlooked that the gasoline panic of 1974 was the consequence not of the Arab embargo, but of price controls; other countries that were hit even harder by higher oil prices had nothing like this totally unnecessary disgrace to a market economy, and have curtailed their consumption more effectively than we have.

The trouble with these and many other forms of Government interference is not that they put an undue burden on business but that they put even larger parts of our economy on a cost-plus pricing basis, thus weakening not only employment policy, but also efficiency. Competition is an essential part of a private enterprise economy. It should be encouraged not only in business, but also in the labor market, where union restrictions, especially in construction, and minimum wage laws are contributing to unemployment.

An important method of preserving and fostering competition is free international trade. Despite the large trade surplus of 1975 there is now evidence of resurgence of protectionism. The steel industry has long been committed to a policy of cutting output rather than prices in periods of weak demand, contrary to the ideal of full employment:

This policy is threatened by competition from imports and there are now again reports of an international steel cartel to be negotiated under U.S. Government auspices.

Any plans in this direction should at least wait for a thorough analysis of the problems of the steel industry, similar to the ones conducted in 1965 and 1971.

The protectionist pressures from other industries such as shoes and soybean processing should also be resisted pending impartial study.

The economic problems of recent years have revived interest in planning an old idea that has been tried many times but generally with little success. Effective planning requires a much better understanding of economic processes than we now have. Economics has made progress, but it is still far from ready for this kind of responsibility.

In a complicated economy such as ours, decentralized private initiative will contribute much more to the general welfare than bureaucratic direction, no matter how well-intentioned. What we need is not increased Government intervention, but abstention from the various forms of foolishness we are already engaged in.

Thank you.

Chairman HUMPHREY. I can hardly wait to get to you, but I am going to wait. I thought I should forewarn you of my deep interest in your commentary, and I found it provocative and informative.

Our next witness will be Mr. Eli Ginzberg who is chairman of the National Commission on Manpower Policy.

Mr. Ginzberg, you have been a member of this Commission, Director of this study for some time; is that correct?

Mr. GINZBERG. I am the initial chairman of that, but I was the chairman of the National Manpower Advisory Committee since President Kennedy's day.

Chairman HUMPHREY. Well, we surely welcome you. I know of no one who is more or better informed on manpower policies, and so we look forward to your testimony.

Please proceed.

STATEMENT OF HON. ELI GINZBERG, CHAIRMAN, NATIONAL COMMISSION ON MANPOWER POLICY

Mr. GINZBERG. I want to begin as did Arthur Burns by a little history. I was reminded only as I sat here this morning that I did a book on the long-term unemployed in New York City in the 1930s, and this book was used as evidence by General Walter Menninger to get the Employment Act written in 1946.

Of course, I pointed out in that volume, called "The Unemployed," the tremendous social and human destructiveness of having people out of work and having them wanting to work and having no opportunity for work. So I feel I have returned to the beginning.

Let me say that I have a prepared statement which I will make part of the record and I am sending over a formal set of comments on the Hawkins-Humphrey bill to Representative Hawkins.

Chairman HUMPHREY. Have you testified before his subcommittee?

Mr. GINZBERG. I have agreed that we would do it by letter, and I have prepared that letter.

Chairman HUMPHREY. You will share that letter with us?

Mr. GINZBERG. That is correct.

I also want to call attention to the fact that the National Commission has just now got in hand eight major chapters of a book called "Jobs for Americans," in which chapters have been contributed by Abronowicz, who looked over the entire history of the Employment Act since 1946; Solo, who has done a piece on unemployment and infla-

tion; Arthur Okun who has done a piece on new approaches to job creation; Omen who has a piece on the matching of macro and manpower policies; Brimmer who has a piece—which I don't think exists anywhere else—which is an up-to-date analysis and detail of the economic and income position of black Americans, which I would think you would want to get a handle on very early. It is a very exhaustive piece.

Then, we have a piece by Professor Bergmann on discrimination and employment problems and we have a very good piece by Lampman on the limitations of jobs and when income maintenance is needed. The last piece is by Juanita Krebs, who is a member of the Commission, on the issue of whether any gain results from the restructuring of the work problem.

Chairman HUMPHREY. Who will be publishing this?

Mr. GINZBERG. This is background for an American Assembly meeting that the Commission is sponsoring, and Prentice-Hall will have that in press right after the Autenhaus meeting which is in late May.

But we have copies of these pieces for you.

Chairman HUMPHREY. I understand that we have received the separate pieces and I was just wondering whether we ought to have those printed as a committee print.

Mr. GINZBERG. I would ask you not to do that, sir, because it is going to be generally available.

Chairman HUMPHREY. That is why I was asking how it was going to be handled. Thank you very much. We will abide by your judgment.

But we will steal from it copiously right afterwards.

Mr. GINZBERG. You are welcome to them immediately.

Chairman HUMPHREY. Thank you.

Mr. GINZBERG. Let me begin by saying that one of the questions that kept coming up yesterday and today is the question of a target figure on unemployment. I want to make a point that I don't think has been made too clearly yet, and that is the dynamic nature of the numbers of people who want to work in this society.

That is not a static number—and I do not mean that it depends on how many people become 18. I want to just review with you briefly the number of people whom we don't count whom I believe are potential job claimants. That is, you do know about the discouraged workers and the people who drop out. That is a sizable figure. But what one fails to include are the people who are forced out in the upper age groups. I am impressed more and more with compulsory retirement, and the number of useful Americans who are put on the shelf. I am further impressed with the number of handicapped people, who need work more than anybody else, in a certain sense, in order to participate in a society in which they are handicapped and therefore isolated, and who need the interchange of work setting.

I am impressed with the fact that every time the economy strengthens, a large number of the part-time workers become interested in full-time work. I am a little dubious about how we count the number of underemployed among the part-time workers.

Next, and very important, are the number of people who hang around schools. I have been in my 40th year, now, teaching at Co-

lumbia, and I think a large number of youngsters hang around school learning nothing. The truancy rate in the New York ghetto high schools runs about 40 percent these days.

So I would say that the only reason they are on the school rolls is because they have no place else to be. So I think we underestimate the number of youth who are interested in work.

The next one is the tremendous number of housewives. Since I have always thought that women were human and were equal citizens, I have never seen anything in the Constitution—I saw some things about blacks in the old days, but not about women—I see no reason why they are not entitled to work like anybody else, and everytime the job market strengthens, more and more women want to come out and work.

We have consistent errors by the governmental authorities in estimating the number of women who want to work. We are constantly underestimating that.

Next, I want to point out that I think we have large amounts of people on the farm and more particularly what the census calls "rural-nonfarm" who are waiting for jobs. They do a little bit of work, and therefore they are counted, but they are really underemployed, looking for decent jobs. Then we have this preposterous number of people who are getting transfer payments, and I would say a very high proportion of them would prefer to work. I don't know just what proportion. I don't think everybody who gets a transfer payment ought not to be entitled to it, but our Commission unequivocally thinks that the notion to pay people for 65 weeks in order not to work is, for a long-run policy of the United States, an insane policy.

That is, one ought to start to take the money that we have and decide very carefully how to use those moneys to do constructive things. There is obviously a lot of work. A lot of people want to work, and to continue with transfer payments without taking a second look at that, seems to me—

Chairman HUMPHREY. Have you ever talked to anybody in the Government about that?

Mr. GINZBERG. Oh, I have talked to people of all kinds.

Chairman HUMPHREY. I shouldn't interrupt you, but what you just said is so patently obvious and has been so to me, I can't understand how people that can count up to 10 haven't decided that what you are saying is sensible.

Mr. GINZBERG. I think I know why, Senator.

Chairman HUMPHREY. Well, tell me, please, because I am really getting ulcers over it, even though I have a family drugstore, there is a limit over how much medicine a guy can take.

Mr. GINZBERG. My guess is that it has to do with our failing system of economic accounting; that is, we just fail to understand what are the true costs of forcing people out of a society.

Let me repeat, or suggest to you, what we heard about the plight of Great Britain. I did another study in 1939 called "Grass on the Slag Heaps," the story of the Welsh miners. I prophesied—that book is available—then that England was going to pay a tremendous price for having neglected its human being the way it did and forced them into perpetual idleness.

There are quotations there that are just relevant to today. I am embarrassed to go back and look at my old books, because I would say that the extreme exacerbation between the trade unions and British management which underlies, in my opinion, most of the low productivity, does not have that much to do with the welfare society. It has to do with the fact that people in England don't work because they are constantly fighting.

That constant fighting is a direct consequence, in my opinion, of 10 years of excessive unemployment in Great Britain, the most extreme form of which was in those south Welsh valleys.

I never thought that I would live to see human beings not know the difference between one day and the next, including weekends, because the whole society had run down into nothingness.

I was in a town called Bryn Malla, the headquarters of Merthyr Tidwell at that time, in which 90 percent of the population—working population—had been unemployed for 10 years, which is a sure way to ruin yourself. And anybody who is speculating about Great Britain ought to go back and understand the relationships between what happened in the twenties and the thirties and what has happened to Great Britain since that time.

So I feel very strongly about the fact that if we don't understand that the game should not be to figure out how to minimize, the structural changes and feel that youth and women don't count, as my distinguished conservative colleagues do all the time, but to realize that there are two to three times the numbers of people in the United States who are interested in working. It is a great mistake.

Now, I was in Sophia, Bulgaria—I want to make another point. I don't think we are talking just about jobs. We had better talk about real jobs that the citizens of the United States are willing to pay for overtime. Otherwise, we are just kidding ourselves, because I have had enough experience in the military to know that you can be "busy doing nothing."

We used to say we used to need one corporal to two privates, and the three of them didn't do any work. So that I do think it is essential to keep in mind that we have meaningful work, and I do think, therefore, that this whole question of wages for public jobs is a critical matter.

I have been distressed—I testified before Representative Daniels' subcommittee in 1974 that I thought it was a mistake not to pay attention to the costs of different kinds of public jobs, and the reason being is that we cannot solve the income problems of American families through jobs, not through public jobs.

You know, you don't have to agree with Arthur Burns that they ought to be 10 percent below the minimum wage, but I don't think they can be very much above the minimum wage, if you are going to have a large-scale job support program for people who are at the periphery of the labor market. That doesn't make any sense to me.

Because otherwise, you just create a new segmentation of the labor market which I think will get us into all kinds of additional problems.

So I think we want productive jobs, and we want to use the public jobs—but I would agree with Alice Rivlin, you have to decide what you want to use them for. Now, the Congress has appropriated over \$1 billion a year for youth. I think we get very little service out of those billion dollars.

I would like to see public service jobs and training experience while the youngsters are still in high school so they can have 2 or 3 years to get somebody of skill that would really fit them into the labor market, and I think one can reprogram that billion dollars, and a lot of other billions. According to Ms. Rivlin's figures, we are now spending \$47 billion in and around manpower support and income transfer moneys. That's not chickenfeed. That is \$47 billion.

And I think it is essential for the Congress to think very hard, and for the administration to think very hard, and our Commission is doing so, and we will have a set of recommendations for you very quickly—we have a meeting next week, and we will come forward with a set of recommendations on how to move.

Let me, in conclusion, just call attention to a few of these ideas.

I have mentioned the fact that I think we could reprogram the question of moneys used for youth to improve both their skills and their work experience.

I have never understood why Operations Mainstream is good for a few farmers and not good for a few urban people. I happen to be a New York City fellow, but it is totally incomprehensible to me: Why can't a person 58 or 59 years old, who falls out of work a few years from being eligible for social security benefits, with no skills, no education, and unable to be reskilled do some useful public work?

It is totally incomprehensible to me as to why that is not an appropriate program to use for this type of person.

Next, I do think, and our Commission has so indicated in its first annual report that we have to look at the unemployment insurance system. Unemployment insurance does have an integral part to play, but that after 26 weeks, or some number of weeks—our Commission has not decided how many weeks to recommend—some of that money should be used in thinking about job search, training, and public service employment as alternatives.

It is intolerable to say to the taxpayers of the United States that they should keep on paying people not to work for 65 weeks. That is not a national policy; that is a national disgrace.

I would say further, I would like to call your attention to the fact that there are sizable disability payments given to people, and I am involved with a program called supportive work in which we take ex-addicts, ex-prisoners, AFDC mothers who have never worked, or who haven't worked for 3 or 4 years, and youthful delinquents, and we are trying to put them into a work situation because we are convinced that the only possibility of long-term social rehabilitation as well as economic rehabilitation of these people will come if they can be self-supporting.

So I would like to end by simply saying that I hope I don't have to do a study called "The Unemployed," which really conditioned my life in the 1930's for the 1980's.

Chairman HUMPHREY. Mr. Ginzberg, we thank you very much and we await the Commission's report, and I hope it will not be

another report that is just filed away. One of the dangers of all of these reports is that they fill up shelves and libraries and offices and the apparatus of the Congress is not sufficiently alerted or active enough to do anything about it.

And I hope, Ms. Rivlin, that you will see that the Congressional Budget Office takes a good, hard look at that report when it comes in. I know you will.

Ms. RIVLIN. We certainly will, Senator.

Chairman HUMPHREY. Because it is where the action is going to be. [The prepared statement of Mr. Ginzberg follows:]

PREPARED STATEMENT OF HON. ELI GINZBERG

Note: Since the National Commission for Manpower Policy is currently engaged in developing its recommendations about our employment strategy which will not be finalized before the fall of 1976, the following points must be viewed as indicative of its thinking, not as considered conclusions.

1. There is need to place the issues of jobs for all Americans able and willing to work at the top of the nation's agenda.

2. The human, social, and economic costs from a large shortfall of job opportunities goes far beyond the \$200 million plus calculated loss of GNP this year.

3. The number of potential applicants for jobs, not now included in the count of the unemployed includes many who are discouraged, the seriously handicapped, the premature retirees, a minority of part-time workers who want full-time work, many on the school rolls waiting for the job market to improve, many housewives who want to work, persons on the farm waiting for an opportunity to shift to a regular job, and many in receipt of transfer payments. No one knows for sure how many are represented these groups but they probably exceed the number of counted unemployed.

4. The fact that unemployment and underemployment bear particularly heavily on certain population groups and certain areas must be emphasized. Minorities and youth have rates that are five to ten times as high as white married men.

5. A first requirement to close the gap between potential job seekers and jobs is to improve the operation of macro-economic policies. The federal government must be concerned about a renewal of the inflationary spiral. Hence it should explore new ways of monitoring and dampening wage-price pressures as it resorts to more stimulative policies, including consultation with business and labor about the average size of wage and price adjustments.

6. Since potential job claimants have different needs these should be reflected by manpower policies that address them as for instance:

Reprogramming the \$1 billion plus of current expenditures for youth to provide for those who seek to enter the labor market at 18 or so a combined school-work experience over 2/3 years, involving both the private and public sector training slots.

When older unskilled men and women lose their jobs within 5 years of being eligible for social security, with little prospect of being reemployed, an expanded program such as Operation Mainstream appears appropriate.

Efforts should be made to convert the UI system, after a certain point—i.e. 26 weeks or so, into a manpower training, employment search, or public service employment.

Recipients of AFDC with no young children to care for at home should be encouraged to work part or full-time, in public service employment, preferably receiving manpower services that will increase their employability.

Those in receipt of disability payments should be encouraged to enter supported work programs and/or sheltered work shops to link them more closely to regular jobs.

Low income and minority group members with limited skills should have the opportunity for serious skill training and transitional employment (as under Titles I and II of CETA) so as to be able to improve their occupational status and income.

7. The more communities are able to develop a shelf of projects that are labor intensive the better the prospects for using PSE as a counter-cyclical

device. The federal government should also explore various tax and investment policies (such as are used in Sweden) to stimulate employment in the private sector in cyclical declines. The states should consider (as in N.Y.) whether it would be beneficial to use the UI system to help maintain more employees on the payroll but reducing their work week, and supplementing their reduced earnings via UI.

8. As the nation moves toward a full-employment policy it is desirable that it experiment with the following complex issues and learn as it goes:

(a) How to create *productive* jobs in the public sector the output of which the public recognizes as being worthwhile and is willing to pay for.

(b) The establishment of wages and working conditions on public jobs that do *not jeopardize* the standards achieved by the regular work force; but at the same time do *not pull workers* out of their present jobs because the public jobs pay better.

(c) A realization that public jobs cannot solve the *income needs of families* but only deliver on the promise of providing work for everybody able and willing to work.

(d) Explore the potential for reducing the extreme cyclical swings in employment of certain industries such as construction; and the possibility of long-time financing assistance for strengthening important national objectives such as modernizing the infrastructure of our older cities and advancing our energy independence.

Chairman HUMPHREY. I would just call to your attention, Mr. Ginzberg, that in the S. 50 or H.R. 50 we have the language on this Full Employment Act directing the President, under this program, to analyze the relationship of income maintenance needs, existing income maintenance programs and full employment policies required by this act, to make recommendations on how the income maintenance and employment policies can be integrated to insure that employment is substituted for income maintenance to the maximum extent feasible.

We were unable to come up with any particular formula on unemployment insurance and its relationship to employment, but we felt that this was the sort of thing that we needed to direct our attention.

I simply want to say that this act does not try to spell out specifics. What it seeks to do, above all, is to set the machinery into motion to find the specifics.

Now, Mr. Keyserling, we are anxious to hear from you, and after that we will turn to our discussants, and I want you to mix it up. As shown by your statements, you all have different points of view, and while I want you to be polite, I want you to be eager and incisive.

All right, Mr. Keyserling, please proceed.

STATEMENT OF LEON H. KEYSERLING, FORMER CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. KEYSERLING. Mr. Chairman and members of the committee, Senator Humphrey asked me to make some reference to my early experiences as Chairman of the Council of Economic Advisers, and I always used to say to my staff, you men and women can always tell us what is going to happen tomorrow, but you can't tell us what happened yesterday. You can always tell us what you think we ought to do, but you never relate it to the vast laboratory of experience with the American economy which shows us what we have done wrong.

Now, we should have learned from that experience that we have the brains more than ever before, the capabilities more than ever before, the resources more than ever before, to get to full employment within 4 years. We have done it.

What stands in the way is wrong economic thinking, economic thinking based upon the economic textbooks instead of upon empirical observation and therefore I thought I would be most helpful in this short time to summarize what I think we should have learned from what has happened.

I am always amazed that most of the economic discussions of what has gone wrong and how we can better it, don't really make an analysis of why it went wrong, or precisely what made it go wrong.

