THE 1976 ECONOMIC REPORT OF THE PRESIDENT

744

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BEFORE THE

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INVITED COMMENTS

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ORGANIZATIONS RESPONDING

THE 1976 ECONOMIC REPORT OF THE PRESIDENT

The following fourteen organizations and individuals were invited by the Joint Economic Committee to submit their views and comments on the 1976 Economic Report of the President: American Bankers Association, AFL–CIO, American Life Insurance Association, Chamber of Commerce of the United States, Committee for Economic Development, Conference on Economic Progress, National Association of Mutual Savings Banks, National Urban Coalition, New York Chamber of Commerce & Industry, Output Systems Corp., Sierra Club, United Auto Workers of America, United States League of Savings Associations, and Mr. Jerry Voorhis.

The statements received in response to this invitation were considered by the Committee in the preparation of its Annual Report to the Congress and are printed here as part of the record of the Committee's hearings on the 1976 Economic Report of the President. The text of the Committee's letter of invitation appears below:

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., February 4, 1976.

DEAR ______________: Under the Employment Act of 1946, the Joint Economic Committee has the responsibility 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 1976 Economic Report of the President, filed January 26, 1976.

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 Monday, March 8, 1976 to Dee Dee Stewart, Staff Assistant, room G–133, Dirksen Senate Office Building, Washington, D.C.

Best wishes.

Sincerely,

HUBERT H. HUMPHREY, *Chairman.*

AMERICAN BANKERS ASSOCIATION

(By J. Rex Duwe*)

We welcome this opportunity to present our views on some of the important economic issues addressed in the Economic Report of the President. In our opinion, the primary economic issue currently facing the country is how to keep the economy on a stable growth path without once again raising the rate of inflation to the level where severe social and economic disruption occurs. The economic news of the past months has restored our confidence that this can be done and, in fact, is being done. The rate of unemployment, although still unacceptably high, has decreased by 1.5 percentage points in 9 months. The rate of inflation after reaching 12.2 percent in 1974 declined to 7 percent in 1975 and in recent months has declined even further.

During late 1975 the moderate pace of the recovery in some sectors led many to question whether the recovery was in the process of aborting. Events of recent months indicate that the recovery is becoming stronger. There are signs that it is spreading to those sectors such as business investment which lagged somewhat during the early phase of the recovery. Moreover, consumer spending, spurred both by consumers' rising real incomes and renewed confidence, is likely to maintain the momentum of recovery for some time to come.

Since the recovery has become more robust we would caution against any further liberalization of fiscal policy at this time. In addition, we would urge that the Federal government move in the direction of less stimulative fiscal policy as the recovery continues. As economic activity increases and unemployment falls, tax receipts will rise and some recession related expenditures will fall. No steps should be taken to offset the resulting decline in the Federal deficit as long as the recovery continues. Failure to allow the Federal deficit to decline as the recovery continues could result in the inability of capital markets to supply funds needed for private investment during later stages of the recovery.

We would also urge the Federal Reserve to maintain a moderate growth rate in the money supply. The evidence is quite clear that excessive growth in the money supply leads in the long run to unacceptably high rates of inflation. On the other hand, the reduced rate of inflation during 1975 appears to be at least partly the result of moderation in the growth of the money supply during the year. We feel that public discussion of the proper role of monetary policy such as that generated by the quarterly disclosure to Congress of the Federal Reserve's monetary targets has been beneficial and should be continued.

In general, we would urge less reliance on attempts to fine-tune the economy. We feel that increased stability in both monetary and fiscal policies will result in reduced uncertainty and increased economic stability. for example, experience with the effects of fiscal policy shows

* President, American Bankers Association.

that there can be rather long delays in implementation and further delays before these policies take effect. In addtion, it is often difficult to reverse these policies once they are put into operation. Thus, counter-cyclical fiscal policies may have lagged effects with their greatest impact felt at a time when no longer needed. In some cases, these delays are long enough that the effect of fiscal policies actually aggravates later phases of the business cycle.

In addition to stable monetary and fiscal policies, we feel that rational allocation of government resources is an important goal. The budgetary process recently adopted by Congress is a major step in achieving both the rational allocation of government resources and stability in fiscal policies. We urge that Congress continue to use this new budgetary process.

Some would argue that a moderate course for monetary and fiscal policy under present circumstances places the burden of economic adjustment on the unemployed. We would agree that the rate of unemployment remains unacceptably high, particularly in certain segments of the population. Nevertheless, there are several factors which help to reduce the burden of unemployment. A good deal of unemployment even during recessions is of short duration and a part occurs in families in which one member of the family remains employed. Unemployment compensation programs and certain transfer programs reduce the burden for a large number of the unemployed. Coverage of these programs was expanded and benefits liberalized during the past recession. More liberal unemployment benefits allow unemployed workers to spend a longer time in search of a better job, resulting in a more efficient job market. In addition, it appears that the problem of unemployment is exacerbated among some groups by the minimum wage laws. For example, the minimum wage results in some young persons with few work skills being priced out of the labor market.

Like unemployment, the costs of inflation are high. Although inflation affects nearly all segments of the population, it is particularly severe on those living on fixed incomes which includes many of the older members of society. In addition, high rates of inflation give rise to considerable uncertainty for both households and businesses. This uncertainty appears to have been an important factor in the past recession. Finally, inflation causes disruption of the housing markets with its consequent hardships. It is because of these potentially disruptive effects of an increased rate of inflation that we have recommended a moderate course for both monetary and fiscal policy.

The banking industry, like the rest of the economy, was strongly affected by the 1974–75 recession. The industry's problems are, perhaps, best illustrated by the large increases in loan losses during 1975. Although such loan losses are of major concern, they are the inevitable consequence of a severe recession. Banks supply funds to finance expansion and innovation in all types of economic activity. In doing so, banks take risks in the same manner businessmen take calculated risks in making investment decisions. Our private market system makes it uncertain which ventures will be successful and which will be unsuccessful. Since most businesses rely to some extent on borrowed funds, failures during periods of severe recession result in loan losses for the banks. Nevertheless, even during periods of recession, the bulk of these loans are repaid and most banks are able to absorb loan losses out of current income. Furthermore, all banks put side reserves which they can then use to absorb exceptional losses. As the recovery proceeds, we expect loan losses to decline to more normal levels.

While we are optimistic about the future of the U.S. economy and particularly about the current recovery, we are concerned about two problems which potentially could reduce the rate of long-term growth in our economy, namely energy and capital formation. In the energy area, we would like to see a more serious conservation effort undertaken. We feel the best way to reduce our dependence on foreign energy and to insure conservation of our energy resources is to allow the domestic prices of the various energy sources to begin to rise towards the market levels. We believe this will be much more efficient in the long run than any system of rationing. Such price adjustments would encourage the development of alternative energy sources which will be absolutely necessary for the longer range increased prosperity of the American people.

The other problem which we view with concern is that of capital formation. Some have argued that there can be no such thing as a capital shortage in a free market economy. In one sense this is true because the rate of interest will move to equilibrate the supply and demand of capital. However, such an equilibrium may occur at a rate of growth in the capital stock which would preclude our meeting some important social goals such as reducing unemployment, improving our environment, expanding and improving our housing stock and reducing our dependence on foreign energy sources. Thus, when we say there is a capital shortage we mean that we have the option of increasing the rate at which we save and invest or abandoning some of our economic goals. Since we agree that many of these goals are quite important, we would prefer to see incresed incentives for savings and investment. One of the most effective ways of doing this is to change the tax structure to provide these increased incentives. In addition, a reduction in the rate of inflation would reduce the uncertainty which has dampened capital formation in recent years. Finally, we note with some apprehension that the Federal government has become a significant user of funds which would otherwise be available for capital formation. While this may not result in serious problems during recession periods when private investment is at low levels, it may prevent increases in the volume of private investment which are necessary to sustain the recovery. Thus, we would reiterate the need to allow the Federal deficit to decline as the recovery continues.

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

(By I. W. Abel*)

The AFL-CIO is pleased to have this opportunity to place our views in the record of the Joint Economic Committee's consideration of the state of affairs of the national economy.

The meetings of the AFL-CIO Executive Council and the Economic Policy Committee, several weeks ago, devoted a good deal of attention to economic developments and issues.

Despite modest improvements since last Spring, the American economy remains in weakened condition, with a vast amount of slack, after the longest and deepest recessionary decline in 40 years. Thus, the economy is vulnerable to possible adverse events at home or abroad.

The Labor Department reported 7.7 million unemployed workers or 8.3 percent of the labor force in December. For January, the government agency officially reported that joblessness declined to 7.3 million or 7.8 percent. The Administration ignored the likelihood that a statistical fluke exaggerated the decline, and it also ignored a rise of 240,000 in the number of workers compelled to work part-time because full-time work was not available.

Even the officially-reported unemployment count for January was higher than in any earlier period since 1941, when the economy was coming out of the Great Depression. Moreover, the Labor Department also reported that 131 of the 150 major labor market areas still had substantial unemployment—this figure was unchanged from December and down only slightly from the peak of 135 in September. Substantial unemployment was also reported in 1,046 smaller job market areas, which means that nearly four-fifths of approximately 1,500 labor market areas in the nation were still in bad shape.

American industry was operating only 71 percent of its productive capacity in the fourth quarter of 1975, according to the Federal Reserve Board—leaving 29 percent of industry's plant and equipment idle. This was a much lower level of operations than in any pick-up from a post-World War II recessionary decline.

The Department of Commerce conservatively estimates that the gap between total national output and the economy's potential to produce at high-level operations was at a yearly rate of $221 billion in the fourth quarter of 1975. This staggering loss comes to $1,000 per man, woman and child in the country.

A significant number of banks and large companies remain severely strained, leaving the possibility of some major bankruptcies in 1976.

The financial plight of most large cities and many state governments is resulting in widespread cuts in urban services and public employ-

*Chairman, Economic Policy Committee, American Federation of Labor and Congress of Industrial Organizations.

ment—eliminating major employment-growth in 1976, from this sector, which provided a lift during pick-ups from previous post-World War II recessions. Moreover, a default or bankruptcy by New York City, several other large cities and New York State remain a distinct possibility.

Numerous poor nations, further impoverished by the cartel-controlled price of crude oil, are in severe financial strain. One or more may default on loans in 1976—with adverse impacts on American banks and world money markets.

More than two years after the Arab-dominated oil cartel imposed on oil embargo on the U.S. and a five-fold boost in the price of imported crude oil since 1973, America still has no comprehensive energy policy. The nation is now even more dependent on imported crude oil that in 1973 and remains vulnerable to continued oil-blackmail.

So the American economy survived the near-disaster of the winter of 1974–1795 and there have been modest improvements since the spring of 1975. But no basic economic problems have been solved. Weakness, vulnerability and uncertainty remain.

The Administration's Policies and Forecasts, 1976–77

President Ford's economic policies and programs—as revealed in the Budget for fiscal year 1977 and the Economic Report—show the following for 1976 and 1977:

For 1976.—Continuation of the go slow, don't rock the boat negativism of 1975. The Administration's official economic forecast for this year is a modest 6.2 percent increase in the real volume of total national production, following declines of 2 percent in 1975 and 1.8 percent in 1974. The Administration also forecasts merely a small decline in unemployment from 8.5 percent of the labor force or 7.8 million jobless in 1975 to 7.7 percent or about 7.3 million unemployed in 1976 and a modest reduction in the rate of inflation to a 6.3 percent rise in the Consumer Price Index. This forecast also includes a 32 percent boost in corporate profits, presumably based on the modest rise of sales and production, combined with a sharp increase in productivity.

For 1977.—A marked shift to economic restraint in the Administration's policies and programs starting with the new fiscal year on October 1, 1976, with spreading impacts after the November elections.

The President's Budget proposes cuts in the general level of real federal expenditures for fiscal year 1977, concentrated in such programs as employment, education, health, income security and grants-in-aid to state and local governments. The Administration's official economic forecast for 1977 is for a 5.7 percent increase in the real volume of national output; a further small reduction in unemployment to 6.9 percent or about 6.7 million jobless; a further slight reduction in inflation to a 6 percent rise in the Consumer Price Index and an additional 16 percent increase in corporate profits.

The Administration's forecast for 1976, as spelled out in the Economic Report, is shaky. It includes a step-up in the rise of real consumer spending from 3.9 percent in 1975 to about 6 percent in 1976, largely based on a prediction that consumers will save considerably less of their incomes and spend more. It also includes a forecast that the real volume of business investment in plants and machines will turn up later this year, despite the persistence of idle productive capacity and a recent Department of Commerce survey of business intentions that indicates a decline in 1976. In addition, the explanation does not indicate the dangerous potential in 1976 of the possible bankruptcy of one or more major companies and banks, as well as possible defaults on loans by New York City, New York State and one or more foreign governments.

However, in the presidential election year, 1976, the Administration is probably depending to a great degree on Dr. Arthur Burns and the power of the Federal Reserve, which began to push down interest rates on short-term loans towards the end of 1975, after several months of a renewed tight-money, high-interest rate policy. It probably is also depending on the Congress to adopt at least a few job-creating programs over Presidential vetoes.

The official forecast for 1977, however, is just unbelievable optimism. The Congressional Budget Office staff estimates that the President's proposed budget ceiling of $394.2 billion for fiscal year 1977 amounts to a substantial cut in programs, services, employment and incomes.

Moreover, Dr. David L. Grove, Vice President and Chief Economist of IBM told the House Budget Committee on January 27 that the Administration's Budget for the fiscal year, beginning October 1, 1976, means a sharp deceleration in the pace of economic activity during 1977. He expects real gross national product to rise merely 4 percent in 1977—with a somewhat faster pace in the first half of the year, falling to a rate of only "about 2½ percent in the second half of 1977." He says: "This forecast is not surprising in view of the highly restrictive nature of the new Budget . . . This is highly questionable policy in view of the currently depressed state of the economy."

Dr. Grove's forecast can be interpreted to mean rising unemployment in the second half of 1977 and at least the possibility that the economy will be slipping into another recession, at that time, on the basis of Ford Administration policies.

The Administration's Economic Outlook, 1976–81

Even at face value the Administration's economic forecasts and predictions for 1976–1981 would mean grim unemployment conditions for the remainder of the 1970's. After 7.8 million unemployed, officially recorded for 1975, the Administration's predictions do not bring the number of jobless much below 6 million by 1979. That would mean roughly 6 to 8 million jobless for five successive years, from 1975 through 1979.

Moreover, according to the Administration's predictions, unemployment will not decline to less than 5 percent until 1981. At no time, during this period, does the Administration predict anything that approaches full employment. Nor does the Administration budget from its adamant opposition to any additional economic stimulus to create job opportunities for the unemployed.

THE ADMINISTRATION'S PREDICTIONS FOR REAL PRODUCTION, UNEMPLOYMENT AND CONSUMER PRICES, 1976–81

[In percent]

	Forecast		Projected			
	1976	1977	1978	1979	1980	1981
Real GNP, percent increase	+6.2	+5.7	+5.9	+6.5	+6.5	+4.9
Unemployment rate	7.7	6.9	6.4	5.8	5.2	4.9
Consumer Price Index	6.3	+6.0	+5.9	+5.0	+4.2	+4.0

Source: The Budget, fiscal year 1977, pp. 25, 26.

Furthermore, two back-to-back recessions and high unemployment, since 1969, have not reduced inflation. This is underscored by the Administration's forecasts and predictions, as well as by the record of 1969–1975.

In 1968, the Consumer Price Index rose 4.2 percent and the unemployment rate was 3.6 percent. In 1976, after seven years of Nixon-Ford-Burns policies to combat inflation, the Administration forecasts the CPI will rise 6.3 percent and the unemployment rate will be 7.7 percent.

The Administration predicts that the rise in the CPI will not be back to the 4.2 percent pace of 1968 until 1980, when it expects the unemployment rate to be 5.2 percent. It is not until 1981, that the Administration predicts a slightly slower rise in the CPI—4 percent—while it expects the unemployment rate to be 4.9 percent, still considerably higher than in 1968.

UNEMPLOYMENT AND THE RISE IN CONSUMER PRICES, 1968–81

[In percent]

	Unemployment rate	Rise in the Consumer Price Index
1968	3.6	+4.2
1969	3.5	+5.4
1970	4.9	+5.9
1971	5.9	+4.3
1972	5.6	+3.3
1973	4.9	+6.2
1974	5.6	+11.0
1975	8.5	+9.1
Administration's forecast:		
1976	7.7	+6.3
1977	6.9	+6.0
Administration's projections:		
1978	6.4	+5.9
1979	5.8	+5.0
1980	5.2	+4.2
1981	4.9	+4.0

Source: The President's economic report, January 1976, and the budget for fiscal year, 1977.

The inflation of recent years, including the double-digit inflation of 1974, has not been caused by excess demand for goods in short supply at home, excessively high employment or excessive wage increases. The major causes have been the prices of fuel, food and interest rates, which the government could have controlled. They were aggravated by the slow-down in the pace of productivity advance that resulted from the government's policies to engineer slump conditions which were pursued in the name of combatting inflation.

Moreover, the recessions since 1969 have resulted in the accumulation of huge deficits in the federal budget, which the Administration now predicts will continue until 1979. The back-to-back deficits from fiscal year 1970 to fiscal 1975 come to $110.4 billion—twice as great as the total net deficit of the previous 23 years, from fiscal 1947 through 1969, including the Korean and Vietnam wars. Those budget deficits since 1969, as well as those forecast by the Administration through 1978, have been the result of recessions, lower tax receipts and the increased costs of unemployment.

Rapid reduction of unemployment is the only sound way to wipe out the budget deficit—each 1% cut in the unemployment rate will cut the budget deficit by about $16 billion, approximately $14 billion in added tax receipts and $2 billion in lower costs of unemployment. In the face of the facts, however, the Administration has purposed a single-minded focus on holding down and cutting government programs, which is supposed to reduce inflation.

In fact, an austerity approach to federal spending for job-creating programs, at this time, will aggravate inflation. Dr. Grove of IBM emphasized this point in his statement to the House Budget Committee. Dr. Grove said:

> In my judgment, the inflation rate over the next few years will not be made worse by more expansionary policies . . . In fact, running the economy at too low a level too long may well make inflation more intractible. The smaller the size of the pie, the more intense is likely to be the struggle over shares. In addition, the smaller will be the growth in productivity . . . Finally, investment may be inadequate to prevent many future bottlenecks and shortages unless the near-term economic environment improves.

The economy urgently needs additional stimulus and job-creating programs to reduce unemployment rapidly and to reduce the danger of a continued high rate of inflation.

Badly needed are extension of the lower withholding rate from pay checks, under the emergency tax measure adopted last year, which are scheduled to terminate on June 30, 1976, and job-creating programs to provide useful work and paychecks for the unemployed.

From Near-Disaster to Modest Improvements in 1975

The near-disaster of the winter of 1974–1975 was fortunately cushioned by unemployment compensation which provided the jobless with about $1.3 billion per month in the January-March quarter of 1975. Although average benefits were less than $69 per week, these payments prevented an utter collapse of purchasing power for millions of families. The government's public service employment program created approximately 300,000 jobs for the unemployed. Additional cushions were provided by supplemental unemployment benefits, under some collective bargaining agreements, and the government's food stamp program which prevented utter deprivation.

The $23 billion emergency tax measure adopted by Congress in March and signed reluctantly by President Ford, lifted consumer confidence from its record low-point. In May and June, the emergency tax measure added more than $10 billion to consumer incomes, through tax rebates, payments to retired people and lower withholding tax rates in paychecks. In addition, there was some easing in the pace of inflation, which had been at a double-digit rate during most of the previous two years, and there was a slight easing of the Federal Reserve's monetary policy which reduced interest rates on short-term loans.

Reduced withholding from paychecks continued after the one-shot stimulus of the rebates and payments to social security recipients. With the aid of such stimulus, retail sales began to pick up in April, first in soft-goods and later in hard-goods, including autos. Housing starts, too, picked up in May from their depression level.

The pick-up of retail sales and residential construction brought a swing in business inventories—from a very sharp reduction, accompanied by cuts in production, to a modest reduction during the summer months. Many retail establishments started to restock their shelves.

This process is not surprising. If a company is going to stay in business, eventually it will have to stop selling from the shelves and place some orders for new supplies. So production shot up in the July-September quarter. But about three-fourths of that increase was due to the shift in business inventories and such a change in inventories is not about to be repeated.

The rise in the real volume of final sales, in the third quarter, was at a yearly rate of less than 5 percent. In the October–December quarter, the increase in real gross national product was at a rate of 4.9 percent. These represented modest gains, in an economy with a vast amount of slack, after a long and steep decline.

