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THE 1975 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-FOURTH CONGRESS

FIRST SESSION

PART 5

INVITED COMMENTS

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THE 1975 ECONOMIC REPORT OF THE PRESIDENT

The letter appearing below was sent to the following organizations: Ad Hoc Coalition on Housing, the American Bankers Association, AFL–CIO, American Life Insurance Association, Chamber of Commerce of the United States, Committee of Public Owned Companies, Common Cause, Communication Workers of America, Community Council of Greater New York Conference on Economic Progress, Conservation Foundation, Consumers Federation of America, Consumers Union of the United States, Inc., Cooperative League of the United States of America, Corporate Accountability Research Group, Council of Economic Priorities, CUNA International, Inc., Federal Statistics Users Conference, Financial Executives Institute, Friends of the Earth, Independent Bankers Association, Investment Company Institute, League of Women Voters, Machinery and Allied Products Institute, Movement for Economic Justice, National Association of Counties, National Association of Manufacturers, National Association of Mutual Savings Banks, National Association of Security Dealers, National Conference of State Legislatures, National Consumer Congress, National Farmers Union, National Federation of Independent Business, Inc., National Federation of Independent Unions, National League of Insured Savings Association, National Organization for Women, National Planning Association, National Savings and Loan League, New Jersey Tenants Organization, New York Chamber of Commerce, Public Interest Economics Center, Sierra Club, Taxation With Representation, United Mine Workers of America, United State Savings and Loan League, National Urban Coalition, and Mr. Jerry Voorhis. These organizations were invited to submit their views and comments on the text and recommendations contained in the 1975 Economic Report of the President, Sixteen organizations submitted statements and their views were considered by the Joint Economic Committee in preparation of its report on the President's Economic Report.

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., February 18, 1975.

Dear ————: Under the Employment Act of 1946, the Joint Economic Committee has the responsibiilty of filing each year a report containing its findings and conclusions with respect to the recommendations made by the President in his Economic Report. Because of the limited number of days available for hearings, the Committee is requesting a number of leaders of business and finance, labor, agriculture, consumer, and environmental organizations to submit statements for the record on economic and energy issues facing the Nation. These statements will be made a part of our hearings on the Economic Report in a printed volume containing such invited statements.

Accordingly, as Chairman, I invite your comments on the economic issues which concern the Nation and your organization. Under separate cover I am sending you a copy of the 1975 Economic Report of the President, filed February 3, 1975.

We would like to distribute copies of your statement to the members of the Committee and the staff, and would therefore appreciate your sending 30 copies by Friday, March 14, 1975, to Mrs. Marie Cunningham, Staff Assistant, room G-133, Dirksen Senate Office Building, Washington, D.C.

Best wishes.

Sincerely,

HUBERT H. HUMPHREY,
Chairman.

AMERICAN BANKERS ASSOCIATION

By REX J. MORTHLAND, *Chairman of the Governing Council*

This statement is being submitted in response to your request for comments from the American Bankers Association on the 1975 Economic Report of the President. We certainly agree with the report's major premise; namely, that the Nation is struggling with three major economic problems at once—recession, inflation, and energy. We would also emphasize that the ways in which past governmental policies have brought about current problems should be kept in mind when formulating future policies.

During the past few years, poorly coordinated monetary and fiscal policy measures have contributed to instability in employment, output, and prices in our economy. For example, the unusually rapid expansion of our money supply during 1972 and part of 1973 surely supported the inflationary spiral of 1973–74. More recently, restriction in money supply growth has prolonged and deepened the current recession. What is needed to bring about a resumption of growth without inflation is a carefully balanced package of monetary and fiscal policies consistent with the long-term growth potential of our economy. We recognize, of course, that this is far easier said than done.

On the fiscal policy front, we agree that a tax cut is currently needed to stimulate the economy, and are encouraged by the recent efforts of Congress and the administration to reach agreement on this point. We hope the final tax legislation will recognize the burdens today's economic conditions have placed on all major classes of taxpayers including the poor, middle-income families and business firms. We are glad the President did not recommend overstimulating the economy through sharply increased expenditure programs. While some congressionally mandated changes in the President's expenditure programs may well be in order, we feel that the total projected deficit for the coming fiscal year sould not be expanded beyond the $50–55 billion range. In this connection, we believe the reform envisioned in the Congressional Budget and Impoundment Control Act will greatly facilitate the achievement of this result.

A second crucial determinant of the path of the economy in 1975 will be the manner in which our growing budget deficits are financed. If too much of the deficit is financed by Treasury borrowings from the public, private borrowers will be crowded out of the capital markets. The resultant upward pressure on interest rates could hamper economic recovery. Alternatively, if Federal Reserve and Treasury operations are conducted to monetize most of the debt, the result will be an excessive expansion of the money supply and rekindling of inflationary pressures in future months. We believe a middle course, involving a steady moderate rate of monetary expansion, is best.

The Nation also needs to move further in the direction of energy conservation. However, we would caution policymakers that sharp tax increases of any kind in this area may conflict with the more immediate goals of reducing inflation, and stimulating spending to promote economic recovery. The energy price increases that have already occurred are having the desired effect of inducing energy conservation, and will continue to do so in the future as the economy adjusts to their impact. We also believe that mandatory controls over domestic oil and natural gas prices have impeded progress toward energy self-sufficiency and should therefore be lifted.

We endorse the President's attempts to alleviate the burden of inefficient government regulation, and hope he will continue to oppose resorting to wage and price controls or gas rationing. Such devices serve only to subvert the efficiencies of the market system and deceive policymakers by masking inflationary pressures that inevitably surface at a later time.

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

HEALTH INSURANCE FOR THE UNEMPLOYED

There are now 7.5 million unemployed workers in the United States, 8.2 percent of the labor force.

According to the Library of Congress more than 80 percent of the workers laid off during 1974 lost their health insurance coverage. A survey of health insurance contracts indicates at least two out of three workers have no health insurance after being unemployed for 1 month or more. Thus, if unemployed workers wish to continue their health insurance after coverage is terminated, they must pay the premium, usually at exorbitant individual rates, at a time when they are financially pressed and least able to do so.

Stripped of their group coverage and denied medicaid because they are not poor enough, a serious illness in the family could leave some unemployed workers bankrupt. Many will postpone needed medical care for themselves and their families because they won't be able to pay sky-high doctor bills with meager unemployment insurance checks. This situation is intolerable and would not have existed had Congress enacted national health security which provides health benefits for all residents of the United States whether they are employed or unemployed.

The AFL-CIO Executive Council, therefore, calls upon Congress to give highest priority to early enactment of the Corman-Kennedy health security bill (H.R. 21 and S. 3). However, there is no way that the health security program could be implemented, even if passed immediately, for at least 1 year. Therefore, at its meeting last month, the AFL-CIO General Board called for Federal legislation to provide health care to the millions of workers who lose their health insurance coverage under employer-employee plans when they become unemployed.

A bill (S. 625) introduced by Senators Kennedy (D.-Mass.), Williams (D.-N.J.), Javits (R.-N.Y.) and Schweiker (R.-Pa.) would simply extend existing or prior coverage provided by the unemployed worker's last employee-employer health benefit plan. The premium cost for continuation of this coverage would be paid from Federal general revenues. The program would be administered by the existing unemployment insurance offices and could be implemented almost immediately after passage.

Enactment of this bill would meet the critical need for the continuation of health insurance protection for the unemployed. But many jobless workers didn't have health care coverage when they were working and now that they are living on meager unemployment insurance payments certainly cannot afford to obtain it. To meet the health care needs of these jobless workers and their families S. 625, when enacted, should provide for their coverage under medicaid.

With this necessary change, the AFL–CIO Executive Council, therefore, endorses S. 625 as an emergency program to assure health care coverage for the unemployed and their families.

The Federal Reserve and the Nation's Monetary Policy

For the second time since 1969, the Federal Reserve System under the chairmanship of Dr. Arthur Burns has brought recession to the American economy and unemployment to millions of workers.

The Federal Reserve's arrogant brinkmanship with the American economy in 1973 and 1974 has resulted in the worst downward spiral since the Great Depression, with no end in sight.

In the name of combatting inflation, the Federal Reserve's money crunch and ever-higher interest rates added to inflationary pressures, brought a depression to the housing industry and mass unemployment.

The Federal Reserve System created by the Congress to be the Nation's central bank:

Has utterly failed to serve the needs of the American people for full employment, economic expansion and adequate public facilities and services, while contributing to cycles of boom and bust.

Has been an engine of inflation, with soaring interest costs imposed, directly and indirectly, on consumers, homebuyers, small business, public utilities, and government itself.

Has been a major cause of the recession of 1969–70 and today's disastrous conditions—resulting in the highest unemployment rate in 34 years and huge deficits in the Federal budget.

Has discriminated against the extension of needed credit for homebuilding, small business, State and local governments and public utilities. At the same time its discriminatory policies provided substantial amounts of credit for commodity market and land speculation, inventory hoarding, and foreign lending.

Has brought the economy to the brink of depression, with spreading bankruptcies of businesses and banks.

This key Government Agency, whose decisions are a major factor in determining the economic welfare of the American people, continues to operate in relative secrecy and with little accountability to the Congress, which created it.

The time is long overdue to overhaul the structure of the Federal Reserve and its policies—to make them responsive to the needs of the American people. Therefore, we call on the Congress to:

(1) Direct the Federal Reserve to reduce short- and long-term interest rates and to allocate available credit for high-priority economic activities. America needs a sufficient expansion of money and credit, at reasonable interest rates, to encourage balanced economic expansion. A substantial portion of available credit should be allocated for such purposes as housing, community facilities, and essential capital investment. while the flow of credit should be curbed for such activities as speculation, business takeovers, and foreign lending.

(2) Establish comprehensive oversight review of the entire Federal Reserve System to bring America's central bank fully into the Government structure.

(3) Require that the operations of the Federal Reserve System be subject to a yearly audit by the General Accounting Office.

(4) Fix the term of the Chairman of the Federal Reserve at 4 years, coincident with that of the President who appoints him. The term of members of the Board of Governors should be cut from 14 years to 7.

(5) Abolish the Open Market Committee, the policy arm of the Federal Reserve System—with 5 of its 12 members not Government appointees. Its functions should be absorbed by the Board of Governors whose members are appointed by the President and confirmed by the Senate.

(6) Extend membership on the Board of Governors of the Federal Reserve and on the governing and advisory committees of the entire Federal Reserve System, including its 12 district banks, to representation from major groups in the economy, including consumers and organized labor.

(7) Require all commercial banks to be participants in the Federal Reserve System.

The Board of Governors should keep the Congress and the public informed with reasonable promptness and with reasonable detail on its major policy decisions and the reasons for arriving at them.

Energy

The cornerstone of the Nation's energy policy must be the establishment of a reliable source of energy free from the blackmail threat of a renewed Arab oil embargo while achieving high employment, a dynamic economy, and a prosperous and satisfying way of life.

The hardships, inconveniences, and sufferings—financial and otherwise—endured by the American consumer more than a year ago as a result of the first peacetime shortage of energy due to the Arab oil embargo need no recital. Everybody knows about the staggering increase in gas and fuel prices, the inadequately heated homes, and the frantic search by people to find a few gallons of gasoline.

The inconveniences and hardships of consumers were compounded by scattered shutdowns, layoffs, production cutbacks, curtailed working hours, reduced earnings of workers, and cuts in consumer purchasing power.

If the energy crisis were a thing of the past—a passing phenomenon—we would need have no concern. But not since the depression of the 1930's, except for World War II, has America faced a situation of such dangerous and monumental proportions.

Contrary to claims of the oil industry, the American consumer was not responsible for the energy shortage. It was not, as the oil industry said, the insatiable appetite of the consumer for bigger quantities of enery that was rapidly depleting our resources.

We believe that the energy emergency was a result of policy decisions made by the multinational oil companies to squeeze the consumers, force them to pay higher prices, and fatten the profits of the oil companies. And this happened.

What this country experienced a year ago pales into insignificance compared to what looms ahead unless immediate and drastic action is taken to cope with the energy problem.

There is no single, simple, painless measure that will take care of the problem. A battery of measures directed both at a short term and long term is called for in a comprehensive energy policy, which would provide for the reduction of imports, energy consumption, increasing energy supplies and other related measures.

Reduction of Oil Imports

As long as the United States is dependent on the importation of oil, shipped in foreign vessels, from insecure sources, the energy crisis will remain with us.

The first steps must be aimed at the elimination of that dependence:

(1) Take the importation of oil out of private hands and place it in the hands of Government. The Government should determine the amount of oil imported, negotiate its price and provide for its internal allocation.

(2) Enact a quota on oil imports, including a ban on such imports originating in those countries that embargoed oil to the United States and Holland in 1973–74.

(3) Establish a fair and equitable system of allocation and rationing. Permit motor gasoline consumption above the rationed amount, but levy a high tax on this additional consumption. The funds created by this tax should be earmarked for the reduction and the ultimate elimination of commuter transit fares and for the development and construction of mass transit systems.

(4) Make it clear to any nation contemplating an embargo directed against the United States that this country will strike back with economic countermeasures. To nations imposing such an embargo against this country, export bans would be applied. No item, including military equipment as well as agricultural and industrial commodities, would be shipped to such countries. Their assets in this country would be frozen. All technical assistance would be withdrawn. This country would construe such an oil embargo as economic warfare and retaliate with all of the economic weapons at its command.

Energy Conservation

Although conservation, while indispensable, is not the solution, steps to reduce wasteful use of energy must be taken:

(1) Rigidly enforce the 55-mile speed limit which saves lives as well as gasoline.

(2) Tax automobile and other energy-using equipment in relationship to their energy efficiency. Higher tax rates should be levied on energy wasting equipment.

(3) Label energy consuming equipment with respect to its energy efficiency.

(4) Revamp gas and electric rate structures to discourage and penalize the use of wasteful amounts of energy.

(5) Economize on heating, lighting, and cooling through the establishment of temperature and light standards that could reasonably be enforced in industrial, commercial, and residential buildings.

(6) Require all new and existing structures to conform to energy efficiency standards.

(7) Develop and expand mass transit systems and subsidize low fares.

Increasing Energy Supplies

It is urgent that the United States launch a massive program to increase energy supplies. Yet this country need not delude itself that this is an instant panacea.

Increasing supplies from old sources has its limitations. Developing new sources of energy takes time. From the planning board to the consumer may take anywhere from 3 to 10 years.

Since the Arab embargo, more than a year ago, domestic oil production has actually declined 4 percent to 5 percent. Billions of dollars of planned utility construction have been canceled or postponed. Despite enormous coal reserves, significant moves have not been made to make more effective use of these reserves. Because of the long leadtimes in developing energy supplies, delay in initiating programs for increasing energy supplies cannot be tolerated. Therefore, we recommend that the United States:

(1) Launch a 10-year $20 billion Government-funded crash program to mobilize the Nation's scientific and technological resources to develop alternative sources of energy, increase the efficiency of consumption, and expand existing sources. Major emphasis should be on expanding existing sources, particularly nuclear energy, domestic oil (including offshore), coal and coal gasification and liquefaction, natural gas, with particular reference to the development of more efficient internal combustion engines.

(2) Make a major effort toward increasing the domestic use of coal. A timetable should be established for the conversion of powerplants from oil to coal, with appropriate applications of technology to minimize pollution. Electric utilities now consume over 1.5 million barrels of oil daily and substantial quantities of gas.

(3) Intensify production from U.S. military reserves while taking proper care to maintain strategic reserves at appropriate national security levels. In the leasing of these reserves, safeguards must be taken against exploitation by private interest.

(4) Revoke the lease of any oil or natural gas producer who refuses to pump supplies on land leased from the United States. The Government should turn these leases over to companies who will produce the needed supplies. Similar action should be taken with respect to any coal leasings.

(5) Establish a Government corporation for the construction of proto-type and new energy facilities which would serve as a cost yardstick. Depending on the success of such prototypes, long-term commitments could be made for the development of alternative energy sources.

Additional Energy Measures

A comprehensive energy policy should envision a number of other measures:

(1) Stretch out as necessary present environmental restrictions on energy production and use to reduce energy consumption and facilitate expansion of domestic energy output. This is a matter of timetable, not of objectives. The advance of technology and development of clean energy sources can permit realization of environmental objectives. The two programs should be viewed as compatible parts of a single problem. Extension of auto emission control standards should provide that the auto companies be required to increase mileage per gallon and to lower prices, dollars for dollar, for a cost reduction enjoyed as a result of an extension.

(2) Establish a petroleum stockpile to guard against future oil embargoes.

(3) Strengthen legislation to provide for the full identification of all significant foreign investments. While there are a few haphazard legislative restrictions on foreign participation in domestic enterprise, additional safeguards are needed to prevent a foreign takeover of major and sensitive facilities.

(4) Reject the President's proposal to deregulate the price of natural gas and "old" oil, block the President's imposition of a $3 per barrel duty on imported oil, and roll back the price of new domestic oil.

(5) Terminate U.S. Government subsidies for the giant international oil companies, including elimination of the depletion allowance, the intangible drilling expense, and the dollar for dollar credit against U.S. taxes for these corporations' royalty and tax payments to foreign governments.

(6) Enact legislation to prohibit a single company from owning competing sources of energy. This horizontal integration has hampered the development of alternative sources of energy.

(7) Enact legislation to require the dissolution of vertically integrated oil companies. The separation of the marketing of petroleum from the production and refining would benefit the independent marketer as well as the consumer.

(8) Treat giant oil companies as public utilities subject to stringent regulation by the Federal Government.

(9) Enact legislation to require that a substantial portion of oil imports be transported in U.S.-flag vessels.

(10) Direct the Federal Reserve to allocate available credit at reasonable interest rates for the development and expansion of domestic energy resources.

The Need for a Comprehensive Examination of the Structure of the American Economy

Comprehensive information on the structure of the American economy is woefully lacking. The massive studies and reports of the New Deal era are far out of date.

The 500 biggest U.S. corporations now hold more than two-thirds of all business income. The top 111 manufacturing corporations hold more than half of all assets and get more than half of all profits in manufacturing. The 50 biggest banks control more than half of all bank assets and hold leverage control stock in more than 5,200 companies.

Although the record flood of mergers in the late 1960's and early 1970's has slowed down, conglomerate mergers in manufacturing, mining and services—accompanied by increasing concentration of banking with interlocking business connections—are continuing to produce increased concentration of economic power.

Big multiproduct, multinational conglomerate corporations have spread their power globally, through mushrooming investments in subsidiaries and joint ventures in foreign countries and through aggressive merger-and-acquisition campaigns at home. They export jobs of American workers, as well as capital and technology developed in the United States, at the expense of the American taxpayer. U.S. corporate expansion overseas, often in the newest technological industries, blunts domestic economic expansion and reduces job opportunities at home. This process is eroding the Nation's industrial base and accompanying plant shutdowns are undermining the economic strength of numerous communities throughout the country.

Excessive concentration in such basic industries as food and energy results in high prices that drain billions of dollars away from the buying power of American families.

Unfortunately, there is little detailed information on the structure, ownership, management, policies and operation of America's giant business and financial institutions and their interlocking relationships. These economic giants far too often can avoid effective public regulation because the U.S. Congress, Government regulatory agencies and the general public—including representatives of consumers and workers—simply cannot get adequate detailed information.

Much more adequate public disclosure of basic economic information must be forthcoming. The quarterly line-of-business reports now required of major corporations by the Federal Trade Commission are only a small step in the right direction. Also aimed in the right direction are the model corporate disclosure regulations proposed by a Federal inteagency committee and supported by Senator Lee Metcalf of Montana to get detailed information on corporate structure, voting stock ownership, interlocking corporate directorships and many other aspects of the structure and operations of big corporations.

The AFL–CIO calls on the Congress to undertake a full-scale, comprehensive investigation of the structure of the U.S. economy, the role of mergers and acquisitions at home and abroad in increasing economic concentration, the interlocking relationships among the giant corporations and banks, their control of key parts of the U.S. economy, their effects on prices, income distribution, America's position in the world economy, and the impact of these tremendous aggregations of economic power on democratic institutions.

Unemployment Compensation

During the greater part of 1974, the problem of persistent, high-level unemployment throughout the Nation was ignored. The last quarter of 1974 witnessed a surge of joblessness each month. As a result, unemployment soared to a postwar peak of 8.2 percent in January and is still climbing.

Economic predictions for 1975 anticipate further increases in joblessness to higher and higher levels. The only disagreement among responsible observers is the level of unemployment the Nation will experience.

Unemployment insurance has long been regarded as the first line of defense against the spread of poverty and recession, but because of long neglect, it can't do that job effectively without immediate and substantial improvement.

Adequate unemployment insurance for the millions of jobless workers is more desperately needed today than at any time since it was enacted but fragmentation in separate State programs has stymied necessary changes. The AFL–CIO has long favored federalization of the system. If this recommendation had been heeded, the Congress could have long ago strengthened the program to raise benefit levels and bring about other essential improvements.

We reaffirm our support for federalization of the unemployment insurance program with full protection of the job rights and employment conditions of all State employees who presently administer unemployment insurance. But until that step is taken, we call for immediate enactment of Federal minimum standards.

Today, without federalization or even Federal standards, the unemployment insurance program is basically the same as it was at the time of adoption 40 years ago. Every aspect of the Nation's industrial activity has changed. But employer opposition and governmental neglect—both State and Federal—have left the Nation with an obsolete program of unemployment insurance to meet the present economic crisis.

More than 12 million workers are not covered by the regular unemployment compensation program. Hastily enacted temporary coverage for these workers expires at the end of this year.

The maximum weekly benefit available to jobless covered workers is below the Department of Labor poverty level income for nonfarm, four-member family under most State programs.

Unreasonable eligibility requirements deprive 20 to 25 percent of claimants benefit entitlement in some States.

Benefit duration is determined under 50 different State formulas. In some States, every eligible worker is entitled to a 26-week regular benefit duration period if it is needed. In other States, minimum benefit periods furnish protection for only 8, 10, or 12 weeks.

The imposition of harsh disqualifications has, in recent years, annually denied more than 2.5 million jobless workers the protection of the program.

The economic plight of long-term jobless workers has been made more difficult by program failures. The extended unemployment compensation program, enacted in 1970, has proved to be unworkable and unsuited to meet the Nation's unemployment conditions. Separate State and national triggers fixed at unrealistic levels of high unemployment have prevented operation of the program at the most critical times. Legislative amendments have been required repeatedly since this program was established. Each amendment represented an additional desperate effort to salvage an inefficient extended benefits program that should be drastically overhauled and established on a permanent basis.

The financing of the system has been manipulated to maintain employer contributions at low levels—zero contribution rates are permitted in some States. This manipulation provides low contribution rates for employers and therefore deprives the State funds of the needed revenue to finance an adequate program of unemployment compensation.

The AFL-CIO has urged for many years that these inadequacies and deficiencies be remedied. The efforts of organized labor at the State and national level have, to a large extent, been ignored.

The Ford administration finally recognized the serious nature of the growing unemployment problem in late 1974. In desperation, the administration requested the 93d Congress, during its closing hours, to enact emergency stopgap unemployment compensation legislation to deal with the crisis. These measures merely attempt to patchup the existing outdated system of unemployment compensation, but the real need is for permanent improvements in the program. Fundamental and basic improvements must be made in the unemployment insurance program if it is to meet the needs of a modern industrial economy.

In addition, immediate steps must be taken to alleviate the economic hardships imposed upon jobless workers who are the victims of the present economic crisis and of the past neglect of the program.

We urge the Congress, as a matter of immediate national concern, to enact both short-term and permanent improvements in the Nation's unemployment insurance program.

Immediate Short-Term Measures

In order to implement these recommendations in the quickest and most efficient manner and avoid the need for State legislative action, the cost of these improvements should be financed with Federal revenues.

Extended unemployment compensation benefits should be made available to jobless workers recently covered by the Emergency Jobs and Unemployment Assistance Act of 1974. The duration of these benefits should be the same as the duration provided for jobless workers covered by the permanent program.

The waiting week—a week for which benefits are not paid—required under the provisions of most State laws should be compensated.

The existing benefit structure of the program should be improved. The individual's weekly benefit amount should be increased to two-thirds of his or her former weekly wage, up to a maximum weekly benefit amount equal to 75 percent of the State average weekly wage.

Employment Security Offices in areas of substantial unemployment should be required to maintain a schedule and staff sufficient to process claims without undue delay and inconvenience to jobless workers.

Permanent Improvements

Unemployment compensation protection should be extended on a permanent basis to all wage and salary workers, including farm workers, domestic workers, and all public employees.

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A weekly benefit standard should be established under which every jobless worker will be entitled to at least 66⅔ percent of his or her former weekly earnings up to a maximum weekly benefit of at least 75 percent of the State average weekly wage.

Uniform eligibility and duration standards are essential to proper operation of the program. Every jobless worker with 20 weeks of work, or its equivalent, should be entitled to a benefit duration of at least 26 weeks. Jobless workers with less labor force attachment should be eligible for benefits and their duration period should be determined in relation to the basic standard outlined above.

The existing triggered extended unemployment compensation program should be abolished and replaced with a 100-percent federally financed extended benefit program. This program should entitle all jobless workers to an additional 26-week Federal benefit period when their regular State benefits are exhausted. Extended benefits should be coordinated with a comprehensive program of job counseling, training, retraining, upgrading of skills, rehabilitation service if needed, relocation assistance, and job placement.

The financing of the unemployment insurance program should be placed on a firm and adequate tax base. The taxable wage base should, as a first step, be fixed at a level equal to the State annual average wage in covered employment. In subsequent steps, it should be raised to a level equal to the taxable wage base used to finance the OASDHI (social security) program.

The adequacy of State unemployment insurance reserve funds should be assured by enactment of a minimum Federal standard of reserve adequacy each State would be required to meet and maintain. It is essential for the solvency of the program that this standard be established at an early date.

In addition, the Congress should extend the protection of unemployment compensation to new entrants into the labor force and to former workers attempting to reenter the labor force.

Modernization of the unemployment compensation system has been too long delayed. The improvements the AFL–CIO recommends would provide decent protection to all jobless workers. It would help to meet the problems of unemployment stemming from monetary and fiscal policies, technological changes, environmental improvements, and energy adjustments.

Tax Justice

While an emergency tax cut is needed immediately to stimulate the economy and create jobs, such a tax cut must be followed promptly by a program of tax justice:

To put an end to the loopholes and special privileges which rig the tax structure against wage earners and consumers;

To help restore the balance needed to permit the Nation to recover from the present economic crisis in a sustainable fashion;

To help rebuild public confidence in Government and the economy; and

To enable the Federal Government to raise equitably the revenue necessary to meet the need for essential public investments and to maintain Government operations.

However, in the name of fighting inflation and budget deficits, the administration proposes sharp cutbacks in essential Federal programs that create jobs, alleviate human hardship and help build the Nation.

Yet, there are no proposals whatsoever to meet budget problems by closing any of the escape hatches which cost billions of dollars in revenue and unfairly rig the tax structure.

In fact, the President would do just the opposite. The tax measures proposed by the administration add up to a massive restructuring of the Nation's tax system in a way which ignores the principle of taxation based on ability to pay.

Through a combination of individual income tax reductions, huge increases in consumer-paid energy excise taxes, and a permanent cut in the corporate tax rate, the administration is attempting to shift even more of the Nation's tax burden onto those who can bear it least, and, at the same time, permanently undermine the Federal Government's ability to finance public needs through a fair and equitable tax structure.

The President has proposed a permanent reduction in the corporate income tax rate from 48 percent to 42 percent, retroactive to January 1, 1975. That proposal alone would result in an immediate annual revenue loss of $6 billion—the same amount that the President would cut out of the budget through ceilings on programs such as social security retirement benefits, food stamps, school lunches, and the benefits for coal miners suffering from black lung disease.

The President would also raise $19 billion in the fiscal year beginning July 1, 1975 through import duties and excise taxes on crude oil and natural gas, which would be passed on to the consumer. Total excise tax revenues as officially counted in the budget would, as a result, double between 1974 and 1976.

In addition, the excise tax on crude oil which the administration deceptively labels a "windfall profits tax" would raise another $16.3 billion from consumers in the fiscal year beginning July 1, 1975.

These energy-related excise tax increases would far more than offset the President's proposed income tax relief for lower-income taxpayers.

Such actions would put the Federal Government firmly in the sales tax business. Excise taxes, including the so-called "windfall profits tax," would total $48.4 billion in fiscal 1976—almost triple present amounts and $10 billion more than the revenue presently generated by the corporate income tax.

Excise taxes would rise from 10 percent of the total 1974 revenue derived from income (corporate and individual) and excise taxes to 26 percent in 1976. Corporate income taxes would be cut from 22 percent of this total in 1974 to only 17 percent in fiscal 1976.

The AFL–CIO urges the Congress to reject the administration's attempts to restructure the tax system through sharp increases in consumer taxes and huge cuts in corporate income taxes.

As soon as the Congress completes its work on an immediate, emergency tax cut, it must move as quickly as possible to enact a comprehensive program of tax justice.

Such a program of tax reform would raise some $20–$30 billion by loophole-closing reforms and provide sufficient revenue to permit permanent tax reductions, which would in fact lower the share of the tax burden and increase the real purchasing power of low- and middle-income Americans.

The corporate income tax structure must be thoroughly and completely overhauled.

Elimination of the tax subsidies for the overseas operations of U.S.-based multinational corporations generally, and of U.S.-based international oil companies specifically, requires top priority. These preferences have eroded the tax structure, destroyed American jobs and helped make America vulnerable to economic and political blackmail.

Moreover, through devices such as phantom writeoffs for depreciation and depletion, inventory accounting gimmickry and the many opportunities available to multinational companies to shift profits between countries, branches and affiliates, the measuring of corporate profits for tax purposes has been badly undermined.

As a result, corporations are bearing less and less of the Nation's tax burden. In 1973, for example, 10 corporations with profits totaling almost $1 billion paid no Federal income taxes at all and the Nation's largest oil companies paid U.S. income taxes at effective rates of about 6 percent of their profits. In the 1960's corporations bore about one-third of the Nation's income tax load. In recent years, the corporate share has slipped to about 25 percent.

If corporations presently were bearing the same share of the income tax load as in the 1960's, Federal revenues (fiscal 1975) would be some $20 billion higher.

The corporate income tax should be fully reinstated as a source of Federal revenue to help finance America's needs.

We call for:

An end to the foreign tax credit provision. The foreign income tax payments by U.S. corporations and the royalty payments of international energy companies should be treated just like taxes and royalties paid on domestic operations—as deductible costs of doing business. The present practice of allowing dollar-for-dollar credits against the company's U.S. income tax liability must be ended.

An end to the deferral privilege which allows multinational corporations to defer U.S. income tax payments on the earnings of their foreign subsidiaries until such profits are brought home—which may be never.

The elimination of percentage depletion allowances and "intangible" drilling cost writeoffs for foreign-produced oil.

Elimination of the Domestic International Sales Corporation (DISC) gimmick which permits corporations to spinoff into export subsidiaries in order to defer taxes—perhaps indefinitely—on export profits.

Ending these foreign tax subsidies would raise some $3–$4 billion in annual revenue.

Further we call for:

Ending the special tax privileges for corporations in the oil, gas and other mineral industries such as depletion allowances. These subsidies have contributed to America's energy problems and cost some $3 billion in annual revenue.

Immediate elimination of the depreciation speedup enacted in in 1971—a loophole which currently costs the Treasury and the American taxpayer about $1.5 billion annually. And the $5 billion a year investment credit should be eliminated as soon as the present emergency situation is over.

Enactment of an excess profits tax which would prevent many corporations from profiting unconscionably through crises such as the energy emergency while others endure hardship. An excess profits tax similar to the one in effect during the Korean war would raise some $3–$4 billion in annual revenues.

In addition, the AFL–CIO urges prompt enactment of the many tax reforms needed to assure that wealthy individuals bear their fair share of the tax burden. In 1972, according to the latest available information, no Federal income taxes, whatsoever, were paid on 402 tax returns from individuals with incomes of over $100,000.