Now, I am just going to summarize the findings. They will be definitive. But let me say that if anyone wants the empirical evidence on which they are based, they can look to my 30 years of continuous study embodied in 35 publications, embodied in recent testimony before the Joint Economic Committee, before the Hawkins committee, and in invited comments before the Joint Economic Committee which amplify with figures, analysis, and charts what I say categorically.

In 1944, I had a vision and embodied it in my essay entitled "The American Economic Goal," in which I spoke of the promise of America after World War II.

This is a synopsis, Mr. Chairman, of the prepared statement which I would like to have inserted in the record.

This plan for post-War full employment won me a \$10,000 prize, most of which I generally contributed to the IRS in support of our war effort. But later on, the results were more comforting to me.

The Employment Act of 1946, for which I make no apology which I helped to initiate and draft, was not far from a facsimile of the core of my post-War plan, advocating goals for full resource use and their achievement through the coordinated policies developed by the President and the Congress under what I called the watchful eye of an informed people.

In the 30 years since then, despite good performance at times, the objectives of the Employment Act have not been attained. There has been a gradual erosion in the quality of the administration of the act and a strong long-term or secular deterioration in our economic and social performance. I will leave it to others to debate whether this has been due primarily to the language of the act, or to the interpretation and application of it. The hour has struck for the Congress itself to clarify and strengthen this fundamental statute, and to leave less executive discretion for its misinterpretation and misapplication.

What have been the sins of commission and omission which now need prompt and thorough rectification?

First: In all human affairs—in family life, business life, and above all in government—we need specific purposefulness and goals to guide policies and programs.

In contrast and increasingly, leaders and economists in and outside the Government have substituted defeatist forecasts of how bad things will continue to be if policies continue in their erroneous way, instead of forging meaningful goals and designing efforts to reach them.

This has driven us backward toward anachronistic bondage to the "immutable laws of economics," instead of forward to a justifiable faith in our ability to shape our economy in accord with our potentials and needs.

To illustrate, we are told by many in influential places and not just by the Administration, that we cannot achieve a 7.9 percent average annual growth rate required to get unemployment down to 3 percent by the end of the calendar 1980 at the latest if the Humphrey-Hawkins bill is enacted by the end of 1976. This view is defended on the grounds by the Congressional Budget Office, and others, that we have not averaged anything like this rate of real economic growth for any substantial time within the past 2 decades or so.

But the actual growth average annual rate from 1953 to 1975, of only 3 percent has given us five cycles of stagnation, recession and inadequate upturn.

This has meant forfeiture, in conservative figures, of more than 3.3 trillion 1975 dollars of gross national product and more than 61 million man- and woman-years of employment opportunity. Projection of a course only somewhat better than this between now and 1980 would cost us again conservatively, another trillion dollars of GNP and another 17 million man-years and woman-years of employment opportunity.

This dismal record cannot be permitted to befog our intelligence in determining what we can and must do in the future.

During World War II, with 15 million people withdrawn into the armed forces and away from economically productive utilization, we achieved an average annual real economic growth of about 9 percent, not because it was easy, but because we had the national resolve and more purpose. To register the very much lower annual real economic growth rate needed to restore a full and just economy by the end of 1980 is entirely feasible. It depends upon renewal of this national resolve and moral purpose.

We can now, with less strain and effort mobilize vastly greater resources than we used to kill our enemies overseas for what we now need to uplift our people at home.

Second: Without long-range and purposeful goals, our national policies and programs have been improvised, tardy, fragmentary, and at times at cross-purposes or entirely erroneous. We have belatedly adopted inadequate antirecession measures; we have not promptly deployed adequate prosperosity measures.

This defensive economic maginot line approach is dangerously vulnerable. Above all, we must act in the long-term perspective, and tomorrow arrives rather quickly.

Third: Fiscal and monetary policies have indiscriminately applied aggregative or blunderbuss methods. We must instead apply these policies in a more discerning and even selective manner to remedy distortions in the economy, and thus to achieve the balance or equilibrium relationships among the components required for sustained, full prosperity.

Some of our economic advisers have been like a man driving up to an Exxon station and saying, fill 'er up. When asked whether to pour gas into the tires, air into the gas tank and oil into the radiator, he replies: "What's the difference. Haven't you heard of Lord Keynes?"

We now hear that fiscal and monetary policies have failed, but they have failed only when misused. We need to improve and rely primarily upon these powerful instruments. They do not intrude on the government directly, or the private decisions, and that is good.

Fourth: Nonetheless, fiscal and monetary policies need to be supplemented with more specialized and microcosmic policies and programs; for example, youth training and employment programs and programs to break bottlenecks and overcome shortages.

Fifth: We must discard the proposition that the sound application of measures directed toward economic stability and growth call for neutrality on the subject of income distribution. Economists in the main have not detected that serious neglect of economic and social justice has been at the very heart of the recurrent maladjustments producing high unemployment of workers and other productive resources.

Our most precious potential source of strength is that there is no big trade off between improved equality and efficiency in these United States.

We need not rob Peter to pay Paul; we need not array one group against another. We can substantially obtain glad consent of the knowledgeable.

Sixth: The notion that we can fill the promise of America, extend sensible help to those in poverty and starvation everywhere with no growth or low growth is sensation-seeking nonsense.

Nonetheless, the content of full employment and full production must be reshaped to honor the great priorities of our economic and social needs. This is not only a moral imperative, it is also a *sine qua non* for full employment and full production.

To attain the new abundance, we must have quality as well as quantity.

Seventh: We must put an end to the veritable orgy of incontinent and inequitable tax reductions. Tax reductions. Tax reform we do need, but to treat tax reduction and increased public investment as interchangeable or of equal value has been for many years, the most costly error of national economic policy. Only vast increases of public investment can bring priority goods and services into line with public needs.

We should always budget the size of priority public investments in accord with the requirements for them at full resource use.

To slash priority outlays to restrain inflation when the economy is tight, and to slash them again to save money when the economy is slack ignores that the Federal budget exists to allocate priorities in line with priority needs, resources in line with priority needs, and that first things should come first, not be dumped first.

Increases and decreases in taxes are the proper weapon to combat overstrain or underuse of the economy, as the case may be, by exacting variations in what is expendable or postponable, not what is essential.

Eighth: We must stop excoriating public spending, as if more public dollars spent for health services or to expand mass transportation or to improve the environment is less beneficial than more private dollars spent for cigarettes and for so many automobiles that our cities become even more clogged up and our air even more befouled.

Further, every expansion of jobs and machines, private and public, is indexed by an expansion of dollars spent; and saving dollars by idling human beings and other resources is not national economy; it is national profligacy.

Federal budget policy must be guided by cost-plus analysis, and we should have realized by now that a fully utilized economy is the only avenue to a Federal budget in balance or in surplus. The blood of sufficient Federal revenues cannot be squeezed from the turnip of a starved economy.

Ninth: We must make the now-free-wheeling Federal Reserve answerable to the elected representatives of the people and harness it to the services of a full and fair economy. The Federal Reserve Board has not yet reduced the housing industry to ashes, but certainly it has given it some severe burns.

Tenth: We must forever confine to infamy the pernicious doctrine of the trade off. This doctrine is immoral and un-American, because breadwinners and their dependents, to the tune of \$60 million a year, should not be directly victimized by rotating unemployment in order to protect the affluent and the rich against hypothetical price increases.

More pertinent, empirical observation of the economy in action since 1953 demonstrates conclusively that a strong and healthy economy is accompanied by more price stability than a weak and sick economy.

Now I am not going to take your time here, Mr. Chairman, to talk until we get to the question period about what some of the other witnesses have said. I dissent with them profoundly. I am amazed that Walter Heller, under whose wonderful leadership the Council of Economic Advisers reduced unemployment from 6.8 percent to 3.5 percent by 1965 with 1.5 percent annual inflation is still regurgitating the textbook warnings that lower employment is more inflationary.

I have observed the experience when I was chairman of the Council. I am amazed that they have not learned from the more recent experience. I am amazed that they have not observed that the economy has less inflation now, first—it is still intolerable, but less than 1 or 2 years ago—first, because of extraneous factors that have nothing to do with the amount of employment: what the Arabs did, what the oil barons in the United States did, the farm shortages—and that in any event, the inflation is reducing as the unemployment is being reduced, as the employment is growing. And if it grew better and the employment increased more, there would be less inflation. At least, that is the record.

Now, as to the trade off, I have examined almost everything written on this subject. They don't even talk about what the trade off should really be. The trade off should not be a nonempirical examination of the relationship between prices and unemployment. The trade off really means what is the trade off between the value of employment and the value of price stability. They never even talk about that, and they couldn't possibly make any model showing that on a trade off of that kind, a full-employment economy, at any given level of price inflation, was less desirable than a highly unemployed and miserable economy with a somewhat different rate of inflation.

The argument is irrelevant, because the evidence shows that there

is no trade off. But they haven't even talked about what the trade off really is: It is the trade off between full production and full-employment and price behavior, not the trade off between how one affects the other. And their failure even to talk about that shows that they have not injected even the sense of the real wealth of nations or a sense of moral values in the whole examination of the trade off issue.

Eleventh: We must substitute planning under freedom for the proven losses of errant aimlessness, and lest planning seek the wrong ends, we must, through congressional legislation, impose some mandate upon the President and his economic advisers.

We should not leave it to a Leon Keyserling, a Walter Heller, an Alan Greenspan or a William Simon, nor an Arthur Burns, nor to the Congressional Budget Office, to determine that 6 or 7 percent unemployment in 1978 or 1980 is good for us, or at least the lesser of two evils.

The Congress itself should define ultimate national values, including the allowable limits of unemployment, and then tell the experts that it is their job to help devise methods to get unemployment down to this level.

The engineers should not determine where the American passengers should go.

The new legislation should also call upon the Congress to exhibit a fuller and more effective exercise of its responsibilities in the processing of what the President submits.

In the modern world, where private groups plan secretly without limitation, we should see limited public planning in the open, I repeat, under the watchful eye of an informed people.

Finally, we should not confuse the right of our entire adult citizenry to have the last word in a democracy with the beguiling idea that public leadership at the national level should ask the people at large to initiate the basic solutions to our economic and social problems. We should not, because genuine participatory democracy is vital, revert to the rugged individualism of the 1920's and early 1930's and ask the mistreated and helpless to help themselves.

We have not suffered because our Federal Government has been too strong, but rather because it has been too weak, too hesitant, and too misguided. On the domestic front, we have not promised too much. We did well when we honored these promises. We did less well when we tried to vindicate them on the cheap or in the wrong way, and we did disgracefully when we reneged on them.

No national administration on the domestic front has promised more than we could and should have delivered. Let us not now aspire to less; let us instead begin to match performance to promise. We have promises to keep.

These principles, I am firmly convinced, are embodied in the Humphrey-Hawkins bill. Its prompt enactment can recommence the fulfillment of the true promise of America.

Chairman HUMPHREY. Thank you very much, Mr. Keyserling. We appreciate very much your very frank, candid, and thoughtful statement.

[The prepared statement of Mr. Keyserling follows:]

PREPARED STATEMENT OF LEON H. KEYSERLING¹

Mr. Chairman, Members of the Joint Economic Committee, and assembled Friends: I am delighted to respond to Senator Humphrey's invitation, requesting that I discuss the reasons why we have not done better under the Employment Act of 1946, and how we may now proceed promptly to bring to our economy and our people, as rapidly as possible, the manifold economic, financial, social, and civil benefits of sustained full employment.

In 1944 I had a dream, which I embodied in an essay entitled *The American Economic Goal*. Drawing upon what I had learned in public service during the New Deal from early 1933 forward, and then during World War II, I set forth in 2,000 words how we might translate into reality what I called "the promise of America." This essay won me a \$10,000 prize, most of which I generously contributed to the Internal Revenue Service in support of the war effort. But later on, the results were more comforting to me. The Employment Act of 1946, which I helped to inspire and draft, adhered rather closely to the central feature of the plan proposed in that essay. This involved purposeful establishments of specific economic goals, and the coordinated use of all national policies to achieve them.

This is not the place to compare the records under the Employment Act during different periods. Suffice it to say that I may take some legitimate satisfaction in the good start made during the Truman Administration, and that, before we did worse, I usually forecast the results of erroneous national policies which I criticized from their inception.

During the thirty years as a whole since 1946, the promise of America as contemplated by the Employment Act of 1946 has not been fulfilled. There has been a gradual erosion in the quality of the administration of the Act, and a strong long-term or secular deterioration in our economic and social performance. I will leave it to others to debate whether this has been due primarily to the language of the Act, or to the interpretation and application of it. The hour has struck for the Congress itself to clarify and strengthen this fundamental statute, and to leave less Executive discretion for its misinterpretation and misapplication. What have been the sins of commission and omission which now need prompt and thorough rectification?

First. In all human affairs—in family life, business life, and above all in government—we need specific purposefulness and goals to guide policies and programs. In contrast and increasingly, leaders and economists in and outside the Government have substituted defeatist forecasts of how bad things will continue to be if thought and policy continue their erroneous way, instead of forging meaningful and efforts to reach them. This has driven us backward toward anachronistic bondage to the "immutable laws of economics," instead of forward to a justifiable faith in our ability to shape our economy in accord with our potentials and needs.

To illustrate, I cannot subscribe to the view, held in some quarters, that we cannot achieve the 7.9 percent average annual rate of real economic growth required to get unemployment down to 3 percent by the end of calendar 1980 at the latest, if the Hawkins-Humphrey Bill is enacted by the end of 1976. This view is based upon the observation that we have not averaged anything like this rate of real economic growth for any substantial time within the past two decades or so. But the actual average rate since early 1953—only 3.0 percent—has given us five cycles of stagnation, recession, and inadequate upturn. This has meant forfeiture of more than 3.3 trillion 1975 dollars of gross national product, and more than 61 million man- and woman-years of employment opportunity. Projection of a course only somewhat better than this between now and 1980 would cost us more than another trillion dollars of G.N.P., and more than another 17 million man- and woman-years of employment opportunity. A direct consequence of a laggard economy is shrunken public revenues, soaring budget deficits, and grave neglect of socially vital programs. The dismal record in the past, so far short of our endowments and aspirations, cannot be permitted to befog our intelligence in determining what we can and must do in future.

During World War II, with 15 million people withdrawn into the armed forces and away from economically productive utilization, we achieved an average annual real economic growth rate of about 9 percent, not because it

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

was easy, but because we had the national resolve and moral purpose. To register the very much lower annual real economic growth rate needed to restore a full and just economy by the end of 1980 is entirely feasible; it depends upon renewal of this national resolve and moral purpose. The resources we mobilized, to kill enemies overseas, can now be mobilized to uplift our own people at home.

Second. Without long-range and purposeful goals, our national policies and programs have been tardy, fragmentary, and at times at cross-purposes. We have indulged in short-range and *ad hoc* improvisations, instead of accenting planned and long-range efforts. We have belated adopted inadequate anti-recession measures; we have not promptly deployed adequate pro-prosperity measures. This defensive economic Maginot Line approach is not nearly good enough. Instead of embracing only the idea that if we take care of today, tomorrow will take care of itself, we must begin to prepare for tomorrow so that today will be taken care of better. Tomorrow arrives rather quickly.

Third. In the use of stimulative or restrictive fiscal and monetary policies, we have indiscriminately applied aggregative or blunderbuss methods. We must instead direct these policies in a more selective manner to remedy distortions in the economy. We must promote a long-range balance among private business investment, private consumer spending, and public outlays at all levels which, for the first time in decades, will maintain the economy in equilibrium at full resource use. Some of our economic advisers have been like a man driving up to a station and saying, "fill 'er up." When asked whether to pour gas into the tires, air into the gas tank, and oil into the radiator, he replies: "What's the difference. Haven't you heard of Lord Keynes?" To avoid more of this by planning instead of bungling, we need the "Full Employment and Balanced Growth Act of 1976."

As fiscal and monetary policies have failed, some have tended to argue that they are no longer of great utility in the modern economy. This is nonsense; the failure has been due to misuse. We need to improve these relatively conventional but powerful policies by much more careful analysis of how they bear upon the balanced allocation of resources and incomes.

Fourth. We need to discard, once and for all, the proposition that the sound application of measures directed toward economic stability and growth calls for "neutrality" on the subject of income distribution. Improved income distribution in the United States is fundamental to optimum economic performance. Serious neglect of economic and social justice has been at the very heart of the recurrent maladjustments producing high unemployment of workers and other productive resources. Even if this were not so true, we are now rich and productive enough to enlarge social justice at some fore-going of economic progress narrowly defined. But in fact, our most precious potential source of strength is that there is no general dichotomy between the sound and the decent in these United States. We need not rob Peter to pay Paul; we need not array one group against another; we can obtain the glad consent of the knowledgeable.

Fifth. While fiscal and monetary policies are of primary importance, toward balanced and sustained economic growth, they need to be supplemented with more specialized or microcosmic policies and programs, for example, special youth training and employment programs, and special programs to break bottlenecks. We learned the high value of many microcosmic policies during World War II and the Korean war. The need is no less pressing for today and tomorrow.

Sixth. We must discard the idea that full production and full employment alone are enough, although nothing is more damaging than the view, advanced in some quarters, that we have now reached the point where we can fulfill the promise of America, or extend sensible help to those in poverty and starvation elsewhere, with low growth or no growth. To be sure, the content of full employment and full production must be reshaped to include proper attention to the great priorities of our economic and human needs. But this attention is not only morally essential; it is also, for technological and other reasons, a derivative of as well as a factor in full employment and full production. We should move to a new abundance, justly shared.

Seventh. We must abandon the foolishness that increased public investment and tax reductions are of equivalent value and interchangeable, and that we should continue indefinitely a veritable orgy of reckless and inequitable tax reductions. Tax reform we do indeed need. But we should wisely use selective increases in public investment to help meet those priorities in production,

goods, services, and incomes which tax reduction in the main cannot possibly accomplish. We should almost always determine the size of public investments by the requirements for them at full resource use. To slash priority outlays to restrain inflation when the economy is tight, and to slash them again to "save money" when the economy is slack, ignores the fact that the Federal Budget is a priority instrument, and that first things should come first, not be dumped first. We must make room for the priorities whether the economy is slack or tight, and vary taxes for compensatory purposes. Increases and decreases in taxes are the proper weapon to combat overstrain or underuse of the economy, as the case may be, by exacting variations in what is expendable or postponable, not what is essential. The confusion between the use of increased public investment and tax reduction has been perhaps the single most costly error of national economic policy for many years.