Moreover, economic reports indicate the recession is far from over. Despite improvements, both unemployment and inflation are considerably higher than at any time in recent years. The buying power of the average workers' weekly take-home pay is still at about the levels of 1971 and 1972. Consumer confidence remains low by comparison with previous experience and there is still pervasive pessimism reported among a significant section of the population. Housing starts are up from their depths but, at the end of 1975, were some 40 percent below the peaks reached about three years ago. With so much idle productive capacity, the recent McGraw-Hill and Commerce Department surveys of business intentions indicate little if any increase in the real volume of investment in plants and machines in 1976. Purchases of goods and services by the federal, state and local governments are expected to add only little to economic activity this year.

So there is no justification for the claim that the welcome end of the production-decline in April and May 1975, means the recession is over. On that basis, it could have been claimed that the Great Depression was over in March 1933, when production stopped declining. No one made such misleading claim, then, or even in 1935, when industrial production was up some 50 percent from the bottom. The recession will be over when America is back to work.

Unemployment in 1975 and January 1976

Unemployment skyrocketed towards the end of 1974 and in early 1975. The peak was reached in May 1975, with 8.3 million or 8.9 percent of the labor force.

Although employment in contract construction remained depressed all through 1975 and in early 1976, slight improvements in soft-goods manufacturing began to appear in May. By August, there began a trend of small improvements in hard-goods manufacturing.

Employment in transportation and public utilities levelled off in February 1975, after a drop. Jobs in wholesale trade also levelled off, while employment in retail trade, much of it part-time, increased slowly through most of 1975 and in early 1976.

Jobs in the various services—much of them also part-time and often low-wage—also increased through 1975 and in early 1976. In state and local governments, employment continued up in the first-half of 1975 and rose steadily but slightly in the months that followed.

Under these conditions, unemployment edged down to 7.7 million or 8.3 percent in December.

For January, 1976, however, the Labor Department issued a release on unemployment that did not square with the continuing, slow improvements in the economy. It was officially reported that the number of jobless dropped to 7.3 million or 7.8 percent of the labor force in January, which probably reflected a statistical fluke, as well as a continuing modest improvement.

The government's official reports are not a true measure of unemployment. They fail to include workers who have become so discouraged they no longer actively seek work—about 1 million at present. Neither do they include the partial unemployment of part-time workers who want and need full-time work—now totalling 3.7 million; a more accurate measure would count half of this group as unemployed.

When these factors are included, then a more realistic measure of unemployment in January would be 10.7 percent.

Moreover, even with the downward bias of the January report, the details of that report show:

Unemployment at 7.3 million or 7.8 percent was higher than in any previous period since 1941, when the economy was coming out of the Great Depression.

Teenage unemployment moved up to 19.9 percent in January and black teenage joblessness was 34.6 percent.

Unemployment among construction workers was 15.4 percent.

Among factory workers, joblessness was 8.1 percent.

Among young men, 20 to 24 years of age, unemployment was 12.8 percent.

The report for February showed a continued modest improvement, rather than a substantial drop in joblessness.

Trends in Wages and Collective Bargaining Settlements

Workers have been remarkably restrained in the face of the high rate of inflation of recent years.

The buying power of the hourly earnings of the average non-supervisory worker in private non-farm employment—over 50 million workers—declined in almost every month of 1973 and 1974. As the pace of inflation slowed down somewhat in 1975, the buying power of the average worker's hourly earnings picked up in most months last year. But by December 1975, it was only slightly above the level of 1971.

During this same period, there have also been increases in social security payroll taxes and some cuts in weekly working hours, as a result of the recessionary decline—as well as reduced federal income tax withholding from paychecks, under the emergency tax measure that went into effect on May 1, 1975. These changes plus the impact of inflation brought declines in the buying power of the average worker's weekly take-home pay, after deduction of federal taxes, in almost every month of 1973, 1974 and early 1975. There was a pick-up in the buying power of average taxe-home pay in most months, after the reduced withholding tax rates became effective in May 1975. However, in December 1975, the buying power of the average worker's weekly take-home pay was still less than the levels reached in 1971 and 1972.

INCREASES IN AVERAGE HOURLY EARNINGS OF ALL NONSUPERVISORY WORKERS IN PRIVATE, NONFARM EMPLOYMENT COMPARED WITH INCREASES IN CONSUMER PRICE INDEX

[In percent]

	Average hourly earnings	Consumer Price Index
December 1971 to December 1972	+6.3	+3.4
December 1972 to December 1973	+6.7	+8.8
December 1973 to December 1974	+9.4	+12.2
December 1974 to December 1975	+7.7	+7.0

Source: Bureau of Labor Statistics.

Most union members, under collective bargaining agreements, did better than the average worker. But the buying power of their wages, too, was eroded by the developments of 1973, 1974 and early 1975. Even wage escalator provisions could not keep pace with these developments, since such adjustments occur months after the recorded rise of living costs has occurred and the average escalator recaptures only half of the rise in the CPI. Moreover, there was no advance in buying power to provide for improvements in living standards that reflect the national economy's average long-run rise in productivity of over 3 percent per year. So most union members, as well as the overwhelming majority of non-union workers, wound up the year, 1975, far behind.

First-year wage increases provided by major collective bargaining settlements—those covering 1,000 or more workers—negotiated in 1975 averaged 10.2 percent. These contract-terms were front-loaded in the first year. Average annual wage gains over the period and terms of the contracts negotiated in 1975 were 7.8 percent excluding additional adjustments under agreements that contain cost-of-living escalator clauses.

For wage and fringe benefits, together, the Bureau of Labor Statistics estimates that first-year settlements in 1975, covering units of 5,000 or more workers, averaged 11.2 percent and over the life of the contracts, 8 percent, excluding any additional escalator-clause adjustments.

These were modest terms in the face of the high inflation rates, since 1972, when most of these agreements were previously negotiated.

INCREASES UNDER MAJOR COLLECTIVE BARGAINING AGREEMENTS

	Average percent adjustment			
	1972	1973	1974	1975
Wage increases (1,000 or more workers):[1]				
1st-yr adjustment	7.4	5.8	9.8	10.2
Average over life of contract	6.5	5.1	7.3	7.8
Wage and benefit increase (5,000 or more workers):[1]				
1st-yr adjustment	8.5	7.1	10.7	11.2
Average over life of contract	7.4	6.1	7.8	8.0

[1] Excluding additional adjustments during the life of contracts that contain cost-of-living escalators.

Source: Bureau of Labor Statistics.

This record of the terms of major collective bargaining settlements in the years from 1972 through 1975 underscore the trend of restraint in these recent years of very high rates of inflation, particularly in the prices of regular necessities such as food, utilities, gas and oil, housing costs and rents.

The agreements that are being negotiated in 1976 will be affected by developments since 1973, when most of these contracts were previously settled—including the adjustments under the terms of the previous settlements; the impact of rising living costs since then; economic conditions, including unemployment, in the industry, company and area; the employer's profits and outlook.

Full Employment—The Top Priority of National Economic Policy

America is confronted by a clearcut choice in competing economic philosophies.

On the one hand is the classic "trickle-down" theory, represented by the economic policies of the Nixon-Ford Administrations, which is based on more wealth for the few and hardship and even poverty for the many. It is easily identified by its benchmarks—low wages, recurring recessions, broad gaps between the haves and the have-nots and the simplistic view that every person determines his or her own economic destiny.

On the other hand, there is the philosophy that underlies full employment. It is one of general prosperity, full production, a balanced economy and a government with a social conscience.

The 1975 AFL-CIO Convention empowered the Economic Policy Committee to study full employment proposals pending in the Congress and to determine those elements that are essential to an achievable and workable Full Employment Act—one that translates the promise of the Employment Act of 1946 int action.

The AFL-CIO Economic Policy Committee spelled out these nine essentials, which were adopted by the AFL-CIO Executive Council at its meeting on February 16:

1. Full employment must mean, in fact, job opportunities, at decent wages, for all those who are able to work and seek employment. This

means that the unemployed, at any time, would be only persons who are temporarily jobless—such as entrants into the labor force, people moving from one job to another or from one part of the country to another, or people who are temporarily jobless as a result of seasonal fluctuations in their specific industry.

2. The Congress must declare, as we do, that the Administration forecasts of unemployment—7.7 percent in 1976, 6.9 percent in 1977, 6.4 percent in 1978, 5.8 percent in 1979 and 5.2 percent in 1980—are completely unacceptable. The Congress must undertake an immediate and sustained campaign to reduce unemployment to 3 percent of the civilian labor force and keep it from increasing, in the future, to more than 3 percent.

3. The Congress must require the President annually to submit to it targets, policies and programs to achieve full employment and to meet national needs.

4. The President must be required to propose specific federal tax, expenditure, budget and monetary policies and programs to meet the targets he proposes for full employment, balanced economic growth and national needs.

5. The Congress should establish a consultative body, composed of major groups in the economy, to review the President's goals and policies.

6. The Congress should provide procedures for prompt Congressional review and action on the President's economic goals and policies.

7. The Federal Reserve, as a key government agency in the economic area, should be required to justify to the President and the Congress the manner in which its policies concerning interest rates, the money supply and availability of credit will help meet the targets and objectives that are established.

8. The full-employment goal must be good jobs at good pay. To the extent that the economy's regular channels of private and public employment fail to achieve that goal, the government must maintain a public employment program to provide additional jobs at prevailing rates of pay, but in no case less than the federal minimum wage. Such a program should be of sufficient size to keep unemployment below 3 percent.

9. The Congress must establish full employment as the top-priority objective of national economic policy to maintain the strength of American society. The Congress must realize that an obsession with budget deficits ignores the benefits of a full employment economy—increased jobs and increased earnings, reduced unemployment benefits and welfare costs, increased sales for business, increased savings and investment, and increased tax receipts.

Full employment—a job opportunity at a decent wage for each person able and seeking work—is an economic necessity for America. From jobs come the wages that generate mass purchasing power. A job is a key measure of a person's place in society—whether as a full-fledged participant or on the outside looking in. Work is the source of individual fulfillment. It is positive, constructive activity.

There is no lack of a will to work in America; there is only a lack of jobs.

Establishing a full employment economy will require the committed effort of all segments of society, but it must start with the government. There is no single program, no single key to full employment.

That is why Congres must adopt a Full Employment Act and begin immediately to develop a full employment program. The way to finally cut the deficit substantially is to put America back to work. Continued reliance on the discredited "trickle-down" theory can only mean continuing deficits, continuing high unemployment, continuing hardship, continuing recession.

Substantial Economic Stimulus Is Essential

The American economy urgently needs substantial measures to create jobs and generate incomes—to restore the confidence of the American people in their government's ability to manage the economy and to lift the economy to full employment, full production and balanced growth.

The AFL-CIO urges the following actions, in addition to adoption of a Full Employment Act as outlined above:

1. The Congress must adopt an accelerated public works bill which would create jobs and provide aid for those states and local governments, hardpressed by unemployment.
2. The Senate should join with the majority of the House to support an expanded public service employment program for the unemployed.
3. Congress must act to prevent a rise of withholding tax rates on paychecks—now scheduled for July 1, 1976.
4. The government's housing programs need to be fully implemented, with sufficient funds, to boost residential construction and prevent the further spread of today's housing shortage.
5. Congress must direct the Federal Reserve system to provide sufficient growth of the supply of money and credit at reasonable interest rates to promote rapid expansion of the economy and job opportunities. Lower interest rates are absolutely essential to revival of the depressed housing industry in particular and construction in general. Congress should also direct the Federal Reserve to allocate available credit for such high-priority purposes as housing, state and local government needs and business investment in essential plant and equipment, while curbing the flow of credit for land speculation, inventory-housing and foreign subsidiaries.
6. Congress should increase the federal minimum wage to $3.00 an hour and provide an automatic escalator for the future. A minimum wage increase, along with a higher penalty for overtime work, would provide a needed boost in the purchasing power of the lowest-paid workers and generate new job opportunities.
7. Job programs especially designed for unemployed youth are essential.
8. America needs a comprehensive energy policy and program to rapidly reduce the nation's dependence on imported oil and to establish U.S. energy independence.
9. A new government agency, along the lines of the Reconstruction Finance Corporation, should be established to provide long-term, low-interest loans in the private sector, as well as to assist state and local governments.
10. Federal funds must be provided for the restoration of railroad track and roadbeds.
11. The outmoded unemployment insurance system badly needs basic improvements.

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

THE FINANCIAL SQUEEZE ON STATE AND LOCAL GOVERNMENTS

Seven years of Nixon-Ford economic mismanagement and abdication of many federal responsibilities have created a severe financial squeeze for state and local governments, particularly major cities. Back-to-back recessions, continuing inflation, usurious interest rates and massive unemployment have cut state and local tax income while sharply increasing costs.

State and local governments have laid off workers, reduced hours, and put freezes on personnel and wages. This has added to joblessness and reduced purchasing power and caused a sharp deterioration in public facilities and services. Education, public transportation, trash collection, police and fire protection, and other basic and essential services have been cut back.

Bond issues have been rejected by both the money markets and voters. Needed improvements and additions to public facilities have been postponed or cancelled. The nation's largest city has been pushed to the brink of financial collapse.

A decade of sharp increases in federal government help to the states and localities ended in the early 1970s. For fiscal 1977, the President's budget calls for a total halt in the growth of federal aid, despite the fact that expected price increases will reduce the present aid level.

The basic cause of the New York City crisis as well as the budgetary strains in many states and most every large city can be linked directly to the abysmal performance of the nation's economy.

New York was especially vulnerable to the nation's economic downslide, federal government inaction and the policies of the Federal Reserve Board, because of the city's size, budgetary mismanagement and special problems such as illegal aliens and the migration of poor people from other states, Puerto Rico and other nations, resulting in an extraordinary welfare burden.

The city averted default late in 1975 by budgets lashing, reducing services and tax increases imposed by the state and city, plus much-belated extension of short-term loans by the Administration. These measures, however, have left the city and the state weak, increased their vulnerability to economic shock and seriously undermined the city's ability to rebuild and provide for the needs of its citizens. Moreover, the city's financial crisis continues.

During most of 1975, this crisis rippled through the nation's money markets, hampered the ability of other localities to borrow funds, increased interest rates on even high-grade municipal bonds, and further eroded citizen confidence in government.

In addition to the adoption of measures to stimulate the economy, in general, and adoption of a Full Employment Act the AFL–CIO believes that decisive federal action must be taken which would directly meet the fiscal emergencies of state and local governments.

Specifically, the AFL–CIO urges:

1. Reject and reverse President Ford's proposals to shift present federal welfare and medicaid costs to the states and localities. There must be immediate, substantial relief for the states and localities in this financial area which can only be achieved by the federal government's complete assumption of the full cost of Medicaid and welfare.
2. Congress must improve the allocation and entitlement formula under the Revenue Sharing Act to insure that funds are targeted to areas most in need, particularly the nation's urban centers. The allocation provisions should also be strengthened to encourage increased state use of fairer and more progressive income taxes. Adequate and enforceable federal standards and safeguards must be added to insure that the federal funds are used for programs that reflect national needs and priorities and fully comply with federal civil rights guarantee, labor standards and protections.
3. Establishment of a new agency like the Reconstruction Finance Corporation to provide government guarantees of state and local bonds, as well as loan guarantees and low-interest, long-term loans for the preservation and creation of jobs in the private sector, including housing.

The AFL-CIO calls upon Congress to reject proposals to shift responsibility back to the states and localities for problems that are national in scope and effect.

Present federal aid programs should be reviewed in order to increase their efficiency and ensure that state and local governments obtain federal aid to which they are entitled and which they need. Any consolidation or reorganization of existing programs must contain appropriate and adequate provisions—including enforcement procedures—to assure that the national interest is fully served. Federal purposes and performance standards must be safeguarded; the job rights, employment conditions and other benefits of workers directly affected by such actions must be protected; there must be full compliance with federal civil rights guarantees.

State and local tax structures must be made equitable and more productive. State governments must share their tax revenues more fairly with local jurisdictions, especially those responsible for financing a continually growing level of public services from an eroding tax base.

Effective modernization of state and local governments is also essential. Obsolete or restrictive constitutional restraints should be eliminated and inefficient local units of government should be consolidated. At the same time, the job rights, employment conditions and other benefits of affected workers must be protected.

International Trade and Investment

As the Committee knows, organized labor did not support the 1974 Trade Act because we felt that in its form and in its administration, the trade problems that face America would not be resolved. We take no satisfaction from the fact, in our view, that we have been proven correct. We believe that the law is laden with shortcomings and fails to deal with major economic problems. Moreover, we believe also that the Administration has not carried out the spirit or the letter of the law in its implementation.

Organized labor deeply fears that the erosion of our nation's industrial base and the lowering of this nation's standard of living has not been halted or reversed since enactment of the Trade Act. This erosion is likely to become more acute.

The American economy is suffering damage from imports—actual and threatened—as other nations seek to export their recessions here and erect barriers at home to protect their economies. U.S. firms are continuing to export their technology and operations abroad to serve their foreign markets and, in many instances, to produce for this market.

Multinationals continue to use their tax subsidies to expand their foreign operations while claiming a "capital shortage" that can be solved only by still more tax breaks at home. Investments of U.S. companies in foreign operations were about 16 percent of their U.S. investment outlays in 1967–1970 and nearly 23 percent in 1974; in manufacturing, investments in foreign facilities were about 21 percent of their U.S. investments in the late 1960s and almost 31 percent in 1974. In addition there was the export of American technology through license, patent and joint venture arrangements between U.S. companies and foreign firms.

Today, America's newest industries are being shipped out. As other nations get America's know-how in aerospace and electronics, chemicals and shipping, computers and other new industries, the job-generators of the future are being lost. U.S. multinationals sell technology even to nations with closed economies, oppressed labor and nations which provide subsidies for exports.

Professor Peggy Musgrave's study on the impact of foreign direct investment by these firms, published by the Senate Subcommittee on Multinationals, gives the lie to corporate claims that workers benefit and the nation gains from unregulated foreign investments. She reports:

> U.S. direct investment abroad in 1973 amounted to well over $100 billion (book value), having tripled since the early 1960s. The market value is of the order of $160 billion.
>
> Gross capital formation abroad has roughly tripled over the past decade, whereas domestic capital formation has only doubled. Plant and equipment expenditures by foreign affiliates rose to 16 percent of all such expenditures in the U.S. and to over 20 percent in manufacturing.
>
> Foreign employment by U.S. manufacturing subsidiaries abroad in 1970 amounted to about 17 percent of all manufacturing employment in the U.S., but 8 percent of the corresponding payroll.

In 1968, she reports, foreign affiliates' manufacturing sales abroad were more than twice those of U.S. manufactured exports. The situation has gotten worse, since then.

Peggy Musgrave tells what happened to Britain in the latter part of the 19th and early 20th century when similar policies were followed. British economists then believed that when capital went abroad to get higher profits, Britain would be better off. Since 19th century investments were largely in developing foodstuffs and raw materials, there was some truth in this. However, she goes on to say:

> The nature of foreign investment and the circumstances in which it took place changed in the early decades of the 20th century. It has been estimated that annual British investment abroad rose eightfold between 1900 and 1914 (from about 25 million pounds to 200 million pounds) and by World War I

Britain was investing an astonishing 80 to 90 percent of her total capital formation abroad. Furthermore an increasing proportion of this foreign investment began to move into the manufacturing industries . . .

British economists discovered that foreign investment "might lower the standard of living instead of raising it."

Professor Musgrave also quotes John M. Keynes, in the early 1920s when he pointed out the difference between home-front and foreign investment, as it affected private investors and the nation-as-a-whole:

Consider two investments, the one at home and the other abroad, with equal risks of repudiation or confiscation or legislation restricting profit. It is a matter of indifference to the individual investor which he selects. But the nation as a whole retains in the one case the object of the investment and the fruits of it; whilst in the other case both are lost. If a loan to improve South American capital is repudiated, we have nothing. If a Poplar housing loan is repudiated, we as a nation still have the houses. If the Grand Trunk Railway of Canada fails its shareholders by reason of legal restriction of rates chargeable or for any other cause, we have nothing. If the Underground System of London fails its shareholders, Londoners still have the Underground System.

As England continued to move its capital abroad, Englishmen were deprived of investment at home, of productivity improvement, of improvements in real wages and even decent housing. The hopes of living off money returned in private profits from foreign investment proved unrealistic for the nation as a whole, although some investors benefitted substantially. Yet the home-front economy was neglected. And this neglect is one of the major contributing factors to England's difficulties, today.