We call for:

(1) Closing the capital gains loopholes. The preferential half-tax which applies to gains on unearned income from stocks or other property sold at a profit and the zero tax that applies to such gains when passed on at death are among the most disruptive elements in the tax structure. Closing these loopholes could raise as much as $8–$10 billion in annual revenue.

(2) Disallowing the tax exemption for interest income from State and local bonds. This provision benefits only banks and the very wealthy. Such income should be taxed in full with the Federal Government providing an interest-subsidy to assure that fiscal powers of the State and local governments are not hampered.

(3) Eliminating the maximum-tax provision, an uncalled-for tax bonanza to top corporate executives and others whose income comes from very high fees and salaries. The yearly revenue gain would be over $200 million.

(4) Ending the many opportunities for the wealthy to shelter and wash out otherwise taxable income through investments in mineral exploration and oil drilling ventures, real estate, hobby farms and the like. Revenue losses from these tax avoidance opportunities total over $1 billion annually.

(5) Overhauling Federal estate and gift taxes. Present law provides unnecessary exemptions and a host of opportunities to minimize or postpone tax payments for generations, through devices such as family foundations and generation-skipping trusts. An effective and equitable estate and gift tax structure could generate about $3 billion in additional annual revenue.

The National Economy

America's economic crisis is growing at a frightening speed.

The worst downward spiral since the 1930's is now feeding on itself. A massive drop in purchasing power has brought down consumer sales.

Consumer purchasing power has fallen so sharply that it would now require an increase of close to $60 billion in the annual rate of total after-tax personal income to bring the average buying power of every man, woman and child in America merely back to the level that was achieved in the July–September quarter of 1973, before the recession started.

The drop in buying power and sales has resulted in attempts by business to reduce its huge inventories, accumulated over the past 2 years, through cutbacks of orders, production and employment—hitting the wide range of consumer goods industries from textiles and apparel to electrical appliances and furniture, including severe job losses in the auto industry.

It has also resulted in an alarming drop in industry's operating rate and reductions in the real volume of business investment in plants, machines and equipment. Moreover, every additional week of layoffs and cuts in weekly work-schedules is resulting in a further drop in consumer buying power, which means a further weakening of sales, production and employment.

With declines in business and consumer loans, as a result of the slide in economic activities and the modest shift in the Federal Reserve's policies, interest rates on short-term loans have moved down. But interest rates on long-term loans for mortgages and business expansion remain close to the 1974 record peaks, reached during the Federal Reserve's money crunch.

As a result, homebuilding remains in a depression, with housing starts down 60 percent from the early months of 1973—hitting residential construction and the numerous building supply and home appliance industries. The accompanying decline of business investment in plant and equipment is causing cuts in production and employment in heavy construction, machinery and related industries.

The squeeze on State and local governments from high interest payments and falling tax revenues is resulting in layoffs of public employees and postponed efforts to improve public facilities and services.

Many businesses, as well as consumers, find themselves burdened with large debts and falling incomes, with the threat of impending bankruptcies. Many of the Nation's overextended banks face insolvency, if payments on the huge business loans, extended for inventory hoarding and speculation in 1973 and 1974, cannot be met.

Under these conditions, production cutbacks are continuing to spread. Unemployment is feeding on unemployment.

In the middle of January, according to the Labor Department's most recent report, the number of unemployed soared to 7.5 million or 8.2 percent of the labor force, the worst unemployment in 34 years. That was a jump of 928,000 jobless in a single month and 2.6 million since August, the sharpest 5-month rise in unemployment since the Labor Department started its monthly reports in 1940.

In January, an additional 3.8 million workers were being compelled to work part time because full-time work was not available. An estimated 900,000 more discouraged people gave up their search for jobs as hopeless. This amounts to 12.2 million unemployed and underemployed workers.

In mid-January, double-digit unemployment hit key groups of workers. Unemployment rates were 20.8 percent among teenagers, 15 percent among construction workers, 14.3 percent among the unskilled, 13.4 percent among blacks, 13.1 percent among the semi-skilled, 12.4 percent among 20- to 24-year olds and 10.5 percent among factory workers. Among black teenagers, unemployment was 41.1 percent. Moreover, unemployment and underemployment are continuing to increase.

In the face of this dangerously deteriorating situation, the administration has proposed a complicated package of income tax reductions, more than offset by energy-related tax and price increases. On balance, this package is a formula for more unemployment, extended recession and prolonged inflation.

The direct impact of the proposed energy-related tax and price boosts, according to the Economics Division of the Library of Congress, "could cost at least $50.3 billion in 1975" which "could raise prices by 3 percentage points." As these energy costs ripple out through the economy, they would boost the prices of everything, from food and drug bills to bus fares.

The President's budget projects prolonged recession-level unemployment through 1980. The budget assumes an unemployment rate of 8.1 percent in 1975, 7.9 percent in 1976, 7.5 percent in 1977 and 6.9 percent in 1978. That would mean four successive years of the highest unemployment levels since 1941. Even by 1980, 5 years from now, the budget's projected unemployment rate is 5.5 percent—a rate which is totally unacceptable to everyone except the administration.

While the administration complacently accepts such forecasts of continuing troubles for millions of American families, its spokesmen concentrate their fire on the crisis-created budget deficits. The President proposed to hold down Federal spending by cutting programs for the poor, the retired and veterans and by placing a 5-percent ceiling on 1975 pay increases for Federal employees. However, the budget report admits in all candor:

> Aside from the effects of the proposed tax reduction, the deficits anticipated for 1975 and 1976 are largely the inevitable result of those aspects of the budget and the tax system that respond automatically to changes in the economy, such as budget receipts and unemployment benefit payments . . . If the economy were to be as fully employed in 1976 as it was in 1974, we would have $40 billion in addtional tax receipts, assuming no change in tax rates, and $12.7 billion less in aid to the unemployed. These two factors alone exceed the budget deficit for 1976.

The budget deficit will recede when employment and business activities pick up. Further, the elimination of major special tax privileges for corporations and wealthy families can provide as much as $20 to $30 billion of additional Federal revenue.

The economic crisis has gone so far that only massive emergency measures can halt the downward spiral, turn the economy around, put Americans back to work and restore public confidence in the government's ability to correct the economy's difficulties.

The special meeting of the AFL–CIO general board on January 23 adopted such an emergency program.

Since that time, the administration has partially responded by releasing $2 billion in impounded highway funds and $4 billion in sewer and waste treatment funds by next July, and the Federal Reserve has slightly reduced the discount rate. These are welcome but terribly insufficient steps.

They have been more than offset by the new excise tax on imported oil which will shortly raise all consumer prices on any article touched by oil.

As a first step the Congress must block the President's imposition of another excise tax on imported oil, and speedily pass the House Ways and Means Committee tax cut measure. That measure, while providing a stimulus to the economy, will not be enough. The continuing deterioration of the economy demands an even greater stimulus and the Senate should meet this need. In addition, the Congress should then move without delay to enact the other proposals contained in the AFL-CIO general board's program to put America back to work.

CENTER FOR ECONOMIC STABILITY

By Joseph Bongiovanni

A Way to Economic Stability

My 16 years' experience in researching causes and solutions to economic recessions—meshed with over 40 years business experience—enables me to offer Congress a comprehensive plan to halt inflation and bring stability to our economy.

Congressional action is required in four categories:

(1) Implementation of realistic wage and price controls.
(2) Proper and priority use of our money supply.
(3) An equitable tax structure.
(4) Passage of a Socioeconomic National Growth Act.

Item 1.—Implementation of realistic wage and price controls:

A review of accelerating price increases proves that voluntary restraints will not stop the fast moving "inflation express."

What is needed now—today to halt this inflation spiral, is realistic wage and price controls, as during World War II; including all real estate transactions, and with teeth for local enforcement.

To refute the smokescreen claim that controls haven't worked, let us look at the record.

1.1. During the 1st year of World War II, before implementing controls, the inflation rate was over 9 percent, during the balance of the 3 years of the war, with controls, the average inflation rate was under 3 percent.

1.2. During the Korean war, before controls in 1950 and 1951, the average inflation rate was approximately 6 percent, with controls the inflation rate for 1952 and 1953 was under 1 percent.

1.3. During Nixon's first term, before controls in 1969 and 1970, the average inflation rate was approximately 6 percent. With controls the average inflation rate for 1971 and 1972 was only 3.4 percent. While this was a vast improvement, we could have achieved a zero rate if we had put controls on real estate and interest rates.

The above proves controls do work.

However, we must not repeat the error made after World War II, in removing controls before making producers out of the returning vets, who joined the unemployment ranks; thereby holding back maximum competition.

Another error made was an overexpansion of our money supply, thus

The inflation rate leaped to an average rate of 14 percent each of the 2 years after the war.

The team advising President Nixon did practically the same thing; viz.

(a) Unemployment increased by 2½ million; (b) money supply increased by almost $250 billion; and, (c) a tremendous increase in interest rates. Any wonder we have rampant inflation, after inbibing such a terrible economic brew?

It is imperative that these realistic wage and price controls must remain . . . until the following 3 categories of concern become part of our legislated laws, after congressional action.

Item 2.—Proper and priority use of our money supply:

A mismanaged monetary system is at the center core of our inflation problems; our tax problems; and our socioeconomic problems.

Because it will take a long dissertation on this most important subject—bar none—to face this Nation, and the world, I will first list three items for immediate congressional action:

(a) Moratorium on money supply increases.

(b) Moratorium on bank loans which do not produce goods and services.

(c) Controlled low interest rates, with a ceiling of 6 percent total net for any transaction. Never, never to be exceeded again!

Now for the long dissertation.

What constitutes the wealth of our Nation?

A Department of Commerce booklet about our gross national product, explains that our wealth is measured in three areas:

1. Our land and natural resources.
2. Our people who produce goods and services.
3. Our means of production, such as factories, equipment, roads, schools, et cetera.

From my study of economic gyrations, I suggest that item 3, should instead read: 3. A proper monetary system.

It is evident that the most important sector of wealth is item 2—people who produce—for their talents utilize item 1, to produce the means of production, listed as item 3 in GNP booklet. However, it takes a proper monetary system—a means of exchange—to bring these forces into play.

We only have to go back to the big depression years to prove the above contention. A badly managed monetary system, during the preceding years, caused many producers to become nonproducers—unemployed; and much of our means of production to become idle.

What happened to our monetary system at that time?

In 1926, our M1 money supply amounted to $25.6 billion, and we had only 800,000 unemployed. Then for the only time in our Federal Reserve history, there was a long-term reduction in our money supply—until the year 1933, when the money supply reached a low of $19.2 billion; and our unemployment zoomed to 12,800,000. We did not reach our 1926 money supply of $25.6 billion until the end of 1935.

During all of these years we had the means of production, and the neoproducers; but both became idle due to a mismanaged monetary system—hence the need for a proper monetary system.

Are things different today? Not really, as we still have a mismanaged monetary system with an overexpansion of money supply—and because we still have over 5 million potential producers unemployed—

granted not quite as bad as the depression years, but still badly managed—with the highest interest rates in history.

Now that we know the cause of our major problems, that is, mismanagement of our monetary system. What is the solution?

I suggest the following:

1. Congress needs to pass a resolution that it recognizes its constitutional directive that "only Congress shall coin and regulate the value of money."

The resolution should also state that all Congressmen must attend seminars to learn how money is created; and how it is introduced into our economic mainstream.

Further, the resolution should include some way to enable high school seniors, and college students, to receive a thorough indoctrination about these monetary subjects.

2. Then Congress should rescind its abdication as money managers, and actually vote—say every 3 months—on any monetary changes, including interest rates. Thus in effect, Congress would give direction to the Federal Reserve in this most important of congressional duties.

Regarding interest rates, Government sources advise that $146 billion interest charges were paid into our economy in 1971. At today's higher rates, I estimate that our annual offering to the "Golden Calf of Finance" will total $250 billion this year—a sum which dwarfs the combined costs for defense, crime prevention and increased oil costs!

There is no greater volatile fuel that feeds the fire of inflation. At today's high interest rates, how is it possible for new family formations to afford housing at such costs?

I urge Congress to study the 15-year period when the prime rate was only 1½ percent, during the years from 1933 to 1947.

Another area for scrutiny by Congress relates to the fact that the monetary increase during the last 7 years, almost equalled our total national debt.

Congress could have introduced the same amount of money into our economy via payment of such national debt. Thus Congress could have saved the taxpayers over $20 billion interest, each and every year—past and future.

During the past 7 years, the monetary increase was a huge $466 billion. Who eventually received this oversupply of money? To be sure, not the socioeconomic problem areas. Instead, too much went to speculative and nonproductive purposes; thus driving up the cost of land, homes, food, and health services.

You have heard much about the Russian wheat deal as being the villain of high food prices. While this was the catalyst, the real villain was the speculative commodity futures market. Here is another area which requires very close scrutiny by Congress.

Again the people were the big losers, because speculators can obtain bank loans because of their good credit rating.

Finally, another requirement of a proper monetary system is its proper use toward production of goods and services; and equally important should be its priority use toward mitigating our socioeconomic problems—more on this under category No. 4. See monetary chart page 6.

We should be angered to realize, that under proper and priority monetary management, a small portion of past increases, properly used for special programs, that produce goods and services, through our normal private enterprise system, would have solved all socioeconomic problems by this time.

Item 3.—Re an equitable tax structure. Congress should ask itself why has high unemployment persisted in all administrations, in spite of tax incentives, supposedly to stimulate employment?

The simple answer is that there is no direct attack on the unemployment problem; but such direct attack can only come through enactment of a socioeconomic national growth act, per category No. 4.

Closing tax loopholes surely conforms to social-Justice-for-all taxpayers. Special privileges for so-called risk capital—after all what commercial venture does not require risk capital?—is unnecessary because the incentive to make a profit should suffice for our private enterprise system. To quote publisher Mr. Knight, "America was built on a highly competitive system which made possible the dreams which led to great achievements."

Congress should not only close loopholes per above, but should also eliminate all tax shelters related to money investments.

Item 4.—Re passage of a socioeconomic national growth act: (SENGA).

A comprehensive plan to achieve economic stability would be of no value, without means of solving socioeconomic problems.

It is possible that Federal legislation was passed to help the needy before the big depression days, but my earliest recollection was implementation of the WPA—Works Progress Administration—to bring some income to at least some of the unemployed.

This has since escalated to many social legislated programs, that cost the taxpayers billions of dollars annually.

We cannot fault the reasoning that, based on our Judeo-Christian traditions, we are our brother's keeper; so we are obliged to do something to alleviate his situation.

The error lies in the fact that we failed to note that since these are economic problems, then they should be solved through our normal private enterprise system—without tax revenues.

The answer lies in passage of the above Socioeconomic National Growth Act, which embodies special workable programs, on a continuing basis; and which produces goods and services—funded by priority use of our money supply, for guaranteed bank loans.

SENGA will also help to cap inflation, and result in lower taxes!

(Please note enclosure B for further data.)

We must understand that a large portion of our money supply moves in and out of our banks each day. Of the $4 billion loaned each day, most go to top-rated accounts—helping to produce a high standard of living. Yet something is wrong when we still have so much misery, and unsolved socioeconomic problems.

The solution is that the same Federal Government who has permitted the lending institutions to loan 28 times reserves—can direct them to use part of such allowance—to help rid the cancer of unemployment, and other like problems, from our economic body.

Such loans will be made "beyond normal lending ratio" without increase of our money supply. The tremendous power of our total money supply will be focused on socioeconomic problems, in that area of our country which is in need of much funds, in spite of local bank's limited reserves.

This is the new economic concept long sought by Governors, mayors, Congressmen, and administrators as they expressed the need for a national growth policy. SENGA is the answer to this long sought goal.

The proposed act includes local administration by regional economic committees. This will make it possible to eventually do away with many Federal programs which have produced only limited results.

Should the need ever occur, these economic committees will be ready to take direction from Congress, regarding priority activity related to resource shortages, and environmental requirements—after all, production of goods and services can take many forms—without affecting the quality of life.

This is a conservative, and a liberal program. Many college chairmen of economic departments agree this is the way to economic stability. That is why I have offered to lead the entire Congress body in a seminar "How to halt inflation, solve socioeconomic problems, and yet lower taxes."

I hope the Council of Economic Advisers, the Joint Economic Committee, and Banking Committee will also attend; and that the news media will help arrange such needed seminars.

The following "money chart" represents the most important statistics that should be understood by every Member of Congress.

Every Congressperson should know that—how the the banking industry "loans out" these funds—is the major factor affecting all other economic barometers and resulting economic statistics.

Congress should study the following money supply questions:

1. Should we introduce the money supply increases into our economic mainstream by payment against our national debt?

2. Do we have sufficient restrictions, and controls, on use of our money for foreign needs, investments, and so forth?

3. Because the Constitution reads that "only Congress shall coin and regulate the value of money," should we restrict new charters to national banks only? Also, should all banks come under Federal Reserve restrictions?

4. Should Federal Reserve banks be totally owned by the Federal Government?

5. Should we have only one type of bank, instead of many kinds?

6. Should each bank have only one interest rate for all their customers? As the use of larger sums of money enables the borrower to make the most profit—why should they have a lower rate?

Money Statistics (as of Dec. 31, 1973)

[In billions of dollars]

Currency	62.7
Checking deposits	216.4
Certificates of deposit	64.1
Commercial savings deposits	298.1
Mutual savings deposits	93.9
Savings and loan deposits	227.3
U.S. Government deposits	6.3
Reserves:	
35.1:	
Total money supply	[1] 968.8
27.6 times reserves	-----
1966–24.0:	
Total money supply	504.0
21 times reserves	-----
1913—1:	
Total money supply	15.0
15 times reserves	-----
Total money supply: [1]	
December 1973	968.8
January 1974	979.9
February 1974	978.0
March 1974	988.7
April 1974	1,004.5
May 1974	1,007.6
June 1974	1,016.1
July 1974	1,022.1
August 1974	1,023.5
September 1974	[a] 1,029.1

[a] 60.3 increase.

Note: Annual rate 8.3 percent. This is not tight money, but only improper use. Remember that after every transaction, the total money supply remains the same. Its proper and priority use is the key to economic stability.

CHAMBER OF COMMERCE OF THE UNITED STATES

By CARL H. MADDEN*

The Chamber of Commerce of the United States welcomes the opportunity to comment on the Economic Report of the President and the Annual Report of the Council of Economic Advisers.

THE STATE OF THE ECONOMY

When issued last month, the administration's economic outlook for this year and next year reportedly shocked some Members of Congress by its gloomy forecast of continued high unemployment, inflation and slow recovery starting late this year. But economic news since that time and the latest revisions of business economists' forecasts confirm that the momentum of the current steep recession is still strong and that the official forecast may even be optimistic in some respects. Even so, the current consensus outlook is for recovery, though gradual, late this year, accompanied by a further easing of inflation.

THE BIG NEWS IN THE ECONOMIC REPORT

But the big news relating to the economic report is not revisions of the short-term economic outlook. The big news is the administration's unprecedented and past due effort to orient national economic policy to longer-term issues—principally energy—instead of concentrating solely on short-term countercyclical policies. Countercyclical policies may not prove adequate to encourage the high rate of investment and the long-term planning horizons needed to deal with energy and environmental problems, not to mention a national policy on technology and income distribution questions.

Congressional wrestling with the details of an energy program underscores the urgent need for implementation of the Budget and Impoundment Control Act of 1974. It is essential, the Chamber believes, for Congress to carry out the purposes of the act—to gain effective control over the budgetary process, to determine each year the appropriate level of Federal revenues and spending, to provide a system of impoundment control, to establish national budget priorities, and to get from the executive branch the needed information to help Congress do the job. The keystone of the act is, having Presidential recommendations, to set national budget priorities. Setting priorities means far more than playing technical numbers games with national economic aggregates, such as unemployment and prices. More important is, given the goals of the U.S. people and United States and world social and economic trends, to choose a role for Government effective

* Chief Economist, Chamber of Commerce of the United States.

in restoring people's confidence and setting us on the path to stable social and economic advance, personal freedom, and human survival. Congress will have to look beneath the budget aggregates and appraise with its staff just how realistic are the contents of programs. Doing so will give Congress a unique new capacity, desperately needed, for realistic benefit-cost appraisal, removed a step from the constituency politics that too often has dominated congressional budgetmaking in the past.

Short-Term Versus Long-Term Priorities

The days are past when economic growth could be expected to solve our economic problems and when long-term policies could be considered merely an extension of short-term policies. Just on the energy front alone we will have to replace technologies and consumption patterns that are heavily resource-consuming and damaging to the environment with others that are less so. Moves to halve the growth in the demand for energy will mean conversion to smaller cars, more mass transit, more home insulation, better design of buildings and even of communities in order to save on energy use. It is not going to be an easy or quick transition to a less energy intensive society.

Changes in technology and consumption patterns require capital, which can be provided only if incentives are strengthened to increase the rate of saving and investment. In other words, in the longer run the budget has to do more than just not cause inflationary trouble. It has to expand the flow of saving in the Nation so the economy can handle the large job of capital formation that lies ahead.

Already during this decade, the amount of capital formed is about 20 percent below what the country should have had to generate the number of job opportunities needed for reasonably full employment. In other words, shortage of supply—of physical plant capacity—may inhibit a return to full employment, and such shortages arose in the last expansion when the jobless rate was 5 percent.

But the next decade calls for more capital formation, to meet environmental and energy goals. Environmental and safety standards newly imposed call for an added 5 to 10 percent of capital formation. And a more secure energy position calls for huge amounts of capital. Leading academic economists, such as Paul McCracken, University of Michigan, and Otto Eckstein, Harvard University, agree; if these capital needs are to be met, roughly 2 percentage points have to be added to capital formation over past averages; in other words, investment has to rise from 10 percent of GNP, its historic average, to 12 to 12½ percent by 1985.

The big budget priority is to get Federal spending in line with revenues at 6-percent unemployment, not 4 percent, as will be explained below. And a big question is whether the tax system does not need to shift its focus to reward saving more and encourage consumption less than heretofore. The rise in the investment tax credit should provide some stimulus to business investment. But additional stimulative measures will be needed to provide the great amounts of capital investment required for job creation, lesser dependence on imported energy, and a cleaner environment in the years ahead.

Not only do we need more capital formation, but somehow we have to pay for the welfare state. Of course, the United States now has a welfare state almost fully put in place, including a guaranteed income through a bundle of welfare programs including food stamps. It is not a good or efficient welfare state, but it is there. The Federal Government now spends more than 40 percent of its receipts plus borrowings on "human resources," and less than 30 percent on national defense. State and local government spend nearly 60 percent of their budgets on health, welfare, and education.

Where are the money and the real resources going to come from to make good on these government promises to spend in the future? They have to come from the ability of the private economy to generate wealth, income, and government revenues. Because the Swedes know this, they recognize the vital role of a thriving business sector. It is time, now that $1 out of every $9 of personal disposable income people get in their pockets comes from a government transfer payment, that we recognize it, too.

For these reasons—the need to finance capital formation and the existing welfare state—the National Chamber urges the Congress to effect a 1-year moratorium on new spending plans other than for energy. The Chamber has already shown its support for protection of the unemployed from hardship by supporting public service employment for the chronically jobless and extended unemployment compensation. But in all commonsense, the first priority in budgeting at the present time is to stimulate through tax cuts the noninflationary recovery of the private economy and to take fast action now to put in place a national energy policy long overdue.

It is a mistake of egregious proportions to be panicked into launching new Government programs based on ideas of the 1930's to create public jobs. The New Deal did not significantly restore jobs, as a look at the results shows. Unemployment, which rose to 25 percent of the labor force from 1929 to 1933, averaged 18 percent throughout the 1930's decade. The lowest it reached was 14.3 percent in 1937. And even in 1941, the first year of World War II, unemployment was 5.6 million, or 9.9 percent of a 55.9 million civilian labor force. But more to the point, this is not the 1930's. It is a time of inflation and unemployment. It is a time of a huge need for capital to restructure the U.S. economy. It is a time of paying for a growing and inefficient welfare state.

Needed: Fresh Thought on Unemployment

Thought about unemployment and how to reduce it still suffers from the hangover of the Great Depression and its long lines of hungry, ill-clad, hopeless men. Since Keynes, deficiency of national demand has been seen as the key priority, and the academic economist superstars, bemused and beguiled by demand, debate with politicians over the size of the budget deficit and the pace of monetary policy. Are these debates any longer adequate for an economy beset by supply problems of a longrun nature, and in the short run beset by both inflation and recession?

A large part of today's unemployment is not the result of demand deficiency but of inflation itself, of changing tastes, of markets twisted out of shape, and other troubles with the structure of the economy. Some part of unemployment comes from disincentives to work related to programs aimed at cushioning the hardships of joblessness. The

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labor force has changed sharply to include far more women and teenagers. In this sense, Americans are gainfully working more and harder than before, inside the market economy rather than outside it. And as the economy shifts further toward producing services rather than goods, the portion of unemployment not related to cyclical ups and downs is likely to rise.

On the basis of earlier experience in Great Britain, economists have thought the relation between inflation and unemployment was stable, that a "tradeoff" of a little more inflation to get a little less unemployment could be made. Studies at the Brookings Institution and others for this committee suggest that today, a higher rate of unemployment is required as a tradeoff point for a given rate of inflation than was true in the mid-1950's; that is, a jobless rate of 4 percent implies an inflation rate about 2 percentage points higher than that of two decades ago.

In other words, it gets less clear that merely pumping up the economy can bring down the unemployment rate to the old, casually chosen, interim target rate of 4 percent set for full employment in 1962. Changed circumstances have led economists to believe that pumping up the economy could bring the unemployment rate down only to about 5 percent without also setting off a new burst of inflation. Putting the point in economists' jargon, the recent inflation-recession has pretty much destroyed the validity of the "Phillips curve," that claimed a stable, longrun inverse relationship between the unemployment rate and the rate of increase of wages or prices.

To get unemployment below 5 percent is going to take measures other than pumping up the economy by monetary and fiscal policy, when today's structure of unemployment is considered. At 5 percent, much unemployment is brief, voluntary, and cushioned for loss of income rather than being long, involuntary, and the cause of hardship. Studies of the 1971 data for the Joint Economic Committee by Marvin Feldstein of Harvard University demonstrate that finding.

Even as recently as October 1974, when the unemployment rate was 6.0 percent, and 5.0 million people were unemployed, 50 percent of those were under 25 years old. Only 2.4 percent of married men with wives present were jobless. Two-thirds of the total jobless were dependents. There is no question that since October 1974, the sharp and spreading decline in the economy, particularly in the sales of durable goods, has produced serious layoff-related joblessness which could be reduced by more demand for durables. But how much more should the hard-pressed middle class pay in the insidious tax of inflation to salve the consciences of well-intentioned people who do not understand modern unemployment very well?

Just since 1958, significant changes in the mix of employment and joblessness have occurred. Compare that year, when joblessness was 6.8 percent on average with January 1975, when it was 8.2 percent. In 1958, 58 percent of joblessness was of males, 20 and over; in 1975, it was only 40 percent. In 1958, 27 percent of joblessness was of females, 20 and over; in 1975, it was 35 percent. In 1958, nearly 15 percent of joblessness was teenager; in 1975, it was 25 percent. Now, to look at employment, from 1958 to January 1975, the total of employed people rose a little over a third—34 percent. But employment of males, 20 and over, rose only 18 percent. Employment of females, 20 and over, rose more than 50 percent—57, to be exact. And employment of teenagers (16–19), went up 99 percent, just about double.

Much of the debate about the budget is over whether the deficit is stimulative enough to achieve full recovery. Devotees of the "new" fiscal policy believe the President's budget is too restrictive. These devotees find this out by calculating a "full employment" budget—by comparing the hypothetical revenues that would be collected if unemployment were 4 percent with actual proposed outlays. And, this year, they conclude that the full-employment budget would be in surplus by $15 to $17 billion on a national income accounts basis in the President's budget. From this calculation, using Keynesian theory about what creates economic activity, they conclude that the budget is "too restrictive."

But on their own grounds, the fiscalists are open to some question. With a tax stimulus as now in sight of $20 to $25 billion, and a projected increase in outlays of no less than $40 billion, the added fiscal push is $60 to $65 billion.

And consider other grounds. To get unemployment below 6 percent is going to take measures other than stimulating demand. If so, then how valid is the notion of a "full employment budget" with unemployment set at 4 percent? Isn't such a budget likely to lead to an actual deficit that is "too large" in exactly the sense that, rather than unemployment coming down, instead the added demand will spill over into inflation? And if this happens, then will there not be feedback effects to suppress production and employment by marginal amounts?

This committee ought not to believe that unemployment can be reduced to 4 percent and full recovery can be achieved merely by setting the "right" size for the deficit and assuring the "right" expansion of the money supply. The debate among the economist superstars lends a specious accuracy to such mechanistic discussions. This committee needs to look also at what our employment policy is, as reflected in the budget. How much commonsense does it make to launch big programs of public works or public service employment when we need people to build homes, to expand steel capacity, to produce new and smaller cars, to build buses, to search for oil, to dig for coal, to perform research and development on alternative energy sources, and the like?

How much sense does it make to push off onto the American people another round of inflation in 1976 to get unemployment down for dependents and teenagers? The cost-benefit ratio is horrendously unfavorable.

There are things to be done, if Congress has the imagination and will. First of all, someone in authority ought to have the honesty to admit that the gross unemployment rate is a very poor policy guide. It mixes together widely dissimilar groups of workers—teenage dependents, heads of households, the poor and the wealthy, short-term and long-term unemployed, those willing to take any honest job, and those who will consider only a limited sort of "suitable employment." It is a gross rate, too, in that job vacancies are not deducted to give a net figure that exceeds, equals, or is less than existing job openings.

Among the many causes of unemployment is inflation itself. During inflations, profits are overstated by underdepreciation and inventory profits, resulting in the corporate income tax serving as a capital levy. Personal incomes—and taxes—are overstated also. The result is that equity markets are depressed and debt markets are overburdened. As business confidence sags, capital spending is cut back. Reduced capital spending slows the private creation of jobs. Construction employment at depression levels now, vividly illustrates the effects of inflation on employment. And the automobile and energy industries likewise show the effects of inflation in distorting markets.

Since 1948, the gross unemployment rate has ranged above 4, often above 5, and occasionally above 6 percent, except during the Korean and Vietnamese wars. Indeed, excluding the 1930's depression and wartime years of extraordinary demands on industry and labor, the norm for the past 44 years appears to be about a 5.3 percent average annual unemployment rate. We should be able to do better without suffering inflation.

A shift from consumption to savings and to more investment spending and a higher capital formation rate will provide both a higher job creation rate and a more rapid increase in real wages. Besides that fundamental shift, a host of concrete measures could reduce barriers to unemployment.

Perhaps the most flagrant barrier is that placed before teenagers by the minimum wage. For years, business has been telling the Congress that our teenagers are paying the price of high joblessness levied by a powerful labor union movement that indifferently blocks their first job chances by refusing to accept a lower minimum wage for young labor entrants. Teenage unemployment, now over 20 percent, has been rising throughout the post World War II period; how else explain it? How much cheaper and simplier to set a minimum wage for teenagers at about two-thirds that for adults than to put a further squeeze on the poor and the hard-pressed middle class to finance with public funds, at anywhere from $6,000 to $8,000 a year. Without the minimum wage job barrier, the need for public service jobs would be far less.

For years, business has supported manpower training, career education in schools, work-study, and cooperative education. For years, business has supported improving job markets by publishing job vacancy data. For years, business has called for better placement arrangements for high school and technical school graduates. Businessmen have not supported proposals for subsidies to employ young workers who because of inexperience, do not earn enough added revenue for the business to justify their total pay at legal minimum wages. Businessmen do not want to become any more entangled than they are now in Government paperwork or be force to appear to approve another Government spending program like the ones they saw in the 1960's wasting hard-earned taxpayer dollars. Even so, many business leaders have freely donated their time to participate in improving locally run job placement services.