Eighth. In determining the appropriate levels of public investment, we must stop excoriating public spending, as if a public dollar spent for health services is less worthy than a private dollar spent for cigarettes. Every expansion of jobs and machines, private and public, is indexed by an expansion of dollars spent; and "saving" dollars by wasting human and other resources is not economy; it is national profligacy. So-called "costs," measured in dollars, must be weighed against the creation of real benefits in wealth and human welfare. In this context, we must also abandon the idea that the condition of the Federal Budget is more important than the condition of the national economy and the well-being of the people, and that a deficit on the books in the Federal Budget is more hurtful than a deficiency in national production, employment opportunity, and priority services. But this is a rather hollow academic issue, because we should have learned by now that a fully utilized economy is the only avenue to a Federal Budget in balance or in surplus, and that the blood of public revenues cannot be squeezed from the turnip of a starved economy.

Ninth. We must forever consign to infamy the pernicious doctrine of the "trade-off," to the effect that the human misery of contrived and massive unemployment reduces inflation, and that a vigorous movement toward full employment fans inflation. This doctrine is immoral and un-American, because breadwinners and their families should not be plunged into the misery of unemployment in order to protect the affluent and the rich against hypothetical prices increases. More pertinent, empirical observation of the economy in action since 1953 demonstrates, about as conclusively as anything can be demonstrated in economics, that a strong and healthy economy is accompanied by much more price stability than a weak and sick economy.

Tenth. Guided by experience, we must substitute the gains derived from planning under freedom for the proven losses of arrant aimlessness. To accomplish this, we must through Congressional legislation impose some mandated requirements upon the President and his economic advisers. We should leave to them the initial development of detailed policies and programs, but not surrender excessively to them the discretionary determination of ultimate national values. We should not leave it to a Leon Keyserling, a Walter Heller, an Alan Greenspan or a William Simon, or to an Arthur Burns, to determine that 6 or 7 percent unemployment in 1978 or 1980 is good for us, or at least the lesser of two evils. The Congress should define the allowable limits of unemployment, and then tell these "experts" that it is their job to help devise methods to get unemployment down to this level. The engineers should not determine where the passengers ought to go. New legislation should also impose upon the appropriate Congressional committees and the Congress at large a more careful and effective exercise of their responsibilities in the processing of what the President submits to them. In the modern world where private groups plan secretly without limitation, we should not fear limited public planning in the open, under the watchful eye of an informed people.

Eleventh. We should recognize the responsibility of our entire adult citizenry to have the last word in a democracy. But we should not confuse this with the beguiling idea that public leadership at the national level should ask the people at large to initiate the basic solutions to our economic and social problems. We should not, in the name of worthwhile participatory democracy, revert to the rugged individualism of the 1920's and early 1930's. We should not ask the helpless and mistreated to help themselves. We have not suffered because our Federal Government has been too strong, but rather because it has been too weak, too hesitant, and too misguided. On the domestic front at

least, we have not promised too much: We did well when we honored these promises, and did disgracefully when we renege on them. Our national leadership, in no important domestic instance, promised more than we could and should have delivered. Let us not aspire to less; let us instead begin to match performance to promise. We have promises to *keep*.

These principles, I am firmly convinced, are embodied in the Humphrey-Hawkins Bill. Its prompt enactment can recommence the fulfillment of the true promise of America. The very process of active consideration of this measure by the Congress can reduce the current concerns and alienation of countless millions of our people. It can infuse them with legitimate hope, based upon awareness that they have a government as good as they deserve.

My brief remarks today are amplified, and supported with data and charts, in the record of my testimony before the Joint Economic Committee on February 26, 1976 and on March 15, 1976 before the House Committee holding hearings on the Hawkins-Humphrey Bill.

Chairman HUMPHREY. Now we're coming to our discussants, and we will proceed, I might say, with both your brief statements as well as any questions that you might want to give to the panel.

We have three discussants with us today.

All right, first we have Mr. Frankel.

Mr. Frankel, I believe that Senator Javits presented your background for our record. Besides Mr. Frankel is an old friend, and I welcome you.

Mr. FRANKEL. Thank you, Senator.

Senator Javits introduced me, saying I was a member of the President's Youth Opportunity Commission. I want to make it perfectly clear that I was a member of the President's Youth Opportunity Commission when that Commission was chaired by a man by the name of Hubert Humphrey:

STATEMENT OF STANLEY FRANKEL, VICE PRESIDENT, OGDEN CORP.

Mr. FRANKEL. Mr. Chairman, Rheinhold Neibuhr wrote that man's capacity for justice makes democracy possible, but man's inclination towards injustice makes democracy necessary.

I think the capacity of justice of man is well-demonstrated by the hearings, is well-dominated by the Humphrey-Hawkins bill, but our inclination towards injustice, I am afraid, is reflected in the fact that while we talk there are millions of unemployed who want something to do.

I would use a much stronger word than "injustice." I believe it is obscene, it is a criminal waste not to have some kind of productive job for every man and woman in our society who is ready, willing and able to work.

There are many special injustices, and many of them have been alluded to, injustices in the broad spectrum against women, against the aging, against the disadvantaged, against the teenager, and in the very few moments allotted to me—and it will only be a few moments—I would like to explore just one sliver of the unemployment of this special group, where I think our highest priorities should be placed, and that is the teenager, aged 16 to 19 years.

That teenager represents almost 25 percent of the total unemployed and the black teenager unemployment percentage is nationally over 40 percent, and in the ghetto areas, it exceeds 50 percent. Relative to

the unemployment of the white teenager, the black youngster situation has been deteriorating since 1955, from 1½-times higher then to 2½-times higher now.

These youngsters are the least educated, least experienced, with the least hope of any category of unemployed. They are the last in and the first out, if and when they manage to find a job, and the job is often the most degrading, dead-end slot in the job scale.

Corporate executives have testified, and I have heard them, that they would not hire from this group even if the government picked up half of their relatively small salaries.

In my book, perhaps the government should provide a 100 percent tax credit for business which dipped into this particular teen-aged pool. It would not necessarily mean they would be employed, because I fear that they are unemployable, but more realistically to train them for future employment.

In my own noncorporate experiences, working on the board of the National Council of Crime and Delinquency and the New York City YMCA, I am painfully aware that too many of these youngsters have no place to go but to the streets and nothing to do except engage in street crime. Unless we do something about them, and fast, they are headed for premature death, narcotics, certainly jail—and it costs society over \$12,000 per youngster per year to arrest, prosecute, and imprison them.

My question to the panel, and perhaps I would start with an old hero of mine, Leon Keyserling, and ask him what specific, concrete plans would you suggest for this 16-to-19-year-old black youngster?

Mr. KEYSERLING. You know, I was here in 1939. I am so darned old, and we had 17 percent of the economy unemployed, and everybody was saying, it sounds like it was today, they are unemployed because they are too old, they are too young, they are too black, they are too unskilled, they are too female, they are too untrained, and anyway, the jobs are there, the vacancies are there if they would only look for them, and they'd rather be on welfare.

And then we got into World War II. There was no compulsory Manpower Act, and the people who were too old, too weak, too feeble, too female, too untrained, too unskilled—who would rather be on welfare and wouldn't cross the street to get a job they marched into the factories and they performed, and nobody had been trained how to run radar and submarines and aircraft guns and 15 million marched in and a lot of them were trained to do that rather quickly. You train on the job.

I was in India at a time when it was a free country and I went into a steel mill. I saw people who had been so ignorant that they were digging the little food they got with their nails and they were making steel. Why? Because the jobs were created, and they were trained on the job.

Now what does this have to do with the employment of the blacks?

First of all—I don't want to get into the Humphrey-Hawkins bill, except that it is on the table, but it provides special programs for the young, and untrained, the training for the unskilled and so forth, but more broadly speaking, when you have unemployment as you did during World War II down from 17 percent to 1 percent—

and it would be equally true if you got it down to 3 percent—the problem of the differential unemployment rates and the treatment and opportunity of different groups, for the first time, becomes reduced to manageable proportions and you also get rid of the intense racial and social strain that occur when you have to share unemployment rather than employment.

The biggest single group—maybe the women are bigger, but certainly the biggest group proportionally that marched into the factories during World War II were the black people who had never had industrial opportunity before and they have stayed there, fortunately, after the war.

Now, everybody says, well, what is the good of getting unemployment down to 3 percent? If it's 3 percent on the average, it will be 6 percent among the blacks and the minorities and the women, because the rate for these groups is now twice as high as the total rate. That isn't statistically right, it isn't right in any other way. The fact it is twice as high when unemployment is 8½ percent, it won't be twice as high when unemployment is 3 percent, because most of the people who have become unemployed, unfortunately, are the blacks and the minorities, and therefore, to get unemployment down to 3 percent you will have to reduce unemployment among them 5 or 6 or 10 times—I haven't got the exact figures—as fast as you reduce it among others.

That is why full employment is so vitally important. I can take almost any national economic problem, not just employment, production, inflation, any problem, and full employment is not the whole answer but it is the great, single, first solvent.

So let us move towards getting unemployment down to that level and it will take care of most of the people who are excluded. I admit that you will still need to have legislation, strong legislation, dealing with the discrimination problem which still exists. You will need to put the Attorney General in back of it, take training measures, and others, but the big thing is to get full employment.

Ms. RIVLIN, would you agree with Mr. Keyserling's trickle-down theory in the application to the 16-to-19-year-old blacks? The doing away with the 3 or 4 percent of the 6 percent would take care of them, or do they need special attention and fast?

Ms. RIVLIN. Well, I think they need special attention, but I am not sure that Mr. Keyserling is disagreeing.

Mr. KEYSERLING. No, I don't. I said that.

Ms. RIVLIN. There is a special problem of youth unemployment as the ratio of the unemployment rates for young people to those of adults have been going up, and they have been going up through good times and bad, and there is something wrong I think we have to recognize and work at in a special way.

Chairman HUMPHREY. Have any of you taken time to relate what has just been said, the rate of crime amongst young people has likewise gone up exactly on the same curve as the rate of unemployment and the same people who are complaining about unemployment are complaining about crime?

It is an almost parallel line, and I just want to know how we are

going to get at the crime if we don't get at the job, and how we are going to get at the juvenile offender and the young adult offender if we don't get at his work.

I just want to toss that over to the panel, because this city, for example, has a high rate of youth unemployed, it has a high rate of crime. I will take you right down to the area where I live, they call it "The Rich Man's Ghetto" and I'll tell you something, there is no work for young people, absolutely no work for them at all, and this city has got enough jobs to do to make you cry.

I could take them out on the 12th Street Bridge and give them a job for 2 or 3 months, if they did nothing else but pick up mufflers. You know, the whole bridge is strewn with mufflers and fenders and tin cans. [Laughter.] I just want to know if anybody has any answers to that?

Mr. GINZBERG. I think the Committee ought to know that our Commission has been active on this question of youth problems, and we have a volume going to press next week—to GPO this time, so you'll get it quickly, in about 45 days—in which we ask for 12 experts in the United States to look at these transitional problems with special emphasis on the noncollege population; that is, the youngsters who are in real trouble. And they are in real trouble.

I think one of the things that one has to say is that American industry, especially heavily-capitalized industry, has found enough other people with more stability who are willing to work, so that the kids are simply at the end of the queue.

There are a whole series of places around the United States where they have an age requirement, and if you are below the age, you are just out of luck. So you have to sit and wait.

Now, that is one problem that is serious.

A lot of the jobs that are available to youth are very poor jobs—you wouldn't say lousy, a lot of them are lousy—and it's because the initial job isn't good and you can't go anywhere with it.

Now, if you have lived all your life in a family that didn't have an extra nickel and if you lived in a lousy neighborhood and you went to a lousy school, then, if you're starting to work, you ought to at least have some chance that if you work hard you're going to work somewhere. But a lot of the service jobs available to youth, just go nowhere. They're stuck and they know that, so obviously it does not make much of a contribution to their socialization or their stability. They can't learn anything because the jobs can't teach them anything.

So that's a second problem, I think, that is quite serious, so there is a need, I believe—and maybe Leon Keyserling will agree—between 1945 and 1976, we really are making somewhat more demands on a skill basis, and therefore, with the number of laboring jobs reduced, relatively speaking, people ought to be in a little better position, with some kind of skill.

They don't need book skills, and therefore, it is a question of what one can do in terms of offering these young people opportunities to learn on the job. I don't think they're going to learn in the schools, given our curriculum in many of these places.

Chairman HUMPHREY. Can we move along? I know that Mr. Heller has to leave some time after 4:00, so I want to get at him too. I want to pick as many brains here as we can.

Our next discussant is Mr. William Spring. Go right ahead.

**STATEMENT OF WILLIAM SPRING, PROFESSOR OF ECONOMICS,
BOSTON UNIVERSITY**

Mr. SPRING. Thank you, Senator Humphrey.

I think that for the record, in talking about this 30th anniversary of the Employment Act, there is one name that hasn't been mentioned who has made a substantial contribution. In 1966, when the problem of unemployment was beginning to come down through the Johnson administration, the Secretary of Labor, W. Willard Wirtz, was trying to understand why those manpower programs which we enacted weren't working very well. He made a study of 10 poverty neighborhoods in eight major cities, and as Eli Ginzberg was saying, the Labor Department tried to go beyond just the simple unemployment figures, and measure not only people who were unemployed, but discouraged workers, people with part-time jobs for economic reasons and people working full-time at below poverty wages.

The Department discovered in the inner city areas that roughly a third of the labor force didn't earn enough to reach the poverty level.

In January 1967 Secretary Wirtz wrote a memorandum to President Johnson and a direct result of that memorandum was a concentrated employment program which put manpower and training resources where they were most needed and enlisting the help of Henry Ford and the national business community and the NAB's jobs program. I am sure you are all familiar with that program.

But the sad thing was, that as we reached the end of the decade, we found that we were not significantly reducing the inner city misery even though we were spending substantial amounts of money on manpower programs in these inner city areas, despite the efforts of the NAB's jobs, and the best efforts of many fine businessmen around the country.

I was working, at the time, on Senator Nelson's subcommittee of the Labor and Public Welfare Committee and we looked at the 1970 census data and used those Willard Wirtz former statistics, brushed them up a little bit and worked with some experts at BLS—most of whom have lost their jobs since then, I am sorry to say—and we developed, based on the 1970 census, a more careful measure of the subemployment in 51 cities around the country, not just in black areas, either, but in white areas as well.

We discovered that 30 percent—still 30 percent—were earning below the poverty line, and something like 60 percent were earning below the BLS lower family budget—which was \$7,000.

First of all, I think that we should have what Willard Wirtz did and the results of the subcommittee in the record, because it poses, it seems to me, the No. 1 problem.

In the late sixties, these manpower programs and other OEO service programs really didn't grow that much. The major growth

was in welfare programs, entitlement programs. Unemployment insurance, which, of course, began way back in the midthirties is such an entitlement program. I would like to put a question to Ms. Rivlin and to Eli Ginzberg, and perhaps Walter Heller ought to comment on it as well, now that we are reviving a national interest in full employment. The question of the conflict between an entitlement program, such as unemployment insurance and the kinds of problems we have dealt with on a very inadequate patchwork basis in creating just a few Neighborhood Youth Corps jobs.

In thinking about full employment, we are now coming to the point when we will want to turn some of that unemployment insurance money into jobs.

There is no secret as to why the administration likes unemployment insurance. It costs you roughly \$4,000 per person. If you're talking about public service jobs, you are talking about \$7,500 in pay, and another 10 percent in administrative costs. Ms. Rivlin, when you talk about using unemployment insurance moneys for jobs for everybody who is unemployed over a period of time, are you proposing a job for \$7,500 per year?

If so, then you are saying that after you have been unemployed a certain time, you'll get a job at roughly twice the cost of what the Government has put into your unemployment insurance benefits.

I think that is the kind of real problem that we are going to be wrestling with this afternoon.

Chairman HUMPHREY. May I interrupt? Just let me get the question right. The person gets not only unemployment compensation but food stamps and other kinds of supplementary income.

Representative ROUSSELOT. Senator, if I could interrupt, the cost of producing federally sponsored jobs is well over \$7,500.

Mr. SPRING. Oh, I thought the minimum—

Representative ROUSSELOT. Yes, but that is very minimum. Most of our jobs cost us \$10,000 to \$25,000 apiece, depending on the accompanying benefits that go with it.

Chairman HUMPHREY. Ms. Rivlin and Mr. Heller, would you also join in on this?

Ms. RIVLIN. Well, I didn't realize I had made a proposal at all. I certainly did not intend to, but clearly an economy that is spending as much as ours is to pay people not to work has a problem, and it is worth thinking about whether we generate jobs and pay people to work rather than paying people not to work.

I think there are problems in the job-guaranteed idea, and I am not sure how the problems can be worked out, and I really was not proposing a job guarantee. You definitely have the same problem, when you guarantee a job at a specific wage, if the wage is high enough to provide what we would consider a living income, there is the danger of having a growing, accumulating number of people working under the guaranteed job program.

If it is not high enough, and if it is simply a temporary expedient, then it doesn't solve the problem of those who really are not employable in the private sector. There are all these problems.

Mr. SPRING. Do you agree with Mr. Keyserling's suggestion that if we had full employment in the private sector that that problem of unemployability would largely disappear?

Ms. RIVLIN. Well, this is a matter of degree. It is partly a question of defining full employment.

Mr. Keyserling is clearly right that if we were running as tight a labor market as we ran in World War II then a lot of the unemployment would disappear. It did then, it would again, even at high-skill levels.

When companies are out searching for people to fill jobs that must be filled, they lower standards and they take on training costs themselves. I think that we know from the past, and we have the ability to learn from the past.

The real question now encompasses two things. Could we run as tight a labor market as World War II without rapidly escalating inflation? At that time, we had wage and price controls. We had to have had them, or we would have had very rapid inflation in the World War II period.

Now, within limits, controls did work, but the Nation was at war, it was an emergency situation and very frankly, I think we don't know whether wage and price controls, as a long peacetime thing, would work or not, but there are strong reasons to doubt that one could maintain that kind of a situation for very long without grave distortions or wholesale violations of a wage-price control system.