But the U.S. government has continued its policy of subsidies and encouragement for foreign investment by U.S.-based multinationals.

The statement of purposes of the 1974 Trade Act called for full employment, economic growth, fair trade, help for those injured by imports and new rules of international trade. The provisions Congress wrote into the law to carry out those purposes were aimed, we were told, at meeting the problems of the "new ball game" in international economics and politics. But, we see very little, if any, evidence of fair play or a new "ball game."

Organized labor is concerned about the massive prenegotiations concessions made by the Administration in reducing tariffs to zero on imports of 2,700 products which went into effect January 1. These are imports from more than 100 nations and territories including such countries as Romania and Brazil, Mexico, Syria and Chile. Multinational corporation producers abroad will now intensify their exports to the U.S. from the lowest wage areas to wipe out more U.S. producers and American jobs.

The Act's section which permits this action—Title V—should be repealed.

Organized labor is concerned over the administration of provisions to relieve unfair import injury. Under Title II, "swift and certain" retaliation against unfair trade practices is authorized. But the record of action to meet unfair dumping of foreign products or action to meet unfair subsidies of foreign nations has been disappointing.

Under the Act's provisions for so-called "fair" competition, Title III gave power to the International Trade Commission to decide whether industries were injured by imports, and, if so, to recommend relief.

Thus far, very few findings of injury to any industry were made, while American producers and workers were forced out of business or out of jobs.

Let me comment at this point that the Steelworkers are pleased that the Commission finally, on January 19, 1976, recognized the injury in the specialty steel industry. The Commission recommended stabilization of imports and five-year quotas to assure that the United States will be able to produce specialty steel. In making this finding the Commission has recognized the problems with which most producing industries and millions of American workers have been confronted for some years.

Our trading partners—owned, directed and subsidized by their governments—stand secure behind their high trade barriers. Their protests of concern about the International Trade Commission decision ring with hypocrisy but we agree on one point: This is a test case.

"Serious injury" to American workers and the specialty steel industry is fully documented in the ITC study. It's hard to believe that the President will not endorse the Commission's recommendations. In this first major test, we must make the Trade Act work.

The Trade Act promised "adjustment assistance" for American workers if they were injured or threatened by injury from imports. Obviously workers would prefer their jobs, but even this aid has not been forthcoming for most workers who petitioned for assistance.

From April through September 1975, petitions covering 337,308 workers were sent to the Labor Department. Reports of positive findings of injury to groups of workers have been issued covering an estimated 56,887. Only about 60 percent of those 56,887 collected adjustment assistance by December 1975.

Negotiations in Geneva are proceeding in a similar fashion. In the face of all the injury suffered by American industry, the Secretary of Agriculture told the National Farmer's Union in London, England, on November 25, 1975, the United States must "offer concessions in the U.S. industrial market for concessions in the foreign agricultural markets." Highly protected U.S. agriculture is exporting more to other countries than ever before in the nation's history, but Administration spokesmen offer to lower barriers even further to U.S. markets for manufactured products even before the detailed bargaining begins, as the quid pro quo for still more agricultural exports.

We see nothing in the Trade Act of 1974 that authorizes the further sacrifice of sections of American industries and the jobs of workers in those industries.

In addition, co-production agreements are being approved by the U.S. government—agreements which provide for jobs and production abroad to produce much of the final U.S. "sale" to the country. Increasingly, U.S.-based multinationals make co-production agreements with Communist countries. For example, the Polish Foreign Trade

Agency in its 1975 Economic Survey announced agreements between U.S.-based firms and the Polish government to combine American technology and Polish labor. America supplies technology, Poland supplies the low-wage labor, under the Communist dictatorship. The Agency announced that Singer, Clark Equipment and International Harvester have made agreements to transfer U.S. technology and production facilities to Poland, where state-run labor will produce goods for sale in Western European markets. Thus, the U.S. worker and the U.S. economy will lose heavily, as these products begin to flow from Poland for the benefit of that Communist nation's economy and the short-term profits of the U.S. corporations involved.

The AFL-CIO is not aware of any statement of concern from our government about these arrangements, but our government will bear eventual costs in higher jobless payments, loss of corporate and individual taxes and a further diminishing of our industrial base. We are not aware of any statement by the East-West Trade Board established by the Trade Act that shows concern about the impact of these agreements on the American economy.

Organized labor would like the Trade Act of 1974 rewritten, but we are realistic enough to know that a wholesale rewriting of this Act is unlikely in the immediate future. A first-step repeal of the preference provision would at least slow down the import assault on the already hard-hit U.S. economy. U.S. government enforcement of the "fair trade" provisions would help substantially.

Another step that can and should be taken now is repeal of Sections 806:30 and 807 of the Tariff Code. These provisions encourage foreign production of labor-intensive operations in low-wage countries—which often combine tax and tariff breaks, as well as very low wages—of products for shipment back to the United States, where they are sold in competition with U.S.-made goods.

A direct job-creating opportunity is possible through tax legislation. The tax code can be revised so that U.S.-based multinationals would pay their fair share of U.S. taxes. For example, the provisions that allow U.S. firms to defer paying U.S. taxes on their foreign earnings until the income is repatriated should be repealed. The provisions that allow U.S. firms operating abroad to credit the taxes they pay to foreign governments dollar-for-dollar against their U.S. income tax should be changed to a deduction, similar to the treatment of the firms' taxes to state governments. If these two changes were made, capital would be encouraged to expand in the United States, rather than abroad, and needed plant expansion would take place in this country.

America needs an international trade and investment policy to meet the needs of the American people, the national economy and the national interest. It is surely time, at this late date, for both the Congress and the Executive Branch to take the necessary measures to start down that road.

AMERICAN LIFE INSURANCE ASSOCIATION

This statement is submitted on behalf of the American Life Insurance Association, a division of the American Council of Life Insurance. The current membership of the ALIA is 377 life insurance companies which account for 90 percent of the legal reserve life insurance in force in the United States and 95 percent of the total assets of all U.S. life insurance companies and U.S. branches of Canadian companies. The total assets of the life insurance business presently aggregate $290 billion, representing the funds that have been entrusted to our companies by millions of individual policyholders and employee benefit plans. We appreciate the invitation of the Joint Economic Committee to present the views of our business on the serious economic issues that confront the Nation and affect the well-being of our policyholders.

THE PROGRESS OF ECONOMIC RECOVERY

Following the steep economic recession of 1974–75, considerable progress has been made toward raising levels of output and employment from the low points touched almost a year ago. Industrial production has risen at an encouraging pace during the last several months and the number of employed workers has advanced strongly, reducing the unemployment rate to the lowest level since the end of 1974. Further recovery seems assured during the coming year, with constant dollar GNP expected to advance in calendar 1976 by more than 6 percent, after a 2 percent decline in real output last year. Our own expectations for real growth during 1976 conform rather closely to the projections of economic activity set forth in the Economic Report of the President and used as the basis for fiscal projections in the U.S. Budget for the fiscal year 1977.

A fundamental factor encouraging economic expansion and rising levels of private spending has been the substantial reduction in the rate of inflation. As measured by the GNP price deflator, the inflation rate has come down from over 13 percent at the end of 1974 to less than 7 percent in the final quarter of last year. For calendar 1976, the Administration estimates an inflation rate of 5.9 percent over the average price level in 1975. Such continued improvement would be welcome indeed, but there still would be a long way to go before price stability is restored. An inflation rate of 6 percent is far above any level the national economy can continuously absorb. Many economic analysts, furthermore, are fearful that inflation will accelerate to a rate of 7 percent or more by the end of 1976 in response to a variety of factors including strengthening consumer demand, continued pass-through of utility and other costs, and higher wage demands in future labor negotiations.

In our view, there are many inflationary forces still active within our economy and the actual course of inflation during the year ahead will depend importantly upon economic policies adopted by the federal government during the coming weeks and months. Whether the inflation rate continues to decline, or turns upward again at an accelerated pace, will be greatly influenced by Congressional decisions on federal spending and tax policies.

The Need for Restraint in Government Spending

The fiscal proposals set forth by the Administration in late January in the U.S. Budget for the fiscal year 1977 call for total federal outlays of $394 billion—an increase of 5.5 percent over estimated fiscal 1976 outlays. By comparison, federal outlays in fiscal 1975 rose almost 21 percent and the current official estimate for fiscal 1976 is for a 15 percent increase over the previous year.

We strongly commend the Administration's objective of bringing the growth rate in federal spending down from the very high rates of recent years. We are further encouraged by the longer-range budget projections through 1981 which depict an average annual increase of about 6½ percent over the next five years, in sharp contrast to an actual growth in spending which has averaged 12.7 percent over the fiscal years from 1972 to 1976. It is imperative, in our view, that the steep upward trend of federal spending be halted and that future budgetary growth under peacetime conditions be brought into line with the overall growth trend of the total economy. Continued increases of 10 or 15 percent each year in federal spending cannot be tolerated if we are to have a viable and expansive private sector with a diminished rate of inflation and stronger incentives to produce the goods and services that are the basis of our economic well-being.

Growth in government spending has not been confined to the federal level but has also been a notable feature of the state and local government sector. Over the past five years, state and local government outlays have increased at an average annual rate of 11 percent, faster than the 9 percent average yearly rise in current dollar GNP. Spending trends at federal, state and local levels have raised the percentage of total government expenditures from 27 percent of GNP in 1965 to 35 percent in 1975.

A major force in stimulating the rapid growth of state and local government outlays has been the extensive array of federal programs that offer or require matching grants and shared expenditures. The wide variety of federal grants-in-aid to lower levels of government has induced many states and localities to undertake expenditures they most likely would not have made independently. Federal grants-in-aid to state and local governments have more than doubled over the past five years, rising to almost $60 billion in fiscal 1976. The need for matching funds under many of these programs not only has boosted the level of state and local budgets, but also has led to budgetary inflexibility when local receipts decline because of adverse economic conditions. The fiscal problems now confronting many of our cities and states have arisen in part from the burdens assumed in matching federal assistance payments.

We urge the Congress to give careful attention to the relationship between the provision of federal grants to other levels of government and the impetus thereby given to undertaking increased financial responsibilities at the state and local government levels. The federal government, because of its power to create money, has assured access to financial resources when deficit financing is required. But state and local entities faced with large amounts of deficit financing are finding themselves in an increasingly difficult position with regard to their borrowing abilities. The fiscal problems encountered last year by New York City and State, evidenced also in other state and local jurisdictions, dramatically illustrate the basic differences between the spending and financing capabilities of federal and non-federal levels of government.

Spending, Inflation, and Unemployment

Some critics of the President's proposed spending target of $394 billion have argued that this level of federal outlays is insufficient in view of the current high rate of unemployment. Federal spending in the area of $420 billion or more has been urged in some quarters as necessary for the coming fiscal year. We are opposed to the higher spending targets for 1977, in view of the fact that economic recovery is already well established and will be even further advanced by the time the next fiscal year begins. Moreover, added fiscal stimulus to achieve short-run gains in the employment level could result in a revival of inflationary excesses that would lead to an economic downturn and higher unemployment later on. One of the root causes of the 1974–75 recession was the preceding period of high-rate inflation that led to speculative excesses in inventory buying and precautionary cutbacks in consumer spending, followed in turn by a sharp downturn in production and employment. If we are to avoid a repetition of these unfortunate developments, we must aim for sustainable and balanced expansion of the private sector that will provide for improving job opportunities on a longer-lasting basis.

We share the widespread concern over the continuing high levels of unemployment, especially among teenagers, unskilled workers, and those living in the central cities. However, it is highly doubtful that economic stimulation through aggregate fiscal or monetary policies will bring significant improvement in these special segments of the employment market. We are faced with a structural problem of unemployment that responds sluggishly to overall stimulation. Emphasis should be given toward special programs to help train new entrants to the work force, improve job skills, and encourage the relocation of workers who are trapped in areas of chronically declining job opportunities. Application of the minimum wage laws to younger or less experienced workers often serves to reduce job opportunities among these groups and consideration should be given to revisions in present legislation to remove this barrier to meaningful employment for these individuals. Moreover, provision of enlarged or extended unemployment benefits may be appropriate during a period of economic downturn, but such benefits, supplemented by other welfare programs that replace lost income, may dull the incentive of many potential workers to seek jobs during the subsequent recovery.

As pointed out in the Economic Report of the President, various programs to cushion the burden of unemployment should be viewed as only temporary remedies and not substitutes for productive jobs in the private sector. In our view, if federal spending in fiscal 1977 is allowed to rise at the pace of recent years in the hope that unemployment will be rapidly reduced, inflation will quickly worsen and the recovery will be curtailed. The gains in employment will then prove to be sadly short-lived. Experience has shown that we cannot "spend our way to prosperity" through higher federal outlays, especially in inflationary times such as we are now encountering. Such spending accelerates the inflation rate and leads to cutbacks in private spending, lower production and fewer jobs.

The federal budget is a powerful weapon in determining the course of economic activity and a faster or slower pace of inflation. With economic recovery well under way, a slowdown in federal spending is essential to achieving the twin objectives of continued expansion in the private sector of the economy and a diminishing rate of inflation in 1976 and beyond.

Tax Proposals for Fiscal 1977

As set forth in the U.S. Budget for the Fiscal Year 1977, federal receipts are projected at $351 billion, a rise of 18 percent over the estimated receipts in fiscal 1976. This projection assumes further extension of the tax reductions enacted last March which were carried over through the end of fiscal 1976 by the Revenue Adjustment Act of 1975 passed last December. The estimated $351 billion figure assumes enactment of tax reductions that would reduce total receipts by $28 billion in fiscal 1977.

While we believe that the tax reductions of 1975 should largely be carried over into the coming fiscal year, we do not support the further reductions that have been proposed to take effect during the coming transitional quarter and the 1977 fiscal year. There are several reasons for opposing further tax reductions at this stage of the economic cycle. The added fiscal stimulus to the economy resulting from further tax cuts does not appear appropriate in a period of rising income, production and employment. Indeed, we are concerned that further stimulus will quickly work to increase the rate of inflation. Moreover, there are many indications that great difficulties will be encountered in keeping total federal outlays down to the $394 billion figure requested by the President. If a higher spending level is permitted, the federal deficit now projected at $43 billion could rise to the neighborhood of $60 billion or more. In these circumstances, additional tax reductions would seem inadvisable. The preferable course of action would be to hold down spending and also forego further tax cuts in the interest of achieving a smaller deficit.

In viewing the economic impact of the budget, it is necessary to consider not only the direct effects on total spending, but also the impact on the credit markets and interest rates. During the current fiscal year it has been possible to finance the largest peacetime deficit in history without undue strain on the credit markets, largely because private credit demands from business and consumers alike plummeted under recessionary conditions. The "crowding out" of private credit demands which had been widely feared one year ago did not materialize because the private sector cut back its borrowing and business firms actually reduced outstanding bank debt in the course of drastic inventory reductions.

These conditions are not likely to prevail during the fiscal year beginning next October. As a more mature stage of business recovery is reached in 1977, private credit demands are almost certain to expand in company with rising business activity in the private sector. Unless federal deficit financing can be reduced as private credit needs increase, the resulting competition for funds will inevitably lead to higher interest rates. If legitimate credit demands of business and consumers cannot be satisfied, private economic expansion will lose its vigor. In order to reduce the pressure of federal financing on the credit markets, and to permit an adequate level of private borrowing, the federal deficit should be minimized as far as possible during the coming budget period. To accomplish this, avoidance of further tax reductions as well as restraints on higher federal outlays should be the prime objectives of congressional policies.

We commend the progress that has already been made within the Congress toward the effective implementation of the Congressional Budget Control Act during the current fiscal year, when the decisions of the Budget Committees of the House and the Senate were not yet mandatory. The work of these important bodies has demonstrated the feasibility of framing overall budget decisions within the context of their economic impact under varying economic conditions. For the fiscal periods ahead, these budget procedures within the Congress offer the potential of effective control over total budget outlays and total budget receipts in a combination than can foster steady and sustainable economic expansion, while avoiding the excesses leading to inflation or recession.

In formulating tax policies for the years ahead, the Congress undoubtedly will wish to consider many kinds of tax changes and tax "reforms." We believe that two basic principles should be observed in the course of such review: first, the need for tax simplification and the avoidance of greater tax complexities or the elaboration of tax subsidies, and second, the need for greater attention to the problem of capital formation. On the first point, for example, there is currently under consideration legislation that would provide for certain mortgage lenders a "mortgage interest tax credit" geared to the amount of residential mortgage lending in which such lenders have engaged. We are opposed to this type of tax subsidy on the grounds that it further complicates the tax system and would serve to channel investment flows into pre-designated areas of the capital markets.

We recognize that housing starts have been at a low ebb for the last two years and that there are many calls for special assistance to stimulate construction activity. Housing starts declined, however, several months before there was any shortage of mortgage money. It was the lower demand for housing, not a shortage of mortgage money, that led to the decline in starts. At the present time, ample funds are available to supply the legitimate needs of this market as demonstrated by the substantial savings inflows into thrift institutions that specialize in housing credit.

On the second point regarding capital formation, we urge the Congress to give high priority to consideration of this question which vitally concerns the future growth and well-being of our economy. Over recent years, the bulk of our tax changes has centered on the stimulation of current spending for consumption, at the expense of increased saving and capital investment. If we are to provide for higher consumption levels in future years, we must lay the base for improved productive capacity through increased capital formation. As our population and labor force expands, their economic productivity will depend upon the availability of efficient, modern capital equipment with which to work. The need for capital investment is also enlarged by sizable requirements for energy self-sufficiency and for environmental protection of many kinds. To meet the goals of our society and to satisfy our aspirations for higher living standards and a better quality of life will require capital formation at a faster rate than in the recent past.

The Economic Report of the President contains an excellent analysis of the capital formation problem, together with estimates of the Nation's capital requirements through the end of this decade. One of the inferences drawn from this analysis is of particular pertinence to Congressional decisions affecting federal budgetary policy:

> If Government deficits do not decline rapidly enough as the recovery proceeds, the savings necessary to ensure a satisfactory rate of private investment may be preempted, and the expansion could stall sometime before employment returns to an acceptable level.

Federal Reserve Monetary Policy

Along with the massive impact which federal budgetary policy has on the economy, monetary policy of the Federal Reserve authorities is a prime factor in the course of economic activity and conditions in the credit and capital markets. Monetary policy has an advantage of greater flexibility than fiscal policy, with an ability to adapt more quickly to changing economic conditions. At the same time, it is essential for monetary and fiscal policies to be coordinated closely, in order to produce the proper degree of stimulus or restraint necessary to foster economic expansion or hold back inflation.

Over the past year, the Federal Reserve has performed well in aiding the transition from recession to recovery without further invigorating inflationary forces. For the year ahead, monetary policy must take into account the effects on the economy of budgetary decisions of the Congress. If budget stimulus is too great, by reasonof higher spending and/or tax reductions, the consequent revival of inflationary pressure may require the monetary authorities to restrain the business recovery in the interests of price stabilization. On the other hand, if budgetary stimulus in the year ahead is kept within moderate bounds, the Federal Reserve can permit continued growth in the monetary aggregates along a steady path which will foster continued and sustainable recovery in economic activity and employment.

In summary, we are concerned that undue budgetary stimulus from an unchecked growth in federal spending, or additional tax cuts, or both, will heighten inflationary pressures later this year and into 1977. While unemployment remains high, the recovery now under way in the private sector promises to raise total employment over the months ahead. Special approaches, rather than overall fiscal stimulus, are required to deal with structural unemployment among various segments of the work force. Efforts to increase employment through over-sized federal deficits will prove self-defeating beyond the short-run if such policies lead to a renewal of inflationary excesses followed by a downturn in production and employment, similar to the experience of 1974–75. We urge the consideration of these views by the Congress in its critical decisions on federal spending and tax policies over the months ahead.

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.

CONSENSUS ON SHORT-TERM OUTLOOK

There is a broad consensus among business economists that our current recovery is only moderately strong compared to previous recoveries since the end of World War II. But this is a good performance, considering the series of economic and political shocks to the economy during the past 2 to 3 years. These shocks included the removal of wage-price controls; food, raw material and energy shortages; double-digit inflation accompanied by soaring interest rates; high unemployment; ayear and a half of declining family purchasing power; our first defeat in a major war; and Watergate. It is no surprise that consumer confidence was severely damaged by these developments. What is remarkable and a tribute to the underlying strength of our private sector is that consumer confidence has substantially recovered from what, in effect, were two back-to-back recessions; late 1973 to late 1974 and late 1974 to mid-1975. This recovery of confidence has been aided by the personal tax cuts and rebates of early 1975, the slowdown of inflation, consumer debt repayment, and a strong stock market.