Summary

The national chamber is convinced that this country could do a far better job of employing all who want to and can work than we have been doing. It ought to be possible, using reason and understanding of our economy, to increase employment above the 95 percent figure now conventionally set as "full employement." But doing so without incurring unending inflation and a Socialist command economy will require redirection of aggregate economic policies and a freeing of markets from various institutional restraints that are ill-advised and ineffective, such as those imposed by labor unions, by legislation, and by administrative fiat. Above all, our national economic policies should be developed with regard to long-range goals and trends in the society rather than being approached a budget at a time. As a Nation we can no longer afford the luxury of ignoring new trends and problems in formulating economic policy nor can we rely on New Deal type programs to contend with late 20th century problems.

CONFERENCE ON ECONOMIC PROGRESS

By LEON H. KEYSERLING*

THE DEFICIENCIES IN CURRENT RECOVERY PROGRAMS

At this time, it seems to me unnecessary to comment in detail upon the President's program for economic recovery, as presented at the time of his 1975 economic report. Suffice it to say that this program would have stimulated the economy hardly at all, and in view would have been repressive in its net effect when account is taken of the proposed $30 billion tax with respect to oil.

The tax reduction program which has now emerged from the Congress and been signed by the President is extremely better, but in my view very inadequate. A net tax reduction of somewhat less than $23 billion, as I see it, provides only about half of the Federal stimulus required to restore reasonably full employment and production by the end of 1976, which I regard to be an essential and feasible objective. Insofar as an effort of this magnitude is inhibited by concern about inflationary pressures, I regard this concern to be unwarranted for a variety of reasons which I shall discuss in full.

Moreover, the composition of this tax reduction program is faulty. The addition investment tax credit of almost $5 billion to business investors is much too large for reasons which I shall discuss in detail. I submit that the investment tax credit should be limited to the utilities and perhaps a few other highly selective applications, for reasons which I shall also discuss.

Most important of all, the predominant reliance upon tax reduction at this time, in lieu of a mixed program of much less tax reduction and huge increases in Federal spending for priority program spending, is extremely unwise on both economic and social grounds, for reasons which I shall detail. To be sure, the Congress may remedy part of this difficulty by large increases in such public investment during the course of the year. But this effort might be thwarted, in whole or in part, by the President's strongly held view that the tax reductions should be accompanied by stringent restrictions upon Federal spending.

In the main, I foresee a highly unsatisfactory result from this course of action. It will undoubtedly help to produce a sizable economic upturn in due course. But as in the case of previous defective efforts after the four previous recessions since early 1953, this upturn in my view will leave us with more unused resources at its peak than the four previous upturns, and pave the way for still another stagnation and then another recession in due course. This is not nearly good enough.

*Former chairman, Council of Economic Advisers. Consulting economist and attorney; President, Conference on Economic Progress.

We Must Plan, Not Improvise

The unsatisfactory situation in which we now find ourselves, and the unsatisfactory current outlook, stem from the fact that we continue to improvise instead of plan. We continue to develop policies and programs without relating them to adequate (or any) quantitative goals for employment and production, which are really a condition precedent to adequate policies and programs. We continue to fail to analyze or to deal with the distortions in the distribution of output, employment, and incomes which are at the heart of all the trouble. We continue to fail to analyze the reasons or deal with the causes of the previous recessions, which are essentially the same as the current one, although the current one is much more serious than the others. We continue to fail to recognize that, on purely economic no less than on social or human grounds, the adequate servicing of our domestic priorities is as essential as the attempt to bring about economic recovery in a narrow sense. We therefore need at once a thorough reconstruction in economic policy and analysis, and a long-range planned program, including short-range elements, instead of short-range and improvised efforts.

During 1953–74, we experienced fine times, a fairly consistent pattern of inadequate upturn, stagnation, and recession or absolute downturn. The average annual rate of real economic growth was only 3.3 percent, when about 4.4 percent would have been required to maintain our resources in reasonably full use. During the period as a whole, through deficient real growth, we forfeited $2.1 trillion of total national production, and 51.2 million man-years of employment opportunity (true level of unemployment). At existing tax rates, we forfeited about $500 billion of public revenues at all levels of government.[1] The additional revenues could have been used to service the sorely neglected priorities of our domestic public needs—housing, health services, and education; energy and food; mass transportation; the environment; social insurance and income supports; poverty and deprivation; and others.

During the shorter period 1969–74 inclusive, the forfeiture of total national production in real terms was not far short of $500 billion, with a loss of 13.5 million man-years of employment opportunity (true level of unemployment; lower in ratio to GNP than earlier, for various reasons); there was also a deficiency of about $125 billion in public revenues.[2] In fourth quarter 1974 alone, the annual rate of the GNP deficiency was close to $200 billion, the shortfall in public revenues was about $50 billion,[3] and the true level of unemployment was almost 4 million above the full employment level. Full-time unemployment was 3.4 million too high. The GNP and revenue deficiency estimates for 1969–74 and fourth quarter 1974 start from a 1968 base, and write off the accumulated deficiencies during 1953–68. See charts 1 and 2, which also estimate the prospective deficiencies during 1975–80 under current policies.

All of the above measurements are in 1970 dollars. In fourth quarter 1974 dollars, the annual rate of the GNP deficiency in fourth quarter

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[1] These public revenue deficiencies were far below the needed increases in public outlays during these periods, as shown on chart 2.

[2] See footnote 1.

[3] See footnote 1.

was about $260 billion, and the deficiency in public revenues was about $67 billion. This does not mean that, in fourth quarter 1974, we would have needed an annual rate of GNP about $260 billion higher in fourth quarter 1974 dollars to have restored a full economy as of that time. For the gains in productivity which we would have registered in a full economy from 1968 through 1974 were gone forever. Even so, measured in fourth quarter 1974 dollars, we would have needed a fourth quarter 1974 annual rate of GNP more than $200 billion higher than we actually had, in order to have enjoyed reasonably full use of our resources at that time.

Mismanagement of the Problem of Inflation

The first reason why we have done so badly is that we have been egregiously wrong in the treatment of the problem of inflation. The prevalent thesis has been the "tradeoff," or the notion that higher employment and greater resource use bring more inflation, and that higher unemployment and more deficient resources use bring less inflation. The invalidity of this theory has been demonstrated with almost unvarying regularity during the past two decades or longer.

I do not want to engage in "political quicktricks." There are members of the JEC who will recall that I have been critical of the economic policies of both Democratic and Republican administrations, and was rather outspoken even as Chairman of the Council of Economic Advisers under President Truman. Thus, it is not for "political" reasons that my immediately following analysis is in terms of various administrations which pursued clearly different policies in dealing with employment and production on the one hand, and inflation on the other.

As my chart 3 shows, during the Truman years 1947–53 (to allow for the momentum of policies in being, the first year of any administration is treated also as the last year of the immediately preceding administration), the average annual rate of real economic growth was 4.9 percent. Unemployment averaged 4 percent, and was reduced from 3.9 percent in the first year to 2.9 percent in the last. The average annual inflation (CPI) was 3 percent, and was reduced from 7.8 percent (result of premature decontrol after World War II) in the first year to 0.8 percent in the last. During the Eisenhower years, the average annual rate of real economic growth was only 2.4 percent. Unemployment average 5.1 percent and rose from 2.9 percent in the first year to 6.7 percent in the last year. Inflation averaged only 1.4 percent, but rose from 0.5 percent in the first year to 1.2 percent in the last year. During the Kennedy-Johnson years 1961–69, the average annual rate of real economic growth was 4.8 percent. Unemployment averaged 4.7 percent, but was reduced from 6.7 percent in the first year (the heritage of Eisenhower policies) to 3.5 percent in the last year.

The average annual rate of price inflation was 2.6 percent, and rose from 1.1 percent in the first year to 5.4 percent in the last year, the rise being due largely to a seriously declining average annual rate of real economic growth from 1966 forward, and due also to other policy errors. During the Nixon-Ford years 1969–74, the average annual rate of real economic growth was only 2.5 percent. Unemployment averaged 5.1 percent, and rose from 3.5 percent in the first year to

5.6 percent in 1974 (and 8.2 percent in January and February 1975). The average annual rate of price inflation was 6.1 percent, and rose from 5.4 percent in the first year to 12.2 percent in 1974.

My chart 4 points the same lesson in a different way.

The reasons why the "tradeoff" has not worked are clear. The theory may have had some validity in an economy operating under perfect competition, in accord with the ideas of Adam Smith, but it has no validity in the structured and managed modern economy. The key industries, who "administer" their prices, increase them most rapidly during stagnation and recession, in order to attempt to compensate for inadequate volume by higher returns per unit. Average annual productivity gains, depicted on my chart 5, in excess of 4 percent during periods of full resource use, decline to zero during recession; this greatly increases per unit costs and foments price increases. The contrived scarcities which are part and parcel of repressive economic policies at low growth augment inflation. Deficient public services, resulting from a repressive fiscal policy in the name of fighting inflation, actually increase it. And the policy of tight money and fantastically excessive interest rates, also avowedly designed to combat inflation, are inflationary per se by representing economic growth, and because the intolerably high cost of money is pyramided in price increases and wage adjustments throughout the structure.

Forecasts Versus Planning

The second reason for the lamentable average performance, during 20 years or longer, is the extent to which forecasts have been substituted for purposeful planning. By a process of misleading semantics, it can be argued that we must forecast where we are trending, in order to know what we should do. But this is true only in a very limited sense. Pure forecasting should be the main emphasis of a little banana seller on a street corner, trying to figure out how many people will pass his way on a given morning and want some fruit. But we did not forecast whether we were going to lose World War II; we figured out what we needed to do to win it. Roosevelt in March 1933 did not forecast how much unemployment there would be in 1938; national policies were adopted to reduce it. These policies made great gains through 1937, and a sharp reversal occurred at that time not because the policies were wrong, but because unfortunate advice within the administration and unwise pressures from the Congress and elsewhere led to substantial abandonment of these policies. Further, reform measures were adopted which more than all else explained why we have had recessions since World War II, but none of the depressions of the various sizes which came with considerable regularity even before the 1930's. Kennedy did not forecast in 1963 how much unemployment there would be 5 years later; he proposed a remedial tax program which was enacted in 1964, subject though it was to defects which in time affected adversely the economic performance and the rate of inflation.

Another difficulty with forecasts is that they tend inexorably to become goals. For example, President Ford's forecast, as of the time of his Economic Report, was that we would average 8 percent unemployment for the next 2 years and 5.6 percent unemployment even in 1980, and that inflation would be 11.3 percent in 1975, and far too high even in 1976, was not a pure forecast. It was closely akin to the viewpoint, sometimes overtly expressed, that we need that amount of unemployment to get control of inflation. And the concomitant forecast of horrendous inflation to come was really a pitiful plea that a "tradeoff" theory which has failed more and more over the years would ultimately work if it were given until 1980 to work!

The True Function of Prices Has Been Overlooked

The third reason for our troubles is that the true function of prices has been misinterpreted. To illustrate, even if the tradeoff "worked," it would be horribly wrong. It is unconscionable that 7.5 million breadwinners and their families suffer the evil and humiliation of unemployment, in order that (hypothetically) Keyserling might be able to buy a new car or take a vacation for a somewhat lower prices than if unemployment were 3 million. And the theory of the "tradeoff" completely neglects this: Our real wealth and well-being as a nation and a people are not determined by the price level and the price trends per se, but rather by how close we come to full use of our resources, social justice in the allocation of resources and incomes, and taking care of the great priorities of our needs. Rising, stable, or falling price trends may be contributory or inimical to these three great purposes, depending upon whether price trends, within the complex of other trends and policies, work toward or against these purposes. Actually, these purposes collapsed in the 1930's, despite a remarkably stable price level during 1922–29; and at times these purposes have been facilitated by a moderately rising price level. If the actual price trends since 1969 had been accompanied by policies successfully designed to achieve the three great purposes of growth, priorities, and justice, we would have made a very good bargain. But these actual price trends, accompanied and aggravated by national policies designed to thwart and defeat these three great purposes, has been a cruel, indefensible, and stupid inflation.

Misuse of the Kenyesian Economics

The fourth great and persistent error, not just recently but for a very long time, has been the distortion of the Keynesian economics. I do not think that the great Englishman, if alive in the 1960's and 1970's, would have committed the foolishnesses evoked in his name, but this does not matter much. The recent and current application of Keynes has been on the simplistic basis that fiscal and monetary policy should be used to stimulate the economy when it is too slack and to restrain it when it is too tight, and that these alternative approaches should be applied in an aggregative or blunderbuss manner without much refinement. But if the components of resource and income allocation were in balance or equilibrium at a given time of reasonably full employment or at other times, a less or more expansionary fiscal and monetary policy would merely change the level of prices but not the level of fundamental business activity. But the economy has not maintained this balance during the short periods of relatively high employment. Instead, the upturns have been followed by stagnation and then recession primarily because of the maldistribution of income and the consequent misallocation of resources. And most of the time, the fiscal and monetary policies have been designed to increase these maldistributions and misallocations. Thus, after 1964, the poorly designed tax reductions of 1964 worked for a short time, but in the long run they increased the disequilibrium by aggravating the unbalances.

The significance of the immediately foregoing is that most Keynesians have not developed a penetrating analyst of what is really wrong, and therefore their policies cannot set it entirely right. But it is not very hard to make this analysis because, as I have already stated, the trouble has been practically the same throughout. In each period of inadequate upturn, the maldistribution of income and other resources has caused investment in plant and equipment, which increases our ability to produce, to grow several times as fast as ultimate demand in the form of private consumer expenditures and public outlays combined. When this has resulted in blatant overcapacity, the sharp cutbacks in business investment plus the enduring and larger deficiency in ultimate demand have brought on stagnation and then recession. This imports ineluctably that the full and enduring remedies are measures to improve the distribution of income and to plan the allocation of resources. But the measures employed have usually been to the contrary.

It is no answer at all to say that we are now in a situation where invest-profits appear to be trending even more unfavorably than consumer incomes and public outlays, and that immediate remedial policies should substantially focus on tax concessions and other favors to investors, whether corporations or high income individuals who save a large portion of their incomes for investment purposes. This might be the right approach if the price level were so low that adequate profits and investment would not be generated even in a robustly advancing and then a full economy. But since it must be clear that the price level in general is plenty high enough to induce whatever level of profits and investments will be needed in an advancing and then a full economy, the overwhelming focus of public policy now should be stimulating private consumption and public outlays, with due regard of equity and social needs. The utilities and housing, however, merit tax incentives and other stimuli. The new legislation recognizes these principles in part, but the programs are still much too small. These programs also maldistribute to a degree the tax reductions (too much to stimulate directly business investment), and woefully neglect the vital importance of immense increases in public investment, largely through increased Federal spending. This approach is unsound, even in terms of stimulation to the economy, and is even more defective in terms of vital national and human needs. For the application of this analysis to the period 1961–74, and to the period of 1960–74, see my charts 6 and 7.

The False Dichotomy Between Economic and Social Goals

The fifth cardinal error in national economic policy, and in the thinking of many economists, is that there is a dichotomy between purely economic objectives on the one hand, and the fulfillment of the priorities of our human and social needs on the other. In the first place, even if the vindication of these needs imported a somewhat lower rate of economic growth, we have become rich enough to rate justice and human decencies even above economic progress narrowly conceived. But this point is really irrelevant. For under current and prospective technological conditions, the improved distribution of income, and the relative as well as the absolute enlargement of what we might call the human goods and services, importing much larger public investment, are the first and foremost requirements for a healthy economy in conventional terms.

The Problem of the Selective Shortages

The sixth important error in current thinking is to the effect that the current or recent shortages of energy and some other commodities have developed unexpectedly and for reasons entirely beyond our control. Despite the actions of the Arabs, the shortages of energy, which include not only oil but also gas and electricity, have become critical rather than merely inconveniences because, during long years, we have not planned to expand energy in accord with full economic needs, and in some instances have deliberately reduced energy expansion because we did not have nor even aspire to a full economy. Critical shortages of food have not resulted because of a few crop failures. Instead, for 20 years or longer national farm policy has followed the false dogma that we were overproducing food. This, even while millions of Americans were malnourished. In addition, food consumption would have been much higher if income distribution had been better, and if the economy were full. Higher also would have been the industrial demand for fibers. The constant repression of farm production through the deflation of farm income has driven millions of farm people into the cities, where they have comprised one quarter to one third of the excessive unemployment and costly welfare rolls. The shortages of mass transportation have been due primarily to the scarcity philosophy of the railroads, promoted rather than prohibited by such national policies as the approval of the Penn-Central merger. We have had shortages by misconception or neglect; not abundance through planning.

Even today, there are no shortages which should prevent us from moving toward full employment and full production by the end of 1976, or shortly thereafter. Planning for more energy is an integral part of this effort. Further, the shifts in the pattern of production and employment which are essential to this basic objective would be energy conserving, that is, shifting and more employment and production toward housing, mass transportation, educational and health services, and antipollution efforts. All of this requires genuine short-range and long-range planning, and very large additional public investment.

The Environmental Problem

The seventh error is among those environmentalists who urge low or no economic growth. If we define environmental conditions broadly enough to include working conditions in factories, living conditions in homes, and sanitation and health services, the environment in which we work and live is infinitely better than a few decades ago; and much of this has been inseparably connected with such economic growth as we have attained. Beyond this, it will require scores or even hundreds of billions of dollars to convert factories and vehicles, and to take the other steps necessary to improve the environment. Without optimum economic growth, we would not be able to afford these steps, or we would be able to afford the only by sacrifice of even more important priorities.

The Logistics of the Economic Problem: The Weakness of Most of the Current Proposals

The eighth error, and in some ways the most important of all today, is the neglect of what I might call the logistics of the economic restoration task. Nobody would plan to drive an automobile from here to Chicago, without realizing that this would take a defined amount of gas and oil, and without considering the appropriate ratio of gas to oil. The recently approved policies and programs for economic restoration move substantially in the right direction. But they do not yet evidence sufficient discernment of the size of the task, the corresponding size of the needed programs, and the appropriate component mix.

Indeed, instead of careful consideration on all of the following factors, the restorative program now emerging has been developed on a rather catch-as-catch-can basis, without relationship to any acceptable goals to be obtained at any given time, and a fortiori without any appreciable consideration of the appropriate component mix. On my chart 8, I construct again a model for the goals and components which would achieve full resource use by fourth quarter 1976. I deem this to be necessary rather than an excessive goal; its pursuit is estopped mainly by concern about excessive inflationary pressures. The reasons why this concern is entirely inappropriate have already been set forth. The goal of a $302 billion increase in GNP from fourth quarter 1974 would be higher now, and would be still higher to the extent of more inflation. The goal for a full-time employment increase is 7.7 million from fourth quarter 1974, and would be more than 9 million from where we are now.

A salient illustration of defective analysis and program is inadequate attention to the housing problem. The deplorable state of the housing industry is illustrated on my chart 9. The huge Federal investment now required, on a sustained basis, to develop and maintain an adequate level of housing starts, properly distributed among various income groups, would stimulate the economy more and do immensely more good in economic and human terms than the same number of dollars of excessive and partly misdirected tax reduction. I have estimated that, over the years, the deficiency in housing starts and related housing construction has accounted for one quarter or more of the total deficiencies in national product and employment opportunity.

The Neglect of the Monetary Problem

A congressional resolution imploring the Federal Reserve Board to change its ways is a good indication, but only the beginning of the beginning. I recommend definitive legislation to require the Federal Reserve Board to expand the money supply in accord with the needs for real economic growth, to allocate credit and influence interest rates on a variable basis in accord with priority needs, and to bring the FRB under reasonable congressional and Executive influence.

My chart 10 depicts how the incorrect and wayward monetary policy has disasterously repressed real economic growth, and for this very reason aggravated price inflation. Indeed, excessively high interest rates are inflationary per se.

And my chart 11 indicates that the monetary policy, since 1952, has imposed an excessive interest cost of more than $811 billion upon public and private borrowers. This has redistributed income regressively, imposed unique hardship upon vulnerable groups, and reduced greatly the public revenues available for priority programs. The prevalent monetary policy has been ineffectual in restraining relatively excessive lines of activity, and has tremendously repressed essential lines of activity.

My Proposed Nine-Point Program

(1) Under the Employment Act of 1946, the President should set forth for the guidance of all executive programs, and for consideration by the Congress and the people, a short-range and long-range program (planning makes the two essentially one), directed toward restoration of full employment, production, and purchasing power by the end of 1976. or shortly thereafter. This means quantitative goals not only related to employment and production, but also related to priority programs and the enlargement of social justice. It means broad quantitative analysis of the needed amount and distribution of purchasing power. The Federal Government, of course, would not fulfill all of these objectives. It would instead set forth a perspective for the mutual efforts of private enterprise, voluntary associations, and governments at all levels; and the Federal Government would fulfill its bedrock responsibility to close the gap between these goals and what others do. I cannot state herein my own quantifications of all of these goals. But the real average annual economic growth rate should be 9.1 percent until full production is restored by the end of 1976 or shortly thereafter. and full-time unemployment should be reduced from about 7.5 million in early 1975 to about 3 million in 4th quarter 1976. See again my charts 1 and 8.

(2) We should aim to reduce inflation from 12.2 percent in 1974 to a 3 percent annual rate by December 1975. A large part of this performance of the economy. But to remove the opposition to the restoration of this health which may result from concern about inflation, widespread or selective controls should receive very serious consideration. Controls worked very well during World War II and the Korean war. They failed under President Nixon because they were not believed in and were distorted. Any new controls, however, should be imposed equitably across the board. And they should be pointed not exclusively toward restraining inflation by knocking the economic performance for a loop, but instead should be geared to the diverse income and resource allocation requirements for full economic performance. That is how it was done during World War II and the Korean war.

(3) The priority goals should cover a very wide range, but should place primary stress upon energy expansion, food supply, mass trans-

portation, and above all upon homebuilding. The disastrous collapse of home construction and related commercial construction during the most recent years accounts for one-fourth to one-third of the total deficiencies in employment and production. As depicted on chart 9. the annual rate of housing starts should be lifted from about 1 million starts in 4th quarter 1974 (and much less in early 1975) to an average of almost 2.5 million units a year during 1975–1980, with about 500,000 units annualy each for low-income people and for lower-middle-income people. Both of these aspects require very low-interest-rate loans, and the low-income housing requires other subsidies. Expenditures for these purposes would have a higher "multiplier" effect than any other type, and would thus be the most economical and efficient stimulus we could undertake.

(4) I have earlier stated that, in 4th quarter 1974, the economy was running at an annual rate about $200 billion short of a reasonably full economy at that time. Taking into account also the growth in productivity and in the civilian labor force, we need to expand GNP toward a 4th quarter 1976 annual rate more than $300 billion higher than in 4th quarter 1974, measured in 4th quarter 1974 dollars, and more than this when measured in dollars to the extent that inflation continues, to restore reasonably full resource use by the end of 1976.

Toward this more than $300 billion expansion, my moderate proposal, at the start of 1975, was that the Federal Government inject an immediate fiscal stimulus at an annual rate of $40 billion, which would have provided about $120 billion of the total needed expansion because of a "multiplier" effect of three (very high estimate for the "multiplier;" it might be only two). About $16 billion of this should have been for tax reduction limited predominently to low- and middle-income people, with less devoted to investment tax cerdits than has now been enacted, for reasons already stated, and about $24 billion should have been for increased Federal investment, beyond the President's fiscal 1976 budget, to give due attention to the priorities of our public needs. This might have included about $8 billion for what is commonly called a "public service jobs" program for about 1 million people. But the production and employment situation in April 1975 is worse than at the start of the year. Thus, although taxes have now been reduced by about $7 billion more than I earlier recommended, I believe that the increase in Federal spending should be roughly in accord with my earlier recommendations. It is imperative that we rise quickly above the dogma that, because it may be politically easier to reduce taxes than increase spending, we can clear the air or clear the slums, or provide adequate health services, with tax reduction. Relatively excessive use of tax reduction has been the bane of national economic policy consistently since 1964.

(5) The prevalent monetary policy of tight money and intolerably high interest rates has brought on recurrent stagnation and recession, fed the fat and starved the lean, and been highly inflationary. By congressional and executive action, the indefensible "independence" of the Federal Reserve should be brought under some control by the Government. The money supply should be expanded at an annual rate of 8 to 10 percent through 1976. Variable credit and interest-rate policies should be adopted in accord with priorities of need.

(6) Further to improve the economic equilibrium required for full economic restoration, and for equitable reasons also, social insurance payments should be expanded more rapidly, and financed more largely by progressive taxation instead of regressive payroll taxes. We should also commence a properly defined and limited universal income support program for those with deficient incomes, whether employed or unemployed.

(7) We need an entirely new national farm program, geared to planned abundance, and movement toward parity of incomes and public services for the farm population and others in rural areas.

(8) We need to conserve energy through allocations, rationing, and even selective price control, and not in President Ford's manner of attempting conservation through regressive taxation, fomenting more price inflation. The methods I propose would also enable us to take a much firmer and more self-rspecting stand with respect to restrictions upon, or cessation of, oil imports from the Middle East on extortionate terms. On the energy expansion side, the Government should set short-range and long-range quantitative goals. A Federal corporation should be established to undertake in the energy field programs roughly analogous to those undertaken by NASA in another field, and also for yardstick purposes. An enlarged energy supply would also result from use of an appropriate portion of the $16 billion of increased Federal spending which I propose ($24 billion including 1 million public service jobs). As it would take some time for these energy programs to be felt, we should immediately plan and initiate the energy conservation shifts in resource use which I have already discussed.

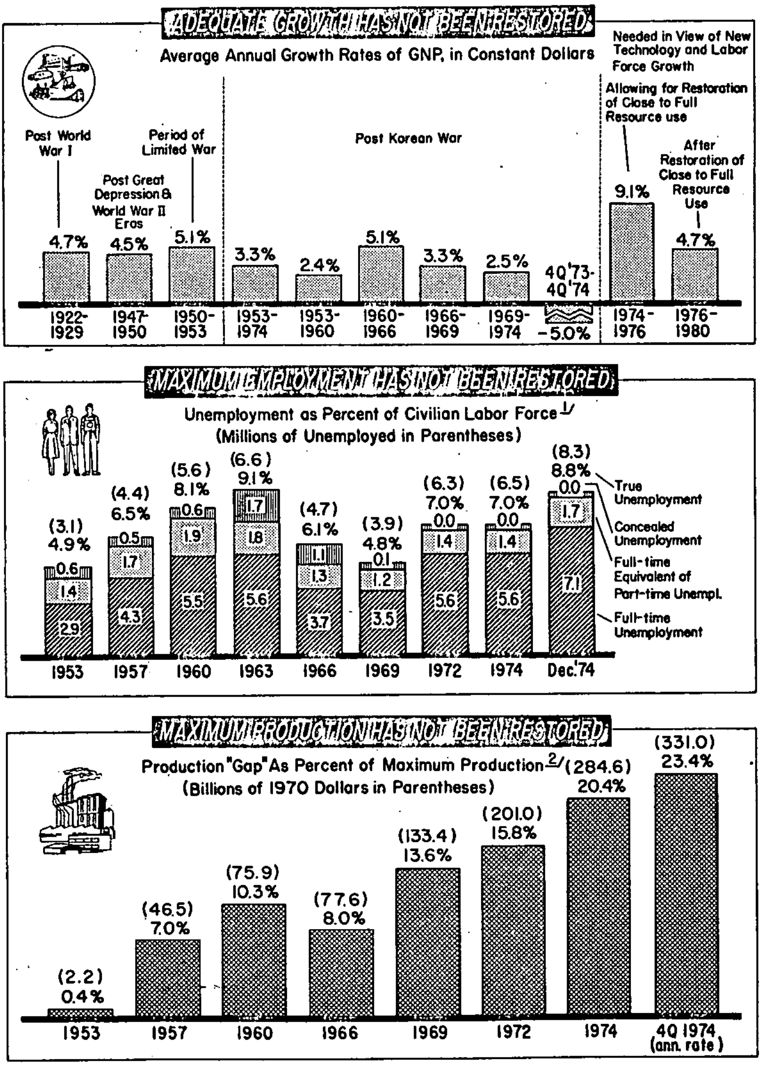
(9) We should start to manage the Federal budget sensibly. The condition of the Federal budget is far less important that the condition of the national economy. But the programs I propose would move us toward a balanced Federal budget sometime in calendar 1977 at the latest. The only prospect in a stunted economy is larger and larger deficits. The horrendous Federal deficits now and in prospect are not due to too much spending nor to too low tax rates, but rather to the very sorry condition of the economy. With high production and employment and low price increases, the Truman administration during 1947–53 average an annual budget surplus of $2.3 billion, despite the fact that the Korean war cost more in ratio to GNP than the Vietnam war. We need planned budget surpluses; not unplanned budget deficits.

Planning is not in ideological conflict with our way of life. It is the next immediate and imperative step toward the intelligent deployment of our full economic capabilities, improved understanding, and enlarged consensus among an informed citizenry, and fulfillment of the social promise of America. My understanding is that the Joint Economic Committee will shortly give full attention to this most insistent of all our economic and related social or human problems.

[The charts referred to in the text follow:]

Chart 1

BASIC U.S. ECONOMIC TRENDS, 1953-4Q 1974



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

2/ Maximum production, 1974, equates with average annual growth rate of 4.4%, 1953-1974.

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

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Chart 2

COSTS OF DEFICIENT ECONOMIC GROWTH U.S. ECONOMY, 1953-1974

(Dollar items in billions of 1970 dollars, except average family income)

1953-1974 1/

Total National Production (GNP)	Man-years of Employment 2/	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1953-1974: $2,108.8 1969-1974: 477.7 4thQ 1974: 196.5	1953-1974: 51.2 Million 1969-1974: 13.5 Million 4thQ 1974: 3.8 Million	1953-1974: $979.4 1969-1974: 172.9 4thQ 1974: 96.3	1953-1974: $558.0 1969-1974: 294.0 4thQ 1974: 81.8
Private Business Investment (Incl. Net Foreign)	**Average Family Income (1970 Dollars)**	**Wages and Salaries**	**Unincorporated Business and Professional Income**
1953-1974: $571.4 1969-1974: 10.8 4thQ 1974: 18.4	1953-1974: $18,750 1969-1974: 2,500 4thQ 1974: 1,475	1953-1974: $1,186.6 1969-1974: 159.0 4thQ 1974: 93.2	1953-1974: $178.6 1969-1974: 91.0 4thQ 1974: 27.5

1975-1980 3/

Total National Production (GNP)	Man-years of Employment 2/	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1975-1980: $1,146.9 1980: 266.0	1975-1980: 15.0 Million 1980: 2.6 Million	1975-1980: $497.5 1980: 125.5	1975-1980: $410.1 1980: 87.5
Private Business Investment (Incl. Net Foreign)	**Average Family Income (1970 Dollars)**	**Wages and Salaries**	**Unincorporated Business and Professional Income**
1975-1980: $239.3 1980: 53.0	1975-1980: $9,525 1980: 2,220	1975-1980: $602.6 1980: 140.5	1975-1980: $98.1 1980: 24.8

1/ Deficits 1953-1974 are calculated from a 1953 base, in that growth rates since then have averaged far too low. Deficits 1969-1974 and 4Q1974 are projected from a 1968 base, writing off the cumulative deficits 1953-1968. 4Q 1974 figures are at annual rates.