But the other thing is, even in the process of getting the unemployment rate down, there are clearly several different ways of doing it, and I think we need a mix of policies, some fiscal and monetary simulation, and some efforts to create jobs directly, both temporarily and on a longer term basis, as ways of integrating people who are not necessarily permanently unemployable, but certainly less employable than other people, into the labor force.

Mr. HELLER. Mr. Chairman, since this is my only shot, do you mind if I give you three for the price of one?

I would like to answer, or at least address myself to Leon Keyserling and Mr. Frankel and Professor Spring.

First of all, let me say that while Leon Keyserling and I may have a different reading of economic history and its implications for the future, I have to say when he tells us that the main solvent of unemployment is a strong, national expansionary policy, that is absolutely right, and that addresses itself to the question you were raising.

If you want to get the disadvantaged—it's a terrible word, but it covers a lot of sins—if you want to get the disadvantaged employed, the best single motivation to mobilize is self-interest. Operate the economy at very high levels of demand, because then employers themselves will reach down to the bottom of the job barrel and give people jobs and give them training and build the human capital.

And you do it without any bureaucracy, you do it without any human beings making a decision in Washington about it, you do because it is in the self-interest of the private economy, and in that, we share entirely the same objectives.

I feel you ought, therefore, to accompany the employment programs with measures to lower the inflation propensity of the economy so that you don't have to do what we did in World War II—and I think your example is an entirely relevant one. We got

black unemployment, as I recall, down to half of 1 percent, without any compulsory measures.

But, as Alice Rivlin says, it took a blanket of wage-price controls. You know, the challenge to ingenuity is how to do it without that blanket of wage-price controls.

Now, next, talking about the Job Corps and about the poverty program in which I, in spite of some of the difficulties, am happy to claim some paternal interest, it is an irony that the kinds of standards that were developed for testing programs, should have been applied to these programs in a sense for the first time.

We used to judge a program by whether an agency could get the money, and spend it quickly in accordance with the congressional intent?

Now we have developed a more sophisticated measure, what is the output we get for a given input, and what were the first victims of that measurement? Job Corps and the poverty programs. This is not an argument for not improving our delivery systems. This is just saying that they were judged by harsher standards than any social programs this country ever had, and it distresses me, as I said in my statement, that so many of my colleagues, liberal and conservative alike, talk about some of these programs and point out all of the things we were doing wrong and how much it costs and all of the difficulties instead of still recognizing that we must flank fiscal and monetary policies with direct job programs and that the assignment should be to do them better, not to give up because we have done them poorly.

And the same approach should be adopted with manpower programs.

Mr. SPRING. In fact, the problem was, not that those programs didn't work, but that there wasn't enough of them.

Mr. HELLER. That's right.

Mr. SPRING. But the Job Corps itself had a splendid record in increasing human capital. People going through the Job Corps were in much better shape than when they went in. The problem comes in getting a job in the outside economy.

Mr. HELLER. The Chairman of this session had an awfully good figure of speech not long ago, he said you can't cure pneumonia with 25,000 units of penicillin a day, and to call penicillin a failure because 25,000 units wouldn't cure pneumonia is, of course, a complete non sequitur.

Chairman HUMPHREY. It is important to remember to whom these certain programs were directed that we are talking about, like the poverty programs. They were directed to the illiterate, to the people with no background, no experience, to people who have lived in poverty and in ugliness, and all at once you expect that a little injection is going to fix these people up. At the same time, you can take the brightest kids from the nicest families and send them off to the greatest universities and they flunk. The rate of drop-outs in the Job Corps wasn't a bit higher than it was in Harvard, or in the average state university.

But we judge these people one way, because they are black and brown and poor. Because most of them were minorities, we use one standard for them and then we take our own kids who have trouble

in school and we say, well, it's the teachers' fault, or something else.

Mr. HELLER. They are finding themselves.

Chairman HUMPHREY. Yes, they're finding themselves, or their mother didn't understand them, or something else. [Laughter.] I'm not good on statistics, but I'm very strong on feelings.

Mr. HELLER. I just wanted to add one other quick word, and that is that I agree that when you are talking about using some of these social insurance funds, for direct jobs creation, you have to broaden your calculus. You have to take into account the other costs, as someone has already suggested, and it seems to me you have to take into account the product. If you create jobs, and they are producing something in the job that may not get into the individual calculus, but it certainly ought to get into the national calculus.

Chairman HUMPHREY. All right, we will ask for our next participant here, and we have Mr. Hugh O'Malley.

Mr. O'Malley, you represent small business, and we are very happy to have you here, and we had you, I believe—was it in Providence or Boston?

Mr. O'MALLEY. Fall River, Mass.

Chairman HUMPHREY. Fall River. Oh, with Margaret Heckler, that's right.

Representative HECKLER. Yes, that's correct.

Chairman HUMPHREY. That was a great hearing. Go ahead.

STATEMENT OF HUGH O'MALLEY, REPRESENTATIVE, SMALL BUSINESS SERVICE BUREAU OF MASSACHUSETTS

Mr. O'MALLEY. I would like to thank you for the opportunity of being here, and for inviting me, Mr. Chairman.

I have to admit a certain amount of distress today, and the distress is caused by the fact that until you used the term "small business" in my introduction, that term has not been used by any of our panelists or discussants.

I have long maintained that the small businessman is one of the most ignored and discriminated individual entity in the United States. In many ways, small businessmen have suffered some of the same injustices that the minorities have suffered and in that, I am upset.

First of all, I don't have any prepared statement. I would just like to make some off-the-cuff observations.

I think that we have got to be careful about a few things. I am discussing the area of public service employment, I think we are making a serious mistake if we look upon this as being a long-term remedy for any individual, and I would like to discuss this, not so much in terms of general economic theories, but how does it apply to specific individuals, to a person, to a human being?

It would seem to me that a human being going into a public service employment job should not be going in there with the idea that this is going to be his career. He should go in there with the idea that he will learn a skill and he will get himself into the private sector, either as a self-employee or as an employee, but he will not stay in this program on a long-term basis.

I think if we adopt the approach that Government service programs should be a long-term solution for a particular individual, we are making a very serious mistake. I think we are stripping that individual of his dignity and self-respect.

I would like to point out once again, as I did in Fall River, Mass., the role that the small businessman plays in the American economy.

In the United States there are 13 million American companies which make up the small business community. They account for 97 percent of all American firms, 43 percent of all American business output, 33 percent of the Gross National Product—and here is the hooker, as far as I am concerned—52 percent of all private employment. And not once today have I heard anything as to how we can improve the employment picture with regard to programs for small businesses.

I have to admit I was somewhat elated to read on page 11 of the proposed Humphrey-Hawkins bill the statement which says, "Priority policies and programs to support full employment and balanced growth shall initially include—(1) development of energy, transportation, food, small business, and environmental improvement policies and programs required for full employment and balanced economic growth, . . ."

I think that should be a real mainstay for the bill, particularly with respect to the small businessman and in view of the fact that 52 percent of all private employment comes out of that sector.

As I pointed out previously, I think the small businessman has been long-suffering, abused, and neglected by governmental policies. We can start with tax policies.

The Senate Select Committee on Small Business states that large corporations pay only 25 percent of their income in Federal taxes because of loopholes, while the small- and medium-sized firms pay at the 48-percent level. That is a national disgrace.

Second, I would like to point out that one area in my opinion where the small businessman has been totally neglected is in the monopolistic area, the area of predatory practices engaged in by large corporations. To reduce it to its simplest human terms, the next time you pull in to buy gas at your gasoline station dealer, ask him who owns the business. Does he own it, or does Mobil, Exxon, Shell, or any of the other large oil corporations?

In all probability he will answer, I just lease this place and they own me. They control me. I can't do anything about that.

Well that is wrong.

We hear these complaints regularly. We hear them from drug store operators, and from people in the pharmaceutical business, where chain stores are taking over the drug industry.

We've heard it 15 years ago, perhaps, in the food industry when so-called Mom and Pop stores were being driven out of business by the large food chains, and the food chains said back then, well, this is being done in the interest of providing lower prices to the consumer. Well, we are paying higher prices for food than we ever have before.

The small businessman is being discriminated against by governmental regulation which is poorly thought out in many ways. A

typical example that I hear frequently recited to me is the Pension Reform Act. While the goals of the Pension Reform Act are laudable to protect the employee who puts in many years of service and finds that the pension funds have gone to Switzerland instead of into his own account. It seems to me that the paperwork involved places an unfair burden placed upon the small businessman. And the end result of this governmental policy is that the small businessman, people I talk to are cancelling their pension benefits. Therefore, their employees are suffering by not having pension benefits on retirement.

Senatory Kennedy related an interesting story at the hearing in Fall River, Mass., dealing with OSHA. It dealt with a Massachusetts small businessman who is in the meat processing area. One day his plant was visited by an OSHA inspector who informed him that the floors of the plant were in violation of OSHA regulations, and this was because the floors were of a smooth linoleum-type.

He was informed that it would be necessary to put steel gratings on the floor for the safety of his employees. To the tune of \$20,000 he compiled with this demand by the OSHA inspectors.

A few weeks later he was visited by a Federal employee from the Department of Health who informed him that metal gratings in his type of factory were unsatisfactory and they had to be pulled out. He needed a smooth floor so that it could be adequately cleaned and the public could be protected in buying meat.

Well, these things all point out to me that governmental regulation is a serious problem, but as I hope will show in my statement about monopolistic practices, in some ways we don't have enough governmental regulation.

Large corporations are getting away with murder. They are harming the small businessman. I hope to see some activity by Federal and State governments in the near future.

Now, I would just like to direct a general question to the panelists. First of all, why haven't you mentioned the small businessman; the man who accounts for the greatest number of employees in the private sector?

Second, what do you propose to do to increase the viability of the small business sector so that more people will be brought into it, not only as employees, but as employers?

Chairman HUMPHREY. Mr. Houthakker, why don't you take that one, and then we will go down the line to any of you who wish to respond.

Mr. HOUTHAKKER. Well, yet me point out that, although I didn't use the words "small business," I have referred to this and at the outset of my remarks—our political and economic system derives its strength from widely dispersed private initiatives.

Now, this, I think, implies, among other things, that small business has an important role to play.

I am also concerned about the practices of certain large corporations and I feel that more effort is needed to insure competition. Small business is by and large, competitive. I say by and large, because there are exceptions, too. Some anticompetitive practices originate in small business and have to be condemned.

But I am convinced of the need to foster small business consistent with a reasonable degree of efficiency. There are certain

types of operations that cannot compete any more. and I would not want to see those preserved artificially.

If the disappearance of small business is the result of an abuse of power, then I would certainly be in favor of remedying that.

If the chairman would permit me, I would like to make one other point in connection with the questions raised by the other two discussants, especially concerning youth unemployment.

This is obviously a very serious problem, and I wouldn't want my own remarks to be understood as saying that there should be no effort by the Government in this area. I think it is very important that the Government does deal appropriately with this very serious problem.

I would also point out, though, that the problem is aggravated by two things which the Government tolerates, and which have an aggravating effect on this serious problem. The first of these is the minimum wage law as presently constituted. It gives no exception or lower rate for young people.

The fact is that many young people could find work at lower wage rates, but they just aren't worth the \$3 an hour or so which, in toto, is presently required by an employer to give them work. Therefore, I believe that if there has to be a minimum wage law at all, it should give some recognition to younger people in the sense of permitting their employers to pay them lower wages.

The second element is the labor unions especially in the area of construction. I am not an opponent of the labor unions in general. I believe that if they are open, they can play a very useful role. But there are closed unions which restrict membership.

A few months ago I happened to see on television a picture of a line of about 3,000 young people who were standing all night in front of a union office—somewhere on Long Island, because the local electricians union had announced that there were 500 job openings. There were 3,000 applicants.

Now, I ask you, what right does a union have to determine which of these 3,000 young people can become electricians? This is pure anticompetitive practice. It is I believe, a major source of unemployment among the young.

Chairman HUMPHREY. Mr. Ginzberg, we will just go down and let you comment on each one of these observations.

Mr. GINZBERG. Well, I want to begin by saying that I come from a town where there is only small business. About 19 out of 20 employers in New York have less than 20 employees. We are a very splendid kind of an entrepreneurial community.

One thing I didn't understand, Mr. O'Malley, was that it is not necessarily bad to be a franchiser. You ought to have a chance, maybe, to own your own local gas station, but it is conceivable you could be better off by being a franchiser than by being an owner, so I just didn't want to let that pass by saying that because you have a franchise, it is necessarily bad.

I think a second problem with small business—and I think you were correct to challenge us as to why we did not say something about it—was implied in one of my comments.

A lot of small businesses are in the service area, and I would like the record to show, Senator Humphrey, that in the 2 days that I have

listened, there have been periodic discussions about productivity, which I think have failed to take account of the fact that we are an increasingly service economy and we don't know how to measure output in the service sector.

So what we are doing is, I think, getting more and more distressed about our supposed slippage in productivity, which really means that a smaller and smaller goods producing base has to carry the whole measurement of increased productivity. The most extreme form of that is, of course, the governmental sector, which now represents a minimum of one-fifth of all the jobs—and the way I count it, it accounts for one-third of all of the jobs in the United States.

Now, the only way that we count productivity in that sector is by input, so you never have a measurement of any gains in output. It is absolutely impossible.

So that means that a lot of our statistical assumptions about this economy's productivity are very bad as far as I am concerned. It just doesn't make any sense.

We don't know how to compare a day's hospitalization 20 years ago and a day's hospitalization today in terms of the effectiveness of any of the output.

On the minimum wage, I want the record to show something. We are always accused of having a very high wage for the youngsters as against the supposedly special wage levels for youth in Europe.

However, if you take the ratio of youth wages to average wages in Great Britain, France, Germany and so on and compare it to the ratio in this country, there is no difference.

That is a very important point, I think, to establish.

Second, I am sorry that my distinguished colleague from Harvard made a slight misstatement. It is possible to get a special exemption from the Secretary of Labor if you will show that the youngster that you are employing is going to receive real training. Now, I think there is some logic in that, you let the employer have the right to give a lower wage if he is going to make some investment in this youngster.

Otherwise, I think it is fair for a union to say, look, we don't want our adult employment to be undercut by teenage employment, and, therefore, have the adult wage standards eroded.

The third point that I want to make is that the manpower program has made funds available to the employer so that he can recoup part of the cost of hiring these youngsters, because the Government will pay for the training costs.

I have been having a running argument with my friend, Arthur Burns, now for 20 years on the issue of minimum wages for teenagers. As far as I am concerned, he is wrong on that point. While we may not support necessarily the minimum wage for teenagers in the abstract, given the realities of the situation, the minimum wage probably does not make a substantial difference in hiring.

Now, on the subject of closed unions, just in fairness to the unions, one must look at the data of Mr. Houthakker. While the unions obviously still are trying to control those jobs as much as possible—they consider those jobs a property right—nevertheless, if you look at the impact of the antidiscrimination laws and the administration, I have been impressed with the high percentage of blacks that have managed belatedly but surely to get into the unions.

If you look at the last 10 years and you asked me to point out a relatively good performance of our antidiscrimination laws, I would have to point to at least a large proportion—I wouldn't say every last construction union—but a large proportion of them.

And the final point that I want to make, and remind everybody, is that by and large the housing that gets done in the United States, especially housing in the suburbs, is a nonunionized area. What we now are talking about is commercial building and there the recorded figures from the U.S. Department of Labor show the minority groups up to about 10–12 percent of the trainees in the formal apprenticeship programs and they used to be at 2–3 percent. So while it is not as good as it should be, the situation is improving.

Chairman HUMPHREY. May I suggest that we have our colleagues, Congresswoman Heckler and Congressman Rousselot ask some questions of you, of the panelists and of the discussants now, because we learn a good deal from questions.

Congresswoman Heckler.

Representative HECKLER. Thank you, Mr. Chairman.

Mr. O'Malley, if you were to answer the question of how we could deal with unemployment while taking into account the needs of small business, what would your response be?

Mr. O'MALLEY. First of all, I would say that we have to eliminate certain injustices in the present tax system as they affect small businessmen. I think that the proposal with respect to estate taxes recently made by Senator Nelson of Wisconsin is a step in this direction.

It has been a proven fact that many small businesses, upon the death of the owner of the business, are forced to liquidate in order to pay the estate taxes, and I would say that one governmental policy should be enactment of that legislation.

Chairman HUMPHREY. I want you to know that my colleague, Senator Mondale, also has a similar bill and I am happy to be his cosponsor.

Mr. O'MALLEY. With respect to employment of small businesses, I obviously would urge programs which would stimulate small businesses in their development. It is my opinion that small businesses are not so much capital-intensive as they are people-intensive. They are not investing their money so much into large machinery; they are investing their money into people. This is why, I think, we have to look at it in its most human terms, and this is why the small business sector, in my opinion, can play a very significant role in bringing this country into an acceptable employment picture. It certainly is not acceptable right now.

We talk about crime in the streets, and we have enacted legislation at the Federal level which provides many millions or billions of dollars, I don't know, to the cities and towns of the United States to fight crime in the streets through the Law Enforcement Assistance Administration, the LEAA.

I say, as some people also use the term, that we should fight crime in the suites; namely, we should begin to put some of the money that we are putting into programs such as LEAA into fighting the large corporations and by encouraging our State Attorneys General to become more progressive in going after predators—large corporations engaging in price-fixing and other monopolistic practices.

Having been an assistant attorney general in Massachusetts for a period of 5 years, I can express my own dismay at the fact that we just never had any money to go after many corporations which from initial evidence we felt were engaging in monopolistic practices, and antitrust violations.

I would encourage the Federal Government to make money available to the State attorneys general so that they could fight antitrust activities at the State level. I think that is very important.

I don't want to overlook perhaps the most important area which exists right now, and that is that there is a crying need for a Federal jobs program. As I mentioned to Senator Humphrey, I heard him speak one time before and he related that soon after he had returned from college he helped his father out in the drug store back home, after having had the opportunity to study under many distinguished economists in college, Senator Humphrey said that a statement his father made one day proved to him that his father, a small businessman, was the best economist Humphrey had ever met.

The statement was, if the customer doesn't have it, we are not going to get it. We've got to put money into people's pockets, and the only way you're going to do that is to have a good, Federal jobs program. In terms of my own feelings about the human dignity of each individual, I would strongly resist a Federal jobs program that would merely make people full-time permanent Government service employees.