The broadening and deepening recovery has been accompanied by added employment of 2.1 million more workers since the bottom of the recession last March. Total employment will continue to rise during the year and at a quickening pace as the year progresses. But the rise in total employment will not be enough to absorb the some 1½ million new entrants into the work force and still bring the gross unemployment rate down below 7½ percent for the year from last year's 8½ percent level.

Now that auto production is recovering strongly, the principal question marks on the near-term economic horizon continue to be the outlook for housing construction and business investment spending. Private estimates of new housing starts this year range from 1.3 million to 1.7 million, with the latter figure being close to the Administration's projection for starts at the year end. The 1.7 million figure would be low compared to the 2.4 million peak in 1972 but would be much more compatible with a less inflationary environment.

Actual investment outlays typically exceed businessmen's expectations in economic recoveries. On this basis the Economic Reports' projection of a 4–5 percent real growth in such investment this year

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is plausible although on the high side of private estimates. But most of the new fixed investment spending this year is likely to be on equipment, since there is little incentive for manufacturing firms to increase their spending on new plant when capacity use of their existing plant is only 72 percent and is not expected to exceed 77 percent this year. This latter figure compares with a peak rate of 83 percent set in the second quarter of 1973. The two big unknowns affecting investment spending this year are: (1) the degree to which higher energy costs have rendered obsolete a portion of the currently reported "excess capacity"; and (2) the possibility of capacity shortages reappearing in major materials industries where the utilization rate has already risen from 70 percent in the first quarter of 1975 to over 81 percent. In certain of these industries, such as textiles, paper, rubber and plastics, the utilization rate is expected to range between 85 percent and 90 percent this year.

Nonconsensus on Middle-Term Outlook

The broad consensus on the short-term outlook for this year does not extend to next year, because the longer time span involved leaves more room for important unfavorable developments, particularly the possibility that the recovery will falter if business investment spending has not revived strongly by early 1977. Another adverse development would be a series of serious strikes and excessive wage increases this year which would retard the expansion of output. A third often-cited negative development would be a revival of inflation which would cause the Federal Reserve to tighten credit and thereby abort the recovery. Consequently, some experts are forecasting that the recovery will "run out of steam" next year.

The possibility of such unfavorable developments late this year or early next year cannot be completely discounted, but non appears to be probable. Business fixed investment should pick up in the second half of this year as profits improve, and capacity use rates rise. Augmented by inventory accumulation, such investment should provide strength to total spending well into 1977. Despite the prospect of major labor settlements at about 9–10 percent this year for the first year of contracts, continued high unemployment and less inflation should restrain wage increases and strikes in the labor market as a whole; and above-trend productivity gains characteristic of recovery periods should damp down the cost-push effect of higher wage rates this year and next. These developments will represent the natural concatenation of events as recovery unfolds. But the outlook for inflation in the next year or two will depend much more on monetary and fiscal policies than on the orderly progression of recovery through its various stages.

The Importance of Appropriate Monetary-Fiscal Policies

Earlier testimony before this Committee on this year's Economic Reports has highlighted how strongly the policy prescriptions of the witnesses have been influenced by their economic goal preferences. Essentially the policy argument has revolved around the inflation-unemployment relationship. Preoccupation by some witnesses with the overall unemployment rate has led not only to exaggeration of the hardship implications of the global rate but also to misguided policy prescriptions of the New Deal pump-priming variety. The overall 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 accepting only a limited sort of "suitable employment." It is a gross unemployment rate, too, since job vacancies are not subtracted to give a net unemployment rate.

There is no factual basis for using as low a rate as 4 per cent of the labor force as the "normal" unemployment rate. Since 1948 the gross rate has ranged above four, often above five, and occasionally above six per cent, except during the Korean and Vietnamese Wars. In fact, excluding the depressed 1930's and wartime years of extraordinary demands on industry and labor, and the norm appears to be about 5.3 per cent.

The structure of unemployment has changed appreciably also. As our economy has become increasingly service-oriented the labor force has changed sharply to include far more women and teenagers who typically have higher unemployment rates than experienced workers. The key rate so far as inflation is concerned is the rate for adult males. Last January this rate was .7 per cent lower than the overall rate—7.1 per cent compared to 7.8 per cent. Moreover, the adult rate declines faster than the overall rate. Former Budget Director Schultze testified on February 23 that, in the four periods of post World War II inflation, as the rate of unemployment for adult males fell below 3.8 or 4 per cent, the underlying rate of inflation accelerated to a higher level despite high unemployment of women and teenagers. By "underlying rate of inflation" he means the rate of wage increases minus the long-run growth of productivity.

Three important policy implications emerge from these considerations: (1) monetary-fiscal measures should be used to reinforce the normal recovery currently underway; (2) the unemployment rate to watch as a monetary-fiscal policy guide is the rate for adult males, not the overall unemployment rate; and (3) other measures aimed at structural unemployment rather than monetary-fiscal policies should be used to reduce teenage and female unemployment, such as a special teenage minimum wage, job training, measures to increase labor mobility and more and better child day care facilities for working mothers.

A major element in the conduct of monetary policy is the guides to be used by the Federal Reserve. As just mentioned, an appropriate labor-market guide is the unemployment rate for adult males. Key guides among monetary variables, in addition to short term interest rates, are the velocity as well as the supply of money. It is clear that the monetary authorities cannot control credit conditions within narrow limits, especially when economic activity is declining. It is difficult for the Federal Reserve to keep monetary growth within a normal range even during normal times, because there are important relevant variables beyond its control. Leading examples of such variables are international capital flows, Treasury deficit financing operations and fluctuating demand for bank loans. These difficulties are compounded during recessions when sagging business and consumer confidence and net debt repayment frustrate the Reserve System's efforts to pump up the conventional money supply.

Chairman Burns' testimony before the House Banking Committee on February 3 documented the rise in money velocity since the third quarter of 1974 as business and consumers placed a larger fraction of their transactions and precautionary cash balances in interest-bearing liquid assets. This and comparable developments, which slowed the growth of M–1 and increased the growth of M–2 and M–3, emphasize the importance both of understanding monetary relationships during the business cycle and of not imposing rigid monetary guidelines for the Federal Reserve to follow on a day to day basis. Slavish adherence to a stated growth rate in M–1, which had become so popular in the financial press, is the best example of such a rigid and ill-advised rule. In light of these considerations, the Federal Reserve's projected growth ranges in the monetary aggregates for the year ending in the fourth quarter, including a wider range for M–1 growth, appear quite reasonable.

Regarding fiscal policy, the President's new budget reflects renewed prosperity on both the revenue and expenditure sides—on the revenue side through a $54 billion tax revenue increase and on the expenditure side through a drop in recession-related outlays such as unemployment compensation. But more importantly, the budget also reflects a judgment that more economic activity should be returned to the private sector and that the private sector should provide stimulus to the economy rather than the ever-growing public sector. Since 1960 federal spending has ranged from 18 percent to 22.5 percent of GNP in 1975. The new budget, which has been criticized by some observers as being unrealistically low, envisages spending amounting to 21.5 percent of GNP.

Proponents of more federal spending are calling for a budget as much as $29 billion above the President's, with spending proposals focused on public service jobs and public works to depress the gross unemployment rate rapidly. The Administration is showing more candor than its critics in recognizing that the trade-off for less inflation in the future is a slower but sounder recovery. The big spenders have not been equally candid in recognizing publicly that trying to operate the economy under forced draft to depress the gross unemployment rate rapidly would increase the danger of wage-price controls as well as the danger of repeating the 1974–75 boom-bust cycle. Professor James Tobin of Yale University has estimated that fiscal and monetary policies stimulative enough to get the economy back to 5 percent unemployment by early 1978 would raise the average rate of inflation for the rest of this decade by about 2 percentage points a year—bringing the inflation rate at the end of the decade to a level of 6 to 6½ percent compared to a 4 percent otherwise.

But the central issue in the Bicentennial Year budget is not whether the unemployment rate should be reduced rapidly or slowly or whether there is some best trade-off point between the inflation rate and the unemployment rate. The central issue is reattaining the steady and stable economic advance we enjoyed in the early 1960's. This will be accomplished only by productivity-increasing private capital investment financed by the savings of the public.

The Need for Capital

Getting the economy back on track may require rethinking basic economic policy. But it will not be accomplished by squandering resources—especially scarce energy—on public works paid for by heavy deficit financing that threatens to "crowd out" private borrowers later this year or early in 1977 when private demands for credit will be in a cyclical growth trend.

The emphasis in the Administration's budget on encouraging economic growth through the private sector is one with which the National Chamber thoroughly agrees. This objective is much more likely to be accomplished through a "steady-as-she-goes" economic policy to provide productive jobs for our work force without putting the economy through the stop-go, boom-bust wringer so recently experienced.

Sustainable economic progress depends on growth in the quantity of productive resources, in the efficiency with which they are used and in the degree to which they are employed. Edward Denison of the Brookings Institution has studied the sources of national economic growth for the 1948–69 period and has concluded that real economic growth was attributable about ⅕ to new capital investment, about $1/10$th to better technology and application of knowledge, ⅓rd to economies of large scale production and ⅓rd to increased quantity and quality of labor. So capital in all forms is clearly of predominant importance in economic growth. Between 1975 and 1985 about 15 million new people will enter the labor force. If jobs are to be available to reduce the unemployment rate to five percent (given action on needed structural changes), about 18 million new jobs must be created or revived in the decade—an average of 1.8 million annually. Don R. Conlan, formerly Associate Director and Chief Economist of the Cost of Living Council, has estimated that each of these jobs will require an average of about $80,000 of investment.

These facts relate directly to recent studies of our economy's needs for capital, including the Department of Commerce study summarized in the Council's Economic Report. This study estimates that the ratio of business fixed investment to GNP may have to average 12 percent from 1975 to 1980, compared to 10.4 percent in the 1965 to 1974 period. This estimate is in the same range as earlier estimates by Duesenberry and Bosworth and Data Resources Inc.[1] The National Chamber agrees with the Council's policy inference from this indicated increased need for capital investment—that a "steady and sustained expansion will provide a far better economic climate for investment than a path of excessive expansion followed by another cycle of inflation and recession". And, as the Council's report also notes, less reliance on consumption-oriented fiscal expansion and more reliance on monetary stimulus would best promote badly needed private investment.

[1] See James Duesenberry and Barry Bosworth, "Capital Requirements of 1980" in Joint Economic Committee Hearings, October 1974 and Allen Sinai and Roger Brinner in "Data Resources U.S. Long-Term Review," Summer 1975.

COMMITTEE FOR ECONOMIC DEVELOPMENT

(By Philip M. Klutznick*)

We appreciate this opportunity to comment on the President's Economic Report and the Annual Report of the Council of Economic Advisers on behalf of CED's Research and Policy Committee. As you know, our Committee has presented testimony on the Economic Report ever since these annual reviews were initiated. We are pleased to share our views with you again this year.

The two reports discuss a wide range of current and longer-term issues of economic policy in a clear and thoughtful fashion. We particularly commend the Council for including in its Report the results of a highly useful and informative special study of the long-term adequacy of capital that was undertaken on its behalf by the Bureau of Economic Analysis of the Department of Commerce. More effective policies to assure adequate capital formation are essential for healthy long term economic growth and for dealing successfully with the problems of inflation and unemployment in the longer term. The information and analysis presented in the Council's Report should be helpful in fostering a more informed public dialogue on these issues.

The comments which follow concentrate on three major topical areas: (a) the Council's recommended strategy for economic stabilization, (b) longer-term approaches toward improving resource allocation and efficiency, and (c) international economic policies.

Stabilization Policies for a Noninflationary Recovery

The President's Report outlines a number of broad principles for using stabilization policies to deal with the twin problems of inflation and unemployment. First, it emphasizes that the two problems must be attacked simultaneously; they should not be regarded as inherent opposites. Second, it stresses that achieving sustainable non-inflationary growth calls for a steadier course in macro-economic policies than in the past; in this connection, the need to avoid overly expansionary measures is highlighted. Third, the Report recognizes that full recovery will take considerable time and therefore, adequate measures must be taken to provide a cushion for the unemployed and others who are hardest hit by the overall weakness of the economy. Finally, there is strong emphasis on the contribution that a vigorous private section and increased private capital investment can and should make to a sustainable recovery.

These principles are very much in accord with the basic approach our Committee has taken in the past. We concur with the Council, however, that it is much easier to enunciate general principles of policy than to apply them to specific circumstances. We now turn to some

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broad questions that can be raised in connection with the Report's more detailed policy prescriptions.

Assessing recovery goals.—The first question relates to the appropriate targets for economic recovery. The Report forecasts that real GNP will increase by 6.2 percent in calendar year 1976 and by 5.7 percent in 1977. It would appear that these forecasts—and particularly the estimate for 1977—also provide an approximate indication of the pace of recovery that the Council feels can safely take place without the reemergence of added inflationary pressures. The corresponding forecasts for consumer prices are for a rise by slightly more than 6 percent this year and of 6 percent in 1977.

The Council's scenario for economic expansion through 1977 is essentially on the conservative side. Although the recent recession was by far the most severe of the postwar period, the pace of recovery through the fourth quarter of 1975 actually lagged somewhat behind the recovery rates during comparable periods of most earlier postwar upswings. Moreover, in contrast to all other postwar recoveries, the first three quarters of expansion had not yet brought real GNP back to its pre-recession peak. According to the forecast in the Economic Report, the economy will still be operating well below capacity levels for a considerable period in the future, with unemployment rates in 1976 still averaging 7.7 percent of the labor force and those in 1977 falling just a shade under 7 percent. While the Council is apparently now prepared to reduce these estimates somewhat in the light of the larger-than-expected declines in the unemployment rate in the past two months, the significance and durability of the reported improvement is still difficult to assess and unemployment is expected to remain far above pre-recession levels for quite a long time. The Administration's January projections suggest it will not be until 1980–81 that the unemployment rate will decline to about 5 percent.

Is this the best economic performance that is feasible without a resurgence of inflation? Given the very large losses in potential production and employment entailed by the Council's projected growth pattern, the question of whether or not a more rapid rate of recovery would in fact add to upward price pressures certainly deserves the most careful exploration. Unfortunately, the Council's report does not present a detailed analysis of the relative inflationary risks involved in alternative growth paths. While it properly stresses that overly expansionary policies would tend to exacerbate the inflationary expectations of both producers and consumers, it does not present clear-cut criteria for determining which rates of expansion would in fact be excessive.

One criterion that needs to be explored is whether and at what point a more rapid recovery would begin to exert pressures on capacity and result in the emergency of bottlenecks. The risks from this source must not be underestimated. However, there appears to be strong evidence that, even with a somewhat more vigorous rebound than predicted by the Council, industrial and materials capacity will remain relatively ample for some time to come.

Another relevant issue is the degree of risk that the stimulative policies needed to produce a faster rate of expansion than envisaged by the Council would tend to overshoot their mark and cause excessive inflation in the future. This risk must be assessed in conjunction with the ability and determination of the authorities to make flexible adjustments in fiscal and monetary policies when needed.

The monetary authorities have long had considerable flexibility to make prompt policy changes. On the fiscal side, the new Congressional budget procedure, if properly implemented, should greatly enhance the ability of the Administration and the Congress to adhere to reasonable fiscal targets and to reverse the direction of fiscal policy when this is required. Moreover, as was stressed in our 1972 policy statement, "High Employment Without Inflation," the risk of overshooting the mark can be further minimized if stimulative policies emphasize expenditure programs that are automatically phased out when they are no longer needed and temporary tax changes which require periodic reexamination.

Of course, even under the new budgetary procedures, legitimate questions arise as to whether there will be adequate future scope for making prompt adjustments in fiscal policy when necessary. This does not mean, however, that efforts to foster a healthy rate of economic expansion should be abandoned or that excessive reliance for stabilizing the economy should be placed on monetary restraint, as has tended to be the case in recent years. Rather, it calls for additional improvements in existing procedures to permit more timely adjustments in fiscal policy, plus a strong determination by both the Administration and the Congress to use such procedures when needed.

Our Committee has previously proposed that the added fiscal flexibility be provided by giving the President the power to raise or lower income taxes by specified amounts, subject to Congressional veto. A possible alternative that might be more acceptable to the Congress would involve periodic Congressional agreement on the form that future tax changes for stabilization purposes should take, coupled with a procedure that would allow activation of these changes within a very short period once the Congress determines that the state of the economy calls for such a step. We are currently examining the case for procedural improvements of this kind in connection with the work of our Subcommittee on Controlling the New Inflation.

A further consideration that is frequently cited as a reason for eschewing more expansionary policies is the rise in the Federal budget deficit that is likely to be associated with such policies. It needs to be recognized, however, that low rates of growth themselves tend to be the cause of protracted deficits as tax receipts lag and outlays for unemployment insurance and other recession-related programs mount. A temporary increase in the deficit caused by reversible or self-limiting tax cuts and other fiscal measures to stimulate increased demand and output can be appropriate if it moves the economy more quickly to more efficient levels of operation and incomes that make it possible to eliminate the deficit.

In this connection, it should be stressed that the great bulk of the current deficit is attributable to the weakness of the economy rather than to exceptionally large increases in permanent Federal outlays. As a recent staff report by your Committee has indicated, the share of Federal expenditures in GNP remained almost constant at 20–21 percent between 1953 and 1973. While it jumped to nearly 24 percent in 1975, the rise can be explained by the impact of the recession and underutilization of capacity; on a high employment basis, the 1975 ratio remained at about 20 percent. This in no way lessens the need for stricter discipline over Federal spending to assure the most productive use and allocation of fiscal resources, eliminate unnecessary and wasteful expenditures, and produce significant budget surpluses at high employment. It does mean, however, that large deficits related to a weak economy should not be automatically blamed on the trend of Federal government spending.

Finally, it is also important to note that as long as the economy is operating substantially below capacity levels, the risks of inflation are by no means solely associated with faster rates of expansion. In such a setting, policies that foster more vigorous growth and higher levels of production may actually tend to reduce inflationary pressures. A more solid pace of recovery is likely to lead to more efficient resource utilization and larger productivity gains. It also provides needed incentives for the longer term investments in enlarged capacity that will be required to prevent a reemergence of inflationary bottlenecks and shortages once the economy returns to high employment. In addition, there are better prospects for reducing cost-push pressures resulting from struggles over income shares when aggregate incomes are expanding at a healthy pace and productivity gains are high than when income growth and productivity gains are low.

On balance, it appears that a more rapid pace of recovery than suggested by the Council may be well feasible without significant added price pressures and may actually serve to reduce the risk of inflation over the longer run. Beyond a certain point, of course, an acceleration in the pace of economic activity does pose additional inflationary dangers. The issues involved in choosing an appropriate goal for economic expansion deserve careful further study.

Suggesting that a more vigorous recovery than envisaged by the Council should be possible without adding to inflation does not imply that the inflation rates projected by the Council as well as most private forecasters can be viewed with equanimity. We believe, on the contrary, that they are a cause for grave concern. The point simply is that inflation cannot be overcome by slow growth and lagging production. Rather, it must be attacked directly through a wide range of remedial measures of the type outlined in our testimony before this Committee last year. Among other things, these include steps to improve the competitiveness and productivity of our economy, to eliminate structural biases that add to cost-push, and to strengthen capital investment. Our Subcommittee on Controlling the New Inflation is currently devoting intensive study to the potentials for using such policies.

Adequacy of the council's policy proposals.— A second major question posed by the Council's analysis is whether the proposed fiscal and monetary policies will in fact be adequate to achieve the economic results that the Council itself envisages.

While the Council's forecast of the rate of economic advance in the next two years is closely in line with the average projections of private analysts, the fiscal policies underlying its estimates are far more restrictive than those assumed by other forecasters. As indicated in the President's budget message, these fiscal policies call for a $19 billion shift toward restraint in the high employment budget from fiscal

1976 to fiscal 1977. Moreover, the principal move toward restraint will only begin in the latter part of this calendar year. The increase in budgetary restrictiveness between the spring of 1976 and the summer of 1977 is likely to be close to $30 billion at an annual rate.

It is by no means impossible that six months to a year from now, the economy will be sufficiently robust to take the projected fiscal jolt in stride. Past experience suggests, however, that such a sharp move toward fiscal restraint carries a considerable risk of placing a significant damper on the recovery. A similar shift toward fiscal restraint from 1973 to 1974, for example, appears to have been a major contributor to the subsequent severe recession. In the light of the Council's own expressed preference for a relatively steady course in macro-economic policies, a less abrupt swing toward fiscal restraint would seem to be desirable, at least until more solid evidence regarding the underlying vigor of the recovery becomes available.