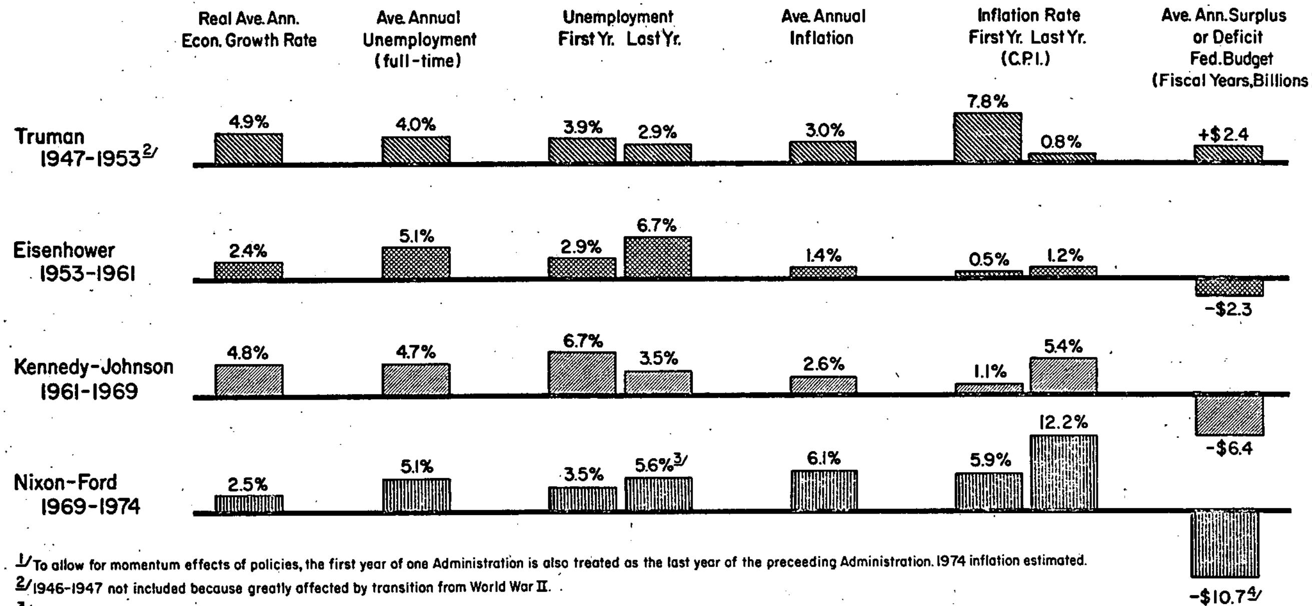
2/ Based upon true level of unemployment, including full-time unemployment, full-time equivalent of part-time unemployment, and concealed unemployment (nonparticipation in civilian labor force) due to scarcity of job opportunity.

3/ These deficits are projected from a 1974 base, writing off the cumulative deficits 1953-1974.

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

Chart 3

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



[1] To allow for momentum effects of policies, the first year of one Administration is also treated as the last year of the preceeding Administration. 1974 inflation estimated.

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

[3] December 1974, 7.1%.

[4] 1969 - 1975. 1975 estimated.

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

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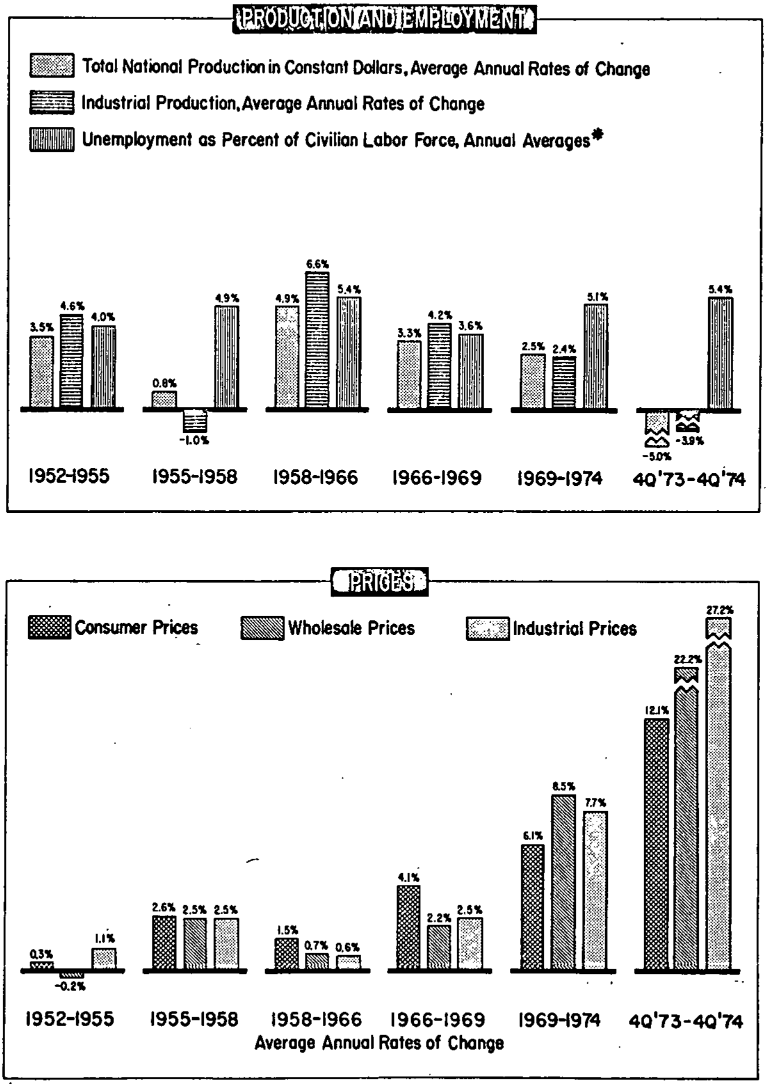
Chart 4

RELATIVE TRENDS IN ECONOMIC GROWTH UNEMPLOYMENT, & PRICES, 1952-1974[1]



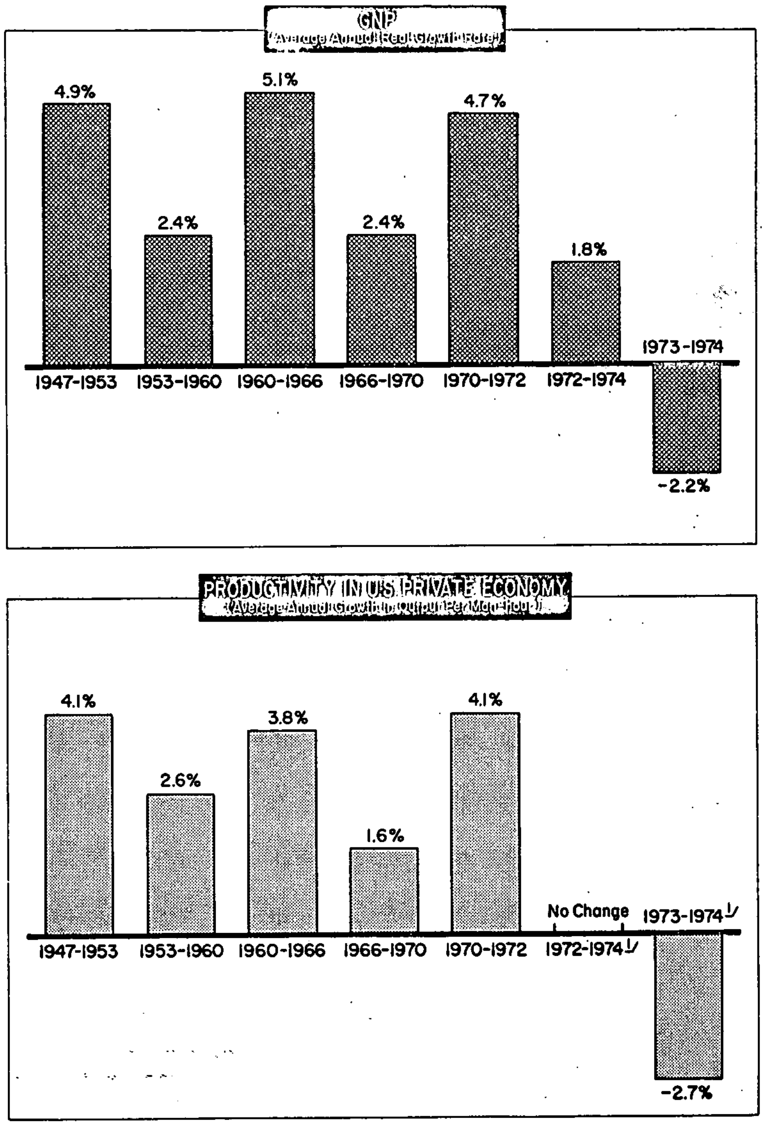
1/ 1974 and 4Q 1974 industrial production and prices estimated.

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

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

Chart 5

IMPACT OF ECONOMIC GROWTH UPON PRODUCTIVITY GROWTH



1/ 1974 productivity estimated.

Source: Dept. of Labor estimates relating to man-hours worked (Establishment basis)

Chart 6

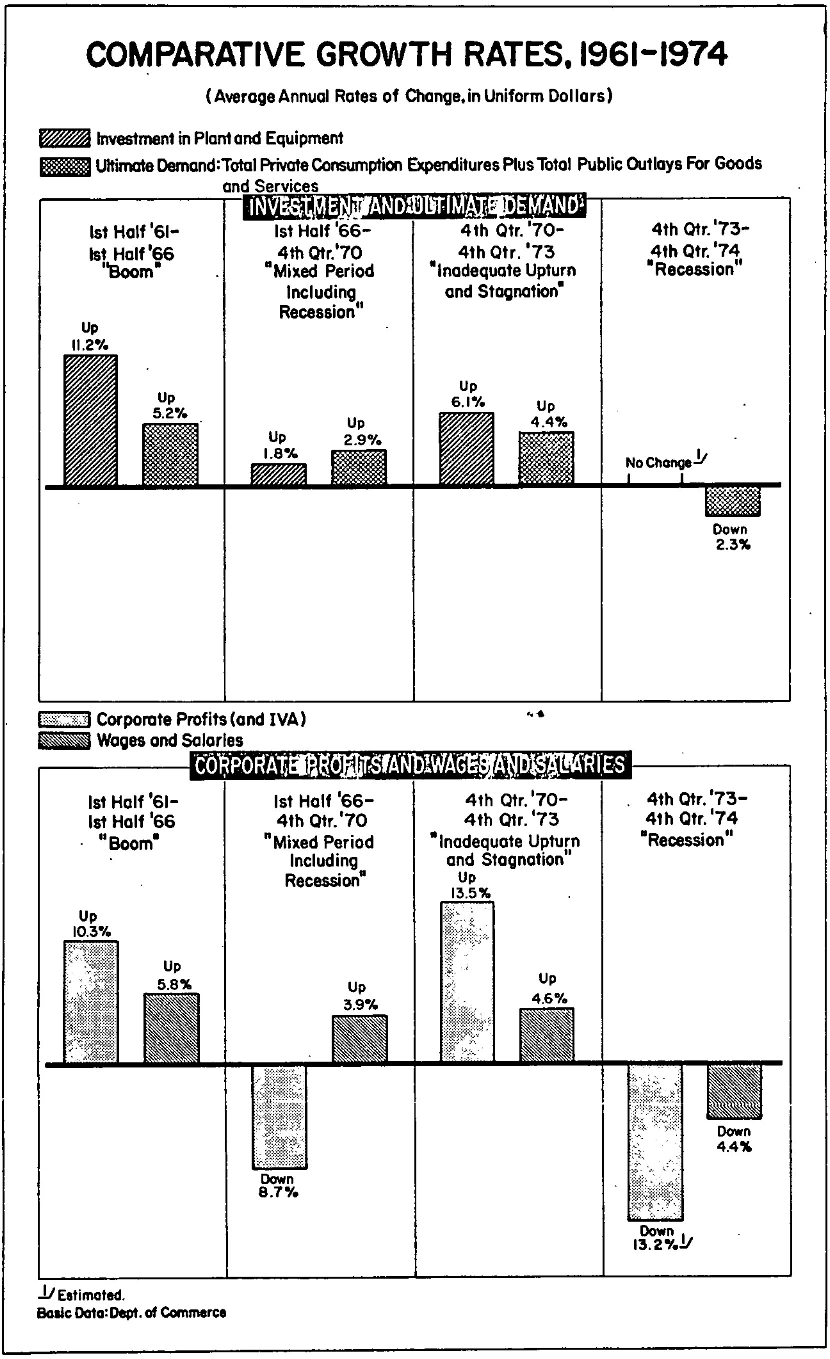

COMPARATIVE GROWTH RATES, 1961-1974
(Average Annual Rates of Change, in Uniform Dollars)
Investment in Plant and Equipment
Ultimate Demand: Total Private Consumption Expenditures Plus Total Public Outlays For Goods and Services
INVESTMENT AND ULTIMATE DEMAND
1st Half '61- 1st Half '66 "Boom"
Up 11.2%
Up 5.2%
1st Half '66- 4th Qtr. '70 "Mixed Period Including Recession"
Up 1.8%
Up 2.9%
4th Qtr. '70- 4th Qtr. '73 "Inadequate Upturn and Stagnation"
Up 6.1%
Up 4.4%
4th Qtr. '73- 4th Qtr. '74 "Recession"
No Change 1/
Down 2.3%
Corporate Profits (and IVA)
Wages and Salaries
CORPORATE PROFITS AND WAGES AND SALARIES
1st Half '61- 1st Half '66 "Boom"
Up 10.3%
Up 5.8%
1st Half '66- 4th Qtr. '70 "Mixed Period Including Recession"
Down 8.7%
Up 3.9%
4th Qtr. '70- 4th Qtr. '73 "Inadequate Upturn and Stagnation"
Up 13.5%
Up 4.6%
4th Qtr. '73- 4th Qtr. '74 "Recession"
Down 13.2% 1/
Down 4.4%
1/ Estimated.
Basic Data: Dept. of Commerce

Chart 7

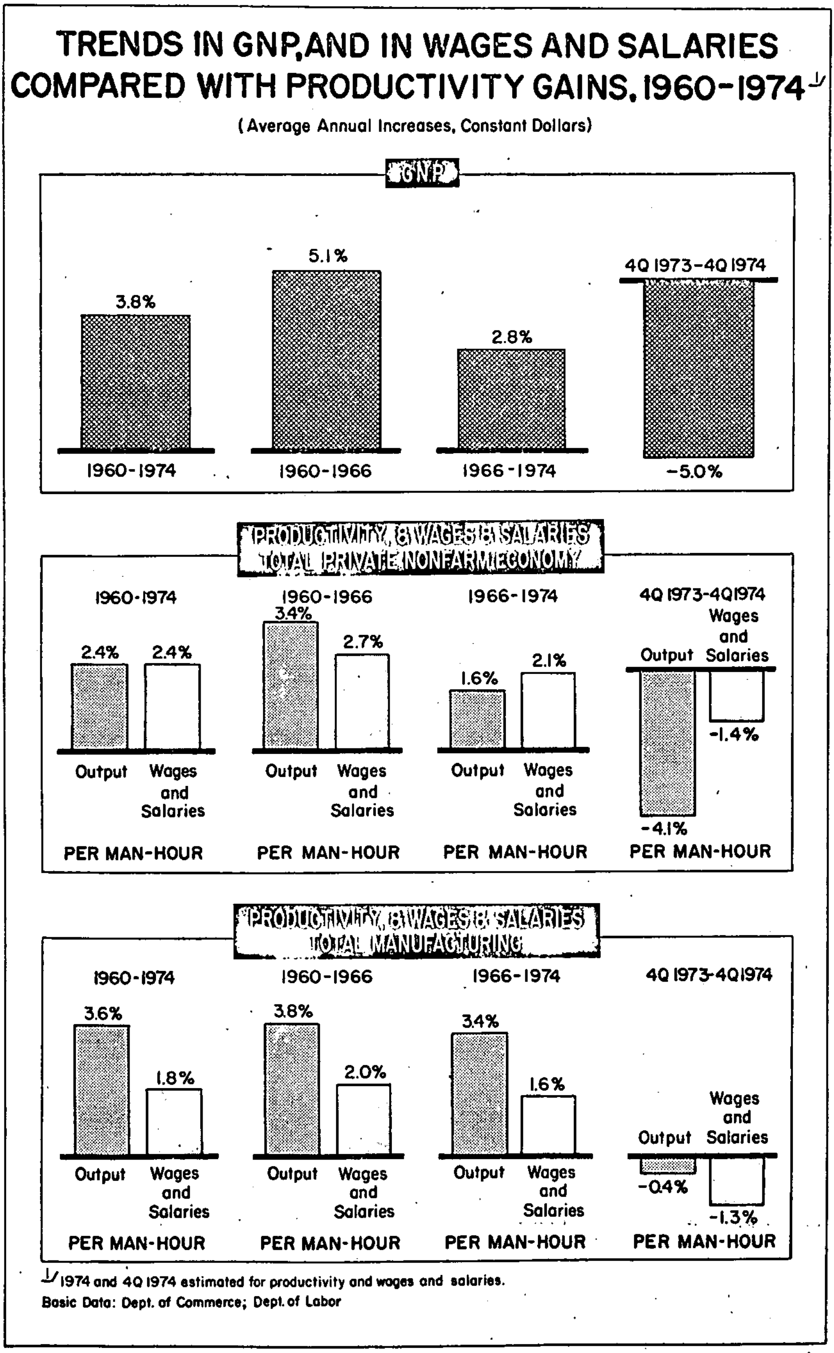
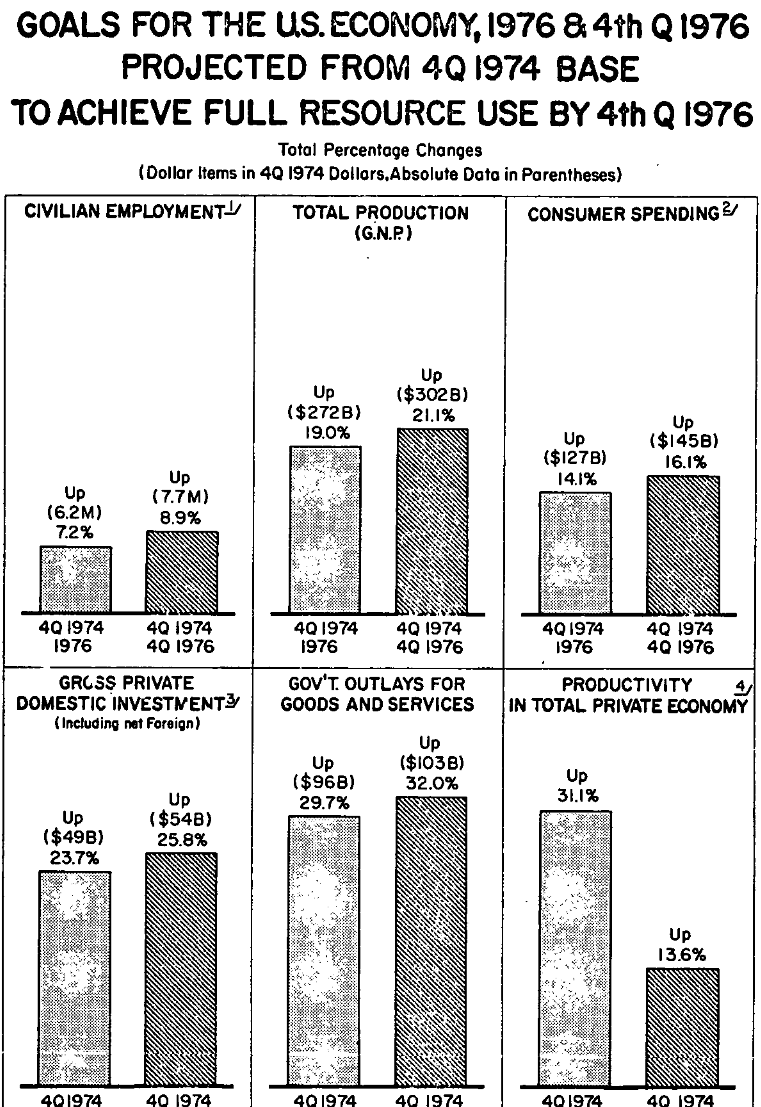

TRENDS IN GNP, AND IN WAGES AND SALARIES
COMPARED WITH PRODUCTIVITY GAINS, 1960-1974 1/
(Average Annual Increases, Constant Dollars)
GNP
3.8%
5.1%
2.8%
4Q 1973-4Q 1974
1960-1974
1960-1966
1966-1974
-5.0%
PRODUCTIVITY, & WAGES & SALARIES
TOTAL PRIVATE NONFARM ECONOMY
1960-1974
2.4%
2.4%
Output
Wages and Salaries
PER MAN-HOUR
1960-1966
3.4%
2.7%
Output
Wages and Salaries
PER MAN-HOUR
1966-1974
1.6%
2.1%
Output
Wages and Salaries
PER MAN-HOUR
4Q 1973-4Q 1974
Output
Wages and Salaries
-1.4%
-4.1%
PER MAN-HOUR
PRODUCTIVITY, & WAGES & SALARIES
TOTAL MANUFACTURING
1960-1974
3.6%
1.8%
Output
Wages and Salaries
PER MAN-HOUR
1960-1966
3.8%
2.0%
Output
Wages and Salaries
PER MAN-HOUR
1966-1974
3.4%
1.6%
Output
Wages and Salaries
PER MAN-HOUR
4Q 1973-4Q 1974
Output
Wages and Salaries
-0.4%
-1.3%
PER MAN-HOUR
1/ 1974 and 4Q 1974 estimated for productivity and wages and salaries.
Basic Data: Dept. of Commerce; Dept. of Labor

Chart 8



1/ Unemployment down 44.4% (2.7M) and 53.5% (3.2M), respectively.

2/ Growth is less than growth of G.N.P., primarily because of needed growth in public outlays to meet domestic priorities.

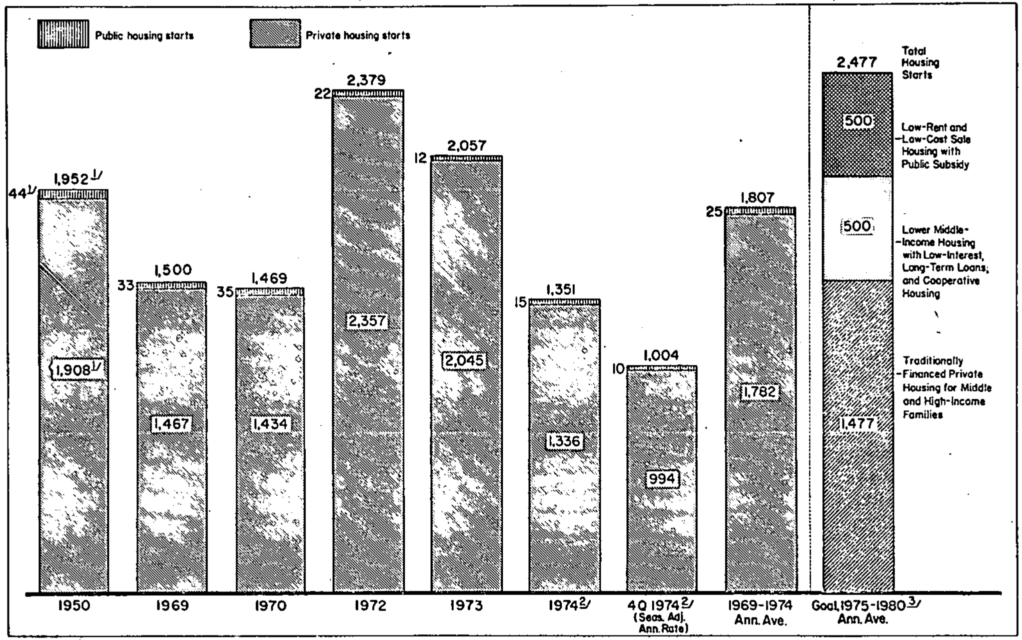
3/ Nonresidential investment up 18.3% ($28B) and 20.4% ($31B). Residential structures up 93.2% ($41B) and 96.8% ($43B).

4/ Much higher than long-term productivity growth, which must be the case in vigorous recovery movement. Less than G.N.P. growth, part of which would result from expansion of employment. Growth in employment plus growth in productivity exceeds growth in G.N.P., due to changes in working hours and other factors in composition of labor force. (Only percentage changes shown for productivity since dollar amounts are not meaningful.)

Chart 9

HOUSING STARTS, 1950-1974, AND GOALS FOR 1975-1980

(Thousands of Units)

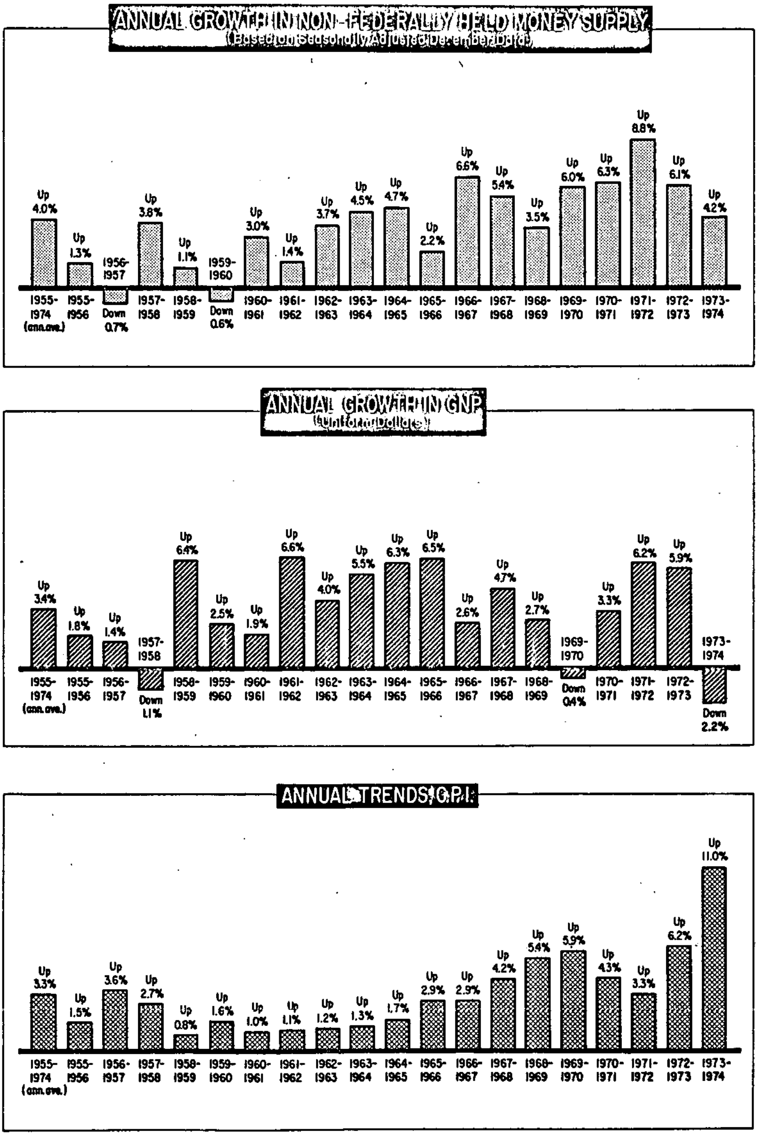


1/ Non-farm only; farm not available 2/ Estimated.
3/ Inclusive. Based on needed annual average of 2.2 million during 1970-1980 inclusive.

Source: Dept. of Commerce, Bureau of the Census

Chart 10

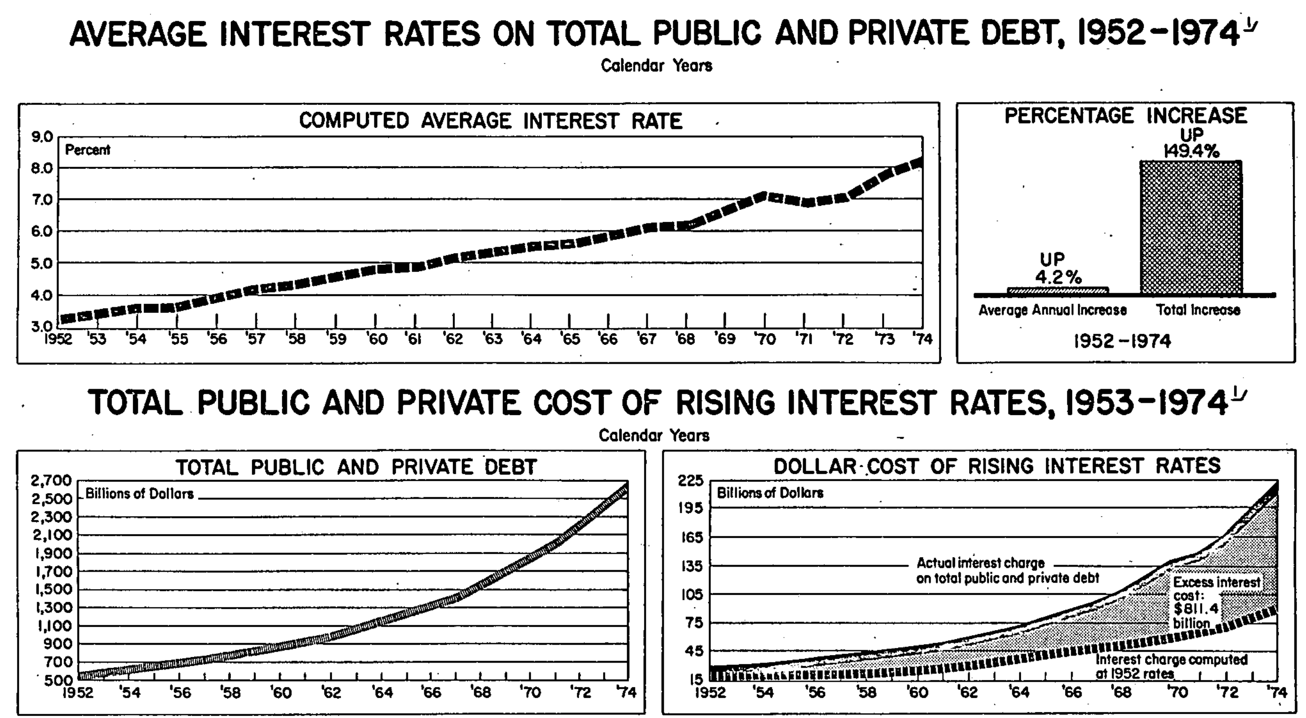
COMPARATIVE TRENDS IN G.N.P. AND C.P.I., NON-FEDERALLY HELD MONEY SUPPLY, 1955-1974[1]



[1] 1974 estimated for C.P.I. and money supply.

Data: Dept. of Commerce; Dept. of Labor; Federal Reserve System

Chart 11



[1] 1973 and 1974 estimated.
Source: Economic Report of the President, Dept. of Commerce

COUNCIL ON ECONOMIC PRIORITIES

By Stephen K. Moody, *Director of Research*

Unfortunately, based on the Economic Report of the President for 1975, it is our opinion that the President has not provided the Nation with a series of proposals on economic policy which are comprehensive, thorough, and well thought out. In short, there is an absence of substantive leadership on economic issues, which is reflected in the President's constantly shifting economic policies. None of those proposals discussed in the Economic Report of the President are sufficiently thought out to enable one to respond with constructive criticism.

It is my personal opinion that the pricing mechanism, together with a reallocation of income and wealth with the minimal administrative involvement of Government, remain the most desirable mechanisms for instituting public policy.

The Council would like to extend its heartfelt appreciation for your consideration of its views. It pains us only that the policy recommendations of the President are so narrow and so unthoroughly thought out that a proper response is not possible.

FEDERAL STATISTICS USERS' CONFERENCE

By JOHN H. AIKEN, *Executive Director*

The Federal Statistics Users' Conference appreciates the committee's invitation to comment on the economic issues which concern the Nation and on the recommendations made in the administration's economic reports. Because of our specialized area of interest, our views and comments are directed to the economic data which provide much of the information upon which the President's Economic Report and the report of his Council of Economic Advisers is based.

FSUC is an association comprising 202 organizations generally classified as business firms, labor unions, nonprofit research organizations, State and local governments, and trade associations. These members have a common interest in encouraging the development of adequate, timely, and reliable information from Federal statistical programs.

The Economic Report of the President and the Report of the Council of Economic Advisers are among the most important documents of the Federal Government that are issued on an annual basis. They could not exist without the foundation of a wide variety of sound and reliable statistical information. Too often our statistical resources are taken for granted. These data have not been developed through a haphazard system of evolution, but through the concentrated efforts of dedicated and competent economists and statisticians, both within and without the Federal Establishment, who have recognized data needs for analysis and decisionmaking purposes. These experts have worked vigorously toward the development of a system of appropriate economic data that are comprehensive, based on sound methodology, and adequate to serve the needs of the Nation. However, our economy is not static and neither is our need for economic statistics. There can be no letup in our efforts to develop the kinds of statistical data that are necessary to assist us in assessing and evaluating the state of our dynamic and rapidly changing economy.