There are many areas that this country is lacking in where people can be put to work and do meaningful jobs, but the goal should really be to get them to stand on their own feet as soon as we possibly can, and I think that is of the utmost importance. We are not just talking about situations where people are having a hard time putting food on their table. We are talking about the dignity and self-respect of the individual.

This is what the American Constitution is about, and this is what the American way of life should be about. And I have to admit, I do get somewhat distressed when we talk simply in terms of economic theories, because we should be talking as much as possible about people and what we can do for people, and I think the small business sector can play a very significant role here.

Representative HECKLER. I would like to ask Ms. Rivlin something.

In our hearing in Fall River, Mass., we had testimony from three mayors, and one of the mayors spoke about the disincentive of unemployment compensation, which has been brought up in many of our panelists' statements throughout the 2 days.

One mayor suggested that we tie unemployment payments to a public service employment job. How does that proposal strike you?

Ms. RIVLIN. I think there is some evidence that unemployment compensation has some disincentives. In fact, it is bound to. There is no way to design a system that does meet this legitimate need to give people income when they are unemployed, which doesn't to some extent reduce their incentive to find another job.

The effect may be marginal, but it is bound to be there somewhat. It is probably very difficult to design a program which does require public service employment of all who have exhausted their unemployment compensation benefits, because it is not easy to create the right

kinds of jobs in the right places. But sure, moving in that direction is very much worth exploring.

Representative HECKLER. I am very concerned about unemployment, and especially after listening to the witnesses describe their own dilemmas, especially the individuals for whom unemployment is 100 percent. It's depression for them, whether it is recession for the rest of the economy or not.

But I am also concerned about inflation, and I am trying to measure the trade-off, to determine what is really the soundest public policy, as well as the most humane.

Now what, in your estimation, would be the budgetary impact or the inflationary impact of the Humphrey-Hawkins bill without further changes in other laws from which you could transfer payments. If we were merely to add this bill and pass it tomorrow, what would be the impact in terms of inflation as a result of that legislation?

Ms. RIVLIN. Well, I don't think it is really possible to answer that question without more specifics on the Humphrey-Hawkins bill and what spending levels and programs would actually be entailed.

However, one can think a little bit in terms of the unemployment targets. Now, the last version—the earlier version of the Humphrey-Hawkins bill did aspire to an unemployment rate of 3 percent in 18 months. Given where we then were, or even where we now are on unemployment, I think the sad fact is that it is not feasible by means now known to get to 3 percent unemployment in 18 months without taking unacceptable risks of escalating the inflation.

But the authors of the bill have recognized that and have modified the target to 3 percent adult unemployment rate over 4 years, which is a much more modest target, and there probably does exist a combination of policies which could get to that target without unacceptable levels of inflation, but the real question is what combination of policies should that be, if the Humphrey-Hawkins bill is enacted and I think that will surely be the next round of conversations in this committee and elsewhere.

Representative HECKLER. May I ask what—

Chairman HUMPHREY. Pardon me, might I interrupt—

Representative HECKLER. I just want to ask—

Chairman HUMPHREY. I am the daddy of that bill, and besides, I think you ought to know that the immediate cost is approximately \$50 million.

Now, the rest of it is a process that mandates to the President and the Council of Economic Advisers that they must start to design programs and policies, not Federal employment programs, per se, that is the end of the line, but fiscal, monetary, and budgetary policies, tax policies, tax incentives, anything you can think of, to stimulate the private economy so that it has a kind of built-in self-discipline.

The more the private economy responds, the less the public cost. In other words, it is like the way the Chinese paid their doctors in the old days. They didn't pay the doctor when they were sick, they paid the doctor when they were well. You know, the doctor had an incentive to keep people well.

Representative HECKLER. I would also like to ask, Ms. Rivlin, how you would define acceptable levels of inflation?

You used it as a yardstick to which you referred quite often.

Ms. RIVLIN. Well, I think that is probably a weasel phrase, like "full employment." Surely, an acceptable level of inflation or unemployment is a matter of individual judgment and that is part of what the whole debate in the Congress about budgetary policy is about. It is partly differences in the technical judgments about the trade offs of inflation one would expect at various levels of unemployment, but there is a much more value-oriented question of what risks one is willing to take, and surely all of us, if asked ten years ago would have said that the current levels of both unemployment and inflation are absolutely unacceptable.

But then the question is, what risks are you willing to take in terms of escalating inflation to get the unemployment rate down?

Representative HECKLER. I see you are not willing to tell me what you would consider an acceptable level.

Ms. RIVLIN. No.

Representative HECKLER. As one who respects your judgment, I would like to have you respond as to what you would consider to be an acceptable level of inflation?

Ms. RIVLIN. I am not really sure that has an answer. At the moment we are stuck with about 5 to 7 percent. There is not much we can do about it. I don't find that acceptable and really the question is whether an additional 1 or 2 percent unemployment rate makes things so bad that one wouldn't want to take that risk, and I am not sure I have an answer to that question. That really is a judgmental question before the Congress.

Mr. KEYSERLING. Let me see if I could stick my nose out by answering that question.

I think that the average rate of inflation, the 3 percent average rate that we had during the 7 years that I was on the Council of Economic Advisers with a war that was larger relative to the size of the economy than the Vietnam war and all kinds of other problems, was not quite an acceptable rate, but it was pretty good. And I think that the rate of inflation that we go down to 0.8 percent, which we got down to when we had 2.9 percent unemployment, when the war was at its peak is an unacceptable rate.

I think the 1.5 percent rate of inflation that we had for 6 years, from 1951 to 1965 when unemployment was reduced from 6.8 percent to 3.8 percent was a very, very acceptable rate.

I think the current rate is absolutely intolerable.

But that is not the main point. The main point is that the inability to decide accurately what is an acceptable rate is no reason why you don't have to set targets. And let me say something about targets on the 3 percent unemployment rate at the same time, because inflation and unemployment are intimately connected.

Now, Pontius Pilate was asked, what is the meaning of truth, and I say, nobody knows the absolute meaning of truth, but they know a big lie, and they can do something about it, and nobody knows what perfect justice is, but they know what gross injustice is, and we have it all around, and we can do something about it.

You don't have to get into refined economic arguments as to whether the right rate of inflation is 3, or 2, or 1, or 3.5, or whether the right rate of unemployment is 3, or 3.5 or 2.5 to set targets, because if you don't set targets, you can't do anything about it. Moreover, you can modify the targets as you go along.

Now, Arthur Burns said, and I expected him to say, you can't really set a precise goal for unemployment because you have changing structures in the labor force. These do not affect the problem of how you get there. They don't affect whether 2 percent or 3 percent or 4 percent unemployment rate is right, they have nothing to do with it, and yet everybody talks about it.

But the really important thing, Congresswoman, is that we made the best records on getting unemployment down when we had goals. We had goals during World War II, we had a specific target during the Truman years, which I am not bragging about. Walter Heller had a specific target when he got down from 6.8 percent to 3.5 percent. It was an interim target of 4 percent, and he got below it. If he hadn't had the goal, he wouldn't have known how to move.

And furthermore, if you don't have the goal, you don't know what kind of policies to have. How can you know what kind of tax policy to have, or monetary policy or any kind of policy, if you don't know where you want to go? You can't just say, we want to do better.

Representative HECKLER. We have had so many goals in housing, for example, for all of these years. The Congress sets goals, but doesn't always honor them.

So setting goals is not insurance for the implementation of the goals or the strategy, either.

Mr. KEYSERLING. You're absolutely right. I tried to emphasize that in my original statement. We have promises to keep, but we shouldn't start criticizing the goals, we should start saying we have fallen down.

Representative HECKLER. I don't disagree with you there.

Mr. Ginzberg, I think you have a comment on this, too.

Mr. GINZBERG. You weren't here when I made the point earlier, quoting one of Ms. Rivlin's figures which was to the effect that we have \$47 million of current appropriations that are floating around, most of which are being used to keep people out of work. They are just being used currently to support people.

Now, the first point I want to make is that a lot of the comparisons between unemployment insurance and public service jobs, about which the Commission has been very cautious, but I just want to point out that the UI-PSJ comparisons have to be adjusted to get some real figures there, because the UI, as you know, doesn't carry any tax liability to a person who earns it, and moreover, there is some output in public service employment even in the worst cases, as I think Leon Keyserling said earlier. Something comes out that you want to put into it, in addition to the human value of working, rather than not working.

I want to go with Leon Keyserling part of the way. The word "goal" in his terms is a little big for me, but I surely want to pick it up in part by saying that I think it is unconscionable and I don't think inflation has anything to do with it, that young people, especially blacks with low income from broken families, et cetera, become available for work at 17 or 18, and we say, as a society, we are not going to give them a chance to work.

I don't care what the inflation threats are. First, we have got over a billion dollars going into those youths now and we have to do better than we have yet done to create a work-learning environment for

those youths. If you really put into that equation the crime that Senator Humphrey talked about, the vandalism, the alienation and the thing that I talked about earlier; namely, the long term negativism towards the society which, as I pointed out, went on in England, you just can't afford not to do it.

Second, I think it makes no earthly sense to have people on unemployment insurance for 65 weeks. Now, I want to make at least three suggestions here. If you get unemployed because the only plant in your community has closed down and there is no other employment there, I would argue that the unemployment insurance system immediately ought to put you into some sort of training or some kind of job search, or something, because otherwise you are going to sit there forever.

On the other hand, it is obviously sensible to keep an unemployment system as it initially was meant to be, to give somebody a chance to look on his own and find himself another job.

At some point in that continuum from 0 to 65 weeks, I think it is sensible for the Government to say, look, after this point—and I think 26 is a possible, sensible point to say—you either begin to look further afield or you go into this training program or you start a public service job for the time being, and you can wait, but in the meantime, you are going to have some return to the society which is paying you.

I don't think we can have what I would call indefinite entitlement programs without any requirements.

Now, I would go further. I would even say with the AFDC mothers, many of whom have only a single child and many of whose only single child is in school that it would be better for them and better for the society to have them work at least part time, closer to their home, at a public library, at a hospital, or at some kind of a governmental office. Because I don't think that our society ought to make a commitment to people to say that we will just hand out money to you indefinitely.

I think some people ought to get some money because they cannot work, that is a different matter. But on these issues, we should begin to move.

Now, it is impossible to do anything at one time, so while I consider it is very bad to push a lot of older people out of the labor market, which I think we are doing now, I would let that problem remain until I took care of the youth and the heavy numbers who are on extended UI and maybe some of the AFDC mothers, but I would surely not forget about those older people. I would surely not forget about some of the other groups that I mentioned who have real claims for continuing work opportunities.

So I would try to take Senator Humphrey's word about a process and try to move as expeditiously as possible, with one section following the other.

Mr. O'MALLEY. With respect to your comments, how long do you plan on keeping these young people involved in this type of program?

I feel we have got to exercise a certain amount of caution here. I think we can put them on a program and say you're there for a career and you are going to stay there.

Or are you talking about the short-term employment of an individual in a public service area?

Mr. GINZBERG. I would like to see an imaginative use of public service employment while youngsters were still attached to schools whereby one could give them an opportunity to work part-time during the school year, full-time during the summer, and over 2 to 3 years, so that they would finally get off these school-extended roles and by 18 or 19 they would have something to offer in the private market.

I am not thinking of a permanent story.

Representative HECKLER. Mr. Chairman, I did have one more question of Mr. Keyserling. We have a very troublesome problem of the youth where we have such a concentration of numbers, where we have social consequences of enormous significance, and where we aren't finding answers at all. I am one who has voted against a minimum wage differential for youth for all of these years on the theory that we are actually displacing an adult for a job by voting for the differential and with the need for adults to be hired, I did not seek to displace them. That is a very high social cost to pay for creating jobs for youth.

But now we are at this point where everything is changing and the problem of young people without jobs is really extremely acute.

Now, in Ms. Rivlin's statement here, she has three alternatives in terms of dealing with the problems of youth. First would be a special minimum wage for teenagers. Second would be exemption from social security taxes. And third, an outright subsidy for firms hiring teenagers. She suggests these as possible alternatives, and there are certainly others.

Of these three which would you consider most desirable, and if none of them would be desirable today, what other answers would you give?

Mr. KEYSERLING. Well, I think you have been on entirely the right track in what you have done, and I don't want you to get off the track. I think you were right when you voted against the differentials.

Now, let me say why. This is a perfect illustration—now I am not attributing this to you—this is a perfect illustration of the complete lack of planning, the complete unwillingness to look at the economy as a whole and the complete unwillingness to see the interrelationships to problems.

Now, let me apply it to unemployment insurance, and let me apply it to this differential problem. If we were in a situation where we had 3 or 4 percent unemployment, I could see great merit in carving down the unemployment insurance benefits on the theory that if there are a huge number of people on unemployment benefits because they would rather be there than on jobs, but when the true level of unemployment is 10½ percent and one-third of our plants are idle, and when our GNP is what it is, no sensible economist can attribute to the generous nature of the unemployment insurance systems the reasons why people haven't got jobs.

The jobs are the solution. Let's create the jobs, and when the unemployment rate gets very low, that will be time to consider whether the people on unemployment insurance are there because they don't want the jobs.

Now, let's look at it this way. You have a dilemma. If you start by saying that you are going to carve down the duration and benefits of unemployment insurance, which frankly I think are too low if a person is really unavoidably unemployed, if you start carving them down, where do you stop under that philosophy?

I am not asking you this question; it is rhetorical.

Are you going all the way back to the idea that maybe if we didn't have any unemployment insurance and didn't have any welfare that all of these 10 percent unemployed would be looking for jobs. I think you should move on the jobs first and in the meantime have an adequate protective system for the 95 percent of the people who are unemployed because there are no jobs.

Now, let me apply that to the minimum wage. There again, when Arthur Burns talks about minimum wages, he is not looking at the economy as a whole. You can't talk about minimum wages without looking at the whole wage picture.

You can't talk about minimum wages without looking at the empirical evidence. The General Electric president surprised me as he said minimum wages are responsible for a major part of the unemployment. Arthur Burns said the minimum wage was responsible for a lot of unemployment.

There is not a responsible, objective study by the Labor Department or others that hasn't shown that the minimum wage has helped the whole economy, jobs, and done enormous things for the newly industrialized south. The lifting of the wage standard has been good for the whole economy. That is point 1.

Point 2, you can't look at the minimum wage problem without looking at the whole wage problem. Now everybody has been putting out these regurgitations about wage inflations. Now I know it is happening to some people in the construction industry, but my goodness, even the Wall Street Journal admitted a few months ago that in any period of high-level prosperity wages would rise and the real wage rate gains have lagged far behind the productivity gains, and this is one of the big problems of the economy, and this is not the time to cut back on that portion represented by the minimum wage protection.

Chairman HUMPHREY. May I get to Congressman Rousselot? We are getting to the witching hour. Congressman Rousselot, I know you have some questions you wanted to ask and then Congressman Wright has a statement that he wants to make and then we are going to wind it up. We could be here—and it is fascinating, and I must say that there is nothing I would like to promote more than a good argument because that is the only way we can get any ideas.

Congressman Rousselot, can't you promote a good argument?

Representative ROUSSELOT. Yes, that is true. I'll try not to use any "weasel" phrases.

Mr. Ginzberg, I was interested in your statement. I was not here when you mentioned the first time that there is \$47 billion presently in float, or whatever you want to call it, being spent to keep people unemployed.

Did you get that figure from the Government, or from our committee, or where did you get that?

Mr. GINZBERG. It is Ms. Rivlin's figure.

Representative ROUSSELOT. It is a fascinating figure, I just wondered where you got it.

Mr. GINZBERG. No, it is her figure. We are very careful to use only the best data. I told her earlier that we live off of her data.

This comes from a report that she issued on the 15th of March called "Budget Options for Fiscal 1977" and she has programs and policies aimed primarily at creating employment directly which are a little over \$5 billion; increasing the employability of workers comes to about \$17.7 billion; and providing income assistance to unemployed individuals is an additional \$19 billion.

Representative ROUSSELOT. These are annualized figures?

Mr. GINZBERG. Yes, these are annualized figures, I assume.

And then Ms. Rivlin adds a little bit for the tax policy which doesn't show up as expenditures, but which shows up as loss of revenues, and that comes out to \$47 billion.

Now, there is included in that, just so there are no secrets here—

Representative ROUSSELOT. Now, are these all just Federal funds—

Mr. GINZBERG. Federal funds.

Representative ROUSSELOT [continuing]. Or does it include current State and local government funds?

Mr. GINZBERG. No, this is the Federal part of it.

Representative ROUSSELOT. Federal funds spent as you label it to keep people unemployed?

Mr. GINZBERG. No, not quite. It is to create employment, to increase employability, and to assist the unemployed. Those are the three categories that she uses, and I am not going to improve on those.

Let me simply say that the two figures equal \$10 billion; \$5 billion which Ms. Rivlin puts under increasing employability and almost \$5 billion of veterans' benefits for skill training.

It is a perfectly legitimate view that an expenditure of the Federal Government is to try to help people's employability; and that is how it adds up to \$47 billion.

Representative ROUSSELOT. What triggered my questions to you is I thought I heard you say we were presently spending \$47 billion to keep people unemployed. Did you mean to say that?

Mr. GINZBERG. No, I'm sorry. If I did, I surely didn't mean it.

What I did want to say and will now say more cautiously is that with \$47 billion of expenditures directed towards (1) job creation; (2) employability; and (3) replacing income that people don't have because they're unemployed, we have a lot of scope to create, hopefully, a much higher level of employment opportunities for the people who are unemployed.

Representative ROUSSELOT. Well, that certainly is a different concept that I had heard, and I am glad to get a clarification on that, because I was a little concerned that we were spending that much to keep people unemployed. That did bother me, if in fact, that's what you said, and evidently you didn't.

Mr. Ginzberg, I was interested in your comments about productivity. Now, my understanding is that we have had a tremendous amount of study done on the productivity of workers in the private sector. Until recently, we really haven't had much study done on the productivity of government workers.

I understand that in the State of Virginia there is a county government that has gone into doing studies on the productivity of government workers. Since we devote a substantial amount of money to pay

Federal workers, do you know of any productivity studies that have been, or are now being done, on the productivity of government workers, other than the one I mentioned?