The Council's Report itself points to several other factors that could prevent achievement of its recovery target. One of these would be a failure of monetary policy to provide adequate support for the economic expansion. In my view, there are already indications that an insufficiently accommodative monetary policy is exerting adverse effects on longer-term investment decisions. To be sure, the unusually large recent increase in monetary velocity has allowed continuation of economic recovery despite very low rates of growth in the money supply. As the Council notes, however, this increase in velocity is unlikely to continue for very long. Moreover, it might by itself exert a restrictive effect on economic activity after some time has elapsed. Assuming that fiscal policies are carried out in a responsible fashion, the monetary authorities should therefore be prepared for the possibility that substantially higher rates of monetary growth will be needed to accommodate a healthy recovery. They should be particularly concerned with averting an undue rise in interest rates as credit demands expand.

Another factor that could keep the Council's forecast from being achieved would be a higher-than-projected rate of cost inflation. The risk that cost-push factors in the next several years might cause wages and prices to be higher than the Council estimates is not inconsiderable, particularly if one considers that the calendar of major wage negotiations this year is unusually heavy. While the Council's Report takes note of this problem, it does not discuss possible measures to reduce such risks.

The activities of the Council on Wage and Price Stability, for example, are never mentioned. Nor is there any recognition of the fact that a number of the Administration's current tax and budget proposals may themselves contribute significantly to upward cost pressures. These include, in particular, the proposals for increases in the Social Security tax rate and in unemployment insurance tax levies on employers. On an annual rate basis, the combined rise in these tax rates is estimated at about $7 billion in fiscal 1977. Moreover, to the extent that the proposed cutbacks in Federal payments to states and localities result in increased local sales taxes, an additional cost-push element is introduced.

It is obvious that the increased recent drains on the Social Security and Unemployment Insurance Trust Funds are to an important extent attributable to the effects of the unusually severe recession and of the exceptionally pronounced recent burst of inflation. Thus, outlays for unemployment insurance in the current fiscal year would be about $15 billion less if the economy were operating at high employment. Under these circumstances, the greater-than-usual current drains on the Trust Funds tend to serve the desirable function of automatic stabilizers. In our view, it seems neither necessary nor appropriate to counter this effect by immediate and large efforts to replenish the two funds through increases in payroll taxes. Such a step would run serious risks of adding to cost pressures at the very time when major labor negotiations and the need to bring inflationary expectations under control call for special efforts to hold cost-push to a minimum.

Measures to reduce unemployment.—Another range of questions relates to the adequacy of the Administration's proposed measures to deal with unemployment. We agree with the Council's view that measures to expand employment should as much as possible focus on the creation of permanent jobs in the private sector. As already noted, emergency programs to provide extra employment opportunities should be carefully designed to assure their termination when high employment is approached and they are no longer needed. However, the Budget's proposals for sharp cutbacks in public service employment and federally supported summer youth jobs during 1976 and 1977 are difficult to reconcile with the Administration's own expectation that the unemployment rate will remain well above pre-recession levels throughout this period and that private job opportunities will still be far from adequate.

In our view, programs for emergency job creation for a limited period of time deserve greater emphasis in the overall effort to expand job opportunities than is provided in the Administration's proposals. I believe, in particular, that additional consideration should be given to the use of so-called countercyclical revenue sharing grants to states and localities that have been hardest hit by the recession. Not only would such grants permit these governmental units to avoid harmful cutbacks in police, fire and other vital services, but they would also reduce the incentive for inflationary tax increases at the local level. To assure that these grant programs remain clearly temporary in nature, they should be governed by clear-cut legislative requirements providing for their automatic phase-out as the economy strengthens and local employment and incomes improve. Thus, they should only remain in effect as long as the national unemployment rate exceeds a specified level (say, 6 percent) and should be made available only to states and localities in which the unemployment rate is significantly higher than such a level.

Longer-Term Improvements in Resource Allocation and Efficiency

As noted earlier, satisfactory progress toward non-inflationary high employment will require a wide range of longer-term measures to produce more efficient resource allocation, strengthen competition and productivity, and assure adequate availability of industrial capacity as well as of energy and other vital resources. Let me comment briefly on a number of points raised in the Council's Report that bear on these longer term requirements.

Encouraging adequate capital formation.—The Report stresses the need for fiscal and monetary measures that are aimed at stimulating private investment and that will result in an increased share of such investment in gross national product under high employment conditions. One of our subcommittees is currently exploring alternative means of meeting the needs for adequate capital. While its study has not yet been completed, there appears to be considerable agreement within the group that when investment requirements are high, adequate long term capital formation calls for a fiscal-monetary mix that will permit the achievement of sizable budget surpluses at high employment while allowing monetary policy to remain relatively accommodative. We also believe that certain specific incentives for increased capital formation, such as permanent extension of the investment tax credit, are highly desirable.

Adequate progress toward these goals calls for vigorous efforts to hold the future growth of federal spending in check and to eliminate wasteful and unnecessary budget outlays. It does not, however, mean that all cutbacks in federal spending over the near term would necessarily be favorable to the longer-term growth of private capital investment, as the Economic Report at times seems to imply. Indeed, in planning future budgetary policies, a careful distinction needs to be made between the kinds of government expenditures that can be expected to persist at high levels of capacity utilization and temporary outlays that cushion the impact of widespread unemployment or that are especially designed to stimulate the economy's rebound toward high employment.

Improving long-term budgetary performance.—We shall not attempt a detailed examination of the Administration's proposals for achieving budgetary savings and improving the allocation of fiscal resources. However, we reemphasize the vital importance that our Committee attaches to effective use of the new Congressional budget process to arrive at rational budget decisions. As our Program Committee indicated last December in its statement on the "New Congressional Budget Process and the Economy," we consider it particularly essential that the provisions of the new budget legislation be fully implemented this year and that decisions about the allocation of budget resources to particular programs be clearly based on the effectiveness with which such programs contribute to specified program objectives.

We also feel strongly that both budget planning and budget implementation should to the greatest extent possible be carried out on a multi-year basis. A key fact of life in the budget-making process is that very little can usually be done to influence overall spending unless basic reforms in underlying programs are initiated several years before the reforms are to go into effect. At the present time, for example, only about 25 percent of the budget for the coming fiscal year is "controllable" in the sense that policy makers still have an option to make adjustments in projected outlays. For this reason, it seems regrettable that neither the Economic Report nor the President's budget consider the apparent need for basic reforms in such areas as public welfare and general revenue sharing.

In our 1970 statement, "Improving the Public Welfare System," we gave strong support to the introduction of a federally supported program to provide a national minimum income. Eligibility was to be determined solely on the basis of need, whether need results from inadequate earnings or inability to work. Had such a program for Federal assumption of the bulk of welfare costs been in effect in the recent past, it would have provided significant fiscal relief for various states and localities that have been severely disadvantaged as a result of the uneven distribution of the welfare burden. Our Program Committee is now reexamining this proposal as well as the related issue of general revenue sharing and hopes to be able to consider a report soon.

Policies to strengthen competition and productivity.—We welcome the Report's emphasis on the need for energetic action to eliminate government policies and practices that unduly interfere with free competition. Among the more encouraging recent developments in this area have been the efforts of the Council on Wage and Price Stability to highlight and reduce overly restrictive regulatory practices that undermine efficiency and are likely to add to inflationary pressures over the longer run. The analyses by this Council of inflation impact statements made by various regulatory bodies and other government agencies are also making a very helpful contribution toward a more rational assessment of the impact of regulatory practices.

One area where the need for greater productivity has become dramatically evident in the past year is the state and local government sector. In this connection, we direct your attention to the policy statement on "Improving Productivity in State and Local Government" that our Committee has just issued. As the statement indicates, the potential for improvements in this area is very great. It seems very likely, for example, that many of the problems encountered by municipalities in the recent past could have been avoided if there had been general acceptance of our recommendation that "state governments establish and enforce minimum standards for local government budgeting, accounting and performance and reporting systems that would provide data on the level, quality, results, and costs of services."

Energy.—Another issue that is of vital importance for the long term strength and efficiency of our economy is the country's ability to make satisfactory progress toward the achievement of energy independence. As the Economic Report indicates, the energy legislation of 1975, though deficient in a number of respects, does contain various features that should help move us closer to this goal. These features are broadly in line with recommendations made in our 1974 statements, "Achieving Energy Independence." They include, for example, provisions for the eventual decontrol of crude oil prices, the establishment of strategic petroleum reserves, and various measures to encourage energy conservation.

We are deeply concerned, however, that the urgency of the need for major national and international efforts to cope effectively with the energy problem is not receiving adequate recognition in either the public or the private sector. Far too little progress has, for example, been made toward removing impediments to increased gas and coal production, accelerating the development of nuclear energy, and encouraging the manufacture of synthetic fuels. Moreover, the goals for energy independence which the Council cites in connection with its discussion of capital requirements seem to be less ambitious than earlier Administration statements on this issue and apparently fall short of the targets recommended in our 1974 statement. We continue to believe that the proposals we made in 1974 were sound, and that the need for a major national commitment to reach the goals we outlined is even stronger today than it was two years ago.

International Economic Cooperation

The international chapter of the Council's Report presents a very clear account of the important advances in international economic cooperation that were achieved during 1975 and in early 1976, especially in connection with the meeting of the heads of six major industrial nations in Rambouillet and with the monetary agreement concluded by the IMF Interim Committee in Jamaica.

In view of the wide divergencies in national views that had impeded the progress of international negotiations in the past, the pragmatic monetary accords reached in Jamaica constitute a considerable achievement, It is a particular source of satisfaction to our Committee that the general approach underlying these accords is very closely in line with the basic recommendations that we made in our 1973 policy statement, "Strengthening the World Monetary System."

Thus, the agreements formally recognize the need for a high degree of exchange rate flexibility over the foreseeable future. At the same time, they essentially leave open the question of the relative extent to which the exchange rate system in the more distant future should rely on floats and on adjustable parities. While the agreements do not formally call for the "clear set of internationally-agreed upon rules" governing the exchange rate system that had been proposed in our earlier statement, they do provide for a significant strengthening of consultative arrangements among the governments and central banks of major countries (including exchange of daily information among central banks with respect to any market interventions) that should help to counter disorderly conditions or excessively erratic fluctuations in the exchange markets.

The agreements also call for a reduction in the role of gold in the international monetary system, most importantly through the termination of the use of gold as a medium of settlement in IMF transactions. Finally, substantial additional liquidity resources are to be made available to the less developed countries through increases in IMF quotas, liberalization of the IMF's compensatory financing facility, and the establishment of a trust fund to assist poorer LDC countries. The trust fund, in turn, is to be financed by auction sales of 1/6th of the IMF's gold holdings, a procedure that should further contribute to the desirable objective of shifting gold out of the monetary system. In our 1975 policy statement, "International Consequences of High-Priced Energy," we had called for consideration of such a procedure to finance interest-subsidies provided by the IMF oil facility to the poorer developing countries.

Implementation of the Jamaica agreements should do much to strengthen confidence in the stability of the international monetary system and the willingness of the financial authorities of the world's major countries to resolve policy conflicts in a cooperative fashion. The agreements should also make a major contribution toward alleviating the severe external financial strains that are already affecting many of the non-oil producing LDCs. A failure to reduce such strains, in turn, could have highly adverse effects on the international financial system as a whole as well as on our domestic banking and financial situation. For all these reasons, it appears highly desirable that the Jamaica accords be ratified as promptly as possible.

At the same time, the United States will need to be on guard against possible future efforts to modify the agreement in ways not conducive to the most desirable and efficient longer-term functioning of the world monetary system. Thus, central bank cooperation in the exchange markets should not be allowed to lead to the reintroduction of an overly managed exchange rate system. Moreover, strong efforts are required to assure that the agreement among the ten largest industrial countries which bars any action to peg the price of gold and places a ceiling on the total gold stock held by the Fund and cooperating monetary authorities will in fact be renewed after its expiration date two years from now.

In addition, it is highly important to preserve the basic character of the International Monetary Fund as an organization primarily concerned with providing liquidity rather than unconditional long term aid resources. We agree with the Council that, pending ratification of the scheduled quota increases, a temporary increase in drawing rights in all credit tranches appears justified. We also concur, however, that there should be strict adherence to the provision of the agreement that the special 45 percent increase in IMF drawing rights be terminated as soon as the higher quotas have been put into effect. This is particularly essential with respect to the first credit tranche—i.e. the tranche on which member countries can essentially draw without being subject to any conditions.

Another welcome outcome of the recent international economic consultations was the agreement at Rambouillet to accelerate the time schedule on the Geneva trade negotiations. As was stressed in our statement on "International Consequences of High-Priced Energy" such negotiations should not only concentrate on improving access to markets through reduction or elimination of import restrictions. They should also pay major attention to developing procedures and rules for assuring access to supplies, particularly by limiting the possibilities for the unilateral imposition of export restraints.

A particularly difficult area for future international economic negotiations involves the manifold relationships between the industrial countries of the OECD and the developing nations. Our Committee plans to explore these problems in depth in a new study that is just getting under way. We are encouraged by the open-minded and constructive approach which the Council's Report takes toward possible solutions, including international earnings stabilization schemes and commodity agreements. At the same time, we fully share the Council's strong opposition to "indexation" proposals that would automatically link changes in commodity prices to changes in the prices of manufactured goods. Such a procedure would introduce major new distortions and serve as a continuous engine of inflation for the entire international economic system.

CONFERENCE ON ECONOMIC PROGRESS

(By Leon H. Keyserling*)

PART I. THE REPORTS OF THE PRESIDENT AND THE CEA

1. *Shortcomings in 1976 Economic Report of the President*

The 1976 Economic Report of the President, and the accompanying 1976 Annual Report of the Council of Economic Advisers, are the latest evidence of a long-term deterioration in the quality of these documents under the Employment Act of 1946. In the current Reports, there is too much satisfaction, and not enough concern. There are serious errors in economic analysis. Forecasts are made, but there is a categorical denial of the feasibility of specific goals, which is in violation of a specific mandate of the Employment Act of 1946, and neglectful of the first requirement for a sound and comprehensive national economic policy. And the policies actually set forth are treated in a fragmentary manner lacking in vigor and adequacy, and are far too limited to encompass the wide range of policies essential to a satisfactory rate of economic restoration and responsible attention to national priority needs.

EXCESSIVE COMPLACENCY

As to the excessive complacency, or even unwarranted optimism: The President's Report refers on page 3 to the "notable progress" during the year reviewed, and to "appreciable advance in reducing the rate of inflation." But the recovery movement thus far has been more inadequate in real terms and more fraught with uncertainties than the recovery movements within a similar number of months during the four previous upturns since the end of World War II. And allowing for the disappearance of the special and unexpected factors which accounted for a large part of the 12 percent consumer price inflation from December 1973 to December 1974, the 7 percent rate of consumer price inflation from December 1974 to December 1975 was intolerably high, and totally without meaningful explanation in the President's Report or the CEA Report.

WHERE IS THE "OVER-STIMULATION?"

On page 4, the President states that "it has taken many years of excessive stimulation . . . to create the economic difficulties of 1974 and 1975." This statement is another repetition of the Administration's unreasoned efforts to attribute troubles, resulting largely from its own policies during seven long years, to the alleged mistakes of earlier

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Administrations a long time ago. This allegation of "excessive stimulation" is preposterous, considering that the real rate of economic growth averaged annually only 1.6 percent during 1969–75 (when two absolute recessions occurred, with the second of unparalleled severity since the Great Depression), and in view of a rate of real economic growth of only 1.8 percent from fourth quarter 1974 to fourth quarter 1975. Correspondingly, it is incredible to attribute the extraordinary rates of inflation during 1974 and 1975 to "excessive stimulation." And inconsistent with the assertion, there is belated recognition on page 4 of the President's Report that "inflation and unemployment are not opposites but related symptoms of an unhealthy economy."

Further, the President's belated recognition that "trade-off" does not work is paying only lip service to the revealed truth. For the President, in the face of the seriously inadequate recovery movement to date, and the still-appalling idleness of workers and other productive resources, continues on page 5 to warn against "overly rapid growth." In consequence of this misguided position, the President's program is wrong in what it proposes to do, and neglectful of much of what should be proposed but is entirely neglected.

HOLDING FEDERAL OUTLAYS TOO LOW

In this connection, the President urges on page 5 that "we must also slow down the growth of Federal spending in the years immediately ahead . . ." This defies the predominant judgment of informed and objective analysts that a much more rapid growth in Federal spending than the President proposes is a *sine qua non* for an acceptable rate of real economic growth. And this is without reference to the essential role of allocating sufficient portions of the total national product to urgent and neglected priorities of our domestic needs.

MISINTERPRETATION OF THE "CAPITAL SHORTAGE"

A basic reason advanced by the President for his proposal that the growth in Federal spending be slowed down is his assertion, on page 5, that this is required in order that "mounting claims by the Federal Government [reflected in Federal borrowing] will not prevent an adequate flow of savings into capital investments." This position, accompanied by a plea on the same page 5 for predominant reliance upon private enterprise in the process of economic restoration, goes far beyond legitimate major emphasis upon expansion of the private sector. It substitutes a biased and overweaning preoccupation with that area of the economy, while slighting the requisites for restoration and maintenance of equilibrium or balance at full resource use.

The President's theory as to why enough funds are not flowing into private capital investment is mainly erroneous. The current inadequacy of this flow is not due to insufficient saving; an economist would be hard put to develop a viable model for full economic restoration based upon enlargement of the rate of saving (7.9 percent in fourth quarter 1975, or higher than in any year save one since 1947).

Second and more important, the inadequacy of capital investment is not now due to deficient prices received nor deficient profits per unit, nor is it due to the inability of the most important and massive investors to obtain the credit they need on terms they can support. In fact, since World War II, these investors have financed an increasing portion of their investment requirements through retained earnings, rather than through borrowed funds. The insufficiency of capital investment today, related to the requirements for full economic restoration, is attributable, not to a shortage of capital availability, but rather to 25 percent or more idle plant facilities, and the gross inadequacy of sales volume. It follows ineluctably that the proper road to the stimulation of capital investment is the vigorous use of a wide range of national policies to accelerate the growth of ultimate demand. in the form of consumer incomes and expenditures plus properly enlarged Federal outlays for essential priority purposes.

Third and most important of all, even if a shortage of capital were to be conceded, the President ignores the basic cause and the proper remedy. A shortage of capital, unlike any shortage of manpower or skills, oil or food, or mass transportation, is a product of monetary policy, and can be corrected by changes in monetary policy. During World War II, there was an unprecedented expansion of need for private and public capital combined, and to a lesser but great extent this need expanded during the Korean war. But those in charge of national policies did not throw up their hands, nor take the wrong approaches. The Federal Reserve Board, with an appropriate degree of influence exerted by the President and others in the Executive Branch who were planning the wartime efforts, provided the amounts and kinds of capital needed to float the economic ship at full use of resources.

The Federal Reserve, in recent years and now, is not doing this. The Fed now alleges, with support from the President and the CEA, that the demands of fiscal policy, inadequate though these are, are preventing adequate capital flow to the private sector. This is merely another way of saying that the central bank is resisting the fiscal policy of the Government instead of supporting it fully, and instead of going beyond that to help compensate for the excessively restrained fiscal policy. The recent and current action by the Federal Reserve is economically indefensible, and is arrogating excessive powers to itself. There is no excuse in the United States for a "shortage of capital" for any substantial period of time.

THE MISTAKEN APPROACH TO TAX REDUCTION

The grave deficiencies in analysis in the President's Economic Report are accompanied by serious errors in his policy proposals. He recommends on page 5 that "budget savings be refunded to the American taxpayer by means of tax cuts." He proposes "an annual tax cut of $28 billion from the 1974 levels, effective July 1, 1976," and he offers the beguiling prospect that "another major tax cut will be feasible by 1979."

I have recurrently, in my testimony before the Joint Economic Committee, in my annual Invited Comments, and many other ways, warned against the veritable orgy of tax-cutting since 1964, accompanied by egregious neglect of other equally important national economic policies. My forecasts of the unfortunate consequences of this unbalanced national economic policy have turned out to be remarkably correct.

Genuine tax reform at the Federal level, to help make the nationwide imposition of the tax burden more progressive than it is now, is urgently needed on both economic and equitable grounds. But the economy cannot be fully and enduringly restored, nor our priority needs met, nor justice done, by excessive if not inclusive reliance upon handing out badly distributed increases in disposable income through irrational amounts of tax cutting which imports sacrifice of the high and essential value of the many other things which need to be done, and indeed need to be put ahead of more and more incontinence in tax reductions. The Joint Economic Committee has recognized this, in its recent recommendation for a much larger fiscal 1977 Federal Budget than the President has proposed.