In the recent past, there have been only a few occasions when either the administration's economic report or that of the Joint Economic Committee have focused attention on the adequacy of our economic statistics, or identified areas where improvements are needed. We respectfully suggest that in the future each of these economic reports give some consideration to the economic statistical base that serves as the foundation for analysis and interpretations regarding the state of the U.S. economy. Every year problems with the adequacy or consistency of statistical information arise. This past year was no exception.

First, let us examine current expenditures for economic and related statistics. Our view is that these expenditures are more than just a cost of doing business. They represent an investment in valuable statistical resources that provide a historical measure of our economic performance as well as indicators of current and prospective trends.

The President's budget for fiscal 1976 indicates that in fiscal year 1975 the Nation spent $286.8 million for economic and related statistics, and proproses to spend $310.2 million in fiscal 1976. The latter figure represents 63 percent of total expenditures of the Federal Government for all current statistical programs in 1976. Although, in recent years, there has been a tremendous increase in expenditures for social statistics, viz, in the fields of health, education, criminal justice, and income maintenance and welfare, economic and related statistics continue to maintain their dominance in the total statistical budget.

The proposed expenditure of $310 million for economic and related statistics in 1976 is indeed a small investment of resources when one considers that it amounts to less than one-tenth of one percent of the total outlays of the Federal Government. The benefits of this expenditure, in terms of their aid to public and private decisionmakers, are immeasurable.

It is also interesting to note the subject area breakdown of our expenditures for economic and related statistics. "Special analysis G" of the President's budget shows the following:

	Millions of dollars			Percent change	
	1974 actual	1975 estimate	1976 estimate	1974–75	1975–76
Production and distribution statistics	67.9	78.8	90.2	+16.1	+14.5
Labor statistics	61.9	78.7	82.9	+27.1	+5.3
National economic and business financial accounts	35.7	36.6	40.1	+2.5	+9.6
Environmental statistics	25.8	32.2	31.9	+24.8	—.1
Energy statistics	8.7	28.0	28.4	+221.8	+1.4
Prices and price indexes	13.4	17.5	19.6	+30.6	+12.0
Housing and construction statistics	13.9	15.0	17.1	+7.9	+14.0
Total	227.3	286.8	310.2	+26.2	+8.

Certain programs for the collection of economic statistics are of long standing—production and distribution statistics, labor statistics, national economic and business financial accounts, prices and price indexes, and housing and construction statistics. They have been proved, tested, examined and evaluated. But, like all statistical programs, there is always room for improvement and further development to meet our emerging needs. However, we should like to call your attention to the expenditures for energy and environmental statistics in the 1976 budget. These two subject areas account for approximately 20 percent of the total budget for economic statistics. These are indeed major expenditures and reflect the growing and serious concerns we have about our energy situation and environmental problems and the development of adequate statistical measures.

With regard to the Environmental Protection Agency, in fiscal 1976, it ranks sixth in total expenditures for statistical programs among 50 agencies that are listed in Special Analysis G of the budget. The 1976 budget for this Agency calls for expenditures of $26.8 million. This is almost half as much as the budget of the Social and Economic Statistics Administration which encompasses the Bureau of the Census and the Bureau of Economic Analysis. The EPA was first listed in Special Analysis F of fiscal year 1972 budget with expenditures for statistical programs amounting to $500,000. Analysis G makes this brief comment about the statistical programs of EPA:

> The major program areas of the Environmental Protection Agency (EPA) (air, water, noise, and pesticides) continue to be supported by the collection of regulatory data and special statistical surveys. During 1975 a number of exepriemental surveys have also been undertaken to coordinate energy/environmental evaluations for power generation plants, to assess community perceptions and implicit economic trade-offs in selected pollution abatement areas, and to explore the pollutant sensitivity of the demand for water-related recreation.

We have not seen any publicity given to the results of EPA's various surveys and studies.

These expenditures for energy and environmental statistics have grown rapidly over a short period of time. New agencies have been established and new statistics are being collected. However, there has been little opportunity to monitor or evaluate the statistical output in these areas. There is a possibility that there is a lack of coordination between various statistical agencies and a duplication of effort. Many new report forms have been developed with a considerable impact of reporting burden upon respondents. So far as we know, there has been no careful examination of the quality of the statistics being produced. Are the agencies involved collecting the right kinds of statistics and do the benefits meet or exceed the costs? In view of the above it might be appropriate for each of these agencies to consider the establishment of a statistical advisory committee. A major concern of the Federal Statistics Users' Conference is that the statistical agencies utilize the most efficient and economical means possible in the collection of statistical data that are of optimum usefulness to a wide range of users, both within and without the Federal Government. We respectfully suggest that the Subcommittee on Priorities and Economy in Government of the Joint Economic Committee consider the necessity for holding hearings to examine some of the issues we have raised regarding statistical programs in the areas of energy and environmental statistics.

We are especially pleased to note that in the 1976 budget there is a special emphasis on improving the statistics which are needed by economic policymakers, especially those series which have deteriorated because of inflation or which will aid in understanding inflation better. The preparation of the 1976 statistical budget reflected an important review of the immediate needs of economic policymakers undertaken by the Subcommittee on Economic Statistics of the Economic Policy Board. The subcommittee was particularly concerned with the quality of statistical measurement of: business inventories, export-import prices, wholesale prices, farm income, and wage rates. We agree that there is a need for improving the quality of these statistical measurements and support the funding requests in the budget for undertaking improvement programs.

In this connection we see a need for an organized effort to continuously monitor the quality of economic statistics, and to bring problems of their current interpretation promptly to public attention. Among the problems that came to the fore during 1974 were the valuation of inventories, which affect the estimates of GNP and of profits; the discrepancy between estimates of output measured in constant dollars (GNP) and in physical units (industrial production); the measurement of petroleum product prices; and the estimation of petroleum product supplies. An authoritative, timely, and public review of such questions as they arise would not only inform users regarding the limitations of the data, but might also lead more promptly to improvements in them.

Several initiatives and programs are being undertaken by the Statistical Policy Division of the Office of Management and Budget that deserve attention and consideration by the Joint Economic Committee. We applaud these efforts and believe they deserve greater recognition and support. In undertaking these programs the Statistical Policy Division is demonstrating the kind of leadership required to carry out its responsibilities for coordinating, planning and improving the Federal statistical system.

First is the establishment by SPD of a gross national product data improvement project in March 1973. The committee is composed of five distinguished economists who have labored hard and long in the preparation of a final report that will be issued in September of this year. It is most important that their recommendations be given widespread publicity and study. Recommendations that receive approval and support should be implemented at an early date and adequate funding provided where necessary.

Second is the most recent creation of a Balance-of-Payments Statistics Advisory Committee to OMB. This committee is also composed of outstanding economists. Its mission is to review the method of presenting official statistics on the U.S. balance of payments. It will examine the interpretation of major balances and recommend ways to make the reporting more useful for analysis of the balance of payments and exchange rate developments each quarter. Its work is to be completed by September 30, 1975. We are looking forward to the result of this committee's work.

And finally, the Statistical Policy Division has under consideration the initiation and development of a comprehensive plan for Federal statistics. SPD is working closely with key statistical agencies as well as with various advisory committees. Among other things, the planning program will attempt to establish a framework for establishing priorities among various statistical programs. It is also expected that the plan will enhance interagency collaboration in our decentralized system. More effective planning might also lead to greater efficiency in data collection and analysis. Another expectation is that the proposed planning process will enable the Federal statistical system to be more responsive to key users in meeting their needs. The principal focus of the plan will be directed to the major statistical agencies. An important element of the plan will be to develop mechanisms for organizing the policymakers' perspective of data needs. It will also encompass review of public user needs.

This is a significant undertaking and a much needed one. It is, of course, only in the planning stage and will require the cooperation and support of numerous groups concerned with improving the structure of the Federal statistical system. Again, we respectfully suggest that the Subcommittee on Priorities and Economy in Government consider holding hearings to review the outline of this planning process and program. Undoubtedly the subcommittee could make some valuable contributions to the structuring and development of the plan.

The Bureau of Economic Analysis of the Department of Commerce also deserves commendation for its contributions toward creating a better public understanding of national income and product accounts. In July 1974 it published BEA Staff Paper No. 23 entitled "Reliability of the Quarterly National Income and Product Accounts of the United States, 1974–71." This is a particularly valuable economic document for data users and especially the apendixes which show "Data Sources for National Income and Product Estimates," and "Measures or Revisions in National Income and Product Estimates, 1974–71."

Then, in October 1974, five staff members of BEA participated in a 1-day special meeting sponsored by the Federal Statistics Users' Conference. The purpose of this meeting was to increase users' knowledge of the data sources and procedures used by the Bureau of Economic Analysis in preparing the estimates of GNP. This was the second conference on this subject. The first was in 1969. Later, BEA published Staff Paper No. 25 entitled "Quarterly GNP Estimates Revisited in a Double-Digit Inflationary Economy—Papers Presented at the Federal Statistics Users' Conference, October 2, 1974, Washington, D.C.

We also wish to commend the Board of Governors of the Federal Reserve System for its publication in February 1975 of a new report entitled "Introduction to Flow of Funds." This is not a statistical publication. Rather it is at a general level and is intended merely to indicate why the system has been constructed and what it encompasses. The bibliography includes several review papers that go into further detail on uses of financial accounts for judgmental and econometric analysis and that include their own extensive bibliographies on macroeconomic work in financial analysis. This publication is an introduction to that work as well as to the flow of funds accounts themselves. This is a significant publication that should prove most valuable to those concerned with financial analysis and with the flow of funds accounts.

We specifically wish to call the committee's attention to a major area of concern to statistics users—the skyrocketing prices for economic and statistical publications. We have made a study of the GPO prices for 41 Federal Government periodicals and subscription services of interest to statistics users for the years 1972 through 1975. The selected publications and subscriptions represents the general market basket of published statistical products that any broadbased business library would regularly maintain. Here is how the cost of that market basket has changed:

Cost	Increase	
	Amount	Percent
From $307.50 in 1972—		
To 606.85 in 1973	$299.35	97
To 863.25 in 1974	256.40	42
Tc 1,164.60 in 1975	301.35	35

Between 1972 and 1975 the total cost increased by $875.10 or by 279 percent. In other words the cost of the market basket in 1975 is almost four times greater than it was 3 years earlier in 1972. One of the most valuable and widely used publications is the Survey of Current Business which had 17,178 paid subscribers in 1974. The cost of survey increased from $9.00 in 1972 to $38.30 in 1975, or an increase of 437 percent. Printing and paper costs and prices of business publications in the private sector have not increased to anything like this extent.

We have brought these facts to the attention of the Joint Committee on Printing and also to the chairwoman of the House Subcommittee on Government Information and Individual Rights of the Committee on Government Operations.

In conclusion, we wish to thank the chairman of the committee for inviting our comments and views. We wish to pledge our continued support and cooperation to the work of the Joint Economic Committee.

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

By ROBERT W. MAFFIN, *Executive Director*

On behalf of the membership of the National Association of Housing and Redevelopment Officials (NAHRO), I am pleased to respond to your request to submit the following comments with respect to the economic and energy issues now under consideration by the Joint Economic Committee. Over the past 25 years, the Joint Economic Committee has provided valuable leadership and advice both to the Congress and the Nation on crucial issues affecting the short- and long-term allocation of diminishing resources and overall national economic priorities. The annual report of the committee submitted in response to the Economic Report of the President has served to establish an ongoing and valuable national forum for input and exchange on the part of a wide range of public and private sector participants in this dialog on these economic issues. We wish to commend you and the members and staff of the committee for your continuing and vigorous attention to these matters. I would ask that a copy of this letter and all attachments thereto be included in the record of the hearings on the economic report.

In reviewing the assumptions contained in the economic report and other recent economic and policy documention, we must take exception with the optimism being expressed by the administration concerning the expected recovery in housing activity during the latter part of 1975. In testimony on February 18 before the House Subcommittee on Housing and Community Development on emergency housing proposals, administration representatives opposed as unnecessary any new major emergency housing initiatives based upon both the assumption of imminent recovery in the availability of housing credit and the anticipated activity under the major assisted housing and community development initiatives of the Housing and Community Development Act of 1974. Unfortunately only several days after this testimony, the release of the January 1975 construction figures failed to support this optimism.

Although housing starts increased 13 percent over the record low level set in December 1974, the rate of new housing permits declined by 20 percent to the lowest level in this history of the Commerce Department's survey. In addition, it would appear to be premature to be overly optimistic as a result of the present stabilization of interest costs since these rates are likely to fluctuate as a result of national actions affecting the magnitude of the eventual Federal budget deficit.

For subsidized housing, the fiscal year 1976 HUD budget continues to emphasize the administration position to place almost total reliance in fiscal years 1975 and 1976 on the untried and untested section 8 program.

Production target goals for fiscal year 1975 have been scaled down since the release of the fiscal year 1975 budget document. Most importantly, however, is the fact that even 6 months after the enactment of the 1974 act, the section 8 program is still not fully operational. The workability and general acceptance of the section 8 program is being questioned while proven and tested program vehicles which are authorized and funded remain dormant.

If present policies are allowed to continue, it is our opinion that 1975 will be a most dismal year for new subsidized construction activity for the benefit of low and moderate income persons. If, as the fiscal year 1976 budget estimates, 200,000 units can be committed under section 8 by June 30, 1975, given the present track record it must be assumed that a vast majority of these reservations will be for existing units, as opposed to new construction or substantial rehabilitation. Similarly, the activity proposed under the revised section 202 program is not for additional production but rather this authority will be used only for construction financing within the stated section 8 production targets. With the exception of 6,000 Indian housing units, these are the only subsidized programs for which new commitments are being proposed in the fiscal year 1976 HUD budget requests.

One must conclude from this situation that this Nation will continue to experience a serious housing emergency. This situation when coupled with the present state of the overall national eronomy, lead us to the conclusion that vigorous congressional action is a necessity in order to insure an immediate impact. In order to effectively meet this housing emergency, it is the Association's firm belief that housing assistance be made available immediately through proven and tested housing programs in which administrative shortcoming have already been discovered and remedied by congressional action. Emergency economic efforts should clearly focus on the basic need for providing shelter in relation to the social goal and national commitment for expanding housing opportunities for rural and urban low-income families and persons.

The present lack of any significant volume of new assisted housing production is also having a serious and adverse impact on the planning and immediate implementation of the new community development block grant program. Funds authorized for this program are to be utilized for improving the viability of urban and rural communities through the elimination and prevention of slum and blight. Without immediate and sufficient housing resources for replacement and new residential construction, community development activities directed to this need cannot be realized. Localities will continue regardless to utilize these block grant funds, but for activities by themselves only corollary to these national concerns.

It is within this context that NAHRO has advanced specific recommendations in connection with pending congressional action on emergency housing legislation. These recommendations, in brief, call for the immediate use of available and authorized authority under all existing housing programs, including the traditional public housing program. In this regard, NAHRO specifically recommends that the Congress direct HUD to immediately allocate a significant portion of the $900 million of the contract authority provided by the Housing and Community Development Act of 1974 to the traditional public housing program, particularly the "Turnkey" approach, so that immediate relief may be brought to some of the thousands of low-income families in need of good housing. Many localities are in a position to initiate quickly construction of new public housing which will bring urgently needed jobs as well as housing to their communities. (Attached, for your reference, is an analysis prepared by NAHRO of the potential construction and economic benefits which would result from such a shifting of resources.)

In recognition of the fact that any national housing strategy during a period of economic stress and concern for resource and energy supply must address the need to conserve existing resources, a second major NAHRO recommendation calls for the extension of the very successful section 312 rehabilitation loan program fiscal year 1978.

The economic and energy proposals emanating from both the Congress and the administration emphasize the critical need to encourage the conservation of resources and the need to facilitate energy conservation through housing rehabilitation. It is our opinion that the section 312 loan program has and can continue to address these needs. The eventual cost to the Government by using this successful loan mechanism is minimal. At present, section 312 loan repayments are in excess of $20 million per year. With additional funds, the section 312 revolving loan fund can become self-sustaining in the near future at an annual program level sufficient to have a national impact.

In conclusion, this association believes that expanded housing and development activity focused on the basic needs for shelter and community revitalization can move forward as an integral part of a program to bolster the national economy. In short, we see these efforts as being complementary rather than conflicting.

We appreciate this opportunity to comment on these crucial matters. We would be glad to further discuss with you the details of the specific recommendations discussed herein.

[The attachment referred to in the text follows:]

ESTIMATE OF POTENTIAL DEVELOPMENT ACTIVITY UNDER THE TRADITIONAL PUBLIC HOUSING PROGRAM UTILIZING ANNUAL CONTRIBUTIONS CONTRACT AUTHORITY AVAILABLE FOR NEW CONTRACTS

Traditional Public Housing Activity Would Emphasize the "Turnkey" Method for Housing Development

(1) Potential new housing units

The available contract authority for new contracts is estimated at 900 million dollars. The estimated amount of contract authority for each unit of traditional "turnkey" public housing is $2,000. Thus, the available contract authority would support about *450,000* new housing units.

(2) Backlog of public housing demand

At the time of the freeze on new public housing development (February, 1973) there was a backlog of over *200,000* units of public housing in active applications in HUD area offices. (Attached is a tabulation which shows the breakdown of this demand by states.) These units represent a potential for early action and activation, if new contract authority would be made available for their development. This is exclusive of new units which would be requested if new authority were made available.

(3) *Estimated employment resulting from new public housing development with $900 million of contract authority (450,000 housing units)*

It is estimated (see computation attached) that over 2 *million man years of employment* would result from the development of the approximately 450,000 new public housing units. Employment opportunities would occur not only when units go under construction, but almost immediately through employment of architects, surveyors and other development related jobs, and also through building up of inventories of construction materials and other products required for housing construction and occupancy.

(4) *Estimate of timing for housing development process*

If accelerated processing were undertaken in the HUD area offices and if the process were started with the applications which were suspended at the time of the moratorium (where interest has already been generated) it is possible that a considerable volume of public housing turnkey development could be ready for construction by the end of 1975. While it is difficult to make a fully accurate projection, a level ranging up to 100,000 units ready for construction at the end of 1975 is possible, with an acceleration after that point into 1976. The time sequence relative to Section 8 Housing Assistance Program is very likely to be slower, because of lack of familiarity with its processing by HUD staff and because of the initial delays in understanding processing by housing authorities and private builders.

TABLE 1.—*Number of active public housing units in pending applications, as of February 1973 (at time of Executive order freezing low-rent housing activity)*

State	Number of housing units
Alabama	9, 324
Alaska	1, 592
Arizona	1, 181
Arkansas	4, 293
California	8, 960
Colorado	2, 900
Connecticut	1, 335
Delaware	250
District of Columbia	-------
Florida	7, 236
Georgia	7, 235
Guam	-------
Hawaii	470
Idaho	965
Illinois	3, 399
Indiana	2, 075
Iowa	1, 065
Kansas	3, 765
Kentucky	3, 595
Louisiana	5, 535
Maine	955
Maryland	1, 190
Massachusetts	7, 285
Michigan	8, 667
Minnesota	8, 377
Mississippi	5, 603
Missouri	2, 273
Montana	440
Nebraska	250
Nevada	1, 379
New Hampshire	608
New Jersey	4, 499
New Mexico	2, 131
New York	1, 778
North Carolina	21, 453
North Dakota	2, 934
Ohio	1, 330
Oklahoma	9, 002
Oregon	485
Pennsylvania	6, 795
Rhode Island	1, 880
South Carolina	13, 623
South Dakota	831
Tennessee	2, 603
Texas	10, 139
Utah	350
Vermont	285
Virginia	9, 273
Washington	3, 200
West Virginia	760
Wisconsin	6, 221
Wyoming	-------
Puerto Rico	1, 060
Virgin Islands	-------
U.S. total	202, 834

Source: Statistical operations branch, Department of HUD, January 22, 1974.

TABLE 2.—*Computation of estimated employment*

[Based on factors supplied by Dr. Michael Sumichrast of the National Association of Home Builders]

A. Development cost (construction plus dwelling facilities) $20,000 per unit × 450,000 units	$9,000,000,000
B. Community facilities to support housing:	
Facilities for multifamily units—$1,500 per unit × 450,000	675,000,000
Additional direct expenses—$250 per unit × 450,000	112,500,000
Durable goods plus services—$500 per unit × 450,000	225,000,000
Total	1,012,500,000
C. Multiplier effect: Total direct expenditures—A plus B (9,000,000,000 plus 1,000,000,000: $10,000,000,000 multiplied by 2	20,000,000,000
D. Related services:	
Real Estate taxes—$36 per unit × 450,000 units	16,200,000
Annual operating expenses—$840 per unit × 450,000 units	378,000,000
Total	394,200,000
Total dollar impact (A, B, C plus D)	$20,400,000,000
E. Impact on employment: Based on a factor of 115 workers employed for one year for each million dollars spent on all construction and related facilities plus services (20.4 multiplied by 115 equals 2,300,000 man-years).	

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

By GROVER W. ENSLEY, *Executive Vice President*

Next year will not only mark our country's Bicentennial but also the 30th anniversary of the Employment Act of 1946, which established as national policy the continuing responsibility of the Federal Government "to promote maximum employment, production, and purchasing power." One can only hope that the 30th anniversary of this landmark economic legislation will see us considerably closer to achieving these goals than we are today.

The 1975 Economic Report of the President and accompanying annual report of the Council of Economic Advisers present a candid and sobering discussion of the grave economic problems facing our country—a deepening business recession and sharply rising unemployment, rapid inflation and growing concern over the energy situation. This unprecedented combination of problems is the culmination of a decade of increasing economic and financial instability, aggravated by unbalanced domestic economic policies and unforeseen international shocks. Responding to these problems clearly poses the greatest challenge to Government policies and programs since the Great Depression.

The severe personal hardships caused by simultaneous inflation and recession need no elaboration. No one is immune, but inflation and recession alike strike most heavily at those segments of the population least able to defend against economic adversity—the poor, the aged or disabled living on fixed incomes, minority groups, and young people just starting out in life.

Among major economic sectors, the short-run economic instability and unbalanced Federal economic policies of the past decade have struck thrift institutions, mortgage and housing markets with particular severity. At the same time, a number of longer run developments have also weakened the ability of thrift institutions to generate savings for investment in housing and other critical areas of capital need. These comments, therefore, focus on the problems of mutual saving banks and other mortgage-oriented thrift institutions, and on the Government policies and programs needed to deal effectively with these problems.

A TRIPARTITE APPROACH TO THE THREEFOLD PROBLEMS OF THRIFT INSTITUTIONS

In brief, mutual savings banks and other thrift institutions face three problems which seriously affect their short- and long-run ability to serve consumers and generate an adequate and stable flow of funds for housing:

The extreme short-run sensitivity of their deposit flows to cyclical changes in the economy, financial markets and Federal Reserve monetary policy in an unstable and inflationary environment;

The much greater short-run ability of competing commercial banks to increase earnings and deposit rates in inflationary periods of high and rising interest rates; and

The progressive long-run competitive weakness of mortgage-oriented thrift institutions in household savings account markets relative to "full-service" commercial banks.

Preserving the independent distinctiveness, the basic mortgage origentation and the overall viability of thrift institutions in the years ahead will require a tripartite approach to this triad of problems:

Effective Government policies to end the current recession and bring deeply entrenched inflationary pressure under control over the longer run, thus restoring the stable economic and financial conditions needed for a sustained high level of saving and mortgage flows;

The early implementation of proposals to strengthen the long-run competitive position of thrift institutions through the provision of broadened consumer service powers and a Federal charter alternative for State-chartered mutual savings; and

The maintenance of Federal authority to establish deposit interest rate ceilings, with meaningful differentials for mortgage-oriented thrift institutions.

The Need for Better-Balanced Federal Economic Policies

The implementation of better-balanced Federal economic policies to restore economic and financial stability will be the single most important means of ending the roller coaster pattern of saving flows at thrift institutions, and of assuring a sustained high level of housing activity. In the absence of fiscal restraint, excessive short-run reliance on monetary policy and skyrocketing interest rates to choke off inflation triggered four rounds of disintermediation at thrift institutions in the past 9 years, and two massive waves of disintermediation in the 1973–74 period alone. As a result, housing was plunged into deep depression in 1974 and early 1975 even as the economy moved deeper into an inflationary recession.

These developments underscore the urgent need to implement flexible tax policies to achieve overall economic stability. In the short-run, substantial reductions in personal income taxes are required to strengthen private purchasing power and help bring the economy out of recession. Other tax policies should also be implemented to help meet the problems of recession, inflation and depressed housing markets. For example, providing a tax exemption or tax credit for a portion of interest income earned on savings accounts would stimulate housing and overall business activity in the short run, and provide a continuing stimulus to increased mortgage credit availability at private financial institutions in the years ahead.

Simultaneously dealing with the twin scourages of recession and inflation will be a tremendously difficult task. The great danger is that the Government programs ultimately enacted will focus solely on ending recession and lose sight of the continuing long-run threat of inflation. The President and the Council of Economic Advisers are to be commended for recognizing this danger in their 1975 reports to the Congress. The President stated this critical problem for public policy succinctly on page 7 of his economic report:

> As we face our short-run problems, we cannot afford to ignore the future implications of our policy initiatives. Fiscal and monetary policies must support the economy during 1975. In supporting the economy, however, we must not allow victory in the battle against inflation to slip beyond our grasp. It is vital that we look beyond the unemployment problem to the need to achieve a reduction in inflation not only in 1975 but also in 1976 and beyond. . . . We must not be lulled into a belief that inflation need no longer be a major concern of economic policy now that the rate at which prices are increasing appears to be slowing.

Income tax reductions to combat the current recession, therefore, should not become a permanent part of our tax structure. To do so would be to lay the foundation for an even more virulent explosion of inflation and interest rates in future years.

It will be essential, moreover, to achieve and maintain a better balance between fiscal and monetary policy once economic recovery has been achieved. Fiscal discipline at the Federal level and rising productivity in the private sector remain the long-run keys to controlling inflation. A courageously applied program of fiscal restraint when necessary, combined with selective tax policies to promote productive private saving and investment, will also lessen the danger of disruptive short-run swings in monetary policy and interest rates and promote an interest rate structure more favorable to liquid saving flows and mortgage lending.

The Need for Broadened Consumer Service Powers and Deposit Rate Ceiling Differentials

Policies to control inflation must be applied gradually over a period of years, however, if a repetition of the present inflationary recession is to be avoided. This prospect underscores the need for prompt action to provide thrift institutions with broadened consumer service powers and savings banks with a Federal charter alternative, and the corresponding need to maintain and strengthen deposit interest rate ceilings and differentials.

Broadened consumer loan and funds transfer powers will provide only relatively minor benefits in helping thrift institutions reduce their shortrun vulnerability to disintermediation in high interest rate periods. But these powers will have significant public interest benefits over the longer run, since they will permit thrift institutions to compete on more nearly equal terms with "full-service" commercial banks and thus generate an increased and more stable flow of funds for housing and other critical capital needs. Providing savings banks with a Federal charter alternative and access to the progressive benefits of a dual chartering system will hasten the day when modern consumer service powers will be uniformly available to the customers of all savings banks.

Maximizing the effectiveness of modernized thrift institutions will also require that Federal authority to establish deposit interest rate ceilings, with meaningful differentials for mortgage-oriented thrift institutions, should be maintained and strengthened. The subject of differentials, of course, has been the major area of disagreement between thrift institutions and commercial banks in relation to financial restructing legislation.

The basic question is whether limited consumer loan and funds transfer powers will provide full competitive equality between thrift institutions and commercial banks and thus justify the phasing out of deposit rate ceiling differentials and the ultimate elimination of rate ceilings. The answer is clearly that this would not be the case. Commercial banks would continue to have a much broader range of powers and service capabilities, and substantially greater branching advantages. Of critical importance, moreover, commercial banks would still be far more able to increase earnings and deposit interest rates in future periods of high and rising interest rates, primarily because of their shorter term and more interest-sensitive asset structure.

These basic and continuing differences between commercial banks and modernized thrift institutions unequivocally indicate the need for meaningful deposit interest rate ceiling differentials for thrift institutions.

This will be particularly important in view of the significant improvement in the long-run competitive position of commercial banks in household savings account markets in recent years. Under the provisions of the Tax Reform Act of 1969, Federal income tax payments and effective tax rates of thrift institutions have increased sharply, while the effective Federal tax rate of commercial banks has declined. As a result, the average effective Federal tax rates of thrift institutions are now higher than the average effective rate of commercial banks. At the same time, the July 5, 1973, changes in deposit interest rate ceilings seriously narrowed rate ceiling differential in key deposit categories, including regular passbook accounts, further weakening the competitive position of mortgage-oriented thrift institutions.

This result is dramatically evident in the fact that commercial banks gained 68 percent of the total increase in household savings and time accounts held at the three major depository institutions in the 18 months following the July 1973 changes in deposit rate ceilings. In the preceding 18-month period, by contrast, the commercial bank share was 46 percent—still quite substantial, but far less than the post-July 1973 share.

Prospects for continued inflation over a period of years also indicate the desirability of developing a feasible, fair and politically acceptable variable rate mortgage instrument. Once implemented, and after thrift institutions have had time to adjust their mortgage portfolios to a variable rate basis, this reform would do much to reduce their shortrun vulnerability to disintermediation in high-interest-rate periods. State usury ceilings must, of course, be raised to levels that will permit variable rate mortgages to be effective.

It bears the strongest emphasis, however, that variable rate mortgages are not a substitute for broadened consumer service powers. Rather, they would be a valuable complement. In the competitive climate of the future, savings banks and other thrift institutions must be able to compete on both a price and service-convenience basis.

Broadened consumer service powers, within the framework of a dual chartering system, are needed to increase the ability of savings banks to attract savings, make mortgage loans and maximize the full potential of EFTS in the years ahead.

THE 1975 PROSPECTS FOR FINANCIAL REFORM

Recent developments have improved prospects for implementing financial reform this year, the administration's support for financial restructuring legislation was reaffirmed in the President's 1975 Economic Report, in the accompanying Annual Report of the Council of Economic Advisers, and in the fiscal 1976 budget submitted to the Congress in February. The importance of financial reform for housing, in particular, was clearly set forth in the new budget:

> A succession of shortrun measures designed to combat temporary dislocations in financial markets cannot assure the availability of adequate housing credit in the future. *A basic reform of the financial system is essential if the Nation's housing objectives are to be met.* To this end, the administration has urged passage of the Financial Institutions Act * * * [Italic added.]

Particularly encouraging are important changes in the financial institutions bill recently announced by the administration. Extending deposit interest rate control authority for 5½ years, with no provision for phasing out rate ceiling differentials, is a constructive step. The change in the bill's tax provisions is also a step in the right direction, but it does not go far enough. Providing the mortgage interest income tax credit method as an option to the bad debt loss reserve method of computing taxes is desirable. Such an option, however, should be available on a continuing basis without the one-time limitation and 1979 deadline for ending the bad debt loss reserve method proposed by the administration. Both of these restrictions should be eliminated.

While the savings bank industry continues to believe that a number of perfecting amendments are still necessary, we also continue to believe that the bill's provisions for Federal chartering and expanded consumer service powers provide a sound basis for developing legislation to strengthen mortgage-oriented thrift institutions and the flow of housing credit. The savings bank industry, therefore, reaffirms its desire to cooperate fully with the Congress, the administration and other financial industry groups to achieve this goal in 1975.

At the same time, we remain deeply concerned over the possibility that a resurgence of inflationary pressures and high interest rates could again trigger disintermediation once economic recovery is achieved. Flexible and better-balanced Federal economic policies will be required to prevent these developments as progress continues in the effort to implement needed financial reform.

NATIONAL FARMERS UNION

By Tony T. Dechant, *President*

Concerning the urgent need to encourage farmers to produce abundantly with protection from depressed market prices when production exceeds market requirements and to assure consumers of reasonable and stable food costs.

We are indeed honored to have the opportunity to present this testimony to the Joint Economic Committee.