Mr. GINZBERG. Well, there is a special committee, because I have seen the reports, in which the GAO had some kind of partial leadership. Mr. Morris, a former Assistant Comptroller General had an active committee, it is an interdepartmental committee, and there have been several years of work done now on the productivity of Federal employees.

Representative ROUSSELOT. Do you think this would be worthwhile, since we are talking about creating jobs in the public sector under this legislation and others, to see just how productive these jobs really are?

Mr. GINZBERG. I think it is essential with the American economy being increasingly a service economy, and I would say, Mr. Congressman, that I don't really think we have good studies of productivity in the service sector.

Representative ROUSSELOT. I think you are right.

Mr. GINZBERG. I would argue that it is essential that we begin to do much work on output measures in the service area. We did a little book in New York under a Department of Labor contract entitled "Where Have All the Dollars Gone?" We looked at New York City's budget from 1961 to 1971 and then added the figures up to 1973.

We have had the same population in New York, 8 million, and we had an increase in human resource expenditures from 1961 to 1973 from under \$2 billion to over \$7.5 billion.

So we asked a simple question: How do you account for that? What happened?

And we accounted for part of it in terms of inflation and we accounted for part of it in terms of new services, we created community colleges and higher colleges and we had more medical services, but a good part of it defied our discoverability except that it was sopped up in terms of more people operating in the system without our being able to define any output at all.

The fact that you have, let us say, two assistants to a teacher to teach a bunch of youngsters how to read better, until you look at whether they read better, you don't know whether the two assistants are doing any good or not, and we have had a lot of stuff, I regret to say, of that nature going on in the city; that is, we assume that putting more people on created more output. In some places that was true in some places it might have been problematic, and in a lot of places we just don't see the output at all.

Representative ROUSSELOT. Well, I appreciate your comments. My feeling has always been that we have spent an awful lot of time talking about the productivity rate in the private sector and if we are going to spend money in creating jobs in the public sector and especially in some cases when those jobs cost more to put on line, we ought to know if they are productive jobs and really creating worthwhile activity.

Ms. Rivlin, we have had some discussion here by Mr. O'Malley about the problem of the small businessman who wants to pass his business on to his family and sometimes he is forced to liquidate

because of the high estate tax, and some effort of Senator Humphrey's was mentioned to lower that burden of taxation that occurs when there is a transfer at death.

Have you had a chance to see what the impact would be of some of these bills that have been proposed to reduce the estate taxes?

Ms. RIVLIN. No, we have not worked on that one.

Mr. KEYSERLING. May I say something about small business?

I did not refer to small business in my testimony because it was a 10 minute testimony and it didn't refer to any statistics. It talked about the general new lines that economic policy has to take, but in longer studies, I have done a great deal of work about small business, and I am profoundly concerned about it.

I think the tax laws should be made more favorable to small business, but let me get back to how it relates to full employment.

Representative ROUSSELOT. Would you agree with Mr. O'Malley that that would help the family job operation?

Mr. KEYSERLING. I agree completely, but let's also get back to the whole point of full employment, and this puts the problem of the small businessman in the same light as the problem of the young person and the black and the other minorities.

There is absolutely no way in our economy when the economy is in deep trouble from preventing the vulnerable from getting hurt more than the powerful.

In other words, if a ship sinks and you throw the people into the ocean, there is no way of preventing the strong swimmers from doing better than the weak swimmers. You have to prevent the ship from sinking, or you have got to have enough lifeboats.

Now, both the problem of the small businessman and the problem of the minority worker or the less-skilled worker is essentially a problem of full employment, because all of the statistics show that when you have full employment and when you have the economy growing at an optimum rate, the small businessman does relatively very well, and you do not have a tremendously high rate of business failures.

Now, I am not arguing against assuaging his lot when the economy is in trouble, don't mistake me. I am for changing the tax laws and all of that, but when you sink from full employment to 10 percent unemployment and when a quarter or a third of our plants are unused, the small businessman is going to get thrown off the wheel faster than General Electric and all the laws in the world aren't going to change that in a large sense.

It is full employment that changes it. You know, if we were really where we ought to be on this, we would be talking about an ideal situation, not whether unemployment is 3 percent or 5 percent or 2 percent.

You would have a much healthier economy if there were more jobs than workers than when there are more workers than jobs.

Representative ROUSSELOT. Do you agree with Mr. O'Malley that over-regulation by the Federal Government is strangling small business?

Mr. KEYSERLING. I think that is a factor. I think the biggest factor is the recession, the repeated recessions.

Representative ROUSSELOT. Do you think we should begin to deregulate in those areas that clearly are not producing?

Mr. KEYSERLING. I wouldn't be prepared to state which, but I think it is essential.

Representative ROUSSELOT. How about OSHA?

Mr. KEYSERLING. What?

Representative ROUSSELOT. Mr. O'Malley mentioned OSHA as an example that has been a case where there has been overregulation.

Mr. KEYSERLING. I am not familiar with all of those details, but I do think there is need for an intense study of that problem, and I also do think that this full employment legislation that people are talking about, I identify this as one of the problems, and also identify small business as one of the problems.

But I still say most insistently that there is no palatable, large, meaningful solution for small business except a healthy economy.

That is the biggest thing.

Representative ROUSSELOT. Mr. O'Malley mentioned one of the major problems that small business faces today. He gave an example of the small businessman that had to invest \$20,000 in a new floor and then change it because another inspector came in and took another point of view. U.S. News and World Report tells us in a recent article that overregulation by Government has caused an add-on cost to business which represents roughly 52 percent of the employment level, probably \$130 billion a year add-on costs that is charged to business as a result of the response to overregulation.

Now, is that a significant enough fact to—

Mr. KEYSERLING. Now, I am not going to be forced into making a wrong answer. I agree with what you say about regulation. I think it needs to be reexamined. But don't you tell anybody that if the Government gets out of regulation that the small businessman is going to be helped much.

Mr. O'MALLEY. I would just like to make one statement. One of the things that favorably impressed me about the Humphrey-Hawkins bill is section 105(a):

The Congress finds and declares that widespread duplication and contradiction among Federal departments and agencies, the failure to establish long-term priorities, lack of adequate information on the impact of Federal regulations and programs, and the lack of a process for developing more efficient alternatives for achieving the Nation's priorities are impeding the Federal Government in efficiently implementing full employment and balanced growth policies. . . .

I think that is a significant section of the bill. I think that—

Chairman HUMPHREY. May I just point out that it cites that we require:

A review of existing Government rules and regulations to determine if they still serve a public purpose and are properly designed and an annual evaluation of 20 per centum of the dollar volume of existing Federal programs which are in effect each year and the submission to Congress of a formal analysis of the economic and social impact and value of each program.

We start one-fifth of the programs at zero point, so that there is a compulsory reexamination of every single program and all rules and regulations. That is in our bill.

I think that it gets at the problem. I don't know if we will solve it, but it gets at it.

Congressman ROUSSELOT, do you have any more questions?

Representative ROUSSELOT. Sure. I always have more.

Chairman HUMPHREY. It is 5 o'clock, and I think we have had the most patient and energetic and exciting panel that we have had in this conference.

Let me express very quickly a note of personal thanks on behalf of the committee. This was an experiment for us. We had the 30th anniversary of the Employment Act of 1946. We wanted to get a sort of a general review of the manpower policy, employment policy, basic monetary and fiscal policy. Obviously it is limited. These problems are so complex that we could be here for days and weeks. In fact, we had 100 days in which hearings were held last year by this committee. So we think that we have made at least some study.

Out of all of this comes a vast amount of information, and out of the information hopefully will come some worthwhile programs.

The countercyclical program, for example, is out of this committee originally.

I have just noted that Senator Proxmire, who has been such a powerful force in this committee, asked the General Accounting Office to do this special study on productivity of Government employment, and I have just been informed that one of my fellow townsmen out in Minneapolis, Mr. Wayne Thompson of the Dayton-Hudson Corp. who is chairman of a special task force for the Committee for Economic Development (CED)—has just published the results of a study entitled "Productivity of State and Local Government."

So, again, there are efforts being made in that field, but it is still all in the beginning stages.

Representative ROUSSELOT. It won't lead just to the production of paperwork, will it?

Chairman HUMPHREY. Well, you can't tell, Congressman Rousselet, whether it will be just paperwork or not.

I think what we are really struggling with here are a number of new factors with which we are not too acquainted, but the point that has been brought out—and I believe I am correct in saying that there is a general consensus, about a need for establishing the goal of full employment; namely, that those persons who are able-bodied, who want to work, should have the opportunity of gainful employment at a decent wage.

I believe that it is recognized that one achievement would do a great deal to forward the social and economic progress of our country. I think it is also recognized after the discussions of these 2 days that the economic policymaking machinery of the Federal establishment needs to be updated and, I would say, not only modernized but greatly improved.

I think also we recognize that there needs to be closer cooperation between Federal, State, and local governments.

Congressman James Wright of Texas has been a very patient observer here this afternoon, and the Congressman has his own proposal in the field of employment. I am going to take these few minutes that we have remaining here to have him place in the record what he has in mind.

And might I add that this record will remain open for a period of another week for other Members of Congress and other persons who wish to submit statements or materials to have those included in the record.

Congressman, why don't you go ahead and tell us what you have in mind? I have a captive audience for you and they are going to listen, as they are delightful and generous people.

STATEMENT OF HON. JAMES C. WRIGHT, JR., A U.S. REPRESENTATIVE IN CONGRESS FROM THE 12TH CONGRESSIONAL DISTRICT OF THE STATE OF TEXAS

Representative WRIGHT. Well, they have been very generous with their observations and with their knowledge, and I am the richer, and would be if I didn't make any contribution at all.

If I am impressed, as indeed I am by the quality of the suggestions and information that has been brought to this panel, I am awed also by the scope of the problem, and I might say, Mr. Chairman, a bit embarrassed with our ability in Congress thus far to come fully to grips with this problem.

If I have any credentials at all, it would be that, first, as a member of the House Committee on the Budget I have become startlingly aware of the cost of unemployment to the Nation, and to the Government itself.

As Chairman of the Conference Committee that tried to hammer out on the anvils of mutual compromise a jobs bill and the floor leader of forces in the House that have succeeded only temporarily in overriding the veto of that bill, I have become aware of the frustrations of Congress in trying to come to grips in a meaningful way with this enormous problem, and so let me just say a few words about the costs of unemployment, about the frustrations that Congress faces in that direction and then make a modest suggestion.

Unemployment is too costly. We can't afford it.

There has been developed before our hearings in the House Committee on the Budget a fairly well accepted rule of thumb acceded to, I think, in general by liberal and conservative economists alike that each percentage point of unemployment that we suffer exerts an adverse impact upon our Federal budget in the equivalent of approximately \$16 billion, both in foregone taxes, because people who are out of jobs aren't paying income taxes, and in unemployment compensation and related welfare costs.

If it is not quite fair, Professor Ginzberg, to say that we are spending \$47 billion to keep people unemployed, and I don't think that is what you meant, it is inescapable that it is costing the Government \$48 billion because the unemployment rate is some 7.5 percent instead of some 4.5 percent.

And if we were able to bring down to 3.5 percent as is foreseen in the Humphrey-Hawkins bill, we would demonstrably be saving some \$64 billion this year that we otherwise are expending, and could reduce the anticipated deficit by some \$64 billion in this fiscal year.

There are many components of that problem, some of which were alluded to by Professor Ginzberg; because our unemployment rate

is so high, we are spending \$19.4 billion this year on unemployment compensation. Because the unemployment rate has escalated so rapidly in the last 2 years, we are spending on food stamps \$3.7 billion more than we were then—in 1974 we spent \$4.5 billion on food stamps; this year we spent \$8.2 billion on food stamps and other agricultural feeding programs. Some \$6 billion of that is food stamps; that is the total program cost.

Veterans' benefits went up \$2 billion last year, not totally because of the recession; some of that is related, I am sure, to the great number of young men coming back from Vietnam and becoming, for the first time, eligible for benefits, such as educational benefits, but some of that must directly be related to the fact that those young men could not find work and the only thing they could do was to go back to school.

So I am saying that we can't afford unemployment; it costs us too much. And I am for the Humphrey-Hawkins bill. I am for whatever reasonable, workable process we might establish together to take Americans off the unemployment rolls and put them on the payrolls.

I think that is where they want to be. I don't think the American worker wants an unemployment check or a welfare check from his Government. I think what he wants is a paycheck for an honest day's work. I have that much faith in the American worker, and I think it is borne out by the experience Mr. Keyserling mentioned during World War II.

They want to work; they want a job; they want to feel useful. Every American does.

In addition to that, I want to say that I have got confidence in the American business sector. I am not one of those who believes that business is evil; I don't think it is evil. I think the American business community wants to provide for American workers, and I think they would do so if given that much opportunity.

Now let me say just a little bit, very briefly, because time is fleeting, about the frustrations we have encountered thus far. I am not trying to fight a battle over again; it has already been fought. We tried to put together the kind of a bill that we though would make some modest impact on this problem: \$6.2 billion over 16 months for the thing Senator Humphrey referred to that was developed in this committee, the countercyclical revenue-sharing program coupled with an accelerated public works program to bring on the immediate construction of that great backlog of needed public works—not make-work, not leaf-raking—public works that have been in the mill in every community throughout this country simply awaiting the funding to get started.

Well, the President found it objectionable, and because we failed by three votes in the Senate to override that veto, we don't have that program. It wasn't a panacea. It had its imperfections. But at least it was an attempt to spend less than a third of that \$19.4 billion to put some people to work. We though it would have employed about 600,000 people.

The President said otherwise. He said that it would cost too much per job. He said that it exalted the public sector over the

private sector. He said that it wouldn't have produced the number of jobs we thought it would, that it would be too slow in taking effect, and that it would be essentially dead end jobs in that they were jobs performing public works, although most of them were not on the public payroll, they would have been in the private sector in the construction industry where unemployment today hovers around 20 percent.

And so I began to think what in the world can we do to satisfy those objectives, some of which, let's acknowledge, have some validity.

What can we do to build employment incentives in the private sector and encourage the expansion of the private sector vis-a-vis the public because that is what all of us want to do, since those are the people who pay the taxes.

What can we do to produce jobs at a lesser cost? The President said this would be \$25,000 a job. I don't believe that. We costed it out on our econometric models at about half that figure, but that is still too high.

What could we do to produce jobs at maybe a \$2,000 per cost per new job in the economy?

We began thinking what could we do to perhaps answer that question that we really wouldn't create new jobs, that it would be too slow in going into effect, or that they would be dead end jobs. I come with this idea, which I offer to you, not as a panacea but as a proposal and suggestion; not as a substitute for the other stimulative things that I think we are going to have to do, but maybe as a supplement to them.

I built upon my experience in 1962 or 1963, was it Senator Humphrey, when President Kennedy called a bunch of us down there and said a 7 percent investment tax credit is going to bring money into the Government in the long run and not going to cost us. I wanted to believe that. I didn't.

I said, "Mr. President, I will support your program because I believe we need to stimulate the economy and we need to stimulate the private sector and we need to encourage them to invest in expansion and better processes and thereby have more productivity and employ more people."

I thought to myself, don't try to tell me that is going to make money. But it did. He was right.

So I began to think this, and I throw it out to you for what it's worth. It may have some bugs in it. If so, think about it and crank them into the computer.

Why wouldn't it make sense, in addition to the other things we are going to try to do, the public works jobs and so forth, if we were to have a program aimed at the private business sector, little businesses, Mr. O'Malley, as well as big ones?

Businesses of all kinds, any kind of a private employer, any farm, any business, in manufacturing and wholesaling and retailing and the service trades, wherever. Let them all participate.

Make available to any private employer an employment incentive grant for each new person that he puts on the payroll. It would have to be an expansion of his payroll, not just replacement for someone else, and it would have to be somebody who was out of work for 4

months and who was actively trying to find work—he would have to certify that he was.

Such grant, I think, might consist of approximately one-third of the first 6 month's pay for this individual, or \$2,000, whatever is the lesser, and for the second 6 months, so that we phase it out, one-fourth of that individual's pay or \$1,500, whichever is the lesser.

So that the maximum exposure that the Government could have from a new job created for an individual who has been out of a job and wanting a job would be \$3,500. And that would indemnify to the maximum extent, up to a \$12,000 job. That's all you'd pay that much for.

The average job, I am told, is about a \$7,000 job. If this were to go into effect, and if we were to stimulate the creation of jobs paying an average of \$7,000 a year and big and little businesses and employment organisms throughout the country, the average cost per job stimulated would be \$2,000.

Now, if we were to assume that that were the case, a \$2 billion investment for 15 months would produce 1 million new jobs.

If we further assume that is the case and further were to assume that only two-thirds of these people would be taken off the unemployment rolls, and if we were to assume that each of those taken off the unemployment rolls would save the Government \$3,000, although the average cost for enrollee is \$4,000 per year, we would save \$2,000 for each individual.

Further, if we were to assume that the individual making \$7,000 were paying taxes at only \$1,100 a year, which I think is about the norm, we would be earning another \$1½ billion, and in other words, our \$2 billion investment would net the Government \$1½ billion, because it would bring in \$3.5 billion. It would cut our unemployment compensation costs by \$2 billion and it would bring us \$1.5 billion in taxes.

Now, that may sound glib and superficial, and I know there are a lot of faults and flaws that you can pick in it. It would depend upon the capacity of business to avail itself of this, but I think we are beginning to go into an expansionary period. If we could stimulate those businesses, big and small, which are on the very precipice of decision, whether or not to expand, whether or not to go into a new market, whether or not to try to go into a new product, whether or not to buy some new machinery that would let them employ some more people. If we were able to reduce their initial labor cost so as to free up some of their capital to let them invest in this additional machinery, I think it would have a long-term and lasting effect. Because for every \$1 of Federal expenditure, you would be mandating that the private employer put up \$2.50 in that first year, and every \$1 billion that you put out in the Federal Government would result in \$2.5 billion being invested in jobs by private industry.

I don't believe that business would go into it unless it saw a reasonable expectation that the job could be a continuing job, that it could be self-sustaining and pay for itself. So I think a lot of those jobs would be continuing jobs.

I offer that to you just as a suggestion. I am groping, as are all of us. I don't know the answer, and there may be better answers.

I am for the Humphrey-Hawkins bill, but I am also trying to help find a few ways that we can get there from here.

Mr. Chairman, thank you. I have taken 10 minutes and I didn't mean to take that long.