WE CANNOT WIN OUR WAY THROUGH WITH ONE WEAPON

The excessive resort to recurrent tax cutting is a sad repetition of the fact that the Reports of the President and the Council of Economic Advisers under the Employment Act of 1946 have not recognized in recent years that the responsible and comprehensive development of national economic policies is not a one-weapon affair. A wide range of weapons are required, thoroughly integrated, systematically evaluated, and consistently deployed.

Properly readjusted national policies in money management, energy and resource development, mass transportation, housing, health, education, social insurance, and income supports for those unable to work, among others, are today indispensable elements in a mature national economic policy. While some of these are mentioned in the two 1976 Reports, the treatment of them does not rise to the challenge of what should be said and done. Thus, the two Reports ignore the specific mandate of the Employment Act of 1946 that all national policies should be utilized toward maintenance of maximum employment, production, and purchasing power. The Reports do not even evaluate policies in terms of accomplishing these objectives, which the Reports do not even define specifically as to amounts nor as to time of accomplishment.

PAUCITY OF POLICIES: THE ENERGY EXAMPLE

On pages 23–24 of the President's Report, he refers to energy policies—and refer is about all he does. The nation and the people have been waiting with bated breath for the President to take the leadership in initiating a decisive and comprehensive policy to bring energy supply into accord with even the requirements of the current economy, not to speak of a growing economy. But the weak treatment of this in the President's Economic Report offers only the clear prospect that he and his Administration will continue in their accustomed ways with respect to the energy problem.

The Executive Branch still does not recognize that the energy problem cannot be solved by fancy reports on the subject; by exhortations or blandishments to private enterprise to do more than it alone can do toward expansion of energy, in view of the risks and costs; that the inducements of private profits are not enough to promote appropriate private energy expansion, and that such inducements are no substitute for public "profit" in a true sense through public action designed to benefit the public; that there can be no effective solution to the energy problem, so long as the Federal Government, insisting that Federal dollars are to be "saved" at the sacrifice of energy supply, is itself unwilling to undertake the immense dollar costs required to bring this matter under control; and that an adequate energy supply cannot be created by allowing its private producers and vendors to gouge the vulnerable American public through use of price increases which profit them instead of the economy and people.

2. *Shortcomings in the 1976 Annual Report of the Council of Economic Advisers*

The 1976 Report of the Council of Economic Advisers, as would have been anticipated, repeats all the errors of commission and omission in the President's Report, and doubles in spades because the CEA Report is much longer, much more detailed, and accordingly much more pretentious without being any more satisfactory.

FORECAST OF INADEQUATE REAL GROWTH RATE; NO GOALS

The CEA Report on page 19 forecasts a real GNP 6½–7 percent higher in 1976 than in 1975. It is highly doubtful whether the policies proposed would achieve this growth rate, and on this the CEA hedges. And even if achieved, this growth rate would fall far short of accomplishing anything approximating sufficient reduction of unemployment and other idle resources by the end of 1976. Equally important, so inadequate a real growth rate, accompanied by the erroneous policies proposed, would raise the ugly prospect of renewed stagnation and then recession in 1977 or 1978.

Equally censurable, the growth projections of the CEA are merely forecasts, not goals (see page 19) to which national policies should be addressed. The CEA states on page 20 that "policies cannot be designed to reach any particular target with a high degree of confidence." In this, the CEA position (reiterating the position of CEA Chairman Arthur Burns in 1953) defies the express mandate and high promise of the Employment Act of 1946.

Nor is this CEA position common sense, for it ignores all relevant past experience. Targets were established during World War II, and prodigies of performance were accomplished. Specific targets were set forth each year in the Economic Reports during the Truman Administration and, properly weighing all elements, a far better economic performance occurred than at any subsequent time under the Employment Act. An interim target of reducing unemployment to four percent was set at the beginning of the Kennedy Administration, and unemployment was reduced from 6.8 percent to 3.5 percent during the Kennedy-Johnson Administration.

The CEA Report states on page 20 that "what we need is a durable recovery, not a boom." This truism cannot be assailed as such. But it is clear from the President's Report and the CEA Report that the truism is merely a euphuism, when combined with policies and programs certain to result in continuation of the contrived repression of real economic growth. Even according to the forecasts of the Administration itself, this course would result in intolerable amounts of unused resources as late as 1980.

CEA SUPPORT OF WRONGFUL FEDERAL RESERVE BOARD POLICIES

The CEA Report, on page 22, defends the monetary growth targets of the Federal Reserve Board as essential to reduce inflation. This neglects the palpable fact that the monetary growth target of the Federal Reserve—which are not really being observed in the long-run—have helped mightly to bring on recurrent periods of stagnation and recession, and thereby to accelerate inflation. And even if these targets were adhered to fully, they are far short of what is needed to help support adequate real economic growth in 1976 or later years. Related to the need for a real average annual economic growth of 7.9 percent through 1980 (which I shall discuss further), and allowing conservatively for future inflation, the Federal Reserve target should be in the neighborhood of 10 percent plus.

PAUCITY OF POLICIES AGAIN: THE HOUSING EXAMPLE

The CEA Report is woefully unappreciative and neglectful of the very wide range of integrated national economic policies, required now and for the years ahead. An excellent example of this is housing. The CEA does not respond to the fact that the lamentably poor performance of housing in recent years and now, taking into account the "multiplier" effects, is responsible for at least one-quarter of the total nationwide deficiencies in production and employment. Instead of proposing meaningful national policies to help housing reach the annual level of at least 2.5 million housing starts annually for a number of years ahead, required on both economic and social grounds, the CEA confines itself on page 26 to forecasting an annual rate of housing starts of 1.7–1.8 million at the end of 1976.

ASTIGMATISM ON THE WAGE PROBLEM

On pages 30–34, a major portion of the CEA Report expresses the opinion that there is need for restraint on the real growth rate in hourly wage rates compared with prospective developments. This is neglectful of the fact that, broadly speaking, the lag in real wage rate gains behind productivity gains has been a prime factor in the inadequate performance of the economy at large. From fourth quarter 1974 to fourth quarter 1975, for example, productivity in the total private nonfarm economy rose 3.9 percent, while real wages and salary payments rose only 1.2 percent (allowing for reduced unemployment, the record was even worse in re the real increase in hourly wage rates). Wage and salary income normally comprises considerably more than 60 percent of total consumer income, which in turn normally comprises about the same proportion of total national production. Any formula thus far intimated by the CEA for real wage growth cannot possibly be fitted into any viable economic model for full economic restoration. The CEA, instead of perpetuating its biases against the wage earner, should be indicating quantitatively the amount of real wage growth essential to full economic restoration, fitting this into an overall model for full economic restoration, and revealing this in its Reports to the Congress. The CEA is manifestly not doing this.

Instead of giving proper weight to the need for wage expansion, the CEA on pages 39–47 accords major attention to the problem of capital requirements. But its treatment of this problem is subject to the same gross errors which mark the President's Report, and which I have already discussed.

TOO MUCH ACCENT ON THE PAST; NOT ENOUGH ON THE FUTURE

The vital purpose of a CEA Report under the Employment Act of 1946 is not to review what has happened in the past, although that is necessary, but instead to evaluate correctly where we are now, and what we must do policywise to get where we need to be in the shortest practical time. I therefore deem it unnecessary to comment upon pages 48–92 of the CEA Report, which continues the long practice of saying too much about what has happened, and not saying enough nor the right things about where we must go from here.

SCANT AND TIMID TREATMENT OF RELATED SOCIAL ISSUES

The CEA treatment of income security and health issues on pages 93–127 is deplorably timid and inadequate. These problems are "social," but they are also economic because they require immense use of economic resources. We need to budget what the nation should do, and also what the Federal Government through the Federal Budget should do, toward meeting these crucial problems promptly and adequately in the perspective of a complete program for full employment and balanced economic growth. The CEA, regrettably, continues to refuse to develop any such perspective.

IS THE WORLD RESPONSIBLE FOR OUR DOMESTIC DIFFICULTIES?

The treatment of the world economy in 1975, on pages 128–152 of the CEA Report, turns to a problem properly within the scope of every such Report. We do live in an interdependent world economy. But the treatment is deficient because it attributes to conditions elsewhere in the world an excessive degree of responsibility for the defaults in our domestic policies and their malignant consequences. Economic conditions among the free nations overseas were infinitely worse for a number of years after World War II than they have been at any time since; that did not prevent the unusually good economic performance in the United States during these years. The U.S. is truly a continental economic empire, and it is no exaggeration to say that what has gone wrong domestically in this country has hurt others more than what has gone wrong overseas has hurt us.

"ROME WAS NOT BUILT IN A DAY"

The Employment Act of 1946 was designed to evoke, through the Reports of the President and the Council of Economic Advisers, great documents which responded to the needs and aspirations, and recognized the potentials, of our economy and our people. It was designed to provide instrumentalities for meeting these needs and serving these aspirations in accord with these potentials, growing at an optimum rate.

It is impossible to imagine that anyone could have expected this job to be done on a year-by-year basis alone. Many vital purposes take many years to achieve. And those purposes which can be achieved within a year will seldom be approached correctly, if one does not look further ahead. The Employment Act of 1946 is really a planning statute. And planning requires, above all, that the need for an immediate start is not inconsistent with appraisal of the length of the race. The runner does not even know how to run, if he is not informed about the length of the course.

There were years, under the Employment Act of 1946, when long-range planning, analysis, and programming comprised a large part of the Reports submitted to the Congress under the Employment Act. A good example of this, when I was Chairman of CEA, was the attention paid to such matters as resource development, steel requirements, among many, many other focal points.

But gradually, the recognition that "Rome was not built in a day" has dwindled, and has now virtually disappeared. The shortage of energy and food supply today, the shortages of mass transportation today, the shortages of jobs today, the misallocation of resources today, did not emerge suddenly in one year. They have grown through many years of neglect, and through many years of denial of the obvious fact that they were problems to be dealt with, not neglected, within the scope of maximum employment, production, and purchasing power under the Employment Act of 1946. By now, a double consequence of this long-term default is that we are not only neglecting the future; we are also doing the wrong things today because we are not looking far enough ahead.

The notion that we should not look far ahead because it may be difficult to do so, or because a long view may be initially mistaken in some respects, is a craven withdrawal from inescapable responsibility. Moreover, planning for the years ahead is not inconsistent with corrections from year to year; it makes these corrections easier.

If my memory serves me correctly, no previous Reports of the President and the Council of Economic Advisers have been more deficient on these scores than those in 1976.

Part II. Independent Comments on Economic Conditions and Policies

1. *Economic Conditions and Economic Goals*

I turn now to what is even more important than criticism of the President and his Economic Advisers. For it must be apparent by now that they may be beyond effective redemption and that, for the time being, the nation and the people must rely upon the Congress to take the leadership in legislative and other aspects of the national economic policy. There is much that I have to say on this subject, but I will endeavor to prevent my comments from becoming excessively long by making frequent reference to the 26 charts attached to my comments.

GENERAL COMMENTS ON THE MATERIALS PRESENTED

My comments and charts are really the product of more than four decades of intensive empirical study of the U.S. economy in action and of most of its important sectors. This work has been accompanied by what I believe has been and still is an objective observation of why developments both good and bad have occurred, and especially why some national economic policies have worked well and others poorly in varying degrees.

Much of the material on my charts is merely a presentation of existing government-prepared data, reorganized by me in order to highpoint what seems to be most important. The qualifications of goals, the other projections for the future, and the proposed policies, are entirely my own responsibility. The fact that other economists arrive at goals and projections somewhat different from mine does not, in my view, militate at all against the general pertinence of my own work as a guide to national policy consideration by others. To be sure, there are great differences among economists and others as to policy proposals. I offer my own for what they may be worth, subject to the appropriate comment that they have been based upon more experience and study with respect to the national economy than most others have been fortunate enough to have been engaged in so deeply for so many years.

THE LONG-TERM NATURE OF OUR ECONOMIC DIFFICULTIES

As I have earlier stated, a basic trouble with recent and current Reports of the President and the CEA under the Employment Act of 1946 is that they have not taken a sufficiently long view, either in their analysis of the past or in their policy proposals for the future. We cannot get very far by short-range analysis and action only. In one sense, we are always acting in the present. But for what we do now to yield the results we want, we must set all that we do in a long-term perspective. This principle certainly governs the performance of successful large-scale business enterprise. It is even needed in national policy making, lest the policies will actually be improvised, shortsighted, fragmentary, and lacking cohesiveness and consistency.

First and foremost, we must recognize that what has been happening to us has not been of recent origin; and it is all relevant because it has been happening all along for much the same reasons. In 1954, I forecast in the first published study of the Conference on Economic Progress that our economy and people were faced with the long-term prospect of a roller coaster performance. I forecast that each successive upturn would be followed by stagnation and then by absolute recession, with each recession tending to carry us further downward than the preceding one, and with each successive upturn at its peak tending to leave us with more unused resources than the peak of the immediately previous upturn. Unfortunately, my forecasts have turned out to be reasonably accurate.

Further, through close study of the entire situation year by year from 1954 to date, I have reached the conclusion that, basically, each cycle has reflected basically the same maladjustments, and been due fundamentally to similar errors in national economic policies and programs.

THE NATURE AND COSTS OF THE "ROLLER-COASTER" PERFORMANCE

Our average annual real economic growth rate was only 3.0 percent during 1953–1975. This was far below performances averaging close to 5 percent annually which we actually achieved during some earlier periods when our technology and other capabilities were far lower than now. Within the more than two decades, it was only during 1960–1966 that the real average annual real growth rate was reasonably in line with our capabilities. During 1966–1969, despite much loose talk about an "over-stimulated economy," the real average annual growth rate was only 3.3 percent. It was only 1.6 percent during 1969–1975.

Correspondingly, we have never returned to a level of unemployment close to full employment since the 2.9 percent level in 1953. With some undulations, the long-term or secular trend of unemployment has been decisively upward for 23 years.

I have also estimated the GNP differences between the actual economic performance and what the performance would have been at reasonably full resource use. I have done this on an extremely conservative basis, in that I have used an average annual real economic growth rate of 4.1 percent to represent the requirement for reasonably full resource use during 1953–1975. Proceeding in this manner, I find that the "gap" between actual production and maximum production (production at reasonably full resource use) rose from 0.4 percent in 1953 to an annual rate of 24.6 percent in the fourth quarter of 1975. And the production "gap" was extremely high even during intervening years of so-called high prosperity.

The fact that these projections result in a production "gap" at an annual rate of 494.5 billion 1975 dollars in fourth quarter 1975 does not mean that we would have needed to increase GNP by that annual amount in fourth quarter 1975 to have restored maximum production at that time. This is because, in the intervening years, the average poor performance deprived us of the growth of many potentials, especially productivity growth. Perhaps the growth in GNP at an annual rate required in fourth quarter 1975 to have restored maximum production and employment at that time was only in the neighborhood of 200–250 billion 1975 dollars. Nonetheless, the 494.5 billion 1975 dollar figure is immensely important as an indication of what we lost during the period of 23 years.[1]

During 1953–1975 inclusive, "the roller-coaster" performance of the economy caused us to forfeit more than 3.3 trillion 1975 dollars worth of total national production, and to forfeit 61 million man- and woman-years of employment opportunity.[2] Concurrently, we forfeited enough public revenues at all levels at existing tax rates to have supported (above what we actually did) about 920 billion 1975 dollars worth of public outlays for high domestic priority purposes, instead

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[1] See Chart 1. This chart also indicates the need for an average annual real economic growth rate of 9.5 percent to restore reasonable full employment—3 percent unemployment—by the end of calendar 1978, and a 5.4 percent real average annual growth rate thereafter through 1980. Sinc the preparation of this chart, I readjusted my thinking to the attainment of a reasonably full economy by the end of calendar 1980, that being the goal of the Humphrey-Hawkins "Full Employment and Balanced Growth Act of 1976." This would require a real average annual growth rate of 7.9 percent from 1975 through 1980. I subsequently discuss the reasonableness and practicality of this objective.

[2] See Chart 2.

of acquiescing in extraordinary economic and related social neglect. We forfeited more than 911 billion 1975 dollars worth of private business investment opportunity, almost 1.9 trillion dollars in wage and salary income, and more than 1.5 trillion in personal consumption expenditures.[3]

ESTIMATED COSTS IN FUTURE

I next project the progress of our economy needed to restore reasonably full employment and production by the end of calendar 1980, and compare this with an "optimistic" projection of estimated developments under continuation of current national economic policies and programs. The estimates of these differences are also conservative, because the lower real economic growth rate is projected at a real average annual growth rate of 4.3 percent, or very much higher than the 3.3 percent average during 1966–1969. The differences thus estimated come to more than 1.1 trillion 1975 dollars of GNP during 1976–1980 inclusive; a difference of 16.7 million man- and woman-years of employment opportunity; and [4] differences of 449 billion in personal consumption expenditures, 425.6 billion in public outlays at all levels, 530 billion in wages and salaries, and 237.6 billion in private business investment opportunity.[5]

BASIS OF ESTIMATES OF GROWTH POTENTIALS

In estimating our potentials for real growth from 1975 to 1980, I have taken into account both our potentials for productivity growth and the likely growth in the civilian labor force under the inducements of a vigorous economic restoration movement. There has always been a very close correlation between higher annual real growth rate of GNP and higher average annual growth rate in productivity. Looking at data during 1947–1975 related to the U.S. private economy, and taking into account the technological conditions which tend to accelerate the rate of productivity growth under conditions of optimum economic performance and especially under conditions of a strong recovery movement, I reach this conclusion: It is entirely reasonable to work toward an average annual productivity growth rate in excess of 5 percent (the annual rate was 5.5 percent from the first to the fourth quarter 1975) between now to the end of 1980. Clearly, however, this depends upon (a) maintaining a movement toward restoring reasonably full resource use by the end of calendar 1980, and (b) some special measures to induce optimum productivity growth. Combining this with the feasible rate of growth in the civilian labor force in the course of a strong and sustained economic restoration movement, and even allowing for a lower growth rate in productivity in the public sector (due to relatively more service workers), there is nothing unrealistic in my finding that we should aim toward a real average annual economic growth rate of 7.9 percent from the 1975 base through 1980.[6]

[3] See Chart 3.
[4] The ratio of the differences in employment to those in GNP is higher than in earlier years because of advances in productivity and wage rates.
[5] See again Chart 3. Chart 4 tells the same story with respect to GNP and employment, and indicates the yearly trends.
[6] See Chart 5.

MAJOR GOALS FOR 1980

I have already stressed the vital importance of specific targets or goals, as guides to national economic policies and programs. The goals I now set forth are consistent with my estimates of our capabilities, and with the already-stated target for the reduction of unemployment to 3 percent by the end of calendar 1980. I estimate that, from the base of 1975 as a whole, civilian employment should be 13.1 million higher in 1980 as a whole. In real terms, GNP should rise 46.1 percent, consumer spending 35.8 percent, gross private domestic investment 96.6 percent, Government outlays for goods and services at all levels 48.5 percent, and investment in residential structures 187.5 percent.

The unusually high needed rate of growth in gross private domestic investment which I target certainly proves that I have no animadversion to this type of activity. This growth rate is justified by the unusual fluctuations of such investment over the cycle and its depressed state now relative to the requirements for a full economy. But I have already stated fully my view that this acceleration should not be attempted by further direct tax or other favors to business investors, but rather by policies directed toward adequate expansion of ultimate demand in the form of consumer and public outlays combined. The extraordinarily high rate of growth which I find to be needed in the growth of investment in residential structures is based upon the need for enough of the right types of housing as a social factor, and upon long and thorough study of the relationship between housing performance and the condition of the economy at large, to which I have referred earlier in my testimony.[7]

HIGH SIGNIFICANCE OF THE HOUSING PERFORMANCE

Viewing the whole period from 1950 through February 1975, the trends in housing starts have been severely deficient, measured against the need on both economic and social grounds. During 1969–1974, average annual starts were almost 28 percent below the needed annual rate between now and 1980, and in 1974 starts were more than 42 percent below 1972. Coming further forward than what my chart shows, housing starts were only 1.3 million in 1975, and hardly better now. All of this indicates, as stressed earlier in these comments, the serious neglect, by the President and the Council of Economic Advisers, of the housing performance and what national policies should do to improve it.[8]

GOALS FOR THE STRUCTURE OF ADDITIONAL EMPLOYMENT

The emergence and active consideration of the Hawkins-Humphrey "Full Employment and Balanced Growth Act of 1976" has caused many misimpressions, some deliberately cultivated and others innocent. Most prominent among these errors is that reaching the goal of 3 percent unemployment by the end of calendar 1980 (four years from the earliest possible date of enactment of this measure) would involve many millions of Federally financed public service jobs. The bill prop-

[7] See Chart 6.
[8] See Chart 7.

early does not quantify nor apportion the distribution of the additional employment, that function being properly left to the performance of the private economy, and to the programmatic decisions of the President, the Congress, and others under the Act. But I have made my own estimates of one realistic pattern of distribution of the additional jobs, and deem it valuable to present these estimates, especially because of the vast misimpressions on this subject.