The President's Economic Report falls short of any meaningful treatment of the economic concerns and needs of the Nation's farm families. Farmers Union has developed a set of recommendations directed toward the development of a truly national food policy.

We need a new policy and program designed to protect the farmer on the one hand from calamitous drops in farm prices resulting from overproduction and on the other hand to assure the consumer of abundant production and stable food prices. We need to begin work on a simple, workable, and acceptable program in the national interest.

To get directly to the point, the concern of the 94th Congress should be the drafting of a national food policy. We have long passed the time when we can deal with urgent national problems relating to the production and consumption of food and fiber through legislative patchwork which deals only temporarily with problems that are in need of long-range and enduring solutions.

Both Consumers, Farmers Concerned

As our delegates met in convention in Milwaukee, Wis. in March of 1974, it was evident that there was much unrest and discontent on the farms of the Nation. During and since this convention we have also talked to national consumer leaders. We discovered widespread consumer disillusionment concerning wildly fluctuating farm and food prices and widening margins between the farm gate and the retail food outlets.

Viewing these concerns of both farmers nad consumers, the problem can be diagnosed by one word, "instability."

Since our convention last year, the disruptive influence of unstable prices on the farm and at retail levels have become even more apparent.

In exhibit "A" to this statement, for example, high and low levels of prices received by farmers during the 24-month period, January 1972 to December 1974, are documented. In addition, this table provides information on current price levels received by farmers.

Briefly, I want to call attention to the "boom and bust" over this period for corn and wheat.

Wheat ranged from a low of $1.32 per bushel or 43.6 percent of parity in July of 1972 to a high of $5.52 per bushel or 147.6 percent of parity in February 1974.

Corn prices likewise ranged from a low of $1.09 per bushel or 56.2 percent of parity in January 1972 to $3.45 per bushel or 125.9 percent of parity in October of 1974.

No one can deny the instability of the present market situation when prices vacillate between these high and low points for two commodities of such national importance as wheat and corn. Nor can anyone deny the disruptive influence of these price vacillations on the interrelated livestock and poultry—feed grain complex or on retail price levels of livestock products and products processed from grain.

Violent Fluctuations Hurt Everyone

There is no denying the fact either that marketing margins that widen to keep pace with price increases do not come down in a manner to correspond with price decreases and that the instability of these and other farm commodity prices have, therefore, worked a hardship on consumers.

As our delegates and members have sought for workable means for eliminating instability in the farm-food marketplace, a relatively simple concept emerged as the answer to the problem. Our delegate action at the Milwaukee convention last March has recently been reaffirmed by the national policy drafting committee which met in Denver, Colo. 2 weeks ago, in preparation for our next annual convention next March. Our proposal is for a program of "parity for farmers and abundance for consumers".

The Farmers Union's proposals would result in stable farm prices at approximately 100 percent of parity, and would provide for ample safety reserves of storable farm commodities to protect our consumers and export customers from shortages such as have been experienced under the Nixon-Butz "boom or bust, glut or famine" food policies of the past 5 years. We propose the following measures:

1. Provide for nonrecourse price support loans to farmers at 90 percent of parity, as defined by law, to provide a floor under prices of grains, cotton, and soybeans. We believe the assurance to farmers of such a price support floor would encourage and make it possible for farmers to produce abundantly.

2. Farmers would be protected from the price-depressing effects of "surpluses" if production should exceed the quantities needed to meet current market requirements. Any such stocks would be stored, under the producer's control, as collateral for the nonrecourse price support loan. These stored stocks would thereby serve as a safety reserve to protect consumers, livestock producers, and the national interest against the risk of shortages. The price support loans to farmers should be extended year by year, if the producer wishes, and the Government should absorb each prior year's storage and interest costs for the stored commodity so long as market prices have not risen to 110 percent of parity. If the producer does not wish to extend his price support loan, the Government would take title to the commodity without further recourse. No stocks owned by the Government should be permitted to be sold at less than 110 percent of parity.

3. At any time when supplies are short and market prices for the commodity rise to 110 percent of parity, the farmer would have to bear the cost of interest and storage charges. This will give the farmer and incentive to repay his loan and sell the commodity, thus assuring a smooth and automatic movement of stocks from the safety reserve into the market when they are needed.

4. Congress should establish, by law, the quantities of each commodity which it considers essential to be held as safety reserve stocks. Only when stocks of the respective commodities have reached those levels should the supply management measures provided by law be activated in order to avoid the production of unneeded supplies. The use of supply management measures in this way would make it possible to control the cost of maintaining a secure and dependable supply of each commodity at reasonable and stable prices.

5. Farmers should be permitted to store their commodities pledged as collateral for price support loans in any approved storage facility, on the farm, or in a cooperative or commercial warehouse.

6. To the extent it is deemed necessary for the Government to have supplies of commodities under its control for meeting overseas emergencies or other needs, the Secretary of Agriculture should be authorized to enter into option agreements with farmers to buy loan collateral stocks at 110 percent of parity.

7. With a safety reserve in storage of commodities which are important in international trade, such as wheat, feed grains, cotton, and soybeans, we envision that there would be no need for export licensing or controls.

8. Effective measures would be needed to protect the operations of this price and supply stabilizing program from the effects of price-depressing imports. We recommend that a new system of import regulation be established, under which a variable rate of duty would be imposed equal to the amount by which prices in the world market fall below 110 percent of parity. This method should be applied to all types of agricultural commodities for which regulation of imports is necessary.

9. We recommend a return to international cooperation to stabilize prices at fair levels, assure access to markets, and insure reliable supplies of farm commodities in international trade. We urge that the President be directed to begin at once to negotiate with other countries for the establishment of an International Grains Agreement providing for the following elements:

(*a*) Minimum and maximum prices in world trade (the Farmers Union proposes a range of prices between 90 percent and 110 percent of parity);

(*b*) Commitments to assure the supplies to importing countries, and to assure access to markets for exporting countries;

(*c*) Rules on the disposal or stockpiling of surplus domestic production;

(*d*) Limitations or prohibitions on the use of export subsidies;

(*e*) Cooperation among participating countries to manage the supplies put into the world market;

(*f*) Consultations between governments on the effects of national price support programs on world trade; and (*g*) Reserves of food and fiber, under the control of national governments but subject to international review, to assure importing countries of the reliability of exporting countries to meet their supply commitments, and to provide for national and international emergencies.

Milk Shortage Is Threatened

Prompt action by Congress is needed also to head-off a nationwide milk shortage. Milk production in 1974 was the smallest since 1948. That is 27 long years ago; our U.S. population has climbed by 45 percent during that time.

The sharp decline in U.S. milk production since the peak 10 years ago is a trend that must be halted, and turned around. Most consumers are not aware that the cut in milk output that has occurred so far has been mainly at the expense of milk formerly fed to calves and pigs and poultry. The use of milk for animal feed is now almost down to the vanishing point. Any further reduction that occurs from now on will have to be at the expense of the human food supply. That is why it is so important not only to stop, but to reverse, the long-term downward trend in milk production in order to prevent a nutritional disaster for the American people.

A second feature of the dairy situation likewise makes prompt action necessary in order to improve the price incentives to dairy farmers. This is the fact that milk production would be down even further, and would be dropping even more swiftly, if cow prices were at a more normal level, and if there were a more normal offering of employment opportunities for discouraged dairy farmers and their hired men to turn to in rural areas. If today's heavy unemployment problem and economic recession should be brought under control soon and corrected, the present rate of decline in milk production could turn into a calamitous downturn, threatening an immediate and severe milk shortage.

We recommend that Congress establish a minimum floor of 90 percent of parity under milk prices through the diary price support program.

Because milk is marketed every day of the year, regular adjustments in the price support levels are needed in order for farmers to stay "caught up" to the present rapid escalation in production expenses. Unlike crops, a once-a-year determination of the price support level at harvest time, is not sufficient. Therefore, we recommend that the law be amended to provide for adjustments of the dairy product price support purchase levels at least every 3 months to make them correspond to 90 percent of the current parity price for milk.

We also recommend that stocks of dairy products acquired through price support purchase be offered for resale only at 110 percent of parity, and that the new import regulation system proposed in item 8 above be applied to dairy products so as to prevent imports from competing with domestic producers unless milk prices are at 110 percent of parity or above.

RESTORE LAWFUL "PARITY" STANDARD

In your floor statement of September 18, 1974, Mr. Chairman, recognization was given to the escalating costs of production items. You mentioned specifically serious shortages and high cost of fertilizer, energy and fuels, farm chemicals, machinery, building material, baling wire and twine and other items essential in the production cycle of crops, livestock and poultry. These are truly urgent problems and must be dealt with promptly by protecting farmers from income losses that will defeat the goal of abundant production and will increase the rate of liquidation of farm enterprises.

Returning to the tried and tested parity formula set out by Congress in the 1938 Agricultural Act as amended, is a logical course of action. We have designed our program around a floor price and a release price of safety reserve stocks based on this congressionally sanctioned parity formula. The establishment of a release level based on this formula will protect consumers from unduly high prices, and will protect farmers from unduly low prices.

The net effect of our plan would be to keep farmers out of the economic cellar and consumers out of the economic attic. We believe it can be the beginning of a truly effective and workable national food policy.

We have tested our plan in meetings equally divided, as far as representatives are concerned, between livestock, poultry, and feed grains producers and an understanding has prevailed. Both livestock and feed grain producers understood that the economic interrelationship of the livestock and poultry and feed grains sectors must be maintained in balance and that stability of prices as a goal is a worthy and essential objective for both sides.

The consumer likewise would benefit from a balance between the livestock, poultry, and feed grain sectors of the farm economy, being assured a stability of supply as well as prices in an ongoing stable economic climate with protection from shortages and fluctuating prices which the boom and bust period which we have gone through has produced.

Mr. Chairman, in closing, as I have indicated, at the outset of this statement, we need a workable, simple and acceptable beginning toward the establishment of a national food policy which takes into concern the interest of all the Nation's citizens. We invite your careful scrutiny and consideration of this proposal. We hope that it will meet the tests to which this distinguished body will apply to it.

55-378 O—75——6

EXHIBIT A

LOW AND HIGH LEVELS IN PRICES FOR SELECTED COMMODITIES RECEIVED BY FARMERS DURING 24-MONTH PERIOD, JANUARY 1972–DECEMBER 1974

[Expressed in prices received and percent of parity (1910–14=100) for the applicable year-month compared with prices received, and percentages of parity as of Jan, 15, 1975]

	Low				High				Jan. 15, 1975		
	Year-month	Price received	Parity price	Percent parity	Year-month	Price received	Parity price	Percent parity	Price received	Parity price	Percent parity
Wheat (bushel)	1972: July	1.32	3.03	43.6	1974: February	5.52	3.74	147.6	4.11	4.43	93.0
Corn (bushel)	1972: January	1.09	1.94	56.2	1974: October	3.45	2.74	125.9	3.07	2.94	104.0
Rice (hundredweight)	1972: August	5.34	8.10	65.9	1974: March	17.30	11.20	154.5	10.30	12.70	81.0
Upland cotton [1] (pound)	1973: January	22.4¢	58.6¢	38.2	1974: April	58.4¢	69.7¢	83.8	42.1¢	75.36¢	56.0
All milk (hundredwieght)	1972: June	5.72	7.86	72.8	1974: March	8.94	9.88	90.5	8.29	11.00	73.0
Manufacturing milk (hundredweight)	do	4.89	6.34	77.1	1974: February	8.14	8.06	100.1	6.93	9.14	75.8
Soybeans (bushel)	1972: January	2.92	4.04	72.3	1973: June	10.00	4.83	207.0	6.30	6.61	95.0
Beef Cattle (hundredweight)	1974: December	27.60	54.30	50.8	1973: August	51.70	44.70	115.7	27.60	53.60	51.0
Calves (hundredweight)	do	24.80	66.80	37.1	do	68.20	54.20	125.8	23.90	65.50	36.0
Hogs (hundredweight)	1972: April	22.50	30.10	74.8	do	56.30	37.10	151.8	38.20	46.40	82.0
Eggs (dozen)	1972: May	27.4¢	55.2¢	49.6	do	68.7¢	64.0¢	107.3	57.1¢	73.4¢	69.0

[1] The record should show that the Jan. 15, 1975, cotton price of 42.1 cents has been strongly challenged by growers in the Southwest.

Source: USDA Publication Agricultural Prices.

[From the North Dakota Union Farmer, Oct. 10, 1974]

A Farmers Union Plan for Parity and Abundance

Editor's Note: Following is the plan proposed by National Farmers Union to provide parity for farmers and an assured abundance of agricultural commodities to U.S. consumers and export customers. Reports of testimony in support of this proposal are carried regularly in the Union Farmer. But here the plan is presented in a form that can be clipped and used for future reference.

1. Non-recourse commodity loans should be offered to farmers at 90 percent of parity, to establish the minimum floor under market prices. Stocks of commodities would accumulate in loan status to the extent that supplies were more than sufficient to satisfy the market demand at about the parity price. The producer could sell his commodity at any time during the marketing year by repaying the loan and paying the accumulated interest and storage charges.

2. Farmers should be eligible for price support loans on eligible commodities stored in any approved facility whether on the farm, in the farmers' cooperative, or in other approved storage facilities.

3. Price support loans should be extended from year-to-year, at the option of the farmer. When a commodity loan is extended, the government should absorb the interest and storage cost for the prior year if the market price of the commodity has not reached 110 percent of parity.

4. When supplies in the market become short and the market price approaches 110 percent of parity, farmers would have an incentive to repay their loans and sell their stored commodities so as to avoid incurring the cost of continued storage. But it would not be necessary for the government to "call" loans. The farmer should be permitted to hold his commodity in extended loan status if he wished to absorb the storage and interest costs himself after the price reaches 110 percent of parity.

5. Commodities owned by the government should not be offered for sale into commercial markets at prices below the higher of the current market price or 110 percent of parity. If it should be considered necessary in order to assure that ample supplies would move into the market when needed, the Secretary of Agriculture could be authorized to enter into option agreements to buy the commodity from the farmer at a price of 110 percent of parity during the term of an outstanding initial or extended non-recourse loan. This would provide some flexibility to the government in meeting urgent requirements under exceptional conditions. But it would keep government-owned stocks totally insulated from the market so long as prices are below 110 percent of parity.

6. Voluntary or mandatory programs to restrain production of major farm commodities should be put into effect at any time that the Secretary of Agriculture determines that carry-over stocks of the commodity is likely to rise above the desired "reserve" level. Price supports should be maintained at 90 percent to 100 percent of parity. The minimum reserve should be established by Congress. The Farmers Union recommends that reserves be established at about 50 percent of the annual requirements for domestic use and exports in the case of food grains, 25 percent in the case of feed grains, and 35 percent in the case of cotton.

7. A new import control plan should be established which would eliminate practically all imports of any farm commodity when prices in the U.S. are below parity. A variable rate of duty, equal to the amount by which world market selling prices fall below 110 percent of parity, should be applied to any farm commodities imported into the U.S.

8. International agreements should be negotiated with other producing and consuming countries to provide for international cooperation to stabilize prices and supplies of agricultural commodities, particularly grains, dairy; products, cotton, and sugar, through one or more of the following provisions:

(a) minimum and maximum prices in world trade (the Farmers Union proposes a range of prices between 90 percent and 110 percent of parity);

(b) commitments to assure supplies to importing countries, and to assure access to marketing for exporting countries;

(c) rules on the disposal or stockpilling of surplus domestic production;

(d) limitations or prohibitions on the use of export subsidies;

(e) cooperation among participating countries to manage the supplies put into the world market;

(f) consultations between governments on the effects of national price support programs on world trade;

(g) reserves of food and fiber, under the control of national governments but subject to international review, to assure importing countries of the reliability of exporting countries to meet their supply commitments, and to provide for national and international emergencies.

COMPARISON—INDEXES OF PRICES PAID BY FARMERS JANUARY 1972 WITH DECEMBER 1974 WITH PERCENTAGE OF INCREASE

	January 1972	December 1974	Percentage increase
All items, including services, interest, taxes and wage rates	402	613	34.4
Family living	391	556	29.7
Production items	338	529	36.1

Source: USDA—Agricultural prices.

THE NATIONAL SAVINGS AND LOAN LEAGUE

The National Savings and Loan League appreciates the invitation of the Joint Economic Committee to present the league's views on the economic and energy issues facing the Nation in 1975.

The Nation's economic, financial, and energy problems and the solutions proposed and adopted to overcome them are of particular concern to the 70 million Americans who have invested over a quarter of a trillion dollars in the country's savings and loan associations as well as the beneficiaries of those savings—the 25 million Americans who have financed their housing needs through our institutions and the millions of our other citizens who seek similar accommodations annually.

In the opening paragraphs of this year's economic report, the President identified the main problems facing the Nation as recession and unemployment, inflation, and our vulnerability to oil embargoes. Others could be added although to some extent they mirror the effects of the foregoing. Such additions would include the depressed state of consumer confidence, the erosion of the dollar in international markets, and the still unsettled impacts upon world trade and investment flowing from the quadrupled rise in oil prices.

The gravity of these problems does not have to be emphasized by a repetitive statistical enumeration in this submission. Those barometers are well known to this committee. The fact that almost all economic indicators now reflect such highly unfavorable economic activity and business and consumer distress necessitates early action on the fiscal front, accompanied by accommodative monetary policies, to brake the downward suction in business activity which the current recession has engendered.

Moreover, just as necessary to an early and sustained business recovery is the adoption and implementation of an energy policy that will not impose another rise in the price level and which recognizes the fact that production cannot be increased and unemployment decreased without the consumption of more energy, not less.

Just as the prices of many commodities are decreasing from their record highs of last year and the unemployment rolls are growing larger would be an intolerable time to increase the general price level 3 percent by administrative fiat. Such an undesirable result would be the inevitable consequence of an energy program based upon a $3 per barrel levy on imported oil, decontrol of prices on all domestic production, and an unusually sharp increase in gasoline taxes.

Our economy is suffering from a combination of unfortunate domestic fiscal and monetary policies in recent year at the same time that the world was experiencing a sharp decline in food and feed grain production, worldwide demand for all commodities was increasing, nonfood commodity shortages became quite widespread, the dollar was officially devalued twice and unofficially once, and market prices were adjusting to the demise of price and wage controls. Added to the foregoing, of course, was the initial embargo and subsequent quadrupling of offshore oil prices.

The confluence of the foregoing policies and conditions produced the double digit price inflation, record interest rates, depressed housing and auto production, and critical strains in credit markets and financial institution stress that was commonplace for most of last year. These forces also produced the deflation in production, employment, corporate profits, and personal income (less nonsocial security transfer payments) we now are confronted with.

The Economic Outlook in 1975

The outlook for economic activity this year is bleak indeed. For the second year in a row industrial production will have decreased in real terms while price inflation, though receding, will continue to plague us. The liquidation of existing inventories in a broad spectrum of assets, but especially in housing units and automobiles, will continue to deter productive output, and in turn increased employment, until well into the third quarter. The extent of the rebound then in the major contracyclicals—housing and autos—will depend to no small degree on the nature and sector impact of the energy program to yet evolve.

One cannot stress with sufficient emphasis the importance of a balanced and price logical energy program to an early and sustained recovery in domestic economic activity. Proceeding from the quite simple, but irrefutable, law of physics that states that energy is essential to the transformation of the elements to productive human uses, one must conclude that reliance upon known and available sources of energy could not be abandoned until adequate substitutes become available.

A year and one-half has elapsed since the October 1973 oil embargo and quadrupling of OPEC oil prices. This should have been sufficient time for the executive and legislative branches of our Government to have devised policies and programs to insure that our economy would be insulated in the forseeable future from a reapplication of the embargo or another round of oil price increases, or both. While many may have hoped that the oil problem was only a transitory concern, the havoc it has wreaked upon our economy, as well as that of most of the rest of the world, is plain to see.

In our statement to this committee last year we stated: "In our rapidly changing world we must acknowledge that our energy and ecological problems, often conflicting and far from being resolved, will continue to affect our standard of living for some time to come. More rational husbanding of our national resources, the development of energy substitutes, together with basic environmental improvements in the quality of water and air will require time, money, labor, as well as sound and rational legislation and programs.

"No one questions our ability to marshal the assets, technology, manpower, and capital to solve our economic problems. However, the solutions of these problems and others facing us today will require patience and moderation by all sectors of society—government, business, labor, and consumer."

We believe these views are appropriate today. A well-conceived energy program designed to further our national interests without imposing unnecessary price pressures, in addition to those already in place as a result of OPEC actions, upon our weakened economy should be the objective of the concerned branches of Government.

In recent months, homeowners have been increasingly registering their resistance to the skyrocketing costs of utilities used to provide heat, lighting, cooking fuel, and hot water in their households. Attendance at rate commission hearings as well as organized official protests have been burgeoning. This has been occurring even though most rate bodies have consistently authorized increases substantially lower than sought. The regulatory bodies have been permitting the increased costs to filter through by stages. The result has only been to increase the velocity at which rate adjustments are sought. It is also quite obvious that all rate increases have not yet been authorized and more are to come. An energy program intentionally designed to increase oil costs again to the extent the OPEC countries already have would exacerbate monthly housing costs.

Furthermore, an early and lower price impact energy program is necessary to remove the uncertainty which major users and producers of energy now face with respect to forward planning. There would appear to be little question that this uncertainty has already affected capital expenditure programs by business. While difficult to measure with preciseness it has also had a recognizable effect upon automobile and housing production.

A realistic energy program must be accompanied by appropriate tax relief, accommodative monetary policies, and adequate Federal support programs in order to halt the recession and promote a recovery. Even then it appears that the recovery will be sluggish this year and that a pronounced improvement in economic activity will not occur until well into next year.

Inventory liquidation will impose a drag upon production and employment until well into the third quarter. Unlike prior post-World War II recessions an unwelcome inventory overhang exists in the two principal contracyclicals—housing and automobiles—even though production of both housing units and autos have been at recession levels already for over 1 year.

In our statement to this committee last year we said:

> In view of existing world and domestic conditions, it is imperative that national fiscal and monetary policies be pursued which are oriented neither toward deflation or overinflation. Policies designed to stagnate the money supply as well as those which would foster undesirable expansionary growth in the money supply would under the conditions that prevail today wreak the same havoc upon the economy. Deflationary monetary and fiscal policies would produce intolerable rates of unemployment and interest rate levels which would lead to severe credit crises. Overinflationary policies would ultimately lead to the same results through different channels, i.e., further currency deterioration, increased price pressures, skyrocketing interest rates, and exacerbation of the flight from nontangible exchange media.

It is obvious that the monetary tourniquet was turned much too tightly in the spring of last year and so applied for too long a period. The predictable did happen. And the consequences were and are severe.

Considering the state of the economy now we surely should not have to be concerned with deflationary monetary policies. The money supply and the monetary aggregates have to be increased. There is no argument in any quarter that monetary policy has to be expansionary. However, there is considerable disagreement as to the proper level of growth in M_1 and other money supply aggregates.

It should be remembered that the formulation and application of monetary policy is an art and not a science. It is impossible to determine by computer or otherwise just what the level of growth in the money supply—narrowly or broadly computed—should be at or for any particular time or period. If the computer can foretell the results with preciseness of different levels of money supply growth on output, employment, and prices, one wonders what has caused the vacillations in money supply performance since 1966. Surely, the computers have been in use since that time and available to the monetary managers. One might speculate whether, in fact, the computer has been used too much in assisting the managers in their policy decisions and has made a large contribution to wrong policies in the past from which we are still suffering.

It is our judgment that extreme caution should be exercised by the Congress in attempting to set by legislation precisely what percentage growths in the money supply, however defined, should be the announced targets of the monetary managers for any short- or long-term period in the future. Whatever criticism may be leveled against the Fed, and much may be justified simply by reviewing events of the past 9 years, a legislative target not responsive to materially changed or changing events in the real world could be a most unwise and unfortunate substitute.

Floating currency rates, managed or semimanaged currency rates, trade imbalances caused by the worldwide oil increases, international tensions of a nontrade or nonfinancial character, price inflation, and economic and financial disequilibriums of other kinds do not constitute the kind of setting in which our money boat should be under full sail with a rudder locked in one position and the anchor stored in a compartment to which no one has access.

A periodic review of Fed policies by the appropriate congressional committees should suffice to elicit the justification for policies adopted and pursued by the Fed. After all, it is difficult to perceive the Congress ever recommending deflationary monetary policy instructions to the Fed.

We do not have any set percentage money supply growth rates to recommend for 1975 for the reasons previously stated. We earnestly believe, however, that monetary policy should be on the expansive side, but with the caveat which we recommended last year, that is, "not oriented toward overinflation."

Special Federal Home Loan Bank Advance Program

As the second paragraph of this statement indicates the league is particularly concerned with the housing market and housing credit in view of the fact that savings and loan associations consistently extend over one-half of the residential mortgage credit made available to American homebuyers each year.

In addition to our particular and specialized concern over the state of residential finance, we are equally conscious of the contribution which our associations have in the past, and can now, make to a general business recovery.

As we have noted previously, the current recession, unlike those of prior post-World War II periods, is burdened by a large inventory overhang of unsold new housing units estimated at the beginning of the year to exceed 500,000 units. This inventory exists despite last year's recession level of new housing starts. It constitutes a decided retarding influence upon the general housing market and particularly upon builders who because of these inventories are unable to commence or plan to commence new construction.

In anticipation of decidedly improved savings flows this year, which have in fact occurred, which would improve association liquidity, and because of a paucity of forward commitments would induce large repayments of Federal Home Loan Bank advances as well as the distressed state of the housing market, the League believed that a housing credit catalyst was needed which would take advantage of the 5,000 savings and loan associations throughout the country and their expert knowledge of local housing markets. We also believed that a catalyst which could be activated immediately and without any governmental subsidy would be preferable and most effective. Moreover, we believed it would advance the interest of housing credit seekers as well as the general economy to retain in the housing market as much as possible of the $5.265 billion of Federal Home Loan Bank debentures which mature in 1975.

The proposal adopted by the League is appended to this statement. To induce associations to participate, the proposal is deliberately designed so that eligibility is determined by the amount of old low coupon mortgages which the associations still own.

The advances would be at a low rate of interest with a slight subsidy on the part of the Federal home loan bank system, as originally proposed. The subsidy, however, is not an essential part of the proposal and can be eliminated without diminishing materially the benefits of the program.

The proposed advances would be for a period up to 5 years. However, the advances would be self-liquidating, in whole or in part, by having the association remit monthly the full monthly payment (interest and principal) which it receives on its low-coupon mortgages. Prepayments of outstanding mortgage principal would also be transmitted to the FHLBanks as received.

The average cost of $5.265 billion of Federal Home Loan Bank debentures which mature in 1975 is approximately 7.5 percent. Since the average cost of FHLB debentures maturing in years subsequent to 1975 is greater than 7.5 percent, association repayment of advances this year will not lower the average cost of many to the system, but would actually increase it. Thus, retention of this year's maturing debentures which can be recast at a system cost of 7.5 percent, or less, and relent under the proposal for an effective rate of 7.5 percent, without subsidy, would provide a substantial and immediate assist to the housing market.

Should the proposal be subject to the criticism that it was inequitable because newer associations could not participate because they did not have any low-coupon mortgages, such criticism can be simply answered or simply solved. Newer associations do not have the yield drag of older low-coupon mortgages and consequently are less likely and have less need to participate. Or should they participate, the proposal could easily be altered to give them eligibility on the same percentage of their mortgage portfolio as the ratio of low-rate coupon mortgages bears to the total portfolio of member associations in their respective Federal Home Loan Bank District.

Last month (February) the Federal home loan bank system had $1.150 billion of maturing debentures. Due to association repayments, the system retired $800 million of this debt. At the same time, the Federal Home Loan Mortgage Corporation borrowed $300 million. This month, the Federal National Mortgage Association had $1.100 billion of maturing debentures and capital notes, yet it borrowed a total of $1.800 billion, or a net new amount of $700 million.

We believe that a substantial amount if not all of the FHLB February maturities might have been rolled over if the subject proposal had been in effect. The proposal does not envision borrowing net new money from the marketplace which may well be strained by other borrowings, but merely to retain funds already in the system.

The program can make a material contribution to the business recovery. It would accelerate the removal of the inventory overhang and accelerate the tempo of economic activity which otherwise has all the characteristics of extended anemia.

NATIONAL LEAGUE FHLB SYSTEM EMERGENCY PROPOSAL OF 1975

It would:

1. Increase the Velocity of Mortgage Money and Instill Confidence in the Public
2. Have the FHLB System Perform as Congress Intended
3. Get Housing Moving and Provide Jobs Without Appropriated Funds
4. Do it Immediately

One of the most persistent problems facing savings an loan associations during recent years—and currently—has been the undesirable narrowing of the spread between mortgage portfolio yields and the cost of association funds. This has been due, of course, to the inability of associations to increase yield returns on older mortgages in tandem with increased competitive market yields and the inevitable increased cost on funds the associations are able to retain.

While the variable rate mortgage might solve this problem in the future, or at least mitigate it, current cost squeezes require relief *now* to the maximum extent possible in order for our associations to retain maximum viability in the competitive world of the marketplace.

As one positive current effort towards solution to the earnings squeeze, the National League is urgently proposing to the FHLB Board and the FHLB System adoption of a program which will enable associations to transform low coupon mortgages in their portfolios made several years ago into significantly increased income producers.

Our program is simple (not complex), timely, self-liquidating in whole or part, and would make a singularly significant contribution to moderating the undesirable cost squeezes which too many associations are experiencing.

Simply stated, the program would involve the FHL Banks making advances from one to five years as the case may be, to member associations in an amount based upon a portion or all of the associations mortgages having an interest rate of 6.50% or less provided:

1. The mortgage was originated not later than 1967.
2. The advance rate is 6.50%.
3. The association remits *monthly* to its FHL Bank the amount of the monthly mortgage payment on each identified eligible mortgage under this program, *plus*

A. A remittance twice a year (or more often if so determined) of an additional amount sufficient to bring the interest income to the FHL Bank on the underlying mortgage to 6.50% per annum, and

B. An additional two semi-annual payments of 50 basis points on the amount originally advanced during the first year of the advance. In addition during each of the second through the fifth year the association would make two semi-annual payments of 30 basis points, such payments to be computed on the basis of the unamortized mortgage principal outstanding at the beginning of each year, including the first year.

C. The fees to be paid semi-annually including the additional interest required to equal 6.50% would be made in time to permit the FHLB System to meet its semi-annual interest cost.

The program would involve a slight subsidy on the part of the FHLB System, but the income leverage it would generate for participating associations would amount to from 5 to 10 times the System cost involved. Actually the use of the term subsidy may be a misnomer because in effect the annual average cost to the System would be equal to less than a one percent dividend on member stockholdings.

Table I sets forth the increased income to the associations and the expenses to the FHL Banks under the program. The assumptions underlying the income and expense projections are:

1. That the FHLB System can finance the program at a market cost during 1975 of no more than 7.50%. Interest earned on monthly remittances under the program would cover underwriting commission costs.

2. That associations could invest the proceeds at an interest rate of at least 9.00%, plus one point at mortgage origination.

(Both these assumptions appear valid for 1975 at this time.)

Table II shows the increase in association yields by interest coupon and year of origination which the program would generate. Association income would automatically increase by 200 basis points on designated low coupon mortgages during the first five years. Thereafter, just assuming that the increased interest income generated during the first five years was invested (at the end of the five year period) at only 7.00% the interest income derived from this source alone (interest on interest) would increase association yield during the remaining life of the mortgage, if any, as shown in the last column of Table II. Depending upon the mortgage coupon and year of origination the post five year yields would be increased from 137 basis points to 258 basis points.

As a practical matter the actual yield returns would exceed those set forth in the table because no allowance is made in the table for accelerated termination via prepayments in whole or in part of the mortgages involved. Considering the time elapsed since the mortgages were originated, the increase in real estate values and the reduction in mortgage principal during the intervening period, the mortgages involved in this program would not likely exceed in any instance 30% of current market value. Consequently any sale of the properties would probably involve complete refinancing of the mortgage even though there was no contract or other barrier to mortgage assumption. The down payment required for an assumption would be too high otherwise. As a consequence of these market realities association realized yield is likely to be increased further than shown in the table and the cost to the FHLB system is likely also to be less than set forth.