Chairman HUMPHREY. I want to thank you.

Does anybody here want to make a quick comment?

Representative ROUSSELOT. May I just ask a quick question?

How would you expect to inject this in the system fast enough?

Representative WRIGHT. Well, I think it would have to be made available immediately. I think it would have to be made available with a minimum of redtape. I think it would have to be simplified. I think you would have to crank it through an existing agency.

Now, I would suggest, although I am not hard and fast on this, that it might be the EDA, the Economic Development Administration, which, for several years, has been in the business of making loans and grants for the private, as well as the public sector.

Representative ROUSSELOT. Thank you.

Representative WRIGHT. It does a good job.

I think that is probably the way it should be done.

Chairman HUMPHREY. Mr. Ginzberg.

Mr. GINZBERG. I just want to say to the Congressman that I think it would be worthwhile for him to get in touch with Mr. Charles Stuart who did a study for the Commission, our Commission, on the West European efforts, and the Germans have tried something specifically like this, and I think maybe the French also. We are holding a conference with these western Europeans early in June at Brussels and we will report back to you as to what we learned, because that is part of our agenda.

But you could get some early input from Mr. Charles Stuart, who is a consultant around town.

Chairman HUMPHREY. I am very much interested in this.

Mr. Spring.

Mr. SPRING. I would like to say that in Massachusetts they have a \$500 tax writeoff from your tax bill, not from your taxable income, for every new employee you hire. They have had that for several years as part of the mass incentive taxes which they put through the legislature up there.

We did a study of something like 65 percent of the firms that had applied for the writeoff, and found they were firms that, without exception, were going to expand anyway. They were happy to take the money, but they were going to expand anyway.

So you have a really ticklish problem, such as substitution in the public sector of paying for jobs which are a function of demand for your final product.

If you are making airplanes, you hire people to make airplanes. If you are making Ford cars, you hire people to make Ford cars.

The only thing you might influence would be the decision to hire more people than more machinery.

But the Swedes are thinking about that. There is a paper that was presented, in fact, to this committee on efforts to fight stagflation, but basically, I think what they are talking about is a general, across-the-board help to all industry. I mean, they are frank about

possible substitution. They are just helping with the wage bill of industry across the board.

Representative WRIGHT. It might be taken advantage of by some businesses who are going to employ more people anyhow. You could say that, though, for the investment tax credit, or any of the other incentives.

Mr. SPRING. That's right. Any kind of tax break.

Chairman HUMPHREY. Mr. Houthakker, do you have anything on that?

Mr. HOUTHAKKER. Since there is expansion, you might find that some of it will be wasted in that sense. Apart from that, there are certainly many proposals around that are much more costly than this one.

My feeling is that there should be a more detailed study of the likely waste in the process. Apart from that, some kind of direct employment subsidy, which is what this amounts to, may be a way of getting economic recovery to go a little faster.

I do not think, however that we should lose sight of the fact that we are now in a recovery and that firms are hiring much more.

Chairman HUMPHREY. There are some places, Mr. Houthakker, but in my home State, which is considered one of the more stable economic States, we never get quite as high in the high period or as low in the recession, we just added 34,000 people to our unemployment rolls last month, and the projection is worse now for the month of March.

And you know, I don't take any comfort in that. That's why these general figures bother me. I have to represent the people in Minnesota.

We have big companies out there. We have Honeywell out there, we have Cardinal out there, we have Control Data out there, we have a lot of big companies, Univac, IBM and so on. But we have problems, you know, and these are good workers. You can't go round and put the quotes around these folks. These are good old Scandinavians and Germans and Swedes and they all love to work—they really do like it—and they are just as unhappy as can be.

I represent that constituency. What do I tell them?

Mr. HOUTHAKKER. These are very real problems. Let me make it clear that I am sympathetic to Congressman Wright's proposal, and to the workers too; but I think we have to recognize that in an economy that is growing anyway, the kind of proposal that you mentioned here can cost an awful lot of money while not readily doing much to stimulate the recovery.

I would be very interested to hear more about Professor Spring's evaluation of the Massachusetts idea, how many additional jobs it actually created per dollar spent.

Representative WRIGHT. Mr. Chairman, might I respond for 30 seconds?

I think that what Professor Houthakker said may be true. We are in a beginning of an expansionary period, and I rejoice in that, to the extent that it exists. But if you take the administration's own estimates and calculations, we will just end up, after 20 months of recovery, at the point which has been the very bottom of all of

our post-War recessions, and I am concerned that it just isn't good enough.

You know, I don't want to take from the administration or from anybody else the rate of success that has come along. I think Congress can claim a modest amount of that because of some of the initiatives we have taken. But I don't think it is good enough, and we have 7 million people still out of jobs.

Chairman HUMPHREY. We have an insatiable appetite for good discussion and argument and proposals.

I want to thank Congressman Wright. I don't know whether the proposal has problems and bugs in it that are beyond compare, but I think that it is another one of the many suggestions that we ought to examine.

I am sure the CBO is examining these projects as well, so that we have a number of agencies in our government now working at it.

I will tell you what I really think is necessary. I think that what is necessary is a desire to experiment, rather than a desire to say no. The one thing that comes through here, as Congressman Wright was making clear, is the incredible cost of unemployment. That was in dollars—nobody said what it costs to incarcerate somebody for crime, what the tragic cost is in human life and in the human condition, and the recession, what it is doing in our cities, what it is doing to social services and our localities, so what bothers me is that we have gotten into the syndrome of saying, well, we mustn't promise too much and we mustn't expect too much.

I am a parent. Whenever I told my children we didn't expect much, that was exactly what we got. My father used to expect something out of me, going to school, and I never claimed to have a great moral fiber, but I would claim to have a great regard for my father's discipline. I was a little bit afraid to come home without fairly good grades, not because I really enjoyed studying that much, but because there was a standard around the place. There was another standard that no matter how late I stayed out, I got up earlier. And I once asked my dad, "Why were you so tolerant about me hanging around late at night and going out to the dance and getting in at 2 or 3 a.m.?" And he said, "Well, I figured that if you didn't have enough sense to know that you couldn't come in in the middle of the night and still be able to get up at 6 a.m., you weren't worth saving anyway."

There are certain kinds of discipline that are rather important, you know.

With that little friendly, homespun note, we will say goodnight, and thank you very much.

[Whereupon, at 5:25 p.m., the committee adjourned, subject to the call of the Chair.]

APPENDIX

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CHROMALLOY AMERICAN CORPORATION
120 S. CENTRAL AVENUE
CHROMALLOY PLAZA BUILDING
ST. LOUIS, MISSOURI 63103

March 25, 1976

Honorable Hubert H. Humphrey,
Chairman
Joint Economic Committee
Room G 133
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

I am privileged and grateful to you, the members of the Joint Economic Committee, for the opportunity of presenting to you my views as they relate to tax reform with particular emphasis on the problems of equity financing of the nation's industries.

I serve as Board Chairman and Chief Executive Officer of Chromalloy American Corporation. We are a diversified company with manufacturing and service companies located in a number of states represented by you who are serving on this committee. We currently employ 22,000 people, a number which has decreased from 26,000 on January 1, 1974. This lack of growth in the number of employees brings me to the subject under discussion today.

Basic to our economy is the production of food and fiber and our ability to provide products and services. All require three ingredients. First, a public need for the products or service; second, money to design products and to house and equip production facilities; and third, people to man the machines to produce the food, the product, or service. Any one of these ingredients, in short supply, cripples the ability of an industrial nation to prosper. The past few years have seen a growing inability of American business to raise the money or capital needed for its growth or survival. This ingredient in short supply is basic to our economic problems of this period.

Over the years, due to budget deficits including costs of wars, defense, foreign aid and social problems of an expanding population, our government has become annually a greater competitor for the use of the existing money supply. The result of government financing and refinancing of its obligation has been to dry up sources of equity capital for the industry and commerce of the nation.

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Since business and industry cannot finance these needs through the sale of corporate securities, it became necessary to revert to credit sources, banks, life insurance companies and other lending institutions. They became competitors with the government in the money markets thus creating exorbitant interest rates. Increasing interest rates, in my opinion, represent the greatest single source of inflation represented by spiraling costs and resultant prices. Add to this capital needs to provide nonproductive, antipollution devices and equipment to meet ever increasing requirements of government regulations. This, I realize, is an over-simplification of a few causes of inflation that seem apparent to me.

In the event that the Federal Reserve System is to prevail at maintaining a money supply growth at an annual basis of 5%, we will be faced with an ever decreasing supply of money in proportion to the demand. If American industry is to remain viable, it must be able to raise new funds through equity financing. Ability to do this would be enhanced if stockholders were placed on the same footing as individuals who acquired tax free government securities. Currently, corporate dividends have been reduced by corporate profits tax of approximately 50% and, when received by the stockholder, are again subject to individual income tax. In face of the risk of corporate investment with returns subject to double taxation, investors find corporate securities undesirable. Exemption of dividends paid on corporate securities from individual income taxes would place them on an equal footing with tax exempt securities.

An exemption of the corporate dividends tax at first glance would seem to be prejudicial in favor of business and industry. However, upon closer examination, one finds that business and industry are largely owned by some thirty million shareholders in the United States, most of whom are middle income married adults. They represent a huge percentage of the electorate which in this issue (double taxation) has been grossly abused and neglected. In our corporation alone, approximately ten percent of its shares are held by labor pension funds. While the pension funds are not taxed, it must be remembered that they have a deep interest in a recovery in the marketplace of the equity values. Certainly, you are aware of how badly these values have deteriorated.

Investment tax credit is under constant attack. In fact, it is inadequate to enable industry to retain sufficient earnings after taxes to cope with the monetary demands placed on them for capital. This capital is necessary if industry is to expand, to provide job opportunity and to modernize to increase productivity, which the economists claim will help defeat inflation, and to clean up the air and water to satisfy the environmentalists.

At the risk of being repetitious, I would like at this time to attempt to again dispel an impression that seems to prevail in the Federal Government. This impression being that organized labor and its interests are diametrically opposed to the interests of business and industry. This is a totally erroneous

impression. We know firsthand that both labor and business interests will work hand in hand in securing proper and prompt remedies to our current economic problems with a concerted effort in the capital providing areas that will create new jobs.

Common stock representing an equity interest in the nation's business and industry are not owned exclusively by the very rich but instead are owned by an estimated eighty million Americans. This extending to pension, insurance, and mutual funds as well as private ownership. Both labor and industry have a vital interest in maintaining the value of these assets in which they have substantial investments. It would appear that government as the representative of these same people should have a similar interest.

To return to the subject of capital formation, we must first recognize that industry depends for its existence and its growth upon an ability to get money permanently invested in the corporation itself. That means through the medium of the sale of shares of its stock. Now, with the decline in value of those shares, not actual value but at least in selling prices which has taken place through some five years now of constant attrition, the employers--the thousands like myself--are denied the opportunity to issue additional shares because the shares are not selling, not being bought by the public for anything near their real value. There are several hundred fine corporate stocks on the New York Stock Exchange that sell today for as little as thirty percent of their book value, which is the real liquidation value of the company. Our own company closed today at around \$14.00 per share. The actual value of each share in goods and properties and machinery is somewhere in the neighborhood of \$22.00. If I want to expand my business and I want to get capital to do so, I could not be loyal to my shareholders and offer \$22.00 worth of value at a price of \$14.00 and then be forced, if I want to continue to expand, to go to what is known as the "borrowed money market".

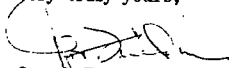
We need a frontal attack on unemployment. We need programs, policies and the funds necessary to turn the economy around now, and a recommitment to the goal of full employment set thirty years ago. This is not an impossible dream. It can and must be done.

I can best illustrate the problem and a possible solution by using the facts contained in the attached charts which are based on the financial functioning of the corporation that I am responsible for.

For these reasons we urge that you and your Committee give full consideration to incorporation of the described amendments in any tax legislation that is reported to the Senate for action.

Thank you very much for your consideration. We would like to request that this letter be made a part of the permanent record of hearings on this legislation.

Very truly yours,



Joseph Friedman
Board Chairman
Chief Executive Officer
CHROMALLOY AMERICAN CORPORATION

JF/rpr

Encl.

cc: Mr. W. J. Barta
Mr. Paul Krebs

CHROMALLOY AMERICAN CORPORATIONCHART DESCRIPTION ON ELIMINATION OF DOUBLE TAX ON DIVIDENDS

Chart I America's Hunger for Capital - Capital is the essential resource if America is to continue in the path of economic growth and prosperity. The demand for this resource is projected to reach the astronomical sum of \$4.5 trillion dollars.

Chart II One of the primary reasons that the demand for capital is increasing is that the capital invested per employee has been steadily increasing (partly due to inflation) in the past ten years. In fact, it has doubled.

Chart III Capital means jobs. Historically companies, when faced with a capital shortage, have reduced their capital appropriations which has had the effect of increasing the unemployment rate. Simply put, corporations without the money to expand or improve their facilities cannot create the jobs needed.

Chart IV One solution to the capital formation problem is to eliminate the double tax on dividends. This action would place equity securities on a parity with tax free obligations and create an upward movement in corporate security paper, thus providing industry opportunities for equity financing to provide the funds for industries expansion, creating more jobs, more income tax revenues and a resumption of growth in the gross national product.

Chart V An obvious question concerning the elimination of the double tax is the effect on federal revenues. Various Treasury and private studies indicate a possible revenue loss of \$19 billion. However, these estimates do not take into account any changes in economic activity which would flow from the proposed change. In effect, it is assumed that the provision will be enacted in a vacuum and that no compensating changes would result. With respect to provisions affecting available capital and productive investment, this is an unrealistic procedure. Taking into account the increased economic activity which would result from having additional capital to invest, we estimate that instead of a large revenue loss, there would actually be a small revenue gain. More importantly, by the end of 1978 - 1,700,000 additional jobs would be created.

Chart VI Elimination of Double Tax on Dividends - Effect on Chromalloy.

CHART I

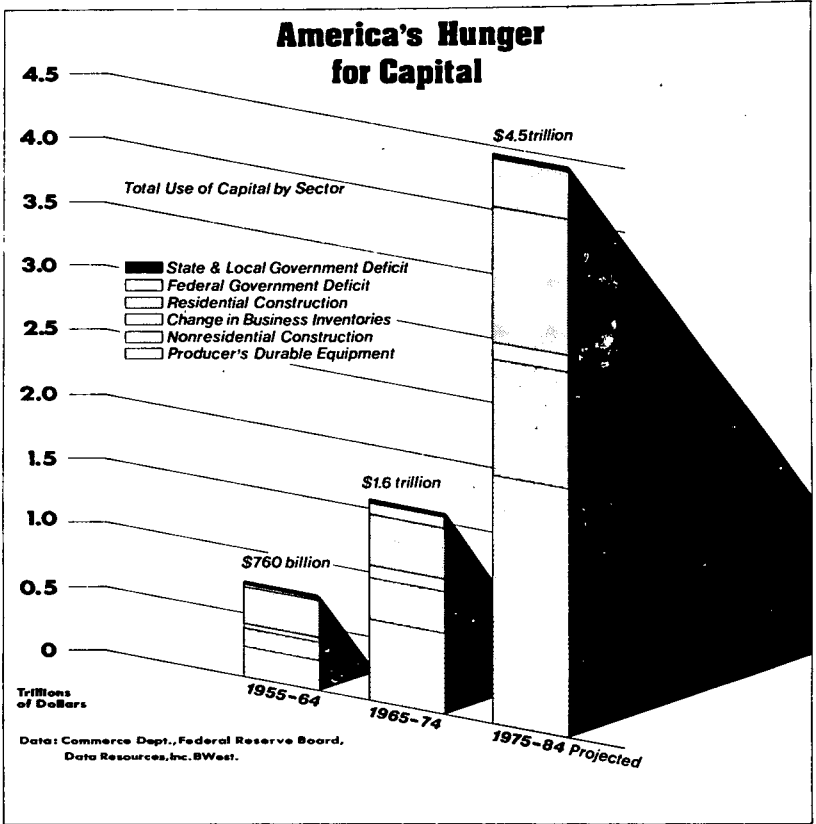


CHART II

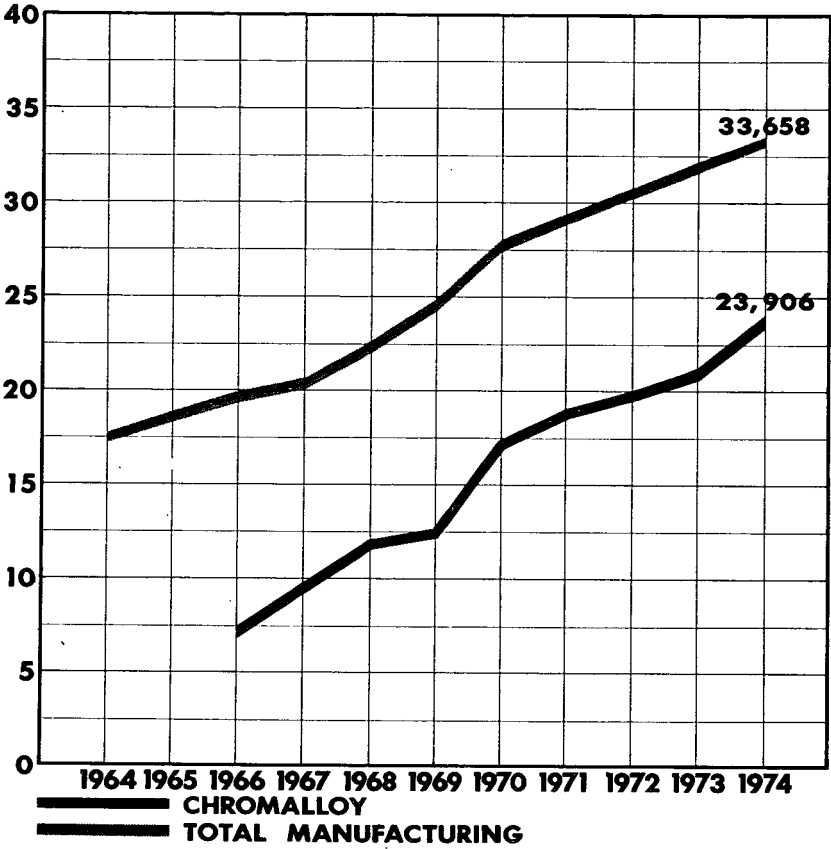
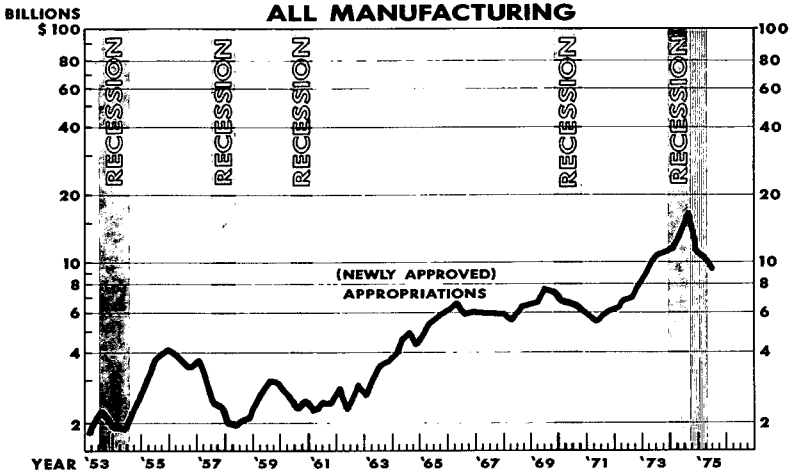
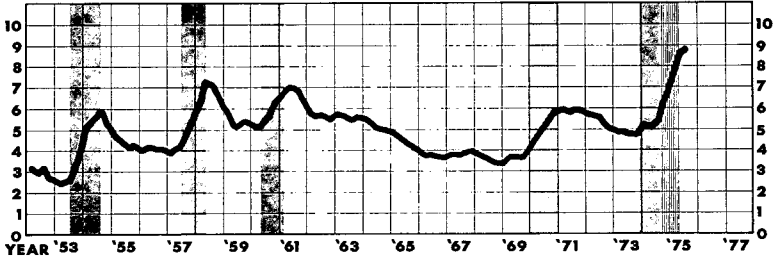
CAPITAL INVESTED PER EMPLOYEE