I estimate, comparing 1980 as a whole with 1975 as a whole, a total job increase of 13.1 million. Of these, I estimate that 9.4 million would be additional jobs in the private sector, stimulated by improvements in fiscal and monetary policies, by the encouraging impact of a Government really committed to full employment, and by the "multiplier" effects of jobs created in other sectors. I estimate 3.2 million additional State and local public jobs, in accord with long-term trends, and with appropriately increased financial assistance from the Federal Government. A large part of the additional jobs in the State and local public sector, and also in the private sector, would result from increased Federal outlays to expand the great domestic priority programs which I have already detailed. The Humphrey-Hawkins Bill is not designed just to create jobs, but to unite these jobs with rational attention to the priority needs of the economy and the people.

I estimate that only about 0.5 million of the additional jobs would be Federal employment. The Humphrey-Hawkins proposal does properly contemplate Federal funds for reservoirs of public and nonprofit private public service jobs, in order to assure the right of every American aged 16 and over to a useful job at fair compensation where they are willing and able to work. But I think that not more than one million of these jobs at their peak would be furnished by these reservoirs. And even as to these jobs, although financed by Federal outlays, a majority of them might not be in Federal employment.[9]

2. *Federal Fiscal Policies: The Federal Budget*

Coming now to the policies which are relevant to reaching the goal of reasonably full employment by the end of 1980, I shall first discuss Federal Budget policy. I do this not only because Budget policy is now at the center of national discussion and concern, but also because the Federal Budget, while by no means all-pervasive in its influence, is the most important single instrument for economic readjustment and restoration. It is also particularly fitting that these comments to the Joint Economic Committee focus first upon the Federal Budget, because it is the economic weapon most substantially within the discretion and control of the Congress.

THE TRUE PURPOSE OF FEDERAL OUTLAYS IN THE FEDERAL BUDGET

I am deeply concerned about a long-term trend toward viewing the Federal Budget in the manner which does not face up to its true purposes. My comment in this respect is directly applicable, not only to the current Administration and to some previous Administrations both Democratic and Republican, but also to the work and output of the

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[9] See Chart 8.

relatively new Congressional Budget Office and Budget Committees of the Senate and the House.

I submit in all seriousness that the primary purpose of a Federal Budget is not to be balanced. It could be balanced at zero levels of outlays and tax collections, or 25 billion dollars of each, or at any other level of each. Nor is it the primary purpose of Federal outlays to be used for stabilization purposes, and thus to be expanded rapidly when the economy is excessively slack, and contracted when the economy is under excessive strain (a situation which we have not had in general at any time since the passage of the Employment Act of 1946, except perhaps during a portion of the Korean war period). The notion that the Federal Budget on the outlay side should be expanded rapidly to stimulate the economy, or contracted to fight inflation, is in my view not fully responsive to the teachings of Lord Keynes; and whether or not it is a distortion of his teachings, it is wrong nonetheless.

For the true and obvious purpose of the outlay side of the Federal Budget is to serve national priorities, i.e., to do for the economy and the people what cannot otherwise be done or done so well. In short, the Federal Budget should allocate to these priorities the needed goods and services which would not otherwise be so allocated, or so allocated with equal efficiency in terms of true costs. It follows that the outlay side of the Federal Budget should be determined within the perspective of a full employment and balanced growth plan for the overall economy. The Humphrey-Hawkins bill so provides.

Equally important is a principle hardly recognized now in the application of public policy or by most economists. The quantitative allocations to the various categories within the Federal Budget should almost always be determined by what the economy needs and can support at reasonably fully resource use. When the economy is far below full resource use, the outlay side of the Federal Budget should not be reduced accordingly, on the alleged ground that we "cannot afford" to meet the priority needs which Budget outlays serve. Vast idleness of manpower and other productive resources does not mean that we do not have the real resource capabilities to serve these priorities fully through the Federal Budget; and such service has the incidental value of helping to direct idle resources into useful work. When the economy is suffering from excessive overall strain or classical inflationary pressures, it is likewise a distortion of the true purposes of Federal Budget outlays to cut them back in order to relieve the excessive pressures. For to do this assumes falsely that the first things to be slashed, when we have to do less of something, are the great priorities which Federal outlays do or should serve.

THE TRUE PURPOSE OF FEDERAL TAXATION

The task of taking care of excessive or deficient economic activity should be impressed upon the tax or revenue side of the Federal Budget and not upon the outlay side. This includes tax increases to restrain classic inflation when the economy is really under excessive pressures, and tax cuts to enlarge the stimulative effect of the Federal Budget when there is excessive economic slack. Taxation, unlike public outlays, has no national purpose per se. Variations in tax rates to stimulate or retard the economy can be directed toward variations in those expendable or postponable goods and services which the economy and the nation needs less than it needs the priority goods and services represented by the outlays side of the Federal Budget.

The prevalent idea that spending policy and tax policy can be used interchangeably, according to the relative political ease of following one course or another, has been the most salient single error in national economic policies, at least since 1964 and increasingly in later years.

A MODEL FEDERAL BUDGET, TOWARD FULL AND BALANCED RESOURCE USE BY THE END OF 1980

Guided by the above principles, and by the objective of reaching reasonably full employment and production by the end of calendar 1980, I have constructed what I call a model Federal Budget on the outlay side. This is not an intimation of what Federal outlays would be when the Hawkins-Humphrey proposal is enacted into law; that measure does no more than mandate a more orderly and planned procedure for the determination of the total size and composition of Federal outlays, from year to year, by the President and the Congress. Nonetheless, I believe that it will prove helpful to the Joint Economic Committee, to the Budget Office and Committees, and to the Congress at large for me to set forth frankly and fully the model Federal Budget which I have been developing for many years, and have now brought up to date.

My model Federal Budget, measured in fiscal 1977 dollars, calls for total Federal outlays in fiscal 1977 of 432.2 billion dollars, or 38 billion higher than the President's initial proposal for that fiscal year. It is interesting to note that these figures are not too far, looking at the total size of the Budget, from the recent action of the majority of the Joint Economic Committee, proposing fiscal 1977 outlays from 24 to 28 billion dollars higher than the President's proposal. In addition, my model Federal Budget allocates the total Federal outlays among the various components of the Federal Budget, based in the main upon intensive studies which I have made for many years with regard to most of the components covered. For calendar 1980, my model Federal Budget sets forth total Federal outlays of $505.3 billion, or about 111 billion above the President's original budget for fiscal 1977. These total outlays are also allocated among the various components of the Federal Budget.

In the case of national defense and international, I do not pretend to this degree of competency. I project these particular outlays on a moderately increasing basis, not to indicate the necessity for such trends, but only to demonstrate that we can meet our domestic priority needs well without slashes in defense outlays. Any idea to the contrary is, in my view, a dangerous approach to the determination of national security outlays, and profoundly unsound on economic grounds in the determination of domestic priority outlays in the Federal Budget.[10]

[10] See Chart 9.

This model Federal Budget, designed as I have said to serve properly the great priorities which Federal outlays must help to support, and designed also to be compatible with a viable overall economic model for reaching reasonably full resource use by the end of calendar 1980, is predicated upon the maintenance of Federally-imposed tax rates at where they are now in general, without intending to imply that improvements in the tax structure would not be desirable on both economic and social grounds.

It is probable that an actual Federal Budget, designed to help achieve the end of calendar 1980 objectives of the Humphrey-Hawkins proposal, would involve increases in Federal outlays considerably less than those in my model Federal Budget, which involves an unusually advanced concept of the speed at which the most urgent priority needs should be serviced.

THE COSTS OF A FULL EMPLOYMENT AND BALANCED GROWTH BUDGET

In considering the policies and programs, including those in the Federal Budget, needed to reach reasonably full resource use by the end of calendar 1980, the question has arisen as to whether the costs, and especially the Federal Budget costs, involved in reaching this 1980 objective, would be excessive or even prohibitive. I have therefore made a thorough analysis of this issue, based upon my own projections for GNP and for the Federal Budget. Again I stress that these projections are not intended to delineate actual Budget or other decisions under the Employment and Balanced Growth Act of 1976; these will depend upon the evolving decisions of the President and the Congress. My analysis, however, should provide useful perspective in the formulation of Congressional decisions about the Federal Budget, with or without the enactment of that measure.

The first step in my exercise, in this connection, is to estimate the difference in GNP between a performance designed to achieve a reasonably full economy by the end of calendar 1980, and the GNP performance which I estimate would result from a normal projection of current policies and programs. I have already described the conservative and reasonable nature of these two projections. The two projections result in a GNP difference of 897 billion fiscal 1977 dollars during the four calendar years 1977–1980 inclusive. This difference is not the same as the 1.1 trillion dollars difference which I projected earlier in this discussion, because that earlier projection started with calendar year 1976 instead of calendar year 1977, used calendar 1975 dollars instead of fiscal 1977 dollars, and was designed to reach the full employment goal at the end of calendar 1978 instead of at the end of calendar 1980. The 897 billion dollar difference, which I have just discussed, is designated by me as the incremental GNP benefit which would result from policies and programs designed to reach reasonably full resource use by the end of calendar 1980.

As the next step in the same exercise, I use my model Federal Budget and compare it with the outlays which would result from a normal extrapolation of the President's fiscal 1977 budget, projected to grow in real terms at the rate of 4.3 percent per year, this being the actual annual average real growth rate during the fiscal years 1974–1977. My model projects the real average annual growth rate in Federal Budget outlays at 5.53 percent, or much lower than the projected needed real growth rate in GNP. These two projections result in a difference in Federal Budget outlays of 172.1 billion fiscal 1977 dollars in the aggregate for the four fiscal years 1977–1980, or an average difference of about 43 billion a year. I designate this as the incremental increases in the Federal Budget needed to help reach the full employment and GNP goals for the end of calendar 1980, and adequately to help serve these great priority needs which depend upon help from Federal outlays.

The central significance of this exercise is the demonstration that the incremental benefits in GNP would be more than five times the incremental Federal Budget outlays needed to help in attaining the incremental GNP benefits. I submit that this is the proper way to "cost-out" a Federal Budget, and that the prevalent policy of ignoring this method is no way to judge or shape a Federal Budget.[11]

I hasten to add that the incremental Federal Budget outlays which I have depicted reflect all that I think should be done on priority grounds. But they are probably far higher than those which would result under the Full Employment and Balanced Growth Act of 1976, even assuming that the Act in operation will result in adequate Federal Budget outlays to meet the targeted production and employment objectives for the end of calendar 1980.

Even more important, my estimate of Federal Budget outlays have not allowed adequately for the savings which would result from a full employment and balanced growth program. Although I have tried to factor in the reduced costs arising directly from lowered unemployment benefits and welfare costs, I have not been able to quantify the huge savings resulting from reduction of crime and other social aberrations, in consequence of full job opportunity. I am not able to factor in the dollar amounts representing the reduction in Federal Budget interest costs, in consequence of essential changes in the prevalent monetary policy. And above all, I have not been able to factor in the Federal savings which would result from the reductions of duplicating, conflicting, nonproductive, and downright erroneous Federal programs. All of these savings, and others, would result from the improved planning and other genuine economy provisions of the Hawkins-Humphrey proposal.

HOW TO BALANCE THE FEDERAL BUDGET, AND THEN CREATE A SURPLUS

The question naturally arises as to what effect the pursuit of a Federal Budget policy consistent with a full employment and balanced growth policy would have upon the condition of the Federal Budget itself. There is now prevalent recognition that the huge and growing Federal deficits have resulted, not from excessive Federal outlays nor from deficient rates of Federal taxation, but rather because the blood of adequate Federal revenues cannot be squeezed from the turnip of a repressed economy. During the calendar years 1947–1953, I estimate that the economy was operating very close to full resource use, or

[11] See Chart 10.

even under a very slight general strain. Meanwhile, during the fiscal years 1948–1954, there was an annual average surplus of 1.3 billion 1975 dollars in the Federal Budget. Thereafter, as the GNP "gap" grew, so did the deficit in the Federal Budget. During the calendar years 1971–1975, there was an average annual GNP "gap" which I estimate at 326.3 billion 1975 dollars (projections from 1946; see earlier discussion of what these long-term exercises mean). And during the fiscal years 1972–1976, there was an average annual deficit of 32.1 billion 1975 dollars in the Federal Budget.[12]

Next, I trace the actual magnitudes of Federal Budget expenditures and receipts during the fiscal years 1971–1977, a period averaging an abysmal low real economic growth rate and intolerably high levels of unused resources. During these fiscal years, the average annual deficit in the Federal Budget was 32.4 billion, rising to a now-estimated 76 billion in fiscal 1976. The Administration now estimates a 43 billion dollar deficit in fiscal 1977, but the weight of objective authority is that it is more likely to be close to 60 billion. In contrast, I project Federal Budget expenditures and receipts consonant with my model Federal Budget in an adequately growing economy. The result is an average annual Federal deficit, during the fiscal years 1977–1980, of 10.5 billion dollars, or less than one-third the average during the fiscal years 1971–1977. The result is also a balanced budget circa fiscal 1979, and a surplus rising to an estimated 13.9 billion by calendar 1980.[13]

TRENDS IN FEDERAL BUDGET OUTLAYS, AND IN THE NATIONAL DEBT, NOT "ALARMING"

In view of all the alarms about the growth in the Federal Budget, and in the national debt in consequence of mounting Federal deficits, it is most important to note the following facts: While Federal outlays on a per capita basis have grown greatly over the years, in response to the real needs of a growing economy and an advancing GNP, these outlays as a percentage of GNP have remained remarkably constant since 1954.[14]

Federal Budget outlays were 43.9 percent of GNP in fiscal 1945, in consequence of World War II. They were only 21.2 percent in 1953. The ratio was below 21 percent in every year save one from 1955 through 1974. They then rose to 23.5 percent in fiscal 1976, in consequence of a very poor economic performance during the immediately preceding years. The officially estimated ratio is 21.5 percent for fiscal 1977. Under my projections for appropriate growth in GNP and in the Federal budget, the ratio would drop year by year to an estimated 20.8 percent in fiscal 1980.

The ratio of the gross Federal public debt to GNP was 110.0 percent in fiscal 1945. It was reduced to 61.9 percent in 1953, and 47.6 percent in 1960. The ratio moved generally downward to 25.5 percent in fiscal 1974, and then rose to 30.4 percent in fiscal 1976, and is now officially

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[12] See Chart 11. Chart 12 gives an even more poignant demonstration of the intimate relationship between the condition of the national economy and the condition of the Federal Budget. Chart 12 also demonstrates that a healthy economy results in unusual price stability, while a sick economy results in unusual price inflation.
[13] See Chart 13.
[14] See Chart 14.

estimated as the same for fiscal 1977, in consequence of a very poor economic performance. My projections are that, with the trends in the GNP and in the condition of the Federal Budget which I have projected as representing optimum economic performance, the ratio of the gross Federal public debt to the GNP would decline year by year to 23.2 percent in fiscal 1980.[15]

3. *The Perverse Monetary Policies of the Federal Reserve Board*

MONETARY POLICY AND ECONOMIC PERFORMANCE

The damaging results of an erroneous Federal Budget policy have been aggravated by the results of an erroneous monetary policy on the part of the Federal Reserve Board and System. A detailed examination of trends from 1955 to 1975 indicates that a grossly inadequate average annual growth rate in the non-federally held money supply has been closely associated with a grossly inadequate average annual growth rate in GNP; that, by and large, the periodic excessive tightening of the money supply has been a major explanation of the recurrent periods of stagnation and recession; and that, by and large, the periods of stagnation and recession have greatly aggravated inflation. Moreover, the fantastic increase in interest rates, in consequence of the prevalent monetary policy, have been and still are inflationary *per se.*[16]

THE TOLL OF EXCESSIVELY HIGH INTEREST RATES

The increases in interest rates from 1952 through 1975 have been almost unbelievable. My view is that interest rates should have been held approximately where they were in 1952. Low interest rates from 1933 to 1952 were a powerful factor in an average economic performance tremendously better than since then, and with far less inflation on the average. In these current comments. I have thoroughly reviewed the record since the start of World War II. I estimate that the rise in interest costs during 1952–1975 inclusive has imposed excessive interest charges of 103.7 billion dollars upon the Federal public debt, 23.7 billion upon the total State and local debt, 832.8 billion upon the total private debt, and 960.2 billion upon the total public and private debt. These increased interest costs have contributed to the alleged inability of the Federal Budget to serve priority needs as they should be served, and contributed mightily to the mounting Federal deficits. They have greatly enlarged the burdens upon State and local governments, and also contributed to the financial plight of many large cities and a number of States. Grossly excessive interest rates have been entirely unconscionable, in their impact upon the spendable incomes of all those who must resort to borrowings to try to make ends meet.[17]

The prevalent monetary policy is also a main explanation of the sorry performance of housing for many years. and of conditions among the utilities in general which have disenabled them from adequate exploration for new sources of energy and sufficient expansion

[15] See Chart 15.
[16] See Chart 16.
[17] See Chart 17.

of plants and pipelines. All this has contributed to the soaring prices paid by the household consumer and by business for the fuel and power they use. The same monetary policy has contributed mightily to an unprecedented rate of failure among small business concerns, save during the Great Depression. Meanwhile, the repressive monetary policy has not prevented recurrent excesses in some sectors of the economy, especially among mammoth and quasi-monopolistic concerns.

The prevalent monetary policy, during the same more than two decades, imposed an excess interest cost of almost $19,000 upon the average American family. This alone pushed many families into the poverty cellar. A very small fraction of the 960 billion dollars of excessive interest costs during these years could have been used more appropriately to lift every American family now in poverty to a decent standard of living.[18]

THE MONETARY POLICY, PRIORITY NEGLECT, AND THE FEDERAL DEFICITS

Finally in this context, the excessive interest costs in the Federal Budget, coming to more than 17 billion dollars in 1975 alone, was several times the Federal outlays in fiscal 1976 for such essential priority programs as education, housing and community development, public assistance and welfare, and manpower programs. But the Administration continues to insist that the Federal Budget cannot afford to serve these priorities adequately, and must abandon some of them entirely.[19]

In 1975, the excessive interest costs in the Federal Budget were close to 40 percent of the Federal deficit of 43.6 billion in fiscal 1975! Nor is that all. If not for the contrived creation of stagnations and recessions, toward which Federal Reserve policies contributed so powerfully and imaginatively, there would have been Federal Budget surpluses all along. Yet, the distinguished Chairman of the Fed continues to shed tears about the size of the Federal deficits, to hold them responsible for inflation, and to propose erroneous methods to reduce these deficits, even while he helps to increase them.

POLICIES TO RECTIFY THE PERVERSE MONETARY POLICY

An essential feature of the concerted policies and programs needed to move the economy at a vigorous pace toward full economic restoration is a complete reconstruction of the policies of the Federal Reserve System. The "independent" Federal Reserve should be made reasonably responsive to the influence of the President and the Congress, and constrained to bring its monetary policies into line with the objectives of a full employment and balanced growth plan. The management of credit and interest rates should be made much more selective, instead of being used to feed the fat and starve the lean. The Hawkins-Humphrey proposal contains forceful and practical suggestions in these directions.

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[18] See Chart 18.
[19] See Chart 19.

4. *Toward Restraint of Price Inflation, and Ultimate Price Stability*

THE "TRADE-OFF" MUST BE BURIED

The "trade-off," to the effect that high use of resources aggravates inflation, and lower use of resources reduces inflation, has long stood and still stands as a brooding omnipresence, always in the way of sound and humane national economic policies. The theory of the "trade-off," as I have already stated, is implicit in the go-slow policies espoused by the 1976 President's Economic Report and Report of the Council of Economic Advisers. But there is a growing body of agreement that the cumulative events of the past two decades or longer have discredited the "trade-off" theory about as completely as anything can be discredited in the whole field of economics. In words, even FRB Chairman Arthur Burns, even the President's current Economic Report impliedly, and even CEA Chairman Greenspan, now admit that the "trade-off" has little or no empirical validity—although all three still insist upon following policies which assume that it has.