WHAT WOULD THIS PROGRAM DO?

1. It would immediately increase funds available for housing, aid the home buyer and the general economy.

2. There would be no cost to the Government.

3. Association's ability to compete for savings and hence additional home financing funds would be materially increased.

4. It would demonstrate that the solidly financed FHLB system with $2.5 billion of net worth was again dramatically using its resources for the benefit of the housing public.

5. Participating associations would not repay debt to the extent otherwise expected thus immediately making available substantial sums for home financing.

6. It would accomplish what even the variable rate mortgage would not, i.e., increase yields on past mortgages without cost to the borrower.

7. The program would be substantially self liquidating.

8. Associations could increase yields on past low rate mortgages without book losses or net worth adjustments via the future fee payments which would be remitted as earned on the new advances.

9. It would again demonstrate the awareness, ability, and desire of the Board, Bank System, and the savings and loan industry to effectively face up to and help solve the nation's housing problems without delay and without government assistance.

The Bank system would be lending its funds at an effective rate of 7.18% or 7.50% if there was no subsidy. The cost of the funds to the system under this program is just about equal to the average cost of system debentures which mature in 1975. The average rate on the $5.265 billion of system debentures maturing this year is about 7.42%, or 7.50% including underwriting commissions. If the entire debt maturing this year were paid off it would not decrease the average cost of outstanding debentures. It would actually increase the cost of outstandings. By retaining the funds in the system the average costs would remain the same assuming the 7.50% refinancing rate.

In view of the depressed state of the economy and the recent improved rate of savings flows it is highly likely that association repayments of advances could total $3 billion to $4 billion this year. Retaining these funds in the housing market via this program and even borrowing additional would have small impact upon the financial markets this year, but would have a very substantial impact upon the process of bottoming out the downward suction of the prevailing economic deterioration and contribute to an earlier business recovery by providing a real propulsion to the contracyclical benefits which housing can provide in this cycle.

We do not know precisely how many mortgages with interest rates of 6.50% or less remain on association books. A guess would be about $20 billion. We do know, however, that mortgage interest yields of 6.50% are returning nothing net to associations because the cost of funds and operating expenses equal or exceed that income in too many associations.

We are confident that this program will materially assist associations in meeting income problems. We know that there are certain periods in the market interest rate cycle and curves during which a program such as here proposed can be implemented successfully. This is such a time. We believe that the program should be commenced immediately in order to take advantage of the opportunity to refinance the impending $1.150 billion of February debenture maturities.

TABLE I.—EFFECT UPON ASSOCIATION AND FHLB OF PROGRAM OF ADVANCES AT 6.50 PERCENT PLUS DEFERRED FEES—ASSUMING NET FINANCING COST TO FHLB OF 7.50 PERCENT. ASSOCIATIONS TO REMIT PRINCIPAL REPAYMENTS AND INTEREST MONTHLY AND DEFERRED FEES EVERY 6 MOS.

	Association		FHLB
1st yr:			
Old mortgage	6.50[1]	Financing cost	7.50
New mortgage	9.00	Yield from association	6.50
Interest inc	2.50	Difference	—1.00
Fee earned	1.00		
Fee paid FHLB	1.00	Fee paid	1.00
Net increase	2.50	Net cost	0
2d yr:			
Increase	2.50		—1.00
Fee paid	—.60	Fee paid	+.60
Net increase	1.90	Net difference	—.40
3d-5th yr:			
Increase	7.50		—3.00
Fees paid	1.80		+1.80
Net increase	5.70		—1.20
Recap 5 yr:			
Net increase	10.1	Net cost	—1.60
Per year	2.02	Basis points	—.32
Dollar per billion (million)	20.02		—3.2
Per $6 billion (million)	$120.12		—19.2
Gross 5 yr (million)	$600.6		—96.0

[1] If coupon rate is less than 6.50 percent on association mortgage, it makes up difference to 6.50 percent.

TABLE II[1]

Year mortgage made	Years amortized to month in 1975	Original coupon rate	Next 5 yr of amortization of mortgage	Percent amortized during next 5 yr	Balance unamortized
1955	20	5.25	21–25	100	0
1956	19	5.50	20–24	81	19
1957	18	5.75	19–23	67	33
1958	17	6.00	18–22	57	43
1959	16	6.00	17–21	49	51
1960	15	6.25	16–20	42	58
1961	14	6.00	15–19	37	62
1962	13	6.00	14–18	33	67
1963	12	6.00	13–17	30	70
1964	11	6.00	12–16	27	73
1965	10	6.00	11–15	24	76
1966	9	6.25	10–14	21	79
1967	8	6.50	9–13	19	81
1968[2]	7	7.00			

[1] Above table based upon a 25-yr level payment mortgage with no prepayments or termination acceleration of any kind.
[2] Mortgages originated in 1968 and subsequent years all bear contract rates of 7.00 percent or more.

TABLE III

Year mortgage made	Coupon contract rate[1]	Yield 1975–80[2]	Yield remaining life of the mortgage[3]
1955	5.25	7.25	
1956	5.50	7.50	8.08
1957	5.75	7.75	8.97
1958	6.00	8.00	7.89
1959	6.00	8.00	7.79
1960	6.25	8.25	7.90
1961	6.00	8.00	7.58
1962	6.00	8.00	7.52
1963	6.00	8.00	7.48
1964	6.00	8.00	7.45
1965	6.00	8.00	7.41
1966	6.25	8.25	7.62
1967	6.50	8.50	7.46

[1] Contract coupon rate generally reflects rate prevailing during each year.
[2] Coupon yield increased by 200 basis points assuming a 9 percent mortgage investment plus 1 point.
[3] Yield computed on original coupon rate plus a 7 percent yield on the gross increased income during the 5 yr 1975–80—based upon the average dollar amount of principal outstanding during the past 5 yr 1975–80.

TABLE IV.—25-YR LEVEL MONTHLY PAYMENT MORTGAGE, YEARLY PERCENTAGE AMORTIZATION OF ORIGINAL MORTGAGE PRINCIPAL AT SELECTED INTEREST RATES

Amortization year	Mortgage interest rate 5.00	5.25	5.50	5.75	6.00	6.25	6.50
8 to 9	2.92	2.87	2.81	2.76	2.71	2.65	2.60
9 to 10	3.07	3.02	2.97	2.92	2.87	2.82	2.77
10 to 11	3.23	3.19	3.14	3.10	3.05	3.00	2.96
11 to 12	3.40	3.36	3.32	3.28	3.23	3.20	3.16
12 to 13	3.57	3.54	3.51	3.47	3.44	3.40	3.37
13 to 14	3.75	3.73	3.70	3.68	3.65	3.62	3.59
14 to 15	3.94	3.93	3.91	3.89	3.88	3.86	3.83
15 to 16	4.15	4.14	4.13	4.12	4.11	4.10	4.09
16 to 17	4.36	4.36	4.37	4.37	4.37	4.37	4.37
17 to 18	4.58	4.60	4.61	4.63	4.64	4.65	4.66
18 to 19	4.82	4.84	4.87	4.90	4.92	4.95	4.97
19 to 20	5.06	5.11	5.15	5.19	5.23	5.27	5.30
20 to 21	5.32	5.38	5.44	5.49	5.55	5.60	5.66
21 to 22	5.59	5.67	5.74	5.82	5.89	5.97	6.04
22 to 23	5.88	5.97	6.07	6.16	6.26	6.35	6.44
23 to 24	6.18	6.30	6.41	6.53	6.64	6.76	6.87
24 to 25	6.50	6.63	6.77	6.91	7.05	7.19	7.33
25	6.83	6.99	7.15	7.32	7.49	7.65	7.82

Source: Thorndike Encyclopedia of Banking and Financial Tables.

NATIONAL URBAN COALITION

By Walter N. Rothschild, *Chairman*

The economic report of the President contains, perhaps, the most discouraging prognosis of the Nation's economy ever issued in the history of the document. The discussion of economic developments in 1974 reveals very clearly the precipitous decline in output and production, and the unfavorable prospects for improving the situation significantly within the next year. The following comments are based on a consensus projection of economic activity through 1976, drawn from the major econometric forecasts currently used by numerous banking and securities analysts. It seems that over the course of the next year, the economy can be expected to grow at a real rate; that is, value of GNP adjusted for change in the price deflator, of 5 percent to 6 percent. In addition, the rate of inflation is expected to decline to a range of 5 percent to 7 percent with somewhat more relief in the price of food than in durable goods. Interest rates are expected to continue downward and a greater quantity of funds will be available for housing construction. The full degree of change in money markets will depend heavily on what the Federal Reserve Board does about the money supply. Although it is uncertain, many economists expect the Federal Reserve Board to finance the recovery and, in fact, evidence recently disclosed by the Open Market Committee shows that the Federal Reserve Board moved to expand the money supply significantly last January.

The critical factor in the current projections, and one of major interest to the National Urban Coalition, is the expected trend in unemployment. The economic report of the President (ERP) suggests that unemployment will remain above 6 percent through 1976 and may fall below 5 percent only by late 1977. This rather pessimistic projection may not be fully accurate, and many economists expect the unemployment experience may be worse than that discussed in ERP. Our expectation is that unemployment will remain at or near 8 percent through 1976, and may be well above 6 percent through most of 1977. Further, it would not be surprising if the economy dipped back toward a minirecession in late 1977, thereby worsening the unemployment picture.

The implications of the poor performance of unemployment are disturbing to the National Urban Coalition constituencies. First, there is every likelihood that the unemployment problem among young, black teenagers will worsen. In fact, if the current economic projections are fulfilled, an entire generation of black teenagers, especially those in the inner city, will reach adulthood without ever having held a full time job. This will be terribly detrimental to their future job careers and lifetime earning potential. Quite beyond that, however, are the implications of large scale teenage unemployment for civil order and tranquility. We should recall that the 1968 Report of the National Advisory Committee on Civil Disordders (Kerner Commision) found that "Negro males between 15 and 25 were predominant among rioters. More than 20 percent were unemployed, and many others were employed in intermittent, low status, unskilled jobs which they regarded as below their education and ability." I have attached a recent article from the Philadelphia Inquirer pertaining to this issue.

Another aspect of this problem is the impact of unemployment and slow economic growth on poverty. The ERP suggests that unemployment is not a major cause of poverty. This analysis, however, is correct only when applied to the relatively mild recessions experienced in the recent past. Surely, unemployment of the magnitude currently experienced, even with higher levels of income maintenance, will drag more families into poverty.

Finally, as regards solutions to the current problems, it is essential that we dispel the notion that temporary public sector jobs can significantly relieve the problem of unemployment. Public sector jobs must be a part of any reasonable solution, but must be matched by other public policies. Among those we would suggest are:

1. Expanded public works programs concentrated especially on the inner city. This would provide capital to facilitate the expansion of public sector jobs, and would help improve the quality of housing and public facilties in low income areas of our major cities.

2. Special tax incentives for industry to hire the disadvantaged, but in jobs that offer significant opportunities for investment in human capital. This would help create jobs for young people and, perhaps, encourage them to remain in school or in work-study programs.

3. An antirecession grant to State and local governments. Additional Federal assistance to State and local governments will help preserve public services and the jobs of public employees. The evidence shows that many blacks are employed in the public sector. Their economic security will be seriously eroded if the local governments are not given some relief for the shortfall of revenues stemming from the current economic crisis. A special revenue sharing distribution—that is, over and above current general revenue sharing entitlements—for each 1 percent increment in the national unemployment rate above 4 percent would help in confronting this problem. Thus, State and local governments with the largest increases in unemployment should receive proportionately greater assistance.

4. The unemployment compensation system should be revised to cover permanently those who are now covered temporarily under the Emergency Jobs and Unemployment Compensation Act of 1974. It is simply unconscionable that those not regularly covered before should bear the full brunt of fluctuations in the national economy. The Nation must finance such benefits from the general fund. Common decency and humanity demands that it be done.

NEW YORK CHAMBER OF COMMERCE AND INDUSTRY, COMMITTEE ON FINANCE AND CURRENCY

The New York Chamber of Commerce and Industry is honored and pleased to submit a statement for the record of the Joint Economic Committee's hearings. The New York Chamber of Commerce is the oldest organization of its type in the United States, having been founded in 1768, 8 years before our independence. The New York Chamber's membership of approximately 3,000 includes a great number of this Nation's major corporate enterprises. New York is the headquarters for many of our largest national and multinational companies, the center of our Nation's leading financial and investment institutions and historically it has also been the focal point of our international trade and commerce. Accordingly, our membership is broadly representative of these vital areas of the business community.

1. Basic Statement

Our committee has stressed for years that the United States needs a steadier, a more stable, economic policy. There is increasing evidence that wide swings in economic policy themselves induce increasing and wider fluctuations in the economy. Thus, the relatively moderate overexpansion and inflation of the late 1960's was followed by a moderate recession in 1969–70. The exceptionally strong expansion of 1972–mid-1973, however, was associated with the worst inflation in our modern history by late 1973, which has now been followed by the most severe post-World War II recession.

We have no doubt that the relationship between the degree of inflation and subsequent recessions here noted is not a simple one. It is clear that inflation worsened in 1974 in good part because of the sudden quadrupling of world oil prices and not because of domestic overexpansion. Nevertheless, the consequences in terms of excessive business stockpiling and of shattered consumer confidence and subsequent recession were the same. Moreover, there is strong evidence also from earlier history—including the 1920's and the 1930's—that very rapid advances in prices, even if accompanied temporarily by the euphoria of rising employment and real incomes, invariably lead to severe setbacks in business action. Furthermore, within the widening swings of the cycle a severe problem of an updrift in the inflation rate has developed. While price increases moderate during recessions, the inflation rate fails to return to its best performance of the previous cycle.

Therefore, we urge again that economic stabilization—a sustainable rate of real growth—be given the highest priority in shaping economic policy. We must, of course, take proper measures to combat the recession. But we should do so without risking a recovery in business ac-

*A list of the members of the Committee on Finance and Currency of the New York Chamber of Commerce and Industry appears at the end of this statement.

tivity so speedy as to put early pressure on the economy's available resources. Doing so would rekindle the barely subsiding fires of inflation. Therefore, despite the severity of the recession, we cannot recommend an all-out drive toward restored full employment of our labor force and factories.

It follows that the emphasis in fiscal policy should be on temporary and reversible measures to combat the recession. Similarly, while monetary policy should now be expansionary it must be kept flexible and not forced into an expansionary posture permanently.

2. Fiscal Policy

We find much to recommend in the President's tax proposals, but we also find much merit in the counterproposals advanced in the House Ways and Means Committee. It appears to us that, while the exact amount of 1974 tax rebates and of 1975 withholding tax cuts is debatable—as is the precise proportion of each—the fundamental point is that prompt action is required. Therefore, we endorse a package of the two tax measures aggregating $20 to $25 billion on an annualized basis and urge rapid enactment. We prefer weighting the tax package in the direction of 1974 tax rebates in order to stimulate the badly depressed automobile and depressed consumer durable industries and housing, and in order not to deprive the Federal Government of revenues which will be needed for the noninflationary financing of expenditures in future years.

The size of the appropriate permanent tax cut therefore also depends heavily on the future trend of Federal spending. We believe that Government expenditures in excess of those in the President's 1976 budget should be deemed reason for cutting back the size of planned permanent tax reductions. Moreover, we urge that congressional tax and expenditure plans that will impact for several years ahead be subject to examination and comment by the newly established Congressional Budget Office. Now that this office exists, it should be utilized fully at this crucial juncture to gain perspective on the implications of present actions for future years.

In addition to the changes in personal income taxes, we back an increase to 10 percent in the investment tax credit and urge that it be made permanent. This will serve both to stimulate a recovery in business action, and to help to combat inflation over the longer run. Variations in this device have not proved out as an anticyclical measure.

We would also favor a reduction in the corporate tax rate, provided such a reduction can be fitted into a budgetary program avoiding deficits over and above the stimulative measures we have endorsed above. We can see no objection to a further modest favoring of small business if the associated revenue loss is kept small.

3. The Energy Package

Our committee has serious reservations as to the practicality of the President's energy package, which depends on an intricate meshing of tax increases upon imported oil with corresponding tax reductions in other directions. The timing of the enforced lessening of dependence on foreign oil, if done soon, could well counteract the effects of the stimuli which also depend upon new legislation.

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We suggest a delay and consideration of alternative plans that would place less of a burden upon the aggregate economy. We cannot endorse gas rationing, except as an emergency device, but we do urge full hearings and consideration of a substantial additional Federal gasoline tax. Such a tax could make a beginning in achieving the ultimate goal of lesser dependence on foreign oil, and the proceeds could be used constructively in furthering mass transit, which clearly is badly needed and possibly in research projects to develop new sources of energy.

We also urge consideration of an appropriate procedure for the gradual lifting of domestic oil and natural gas prices, with or without eventual full decontrol. The serious supply constraints imposed by present laws and regulations are clearly counterproductive to project independence even if that goal is pursued only in attenuated fashion.

4. Monetary Policy

The Federal Reserve System has on the whole performed well under very difficult circumstances. Federal Reserve "independence within the government" should be preserved; and we would resist mechanical guidelines for, and restrictions upon, monetary policy. Such guidelines and restrictions may turn out to be highly inappropriate within a few years or perhaps even months.

The Federal Reserve is clearly attempting to provide a financial environment supportive on economic recovery. We endorse the recent easing of monetary policy, and we are confident that the monetary aggregates will resume stronger growth as soon as the depressive effects of business loan weakness are offset by the expansionary effects of the huge Treasury borrowing now under way.

We therefore urge strongly that the Federal Reserve not be forced to engage in near-term overstimulation, which would be bound to require a shift to future excessive restriction. The Federal Reserve can and should make a major contribution to the steadier economic policy stance we advocate.

5. The Financial Markets

In our 1974 Statement to the Joint Economic Committee we gave special attention to the Nation's financial markets, centered in New York City. We warned that inflation was eroding confidence in all financial assets. We warned that long-term borrowers would run into difficulties unless price level stability was given higher priority by the Government.

We now know that these warnings were appropriate. A painful economic readjustment is under way. The weakness of many company balance sheets and badly eroded corporate liquidity positions have become fully exposed. Yet, sound businesses are in a position to borrow and are in fact being readily financed. At the same time, home mortgage financing has eased considerably. There are great long-run benefits in a financial environment in which borrowers and lenders alike will be more cautious.

Meanwhile, we back the special attention to problem situations given by the Nation's financial authorities, with the basic aim of preventing individual problems from developing into a generalized economic crisis. The Federal Reserve and the FDIC have made an outstanding contribution to this end over the past year. We urge the Congress to permit the quiet but effective work of these agencies to continue, under proper congressional supervision, and without the establishment of new government entities.

In conclusion, we would call the attention of the committee to the fact that our major economic problems today stem, in large measure, from a long period of misguided Government policies, particularly fiscal policy. There is a real danger at this juncture that impulsive and overly aggressive government action may again set the stage for inflationary troubles once recovery sets in—which in our view it is bound to do.

MEMBERS OF THE COMMITTEE ON FINANCE AND CURRENCY

Francis H. Schott (chairman), vice president and economist, the Equitable Life Assurance Society, of the United States.
Robert F. Bennett, assistant director of finance, the Port Authority of New York and New Jersey.
George T. Conklin, Jr., president, the Guardian Life Insurance Co. of America.
Orson H. Hart (vice chairman), vice president and director of economic studies, New York Life Insurance Co.
George Hitchings, vice president and director, MacKay Shields Financial Corp.
Milton Hudson, vice president, Morgan Guaranty Trust Co. of New York.
Yves-Andre Istel, general partner, Kuhn, Loeb & Co.
Edward John Kirwin, vice president, secretary and treasurer, Martin Simpson & Co., Inc.
George Keyt, economist, General Motors Corp.
Charles E. Lilien, executive vice president, Wells Fargo Bank International.
Charles Moeller, Jr., senior vice president and economist Metropolitan Life Insurance Co.
Austin S. Murphy, chairman and president, East River Savings Bank.
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James O'Leary, vice chairman of the board, United States Trust Co. of New York.
Robert Ortner, vice president and economist, the Bank of New York.
Norman C. Ramsey, chairman of the board, Prudential Savings Bank.
C. H. Reing, economist, Mobil Oil Corp.
Charles E. Saltzman, partner, Goldman Sachs & Co.
Malcolm D. Stricker, vice president, finance, Provident National Corp.
John C. Van Eck, president, International Investors, Inc.
Hans A. Widenman, partner, Loeb, Rhoades & Co.
Walter R. Williams, Jr., chairman, Union Dime Savings Bank.
John D. Wilson, senior vice president, the Chase Manhattan Bank.
Donald E. Woolley, vice president, economics division, Bankers Trust Co.
Andries D. Woudhuysen, executive vice president and director, Drexel Burnham & Co., Inc.

CORPORATE ACCOUNTABILITY RESEARCH GROUP

By RALPH NADER *and* MARK GREEN*

REFORMING THE CORPORATE ECONOMY: THE CASE FOR FEDERAL CHARTERS

Concern over corporate activities is rising. Economic concentration and monopolistic practices, inflation and recession, the energy "crisis," environmental pollution, product safety, occupational health, advertising and deception, corporate secrecy, corporate crime, corporate responsibility—the list of inquiry is long. But while focusing on these behavioral effects, it is important also to consider the structural causes of corporate depredations. Where did the corporate form come from? From whom does the corporation get its legitimacy today? Who should bestow that legitimacy?

A corporation may "have no soul," as Edward Coke intoned in 1612, but legally it must have a body. In order to exist it must obtain a charter. A corporate charter is in effect an agreement whereby a government gives the corporate entity existence and that entity, in return, agrees to serve the public interest. Up to the late 1870's, States granted charters to corporations under carefully circumscribed conditions. For example, corporations could not own the stock or assets of other corporations, were granted existence only for a specified period of years, and could not do business or own property outside the State in which they were chartered. These limitations, according to a recent commentator, reflected a prevailing fear "that a corporation was only an artificial personality and therefore did not have a soul or conscience. Lacking a conscience, it had no morals and was prima facie dangerous." So long as corporations remained local, contained by the charter's restrictions, States still maintained the control they considered necessary for the public interest to be served.

But corporations did not stay local. What these restrictions aimed to avoid is precisely what occurred. In order to attract resident corporations, States made their incorporation laws increasingly permissive. The winner of the race for corporate citizens went to the State of least restriction, and the early victor was undoubtedly New Jersey. In 1866 is allowed its corporations to hold property and do business outside the State; by 1875 it has dispensed with its ceiling on the amount of authorized capital. During the 1880's, in a critical move, it allowed corporations to hold and dispose of the stock of other corporations. The result: between 1888 and 1904, 192 of 345 American companies with capitalization in excess of $1 million took out New Jersey charters. New Jersey became the home of the infamous Standard Oil

*Ralph Nader is the noted consumer advocate. Mark Green, a lawyer and the author of several books on law and corporate regulations, is the director of Mr. Nader's Corporate Accountability Research Group.

Trust, and holding companies declared illegal in other States simply transferred their property to corporations organized under the law of New Jersey.

But New Jersey's dominance was only temporary; Delaware was not to be denied. As an 1899 law review article notes:

> [The citizens of Delaware] had their cupidity excited by the spectacle of their northern neighbor, New Jersey, becoming rich and bloated through the granting of franchises to trusts which are to do business everywhere except in New Jersey. In other words, little Delaware . . . is determined to get their little, tiny, sweet, round, baby hand into the grab-bag of sweet things before it is too late.

Delaware's business code of 1899, drafted by a financial reporter and three corporate lawyers, enacted most of New Jersey's liberal code and then some. In a version of Gresham's law, Delaware thus took over the lead in the incorporation game, an advantage it has not to this day relinquished.

In a sense Delaware succeeded too well, since imitative States began to take some of its business away. Although by 1960 one-third of the top 600 industrial corporations were headquartered in Delaware, the State decided to loosen its business code still more. A revision commission, formed in 1964, attempted, in its words, "To ascertain what other States have to attract corporations that we do not have." The basic redrafting was done by three private corporate lawyers working on Saturdays in their private offices. The full commission always assumed that the State legislature—which had to approve the new code—would be a rubber stamp. One member of the commission called the legislature "just a bunch of farmers." No hearings were held on the final statute, and it passed the Delaware legislature unanimously on July 3, 1967.

The new code contained many liberalizations for corporate managers: only directors, not shareholders, could propose amendments to the charter; annual meetings need not be held; officers and directors could be indemnified for court costs and the settlement of criminal and civil cases without shareholder approval. These "reforms" achieved their purpose. Delaware had been chartering corporations at the rate of 300 a month before the new code's enactment; the figure jumped to 800 registrations a month directly afterward. Today, 73,000 corporations have their birth certificates on file in Dover, Delaware, a number including one-third of all the companies of the New York Stock Exchange and 50 of the top 100 industrial corporations.

"The sovereign State of Delaware is in the business of selling its corporation law * * *" said the Pennsylvania Law Review recently. "In fact, those who buy the product are not only consulted about their preferences, but are also allowed to design the product and even the factory."

The idea that the Federal Government should charter corporations is quite old. During the Constitutional Convention in 1787, James Madison twice proposed, unsuccessfully, that the Constitution expressly empower Congress to do so. By 1791 the Nation was debating whether to incorporate a U.S. bank. Jefferson argued that such a bank would overawe the States and permit vast consolidations of economic power to dominate our economic life. Jefferson won this battle, but lost the war, since great economic consolidations did come to dominate our economy, though via State and not Federal incorporation.

In the 1880's citizen protest built up against the economic and political power of the huge trusts. Some called for a form of Federal licensing of corporations in order to control their excesses. Instead, by passing the 1890 Sherman Antitrust Act, Congress relied on competition rather than regulation. Disillusionment soon set in, as courts handed down a series of restrictive rulings that robbed the Sherman Act of its potential strength. William Jennings Bryan in 1899 went on record as favoring a Federal license whenever a corporation wanted to conduct interstate business. Between 1903 and 1914, Presidents Roosevelt, Taft, and Wilson all voiced support for a federal incorporation or licensing scheme in their annual messages to Congress. The idea was endorsed by the 1904 Democratic and Republican platforms and the 1912 Democratic platform. Twenty different bills were introduced in Congress between 1903 and 1914.

Despite this array of approval, the Clayton and Federal Trade Commission Acts of 1914 became law instead of Federal chartering, support the latter never having coalesced at any one time. Taft had changed his mind about it by 1912, and the Senate Interstate Commerce Committee, after holding hearings on Federal incorporation in 1913, concluded in the final committee report that it was "neither necessary nor desirable at this time."

The depression brought new demands for overhauling the industrial sector. In certain respects, Franklin Roosevelt saw his National Recovery Act—NRA—as a form of federalizing corporations, since it provided "a rigorous licensing power in order to meet rare cases of noncooperation and abuse." There was brief talk during this time of going further, of replacing the NRA codes by the Federal chartering of large companies and trade associations. But the Securities Acts of 1933 and 1934—requiring full and accurate disclosure of material facts in a public offering and regulating the practices of the national exchanges—and New Deal regulatory schemes satisfied many who had looked to the Federal Government to reform corporations.

Nevertheless, the most sustained drive to date for Federal licensing occurred in the late 1930's. Senator Joseph O'Mahoney, a Populist from Wyoming, energeticaly and repeatedly promoted the idea of "national charters for national business." By emphasizing that "a corporation had no rights; it has only privileges," he sought to return to the days when charters policed, as well as permitted. He chaired the famous Temporary National Economic Committee hearings (TNEC) of the late 1930's, reiterating throughout his belief in Federal licensing. But the war checked any momentum O'Mahoney had generated.

Thus, at nearly every point in our history when Federal chartering was considered, an alternate remedy was prescribed. During all these periods, Federal chartering was prominent, topical and finally ignored. Clearly, it is an idea whose time has come—and come and come. Our present spectacle of corporate power abused makes it topical again.

The Federal chartering of giant corporations is necessary because State incorporation has failed. Even if State business codes and authorities did not so overwhelmingly reflect management power interests, they are no match for the resources of the great corporations. (General Motors, with 90 times Delaware's general revenues, could buy Delaware—if DuPont were willing to sell it.) "The century and a half of State failure," one observer has written, "has been the story of a battle between corporate giants and legal pygmies." To control national power requires, at the least, national authority.

At a time when the Federal Government becomes increasingly prominent in salvaging our unstable economy, it is an anachronism for the States to create corporations which operate in national and international markets. Quite simply, State borders are not relevant boundaries for corporate commerce, and State incorporation makes as much sense as State currencies or State units of measurements. In other federal systems—German, Mexican, Brazilian—firms that do business between the States or Provinces must be formed under Federal law.

There are procedural benefits to a system of Federal chartering. At present, a charter is an I O U which the corporation signs and then files and forgets. States do not review the firms they have created for violation of their birthright, nor do they impose sanctions for charter violations. In Indiana, A.T. & T., Penn Central and De Paul University all recently lost their corporate licenses to do intrastate business because they had failed to file annual reports. But no hearings were held and no fines assessed. Until the firms filed their forms, it was business as usual, although they had legally ceased to exist in Indiana. It is quixotic to expect State boards to have either the resources or the will to impose adequate sanctions. A Federal chartering authority would be far more likely to do so or would be more accessible to citizens demanding that it do so.

A Federal chartering agency could help to equalize the differences of burdens and benefits now experienced by corporations because of differences in State provisions. Incorporation fees, regulatory laws, charter stipulations—powerful corporations can threaten to run away to a different State it these items are not to their satisfaction. And it is easy to see why Textron in Rhode Island or DuPont in Delaware could make its host State anxious. A single Federal authority could end this corporate pitting of one State against another.

One can anticipate some of the criticisms to this scheme. Should the government manipulate the rights of private property? Not even the venerable "freedom of contract" is absolute, as the legal qualifiers of duress, coercion and unconscionability, and minimum wage, maximum hour and equal employment legislation have long made clear. It must be realized that private property is not a gift of the gods but a bundle of rights created by our Government; it hardly seems valid to condemn the Government for legally rearranging this bundle of rights when it created them in the first place. "[T]he corporation, insofar as it is legal entity, is a creation of the State," the Supreme Court has said. "It is presumed to be incorporated for the benefit of the public * * * Its rights to act as a corporation are only preserved to it as long as it obeys the laws of its creation."

Would Federal chartering merely increase the power of big Government; would it be socialistic? Since the guiding purpose of Federal chartering is to encourage corporate democracy and competition, it is the precise opposite of a centralized planned economy. To the extent that it attempts to make private firms more accountable to their shareholders and more responsive to competitors, it is a radically conservative idea. Right now we do have a type of corporate socialism, in which cooperating monopolies have freed themselves from the constraints of the competitive market and much law enforcement.

The bureaucracy created would be as trim and nondiscretionary as possible. The top 1,000 firms or so—measured by a combination of sales, asset size, market percentage, and number of employees—would be chartered, not the hundreds of thousands of small concerns which account for a small fraction of interstate trade; intrastate firms would not be affected. Manpower would thus be marshaled to confront the real problem area. The kind of charter provisions to be enforced would also be as objective as possible. Does the firm's percentage of the market exceed permissible limits or doesn't it; has the corporation provided profits and cost data per plant and division or has it not; did management triple its bonus without notifying the shareholders? There is no such thing as Government without any discretion; if there were, we would have computers as Cabinet officials. Yet, excessive discretion must be avoided or else the corporate regulatees would successfully shape their supposed regulators—the situation which now obtains.

What if, because of a Federal chartering law, many American firms simply left to incorporate in Bermuda or France? What if they treated us as they treat Canada: a place to do business but not to owe allegiance? Or could companies have no country at all? Carl A. Gerstacker, chairman of the Dow Chemical Co., told a White House conference in February 1972, that he looked forward to the day of the "anational corporation," one without any national ties which could, therefore, operate freely and flexibly around the world. Gerstacker revealed that Dow had for a decade been studying the possibility of locating on an island in the Caribbean. Any of these business runaways could claim that restrictions imposed on them were not required by, say, France, and would create legal conflicts with their charters there. To that, there is only one effective reply: The corporation and foreign government in question either complies with the conditions of the Federal chartering law or it cannot trade here. Since the American market is such a large percentage of the world market, we would have the leverage, if we had the will, to make this demand of expatriate firms and foreign authorities.