CHART III

CAPITAL APPROPRIATIONS IN RECESSION/EXPANSION



UNEMPLOYMENT RATE
SEASONALLY ADJUSTED

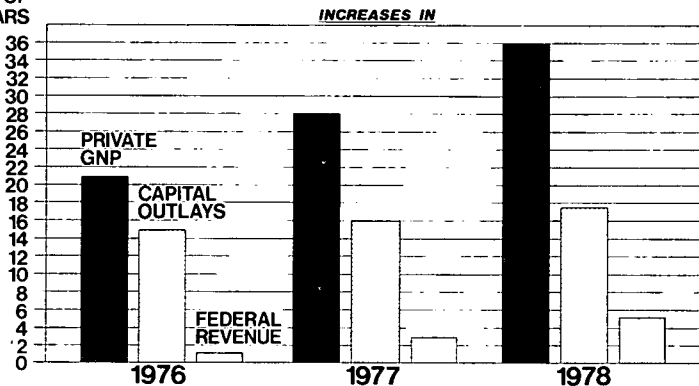


LATEST DATA PLOTTED: 2nd QUARTER PRELIMINARY

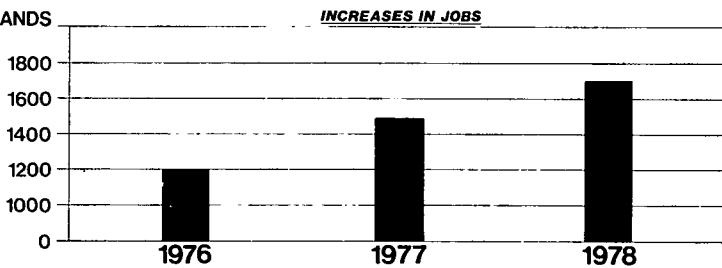
CHART IV

ECONOMIC EFFECTS-ELIMINATION OF DOUBLE TAX ON DIVIDENDS

BILLIONS
OF
DOLLARS



THOUSANDS



Note that employment effects are not cumulative.

CHART V

DISTRIBUTION OF CORPORATE PROFITS

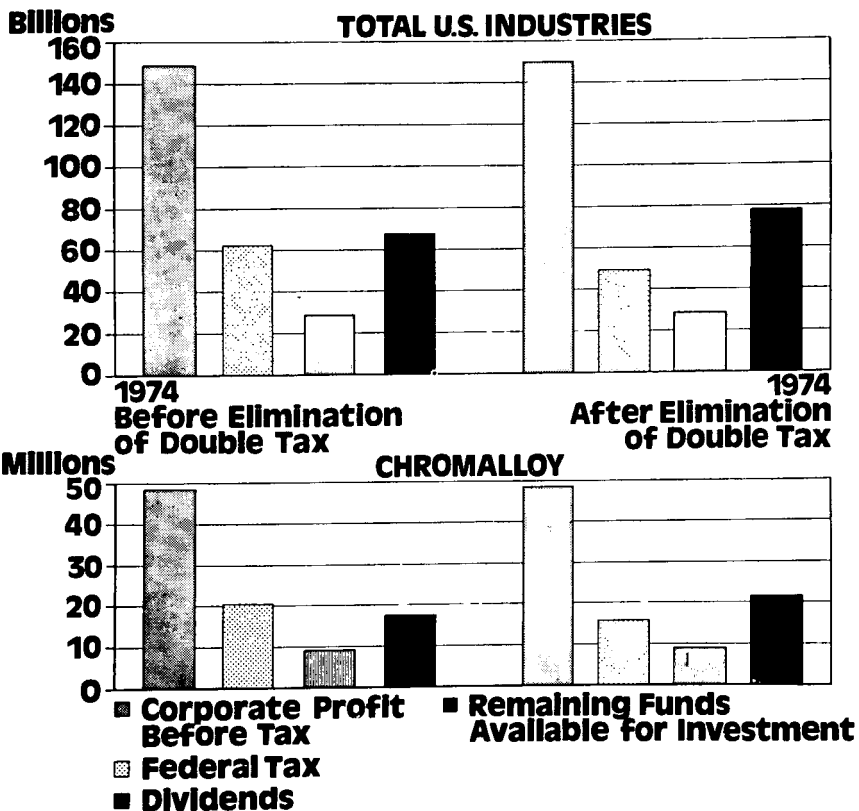
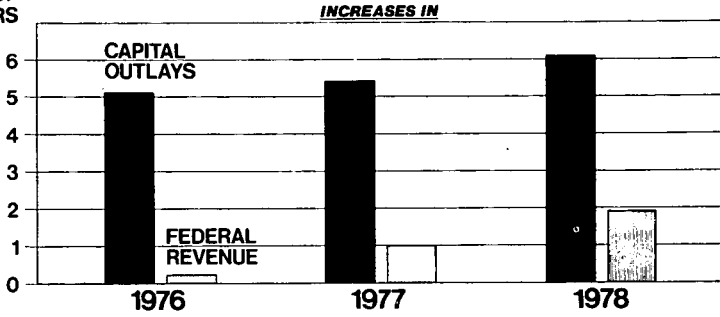


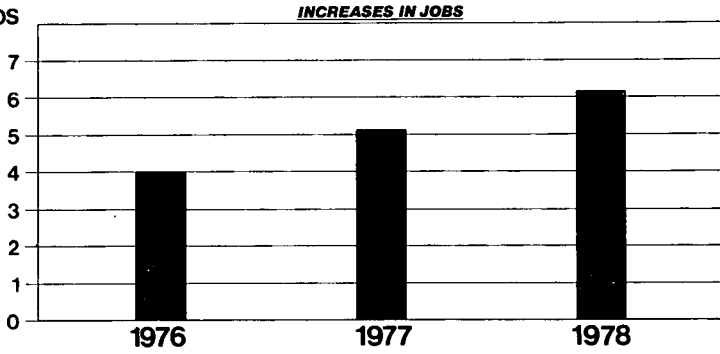
CHART VI

**ECONOMIC EFFECTS ON CHROMALLOY-
ELIMINATION OF DOUBLE TAX ON DIVIDENDS**

MILLIONS
OF
DOLLARS



HUNDREDS



Note that employment effects are not cumulative.

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"A Solution to Unemployment in Industrialized Nations" by Wallace D. Barlow

The free enterprise system will be abandoned within ten years, unless action is taken to deal with what Samuelson defines as "structural unemployment". His discussion of this problem concludes, "Increasing the fraction employed at what is defined as feasible full employment would be a powerful way of increasing the quantity of labour and would be conducive to growth. (Its social benefits would, of course, overshadow its mere growth benefits.)"

This paper is an exposition of a plan which should enable the central government of any industrialized nation to achieve a firm and positive control over the level of employment. No subsidy is involved and no increase in the overall cost of living.

In the United States, payrolls as a percentage of sales vary from 42.1% for the textile industry to 14.7% for the tobacco industry. The Internal Revenue Code, as now written, subsidizes the low labour content industries, such as the tobacco industry, with an investment tax credit. The taxpayers therefore pay the bill for the mechanization that destroys their jobs. Our Secretary of Labour has estimated that automation wipes out 2,000,000 jobs each year. If this continues, there will be 15,000,000 unemployed in 1980.

At present all corporations are taxed at the rate of 48%. It is suggested that the Internal Revenue Code be amended to provide for a higher rate for the industries with a low labour content and a lower rate for the industries with a high labour content. In graphic terms, if payrolls as a percentage of sales are ranked on the horizontal scale, as in Figure One; and the tax rates are shown on the vertical scale; it is possible to "tilt" the corporation tax rate by increasing Angle A until unemployment declines to the desired level. The corporation tax will continue to yield about \$50 billion, (in the U.S.), but resources will be transferred from the mechanized industries to the non-mechanized. The impact on the consumer is that he will pay more for his tobacco and less for his clothing.

Industries will, of course, try to minimize their tax rate by moving from right to left in Figure One. This does not frustrate the objective of the program, since they are adopting more labour intensive modes of production.

(This is a 500 word summary of a paper for presentation at the Fourth Annual Conference of the Atlantic Economic Society, October 14th to October 16th, 1976 at the Shoreham Americana Hotel, Washington, D.C.)

Fig. 1 - "A SOLUTION TO UNEMPLOYMENT IN INDUSTRIALIZED NATIONS"

By Wallace D. Barlow

For presentation at the Fourth Annual Conference

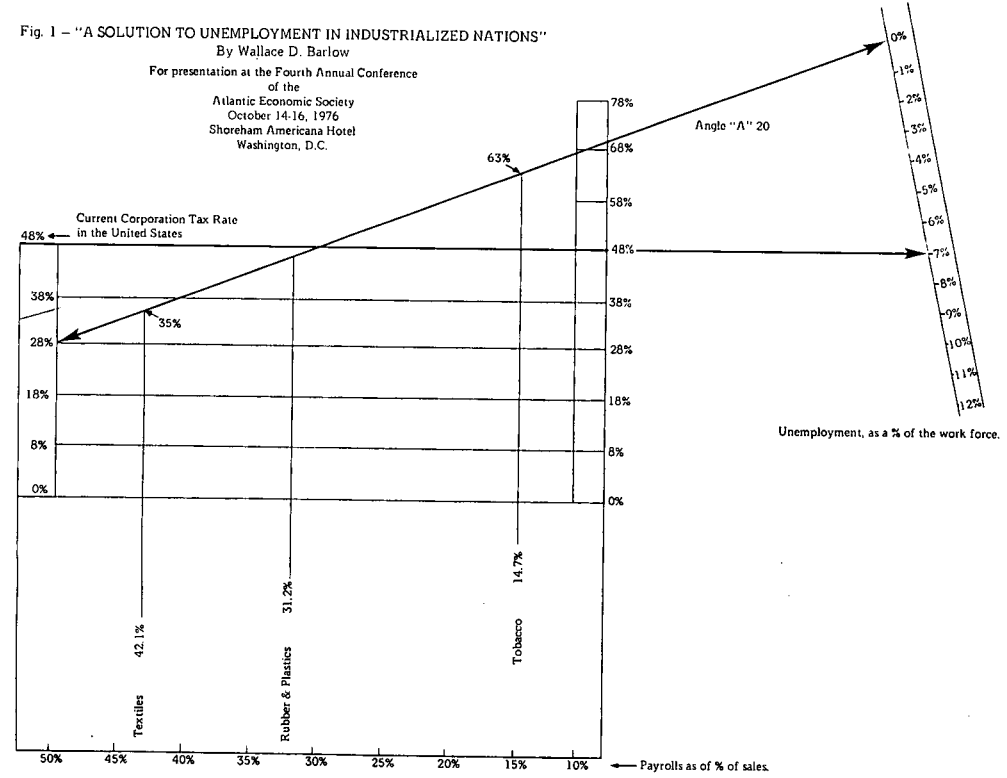
of the

Atlantic Economic Society

October 14-16, 1976

Shoreham Americana Hotel

Washington, D.C.





NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.

THE WASHINGTON OFFICE

110 Maryland Avenue, N.E., Washington, D.C. 20002 (202) LI 4-2350

Rev. W. Sterling Cary, President

Claire Randall, General Secretary

March 12, 1976

The Honorable John Sparkman
U.S. Senate
Washington, D.C. 20515

Dear Senator Sparkman:

One of the most critical problems facing our nation is the extremely high rate of unemployment. Despite some encouraging signs of improvement in the economy, 7.6% of the labor force was jobless in February. An additional three-and-a-half million people are involuntarily employed only part-time, working in jobs and at wages below their skills, or too discouraged to look for work.

Throughout the nation there are jobs which need desperately to be done in such areas as health care, housing, conservation and development of natural resources, mass transit construction, promotion of small business and competitive private enterprise, and the elimination of poverty. Enactment by Congress of a full employment program would meet many of these needs. In addition, it would restore to those employed through it the sense of dignity and worth which in our society is so closely associated with gainful employment.


At its recent meeting in Atlanta, the Governing Board of the National Council of Churches adopted a "Resolution on Full Employment" which says, in part:

The Bicentennial is a fitting time for our country to fulfill the promises of full employment and fair opportunity - critical elements of a responsible and just society. All persons should be guaranteed the right to benefit from adequate job training or re-training and to obtain jobs suited to their individual qualifications at adequate compensation in either the private or the public sector.

A copy of the NCC Resolution is enclosed. We trust you will find it helpful as Congress begins consideration of Full Employment legislation.

Thank you for your consideration of our views.

Sincerely yours,


James A. Hamilton

National Council of the Churches of Christ in the U.S.A.

RESOLUTION ON FULL EMPLOYMENT

Adopted by the Governing Board
March 3, 1976

The Governing Board of the National Council of Churches, since its inception, has been committed to the moral and ethical concern for the shaping of a just economic order and the right and need to work. In a policy statement of 1954, the General Board stated that: "Every able-bodied adult has an obligation and the right to an opportunity to serve the community through work." In a policy statement of 1958, the General Board stated:

The government should give continued consideration to both short-run and long-term measures to restore and maintain employment levels. The government has a responsibility to use, when needed as stabilizers and other aids, the vast resources available in its fiscal, monetary, public works, and other economic powers.

These policy statements are rooted in the Christian conviction that one's sense of identity and worth is closely related to the feeling of contributing creatively and responsibly to meet the needs of society. In 1976, the NCC recommits itself to a full employment economy as an essential element of a more just economic order.

Through the Employment Act of 1946, the U.S. Government committed itself to the goal of maximum employment. Unfortunately, the federal government has failed to implement the aims of this Act, and our nation has suffered prolonged periods of high unemployment rates. According to the Bureau of Labor Statistics, at the last quarter of 1975, the unemployment of non-white youth in the labor force in metropolitan poverty areas reached 49.7 per cent. This failure has denied millions of men and women the adequate opportunity to develop their talents and to receive fair compensation for their labor. Government, moreover, has lost substantial revenues needed to finance enlightened social welfare programs, and society itself has suffered from a decreased production of goods and services. Unemployment in the years 1953-1974 resulted in these staggering fiscal losses:

- \$2.6 trillion in production of goods and services;
- \$1.5 trillion in wages and salaries;
- \$760 billion in federal, state, and local taxes;
- \$653 billion in private business investment.*

In the last two years alone we have lost \$400 billion in Gross National Product. The struggle for racial justice has been impeded, the campaign against crime is being lost, and our nation's commitment to the eradication of poverty, the preservation of the environment, the maintenance of adequate health care and educational opportunities has been weakened.

* Source of Figures: Research Paper #1 of the Full Employment Action Council, Washington, D. C.

The Bicentennial is a fitting time for our country to fulfill the promises of full employment and fair opportunity - critical elements of a responsible and just society. All persons should be guaranteed the right to benefit from adequate job training or re-training and to obtain jobs suited to their individual qualifications at adequate compensation in either the private or the public sector. The President should be required by statute to propose and Congress should enact annual national budgets which move the economy to full employment and maintain it in that condition.

Accordingly, we urge Congress to enact legislation requiring the President to submit annually to Congress a Full Employment and National Purposes Budget calculated to create enough private and public employment at fair rates of compensation to meet national priorities in energy, resource development, mass transportation, housing, education, health care and other essential fields. Within an interim period of two years, our nation should strive to attain an unemployment rate of no more than 3 percent. This goal should be pursued in ways that will relieve the unjust proportion of unemployment borne by youth, elderly, women and minorities. The fiscal policies of the Federal Reserve System (such as the setting of interest rates) should be coordinated with a government program to achieve the goal of full employment. Legislation should include an administrative appeals procedure for persons unable to secure jobs. The federal government should be seen as the employer of last resort for the men, women, and youths who cannot locate jobs in the private economy.

Cooperation and input by private and nonprofit agencies and local and regional units of government are necessary for the full employment effort. We ask the Unit Committee of the Division of Church and Society and other appropriate units of the National Council of Churches to implement this resolution and continue the Full Employment Program of involving the member communions in education, organizing, and legislative development.

Therefore, the Governing Board of the NCC asserts that full employment is an essential element of a more just economic order and that every individual should be guaranteed the right and the opportunity to a job at adequate compensation. We commit ourselves to the task of shaping a national policy of full employment which would provide the hopes for a better and more productive life for ourselves, our families and our neighbors. We call upon the Federal Government to make full employment the nation's number one priority.

The General Secretary is asked to communicate this resolution to the President, the Congress of the United States, the platform committees of the two major political parties and the constituency of the churches.