Assuming that the State incorporation laws are the problem and that existing antitrust mechanisms, regulatory agencies and securities laws are inadequately checking corporate power, a Federal chartering law seems the most plausible mechanism for achieving corporate accountability. What is needed is a new agency—call it the Federal Corporations Agency—to issue Federal charters for firms engaged in interstate business. What is needed is not a corporate bill of rights but a corporate bill of obligations. Herewith a sketch of possible provisions:

(1) Corporate democracy would reduce the dominance of the oligarchies commandeering most corporations. The potential areas of coverage are all those which, unchallenged, have permitted management to rule without regard to the wishes of its electorate. Such areas

include: corporate loans to officers and directors and other "interested" dealings; access to corporate records and easier use of the proxy machinery; cumulative voting, indemnification and compensation schemes; shareholder rights to amend the bylaws and charter; shareholder rights to nominate candidates for directors and the creation of public interest and community directors.

(2) Strict antitrust standards must be a condition of the charter. No corporation (unless it clearly proved itself a "natural oligopoly") would be permitted to retain more than 12 percent of an oligopolistic industry (a percentage recommended by President Johnson's antitrust task force). Large conglomerates should be permitted to acquire only toe-hold positions in concentrated industries and should be made to spin off assets equal in value to any they acquire.

(3) Corporate disclosure must replace secrecy. What are the earnings of hidden subsidiaries and consolidated divisions; who are the real beneficial owners of the corporations; what is the racial composition of employees and new staff; what product and safety testing has been conducted; what plans exist to meet pollution standards? Since the public is so intimately affected, answers to all these must be made public. Sharholders, investors and government officials need adequate information to act intelligently. If done extensively enough, a corporate information center could be developed, with data by firm, plant and product available on computer tapes to respond to significant topical questions.

(4) The corporate charter should "constitutionalize" the corporation, in Prof. Arthur S. Miller's phrase, applying constitutional obligations to this private aggregation of power. The logic for this proposal underpins Federal chartering: corporations are effectively like States or private governments, with vast economic purposes, should not endure such public power without public accountability. Our large corporations represent just the kind of concentrated power which the Constitution and its succeeding amendments aimed to diffuse. If the Constitutional Convention were held today, it would surely encompass America, Inc. It makes no public sense to apply the Constitution to Wyoming and West Tisbury, Mass., but not to General Motors and Standard Oil of New Jersey.

Unions, too, are private groups which have been legislated public power, but on condition that they behave democratically, with safeguards of due process (that they sometimes violate such safeguards is a problem of implementation, not construction). The same principle holds true for private corporations legislated public power. When a huge corporation deals with its employees, shareholders and outlets, "State action" principles require that it do so fairly. For example, the first amendment right to free speech means that an employee can publish material critical of the firm in a magazine or underground corporate newspaper; fourteenth amendment safeguards mean that if he refuses to perform an illegal task or if he blows the whistle on a corporate crime, he cannot be fired without a due process hearing, complete with charges and evidence; the fourth amendment would forbid the firm from searching his private belongings in the shop without a warrant. It is inadequate to depend merely on unions to guarantee these rights; they have enrolled less than a quarter of all employees; the other 75 percent deserve these protections.

Hovering over all these provisions would be graduated penalties for violation of the charter. Depending on the nature and frequency of the violations, penalties could run from small absolute fines to fines as a percentage of sales; from management reorganization to executive suspensions; from public trusteeship to the dissolution of the charter. A scale of sanctions must be developed to guarantee compliance with the charter.

In formulating a Federal Corporations Agency (FCA), care must be taken that it does not become as unresponsive and inefficient as some of the present regulatory and enforcement agencies. Lessons should be learned from the past; at the same time, it would be defeatist and irresponsible to urge no more Federal reform measures because some have failed. Many corporations go bankrupt, yet the corporation is still a viable legal structure for the production and sale of goods and services.

It is important to stress once more the objective nature of the FCA's standards. It would not involve itself in the imbroglios of rate determinations which naturally invite industry lobbying and a dependence on self-serving corporate data. However, the FCA should contain several provisions for shareholder and citizen suits—as now institutionalized in the Michigan pollution law—so that agency lethargy or inefficiency could be checked by interested citizens equipped with adequate tools. More liberal rights of intervention into government processes could similarly permit public interest lawyers to monitor any misfeasance or nonfeasance. Mechanisms still have to be provided to help insure that a "commissioner" of the FCA be vociferous, nonpartisan and independent. Furthermore, whatever the chances that an FCA could still become as inefficient as an ICC, it would have a great distance to drop before it became as supine and irrelevant as the present State chartering bodies.

While Delaware cannot dictate terms to GM an FCA could, but it is not inevitable that it would. Thus, a new Federal agency is a necessary but not a sufficient remedy. If it is badly organized with weak powers and no citizen access and participation, it will be ineffective. The form is crucial, and so are the powers. But most crucial of all is the effort—one required by the current state of corporate unaccountability. It is an issue whose time has come, and one we intend to actively promote over the course of the next few months.

SIERRA CLUB

By Brock Evans, *Director*, *Washington Office*

The Sierra Club very much appreciates the opportunity to testify on the subject of the economic situation of our Nation. Although we have worldwide interests, we are fundamentally an American institution, and our members are mostly American citizens. Thus, we share with our fellow Americans a common deep concern for the current economic situation, and want to do everything in our power to assist the Congress and the administration in efforts to improve it. We believe also that it is easily demonstrated that the necessary measures to improve the situation do not require either a weakening of the environmental standards which have been fashioned by previous Congresses, nor a large-scale program of unwise projects in environmentally harmful areas.

Finally, while the Sierra Club is concerned about the present situation and wants it to be remedied, we submit that there are opportunities for the Nation: opportunities to reassess our goals and values, and to plan for the future. In specific terms, we see great opportunities to use Federal moneys and influence to repair and restore some of our most ravaged yet potentially productive landscapes. And at the same time, there are other equally important opportunities to rebuild our transportation infrastructure in a manner that will not only employ many people, but will leave us in much better shape to face the difficult years ahead.

The subject of the President's Economic Report is indeed vast, and not all of it is within our competence as an organization to address. We would, however, like to make brief comments about two of the major topics as they affect environmental interests: the need to provide employment, and the energy situation.

The Employment Situation

It is recognized by everyone that large expenditures of Federal money will be required to stimulate employment opportunities. Federal subsidies to certain sectors of the economy of course are nothing new; but we submit that now is the time to rethink the nature and direction of such subsidies, and to think about channeling them into more productive and healthy directions than in the past.

In the past, for example, many Federal subsidies have gone to construct dams and canals and similar works for the benefit of the barge transportation industry around the country. These public expenditures on behalf of one industry have often caused great environmental damage, and have hurt or crippled another industry, the railroads, who have not enjoyed similar subsidies, and which is a more environmentally benign method of transportation. Massive Federal subsidies for the highway construction program have also had the same effects, both environmental, and upon other transportation industries.

We also know that environmental control is now a big industry, with many jobs being provided. It is estimated, for example, that over 150,000 people are now employed in the operation and maintenance of water pollution control equipment to the standards of the Water Pollution Control Act. An additional 20,000 persons are now employed manufacturing water pollution control systems, and 55,000 construction workers were on the job as of last fall installing waste water treatment facilities. As these and other pollution control programs gear up, even more people will be employed.

Thus it is apparent to us that the pollution control program should be continued and strengthened, not weakened. They not only add immeasurably to the quality of our lives and our health as a people, but also have a very positive economic impact. The same is true of other methods of Federal expenditure in the transportation field, mass transit and railroads for instance. Now that we are short of energy, and are likely to be for some time to come, it does not make much sense to continue to subsidize the automobile and transportation mechanisms which depend on oil. We hope that there can be much more Federal investment first in supporting mass transit systems around the country, and second to give more support to our hard-pressed railroads. Congress should take the opportunity now to dream and have a vision for our energy-short future: a vision of a rail network, at least in the eastern part of the country, as clean and fast and efficient as those which are commonplace in the countries of Western Europe. Such a program will not only provide the jobs nad economic stimulation necessary to alleviate the economic situation, but will leave us as a much healthier and more efficient nation in the years to come.

President Ford's Energy Program

The energy program of the administration is of course vital to our economic situation; indeed it cannot be separated from it. And because it has strong and often adverse environmental implications, the Sierra Club is very concerned about it.

We are particularly concerned about the implications of the oil import tax scheme, not because of its stated immediate purpose to reduce demand, which we very much favor, but rather because of its long-range intent: to stimulate domestic production of synthetic crude oil. As a general view, the Sierra Club has strongly supported use of appropriate price mechanisms in appropriate places to reduce wasteful consumption of scarce energy. We believe very much in the concept of pricing energy at its true cost, which means simply, the internalizing of the environmental and health costs now borne by the general public instead of being reflected in the price of the energy product.

But President Ford's program does not really take this approach. Rather, as he himself has stated, the aim is to eventually shift the United States to a synthetic fuels base, by creating a floor price for all oil—domestice and foreign—high enough so that producers will be inclined to invest in oil shale and synthetic gas from western coal. Present industry estimates of prices required for synthetics production include $15 per barrel for oil from shale and $4 per thousand cubic feet for synthetic gas from western coal.

Such a policy, in our opinion, have the greatest economic, environmental, and political risks for the United States. A U.S. move to synthetics would gamble that, in a world still relatively rich in oil and gas, other countries would have to pay as much for their energy as the United States would pay for its most expensive synthetic fuels. And it would probably require a great expansion of oil industry or Federal control over the U.S. economy to prevent less-expensive energy systems from competing with synthetic fuels within this country. Only a similar U.S. role in the world economy would let American industry, running then on high-cost synthetic fuels, survive competition with manufacturers in other nations operating on less-expensive oil and gas supplies.

The high capital cost of producing synthetic fuels will build into the economy pressures for guaranteed markets for the fuels. And while relative efficiencies in energy use would be stimulated to some degree by the higher cost of such synthetic fuels, genuine energy conservation—a reduction in overall use of energy—would conflict with the producing company's needs for a return on their investments. The large U.S. investment in synthetics could be protected only by making other energy systems absorb the losses caused by pressures for energy conservation.

The environmental impacts of oil shale production, strip mining for western coal, and coal gassification activities in the West have already been well documented. Not only are attractive landscapes blighted forever, but perhaps more importantly, areas which have and can contribute to the Nation's food supply will be ruined for this purpose. And all of these activities require great quantities of water from an arid land. In effect, the President's policies will ultimately lead, as we see it, to the designation of large areas of the West as free world sacrifice areas, when there are other alternatives to reduce energy consumption and promote wise use of the resources we have.

We note particularly that this Nation does have very large reserves of low-sulfur coal which can be deep mined, much of it in the eastern part of the United States. And there, the infrastructure, the labor, and the facilities to support large scale deep mining operations are already in place. They do not need to be constructed as they would in the West, causing immense and costly shifts of populations, with consequent heavy energy use. The coal is there, and it can be deep mined, with much less environmental cost. If there are going to be Federal subsidies for an energy program, it should be here.

At the same time, we could have a more proper pricing of oil at its true level, by eliminating some of the subsidies which the oil industry now enjoys, which constitute an unfair burden to the rest of society: the depletion allowance, the intangible drilling cost allowance, and the special tax treatment of imported oil.

Finally, we would hope that this Congress and the ones to follow will take meaningful steps to limit consumption, and to pass laws requiring better use of gasoline from automobiles, better insulation standards, and large investments in mass transit facilities. These measures, if adopted, will do much more in our opinion to ease the current energy crunch, and yet not leave us with a ravaged nation, with both food and energy resources exhausted, as we face an uncertain future.

COMMENT ON THE ECONOMIC REPORT AND THE STATE OF THE NATION'S ECONOMY

By JERRY VOORHIS, *Former Member of Congress*

Our Nation's economy is sick. It is sick because nothing remotely resembling equality of opportunity, any longer exists. The richest 5 percent of the population, owns 83 percent of all corporate wealth—and all the power; 1.2 percent of American families own 65 percent of all investments. By contrast that 50 percent of the people made up of the workers and the poor hold on the average less than $500 of savings or other liquid assets; 500 huge corporations control 75 percent of all manufacturing assets. All these statistics are from an exhaustive study by the Campaign for Human Development of the U.S. Catholic Conference.

This complete concentration of economic power in a tiny number of hands, and this utter powerlessness of most of the American people is partly the result of Government policies of subsidies direct or indirect to big industry amounting to some $60 billion a year, essentially regressive tax structures, failure to enforce antitrust action, extortionate interest rates, and profligate waste in military expenditures, to name only a few.

In order to shore up the sagging market for the products of big industry the Federal budget has been in deficit in every year but two since 1957.

"Free enterprise" hardly exists any more. Competition has been allowed to degenerate into monopoly in industry after industry and what is left of price competition is of little consequence in protecting the consumer's pocket book.

Any economy that requires a government to go $50 billion in debt to revive it is sick. Especially so when profits of many huge corporations are booming while farmers' incomes drop in many cases to ruinous levels. The national debt is being increased to more than half a trillion dollars—$500 billion. The taxpayers will soon be paying more than $35 billion a year in interest on the debt and that is more than half the total amount spent on all elementary and secondary education in the entire country. And this at a time when profits of oil companies have increased sixfold in the past decade. Those profits have come out of the hides of the people and of the few remaining competitive industries. Those sixfold profits account in large part for the present decline in living standards of the people. Had even a part of those profits been recovered by an excess profits tax it would not today be necessary to contemplate a $50 billion deficit.

Furthermore no one knows whether the $50 billion deficit will be enough. What everyone does know is that if the Federal Government goes into the existing so-called money market to borrow $50 billion it will almost certainly cause interest rates to rise even higher than their present usurious levels. And this could turn the present recession into a major depression. A bit of history may be helpful. All through the period of World War II and beyond it—in fact throughout both the Roosevelt and Truman administrations—interest rates on Government debt were held at 3 percecnt or less. This at a time when inflationary pressures due to the war were more intense than at any other time before or since. This was accomplished by having the Federal Reserve System Act, for once in its life, in the public interest and in accord with policies of the elected government: Fed provided a market for the low-interest Government securities if they could not be sold elsewhere. In short the Federal Reserve System, in this case, used its—probably unconstitutional—privilege of creating the Nation's money as a means of keeping interest rates low on government securities and thus saving taxpayers tens of billions of dollars.

As a result all interest rates did remain at decent levels until the Eisenhower administration took the lid off the Roosevelt-Truman policies.

Interest rates have been soaring ever since with disastrous consequences.

And now after a brief and insignificant reduction in prime rates the trend will almost certainly be for even higher interest rates an have yet prevailed.

This will doom homebuilding and other construction, slow down production generally, sharply increase the cost of doing business, and add to the inflation of prices and cost of living.

Money lenders and monopolists must not be allowed to strangle the United States of America. We must wake up to the basic economic fact that the fundamental cure for price inflation is a greater, not a lesser, volume of goods and services coming into the market.

The most basic reason why the $50 billion deficit is called for is, in a word—monopoly pricing. Some of that monopoly pricing is—it must be admitted—due to exorbitant wages and salaries paid to some crafts and certainly to corporation executives. But mostly it is due to the fact that the economy has been allowed—at time encouraged as in the Nixon years—to fall into the hands of a few huge monopolistic corporations which are able to exact all the traffic will bear in prices from the people. Most worker —have been losing buying power as a result and this largely explains the wave of strikes. Monopoly, or administered pricing makes necessary continuous and ever larger injections of debt-based money into the economy in an attempt to compensate mass buying power of the people for what has been taken from them by monopolistic pricing, and thus to shore up a stagnating economy. This is a main reason for the continuance of deficit financing.

If we are to save what little is left of free enterprise, if we are to prevent national financial disaster, two things must take place, among others.

First the throttling of the economy by monopolies which always seek scarcity of their particular products has got to be stopped. There are two ways to do this. First, by the most effective and drastic enforcement of the antitrust laws. Conglomerates like the oil companies should—and probably could under existing law—be required to divest themselves of ownership of other forms of energy production. Since the energy problem is central to all others no corporation should be allowed to control more than one sources of energy development. Nor should the kind of vertical integration enjoyed by major oil companies be permitted to continue. The majors should be forbidden, for example, to own a single retail outlet.

And, the all important point, we cannot and must not depend for solution of the energy problem upon agencies like the oil, utility, and other monopolistic corporations whose obvious and continuously pursued interest is in a scarcity of energy and who have spent their lifetimes fighting development of alternate sources of energy or indeed an abundance of supply of their own. This is only one example. Second, effective competition must be restored, by the encouragement of rapid growth of user-owned cooperatives and by the establishment of publicly owned TVA's in the most critical industries like transportation, oil, and other energy sources. Instead of bailing out, with billions of taxpayers money, such corporations as the Penn Central and Pan American the Government ought to take them over and run them as public services. It's high time the same was done with the Post Office, incidentally. The only agencies that can be depended on to overcome scarcity are agencies that have a natural interest in overcoming scarcity. The measures here proposed are drastic and radical. Only such measures are adequate to the needs of our tragic times.

Second, it is ridiculous to saddle the Nation with additional interest-bearing debt in order to bring about revival of production. Revival of production will lead to increased tax revenues to the Government. The Nation should, in effect, capitalize on that increased revenue. Instead of letting the banks create the needed money, as they now do, and forcing the taxpayers to pay exorbitant interest on the Nation's—and the people's—own credit, a further step than Roosevelt and Truman took, should be taken.

The Federal Reserve System which has been allowed to usurp the sovereign power of money creation should be required to purchase from the Government sufficient non-interest bearing bonds to provide what funds are needed to stimulate the economy. For once the nation should use, not borrow, its own credit. This would prevent the Government going into the market to borrow $50 billion. It would have the effect down all interest rates instead of escalating them. It would save taxpayers some $3 billion each year from now till approximately doomsday. Then and only then could there be any hope of working our way out of the morass into which industrial and financial monopoly plus our immoral and unconstitutional monetary system have plunged this Nation. Then and only then could we escape the devastating inflationary effect of the U.S. Government going hat in hand to private money creators in an attempt to borrow $50 billion of its own credit.

Jobs for the unemployed are correctly regarded as first priority. Nothing is more unjust than to tell a man he cannot work to support his family. Mass unemployment is no cure for price inflation. The Nixon administration tried this incredibly cruel method and the inflation was made worse. Understandably because as more and more people lose their jobs production declines, the supply of goods and services is reduced and the most constructive answer to inflation cannot operate.

How then should the Government act to get our unemployed back to work?

Well first let us consider some ways it ought not to act.

It should not act to further reduce the living standards of the most hard-pressed people in the land.

It should not, for example, impose a ceiling of 5 percent on cost-of-living increases in social security payments which are the only income of millions of aging Americans.

It should not increase the cost of food stamps or eliminate people from eligibility when food stamps are a means of somewhat improving the diets of millions of people who today can barely afford enough good food.

The Congress must not permit the administration to carry out its incredible proposal to cut the school milk program almost in half—thus preventing thousands of schoolchildren from having needed nourishment and forcing more of our dairy farmers out of business.

Congress has been right—1000 times right—in opposing the administration's proposal to decontrol oil and gas prices and impose heavy duties on imported oil thus increasing the cost not only of gasoline but of oil for the heating of homes and the fueling of farms and industries. The places to strike at environmental pollution and at indefensible overconsumption of exhaustible oil resources are at the oversized automobile and unnecessary driving. Therefore the increasing of taxes on gasoline consumed over and above a necessary minimum is a correct approach toward which the Congress has been pointing. For this would not increase the cost to consumers of home heating oil or of the products of farms and industries. And it would penalize excess consumption of gasoline.

Some form of honest rationing in accordance with real need is going to become necessary soon. Probably the sooner it is instituted the better.

To summarize; any measure which reduces the buying power of middle-income Americans or of low-income families will not put our unemployed to work. Instead such measures will deepen the recession by curtailing the market at the very points where it ought to be expanded.

The "trickle down" theory of economic recovery whereby the rich are made richer in expectation that crumbs from their tables will somehow feed the rest of us has never worked. It won't work now.

Economic recovery can only be achieved if it springs from the grassroots— that is if it is based on increased buying power and welfare of the people who must spend their incomes in order to live.

Incentives to increased investment in machinery make very little sense when a large percentage of the machinery our industries now have is idle.

To propose as the administration's budget does to increase military extravagance by $15 billion and cut social programs by almost that same amount is indicative of an utterly distorted scale of national values. It is also bad economics.

Money spent on military overkill employs dollar for dollar less than half the number of workers that would be employed if those dollars were spent, for example, on education or home construction. And money spent on moonshots employs only about one-tenth as many.

What then are the measures that should be taken to get our unemployed back to work and thus to break the back of the recession at the most logical and most effective point?

Well first of all both Congress and the administration are to be thankfully commended for initiating and expanding the public service employment program. Congress tried to do this in 1971 with the Nelson-O'Hara bill but President Nixon vetoed it. Had he not done so the subsequent economic history would have been far different and far better. Public service jobs are geared to the very kind of services most needed by the nation and they therefore serve a double purpose.

But here it is proposed to carry the concept of public service a step further toward what would seem its logical goal. For the one "public service" which is of paramount importance is the saving of the environment of the Earth. Unless that is done nothing else will matter very much. And to date most of the proposals for overcoming the looming energy shortage will add to the pollution which now threatens the Earth's air and water.

Environmental protection standards are being attacked and weakened all over the place instead of adequate conservation measures being applied in earnest. The all-important conservation and environment-saving measure that is needed is reduced use of private automobiles. And that spells development of cheap, efficient, reliable mass transportation all over the Nation. Beginning in most places with effective use of our existing rail system. It's time someone pointed out that the United States is the only country on Earth which does not own its own railroads and operate them as a public service. It is also the only country whose railroads are deteriorating every day and in many cases bankrupt. One of the few places where the railroads are not in trouble with passenger service is in the commuter lines that serve the city of Chicago and its suburbs. There the roads have tried successfully to provide good service and most of them are making money doing so. Cannot this example be duplicated elsewhere? By an agency that wants to do it—namely an agency of the public itself.

Efficient use of existing rails will of course not by itself provide the entire pattern of mass transportation which is needed. Other means will also be necessary.

But a public service employment that should be undertaken in a crash program is development of a national system of mass transportation to make the present profligate use of private automobiles unnecessary. Were such a program successful there might well be as much employment for auto workers making buses and other mass-transport vehicles as there is now in manufacturing internal-combustion engines. And there certainly would take place the employment of great numbers of workers of every rank of skill, including the thousands of presently disemployed engineers and technicians.

The kind of public service employment that should have first priority, however, is development of clean nonpolluting sources of energy. Here we are not referring to nuclear power plants, whose efficiency becomes more and more doubtful as practical experience is gained. If such plants were safe for future human life some agency—a consortium of insurance companies or the U.S. Government—would be willing to insure communities against accidents. But no one will. This, however, is not the main point. Proponents of nuclear power—especially of fast-breeder reactors—continually try to divert attention away from the real and ever-present peril by presenting alleged facts about the remoteness of the chance of major accidents. They avoid the far more likely danger of nuclear materials and nuclear knowhow which we are now spreading all over the world—falling into the hands either of outright criminals or of people like the Arab guerrillas or some irresponsible dictator. And they seldom mention the one problem for which no one—repeat no one—has even begun to come forward with an answer. That is the problem of disposal of ever escalating volumes of lethally radioactive wastes. To quote the eminent Nobel Laureate Professor George Wald: "Where is there a place on Earth where we can guarantee geographic, geological and political stability for thousands of years?" The question answers itself. There is no such place.

Almost all the emphasis of the administration's proposals for solving the energy problem has been on a most rapid using up of the supply of fossil fuels—coal and oil—together with the fantastic proposal for hundreds of fast-breeder nuclear reactors.

There is a far, far better way. It may take a few years longer. But its results would save the Earth as a home for man and would have additional incalculable benefits. This better way is a crash program for the development of clean, nonpolluting energy sources. First and foremost should come full development of hydroelectric power. Here is a proven source whose benefits have been almost incalculable. Yet it has been almost completely neglected in the past several years. Exactly what its remaining potential is may not be known. Certain it is that if all feasible sites were exploited a very considerable dent could be made in the Nation's energy needs. And falling water is an inexhaustible resource.

As for power from the mighty ocean tides we have done nothing. But France has a highly successful project that harnesses tidal power. Why not copy it?

We do know that geothermal power can practically be developed for this has been done in one or two places in our own country and also just across the California border in Mexico. The trouble here is that many of the best potential sites have been leased to oil companies which are almost the last people who will make an honest effort to develop them.

Anyone who has lived on the Great Plains can testify to the mighty power of wind. And competent scientists have estimated that as much as half the power needs of west-central America could be supplied from the winds if their power were harnessed. Windmills have been producing power for a good many centuries—always in a primitive manner. Surely modern technology could make some vast improvements on their efficiency.

The point is that we have not really begun to try to develop energy from clean inexhaustible resources. And that there could be no better way to revive the economy than to mount a massive drive so to do.

The way in which the energy crisis is resolved will decide two ultimate questions. The first is whether major nuclear wars over dwindling resources of fossil fuels and uranium supplies will or will not sooner or later become inevitable. The second is whether the Earth is to be a safe home for life, including human life.

If reliance is placed on fossil fuels not only will the cost of energy skyrocket to untold levels, but in the course of the forseeable future there will loom the distinct possibility of actual war over access to dwindling supplies.

If we depend on proliferation of nuclear power plants there is, in addition to those already mentioned another danger. The supply of uranium is decidedly limited and the time will come when international conflict will almost certainly arise over control of uranium supplies.

On the other hand there have been bestowed upon mankind by our Creator sources of energy which are limitless, completely non-polluting and which await only the application of the best of available technology for their development.

To fail to develop these sources will be the most unforgivable act of neglect in the long history of man.

The mother source of all the energy of the Earth of every kind is the Sun.

It is to be borne in mind that scientists employed by the Atomic Energy Commission itself prepared a report which stated that if sufficient resources were devoted to the project 30 percent of the Nation's energy needs could be supplied by solar energy within 5 years.

That report was suppressed by the Atomic Energy Commission and the Nixon administration.

Why? Did oil money "talk"?

The Sun provides the Earth with energy each day that is so far in excess of any other source as to defy comparison. Furthermore the Sun spreads its light and heat upon all nations and all regions and—significantly—most of all upon the most impoverished parts of the world. No nation could possibly monopolize solar energy for this reason. Wars could never be caused by an attempt of any power or powers to control it. Its price could never be rigged by any monopolist or group of monopolists.

It is not too religious an emphasis to speculate that this—the energy of the Sun—is the source the Creator intended to be man's principal reliance.

The Bulletin of the Atomic Scientists for November 1974 reproduces a cartoon from the Chicago Sun-Times. It shows the Sun shining down on three distressed human figures. One is feverishly digging coal, another plunging for oil, a third tinkering with a nuclear reactor. The Sun is saying "Look up, you fools."

This witness is no scientist. But I have studied enough of scientific treatises and findings to be convinced that if a crash program comparable to the Manhattan project which developed the atomic bomb were launched to develop solar energy it could become a major source of energy for the Nation within a few years' time.

Congress has enacted excellent preliminary legislation aimed at bringing about such a result. But a crash program of the magnitude which the needs of the time demand we do not yet have.

It should be the No. 1 priority.

Were such a project undertaken, it should be regarded as an investment of the Government—not as outright expense. For it should not be entrusted to any of the agencies—such as major oil companies or utilities which have fought development of every alternative source of energy all their lives. Such a grand-scale attempt to save the Earth for mankind must be an undertaking of the U.S. Government and all benefits from the development of solar energy must be preserved for all the people through ownership of all rights, properties, patents, and the like by the Government of our country.

The question that must long since have arisen is of course "How could such a massive program be paid for"? But a more pertinent question would be "How badly do we want to save the Earth and solve the energy problem and break the back of the recession?"

For the money can be had if there is the will on the part of Congress to get it.

For example:

1. The military budget could be reduced by at least $15 billion or $20 billion without harming national security one bit. There is that much waste in excess profits of military contractors, careless contracting by procurement offices, and the development of fantastic "overkill" weaponry that only escalates the arms race and renders our Nation even less secure than it was before.

2. The oil companies could be required to pay their just share of taxes. This should yield from $2 billion to $3 billion of added revenue.

3. If unearned income—capital gains for example—were taxed at the same rates as earned income there would be some $5.6 billion of added revenue—maybe more.

4. If capital gains passed on at death were taxed—as they now are not at all—there could be another $4 billion to $5 billion added to Government revenue.

5. If we just quit dishing out arms to foreign dictators to enable them to continue to oppress their people we could have some $2 billion or $3 billion for the crash program here proposed.

We have talked and talked about "tax reform" and "tax justice." It is time we did some of it. And if Congress were to pass even some of the most needed reforms and require the rich and the corporations to pay their share of taxes the spirit of the heavily burdened middle-income Americans would be a very different and far more hopeful one then it now is.

Especially if the unemployed among them want to work at developing clean sources of energy and a national transportation system for the Nation.

The choice can still be made between development of solar, hydro and other clean inexhaustible sources or exposing humanity to a proliferation of plutonium-producing nuclear reactors.

That choice is being made now.

If the choice is for development of clean energy primarily from the Sun, then mankind can look forward—if at a temporarily lowered material living standard—to a future of a safe and unpolluted Earth, an era of peace, and a freedom from lethal poisoning.

If the choice is for plutonium-producing nuclear power, then our generation will have condemned our children to a life of certain international conflict and ever-increasing danger of a permanently poisoned Earth.

Such a choice would brand our generation as guilty of the greatest crime against God's creation ever committed at any age or time.

As evidence there are submitted the following quotations from the best and most unchallengeable authority—the Bulletin of the Atomic Scientists, November 1974.

> I fear that when the history of this century is written, that the greatest debacle of our Nation will be seen not to be our tragic involvement in Southeast Asia but our creation of vast armadas of plutonium, whose safe containment will represent a major precondition for human survival, not for a few decades or hundreds of year, but for thousands of years more than human civilization has so far existed.
>
> JAMES D. WATSON,
> *Nobel Laureate, Medicine.*

> The Atomic Energy Commission, if unchecked, is about to sow the seeds of a national crisis. The Commission now proposes to authorize the nuclear power industry to proceed to use plutonium as fuel in commercial nuclear reactors around the country. The result of a decision approving this commercial use of plutonium will be the creation of a large civil plutonium industry and a dramatic escalation in the risks posed by nuclear power.
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> This decision to launch what the AEC calls the plutonium economy is the conclusion of the AEC's recently released draft environmental impact statement for plutonium recycle: the recycling of plutonium as fuel in the present generation of light water reactors. The final version of the impact statement, which is expected to confirm the decision to authorize plutonium recycle, is due in a few months.
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> Plutonium is virtually unknown in nature; the entire present-day inventory is manmade, produced in nuclear reactors. Plutonium-239, the principal isotope of this element, has a half-life of 24,000 years, hence its radioactivity is undiminished within human time scales. It is perhaps the most toxic substance known. One millionth of a gram has been shown capable of producing cancer in animals. Plutonium is also the material from which nuclear weapons are made. An amount the size of a softball is enough for a nuclear explosive capable of mass destruction. Scientists now widely recognize that the design and manufacture of a crude nuclear explosive is no longer a difficult task technically, the only real obstacle being the availability of the plutonium itself.
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> We believe that the commercialization of plutonium will place an intolerable strain on our society and its institutions. Our unrelenting nuclear technology has presented us with a possible new fuel which we are asked to accept because of its potential commercial value. But our technology has again outstripped our institutions, which are not prepared or suited to deal with plutonium. Those who have asked what changes in our institutions will be necessary to accommodate plutonium have come away from the inquiry profoundly concerned. And the AEC's environmental impact statement does not allay these concerns. It reinforces them.

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