THE EMPIRICAL EVIDENCE AGAINST THE "TRADE-OFF," AND WHAT TO DO NOW: THIS IS NOT A TIME FOR PRICE AND WAGE CONTROLS

I have so frequently, since *circa* 1954, before this Joint Economic Committee and elsewhere, reviewed the cumulative and now conclusive empirical evidence against the "trade-off" that I deem it unnecessary to recite all that evidence again. However, two of the charts attached to my discussion bring that evidence to bear in plenitude.[20]

The first step toward bringing down the rate of inflation, on a systematic and sustained basis, is to stop striking hammer blows against the restoration of full employment and balanced economic growth as promptly as possible. The evidence which I reviewed in detail in these comments makes this much absolutely clear: Even without the direct controls, the periods which have exhibited a strong movement toward or close proximity to reasonably full resource use have generated immensely more price stability than the periods which have moved toward or remained intolerably high idleness of workers and other productive resources.[21]

For these reasons, I do not believe that programs now or in the near future, pointed toward full employment and balanced economic growth, should include the direct controls. The country and the Congress are so widely divided on the subject of the direct controls that this fractious issue should not be injected now. To do so would, in my view, greatly reduce the public support for, and greatly diminish the prospects for the necessary and prompt enactment of, the Humphrey-Hawkins Bill. Progress is the art of the practical, and we should not listen to those economists who would rather deal again with the economic conditions of World War II than the conditions of today and tomorrow; and who would rather assert their ideas of perfection in magazines than fight for needed and practical improvements in a real world.

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[20] See Charts 20 and 21.
[21] See again Charts 20 and 21.

Be this as it may, the Hawkins-Humphrey proposal, although it relies mainly and properly upon economic restoration to reduce inflation, also offers a number of specific policies and programs for the same purpose. Important among these are the proposed supplementation of fiscal and monetary policies with a wide range of microeconomic policies, information about and monitoring of inflationary trends, concentrating upon increased supplies of food and energy, export licensing, promotion of increases in productivity, strengthening of the antitrust laws, and specific stress upon breaking bottlenecks and overcoming selective shortages. I urge the Joint Economic Committee and the Congress at large to examine carefully these strong anti-inflationary aspects of the Humphrey-Hawkins bill.

5. *The Importance of Correct Analysis of Private Price and Wage Adjustments*

We live in a predominantly privately operated economy, and intend to keep it that way. It therefore follows that the behavior patterns within the private economy are even more important than fiscal and monetary and other public policies in the shaping of economic developments. Surprisingly, under these circumstances, although the President and the Congress have at times intruded upon the price and wage processes in the private economy—sometimes with good management, and poorly managed during the most recent years—the President's Economic Report and those of the Council of Economic Advisers have not risen to any meaningful analysis of the recent behavior patterns of the private economy as these bear upon balance or imbalance in the overall economy. Well-written essays have described what has happened to the economy. But they have not attempted to discern adequately why. And without this discernment, they have repeatedly urged voluntary policies inimical to the corrective steps which this discernment would evoke. I have repeatedly, for two score years or longer, attempted to promote this discernment, and now feel compelled to do so again.

THE RELATIONSHIPS AMONG PRICES, PROFITS, WAGES, INVESTMENT, AND ULTIMATE DEMAND: THE IMBALANCE NOW CALLING FOR PROMPT CORRECTION

In each period of inadequate upturn, the rate of real advance of investment in the plant and equipment which add so much to our ability to produce has grown very much faster than the ultimate demand composed of private consumer expenditures plus total public outlays for goods and services. As these imbalances have resulted in ill-designated "overproduction" and "excess capacity," this private investment has been cut back very sharply. And this, combined with the longer and larger deficiencies in ultimate demand, have brought on the periods of stagnation and then recession. The relative excesses in investment during the upturn periods, which have brought on the reverses later on, have been supported by a real growth rate in profits far greater than the real growth rate in wages and salaries as the main factor in ultimate demand.

The period from the fourth quarter of 1973 to the fourth quarter of 1975 developed alarming and not yet corrected trends, because of its dissimilarity to somewhat similar earlier periods. It is true, in rough accord with earlier periods, that the real trends in investments in plant and equipment moved downward at an average annual rate of 6.8 percent, while the real growth rate in ultimate demand moved upward at the terribly inadequate average annual rate of only 1.1 percent. But what was rather unusual was that, simultaneously, corporate profits moved upward at a real average annual rate of 5.7 percent, while wages and salaries moved downward at a real average annual rate of 1.6 percent. These disparate trends reinforce what I said earlier, to the effect that a sound economic restorative program does not call for special direct benefits to corporate investors, but instead calls imperatively for national policies to help accelerate greatly the real growth rate in consumer expenditures and public outlays.[22]

THE IMMEDIATE TASK WITH RESPECT TO CONSUMER AND WAGE INCOMES AND SPENDING

As just stated, the real growth rate in consumer spending has been much too slow since 1960, except for short periods of time. During 1969–1975, the real average annual growth rate in this component was only 2.6 percent. From fourth quarter 1974 to fourth quarter 1975, the real growth rate in this factor was only 3.9 percent. My current estimate is that, between now and 1980, the average annual real growth rate in this factor should be close to 7 percent, to be compatible with the average annual growth rate of 7.9 percent required to restore a reasonable full economy by the end of calendar 1980. In fourth quarter 1975, at an annual rate, I estimate that the deficiency in private consumer expenditures came to almost half of the total deficiency in GNP.[23]

Most unfortunately, the Administration, many influential economists, and much of the media, are exerting powerful pressures against the needed correctives. And even most of those advocating much more expansive fiscal and monetary policies are not raising their voices to alter a process of private maladjustments which could cancel out most or all of the benefits of restorative fiscal and monetary policies.

The view is held in some quarters that an excessive rate of saving is responsible for the deficiency in consumer expenditures. The truth is that this consumer expenditure deficiency stems almost entirely from deficiencies in the growth of total personal income after taxes.[24] It stems also from the serious maldistribution of personal income. This induces more saving by some that can be absorbed in investment when the overall economy is so laggard. Meanwhile, the same income maldistribution causes more than half the population to save too little, and many millions of families to dissave.

The enduring deficiencies in consumer expenditures are accounted for largely by deficiencies in wages and salaries. I estimate that, as of fourth quarter 1975, the annual rate of the deficiency in wages and

[22] See Chart 22, which gives other examples from early 1961 forward.
[23] See Chart 23.
[24] For full evidence on this, see Chart 24.

salaries accounted for about 90 percent of the annual rate of deficiency in total consumer income before taxes.[25]

And finally, the extraordinary lag in real wage and salary expansion behind productivity gains is the most important single factor in the deficiency in total wages and salaries throughout the economy. From fourth quarter 1974 to fourth quarter 1975, productivity or output per man- and woman-hour in the total private nonfarm economy advanced 3.9 percent, while wages and salaries advanced only 1.2 percent. Viewing a longer span of years, the lag in wages and salaries behind productivity gains has been far more extreme in total manufacturing, where there has been the most gnashing of teeth about "wage-push" inflation. It is true that a large part of the lag in aggregate wages has been due to massive unemployment. Nonetheless, the rate of real wage advance among the employed has not been any where in line with the growth rate in productivity in the private economy, coming to 5.5 percent at an annual rate from the first to the fourth quarter of 1975.[26]

6. *We Need To Enact the Humphrey-Hawkins Bill, S. 50 and H.R. 50*

Mr. Chairman and members of the Committee, my national policy recommendations are so implicit, and at times explicit, in all that I have said that I do not need to spell them out in detail at this point. Sufficient it to say that, in broad outline, the reconstruction of economic policy which I urge is embodied in the Hawkins-Humphrey bill.

This measure, for the first time, sets meaningful and mandated goals for the reduction of unemployment. It establishes the right of all Americans, aged 16 and over, to useful employment at fair rates of compensation. It mandates some very important reformulations in national policy approaches, including fiscal and monetary policies. It recognizes that full employment alone is not enough, and must be combined with fulfillment of a specified range of national priority needs. It proposes strong and specific anti-inflationary measures, while avoiding the trap of price and wage controls.

The bill strikes a proper balance among the responsibilities of the private sector, the States and localities, and the Federal Government which alone represents the whole people. It provides specific machinery for the concerted and cooperative action of these various sectors. And it provides new methods, whereby the President and the Congress, in consultation with others, may move forward in the initiation and processing of national economic and related social policies. It properly enlarges the roles of the Joint Economic Committee, the Budget Committees of the Senate and the House, and the relevant legislative committees in the vital work to be done.

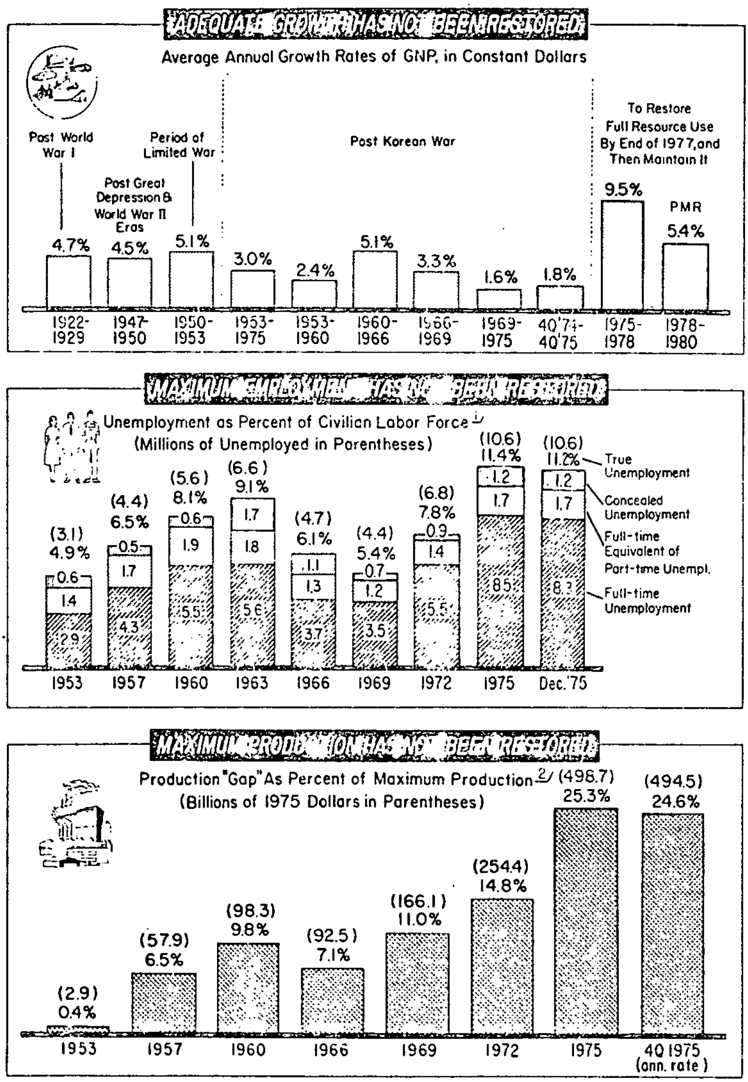
I urge that this influential Committee, and the Congress at large, exert every possible effort toward the passage of this legislation as early as feasible in this session of the Congress. That would be by far the most important single step forward in many a year, toward helping the American economy and the American people to translate into actuality the full promise of America.

[The charts referred to in the text follow:]

[25] See Chart 25.
[26] See Chart 26 and also Chart 5.

Chart 1

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



1/ All 1975 figures estimated.

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

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

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

Chart 2

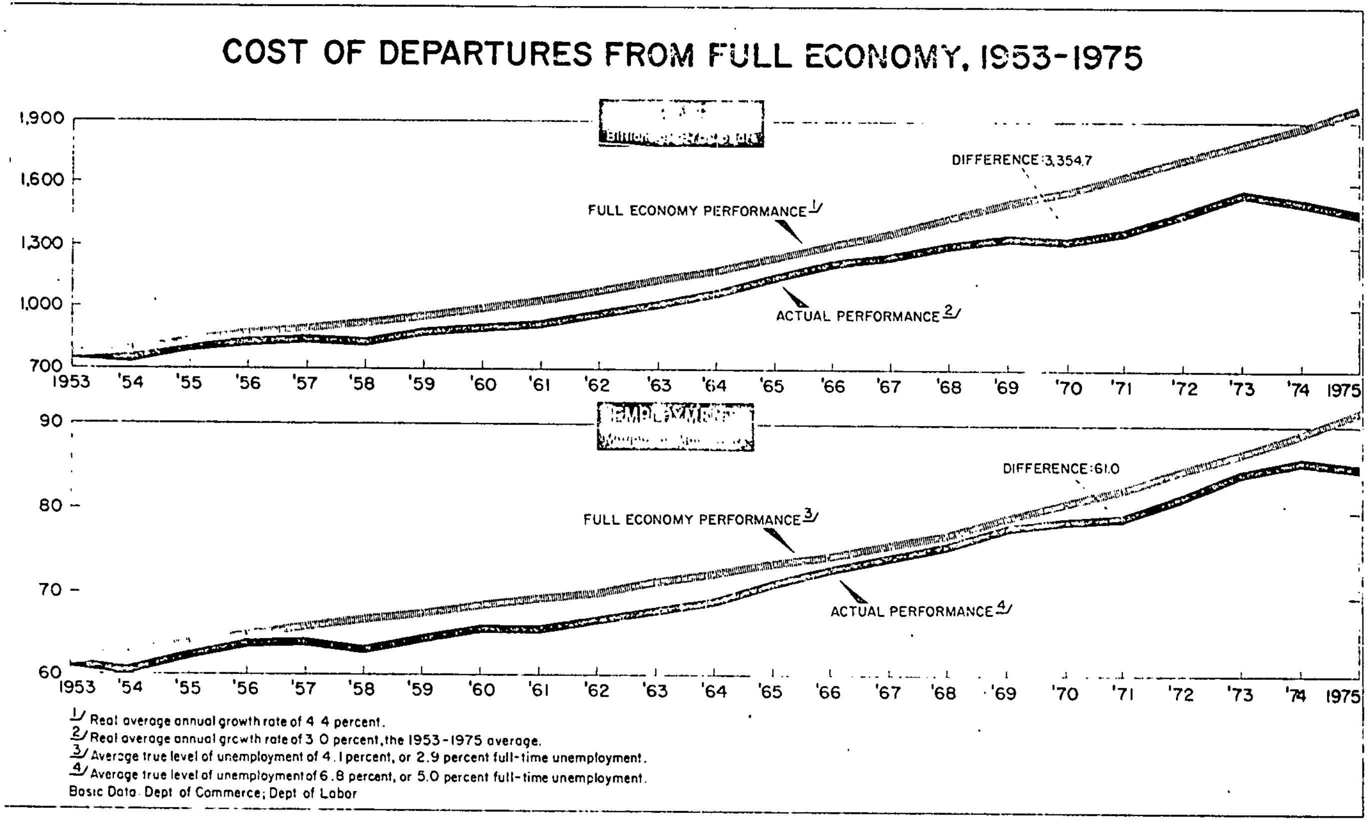

COST OF DEPARTURES FROM FULL ECONOMY, 1953-1975
1,900
1,600
1,300
1,000
700
DIFFERENCE: 3,354.7
FULL ECONOMY PERFORMANCE 1/
ACTUAL PERFORMANCE 2/
1953 '54 '55 '56 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70 '71 '72 '73 '74 1975
90
80
70
60
DIFFERENCE: 61.0
FULL ECONOMY PERFORMANCE 3/
ACTUAL PERFORMANCE 4/
1953 '54 '55 '56 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70 '71 '72 '73 '74 1975
1/ Real average annual growth rate of 4.4 percent.
2/ Real average annual growth rate of 3.0 percent, the 1953-1975 average.
3/ Average true level of unemployment of 4.1 percent, or 2.9 percent full-time unemployment.
4/ Average true level of unemployment of 6.8 percent, or 5.0 percent full-time unemployment.
Basic Data: Dept. of Commerce; Dept. of Labor

Chart 3

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

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

1953-1975[1]

Total National Production (GNP)	Man-years of Employment[2]	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1953-1975: $3,354.7 1969-1975: 979.6 1975: 326.6	1953-1975: 61.0 Million 1969-1975: 22.6 Million 1975: 6.9 Million	1953-1975: $1,523.1 1969-1975: 372 2 1975: 137.7	1953-1975: $920.1 1969-1975: 276.0 1975: 61.0
Private Business Investment (Incl. Net Foreign)	**Average Family Income (1975 Dollars)**	**Wages and Salaries**	**Residential and Commercial Construction**
1953-1975: $ 911.5 1969-1975: 331.4 1975: 127.9	1953-1975: $29,470 1969-1975: 5,890 1975: 2,500	1953-1975: $1,865.0 1969-1975: 374.8 1975: 159.2	1953-1975: $369.6

1976-1980[3]

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

1/ Deficits 1953-1975 are calculated from a 1953 base, in that growth rates since then have averaged far too low. Deficits 1969-1975 and 1975 are projected from a 1968 base, writing off the cumulative deficits 1953-1968. 1975 figures are estimated. Residential and commercial construction deficits are calculated only from a 1953 base. In terms of what would have been needed, 40 1975, to restore full production as of then, the estimated deficit was 250-300 billion dollars, at an annual rate.

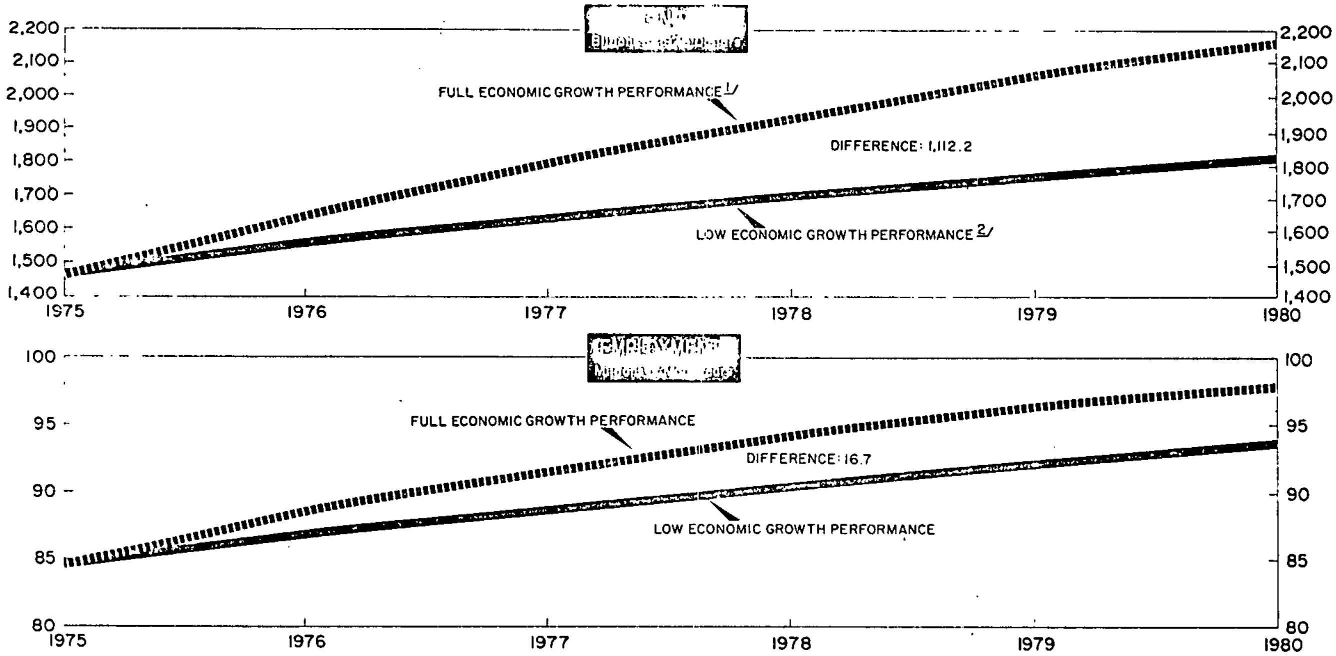
2/ Based upon true level of unemployment, including full-time unemployment, full-time equivalent of part time unemployment, and concealed unemployment (nonparticipation in civilian labor force) due to scarcity of job opportunity.

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

Basic Data: Dept of Commerce, Dept of Labor

Chart 4

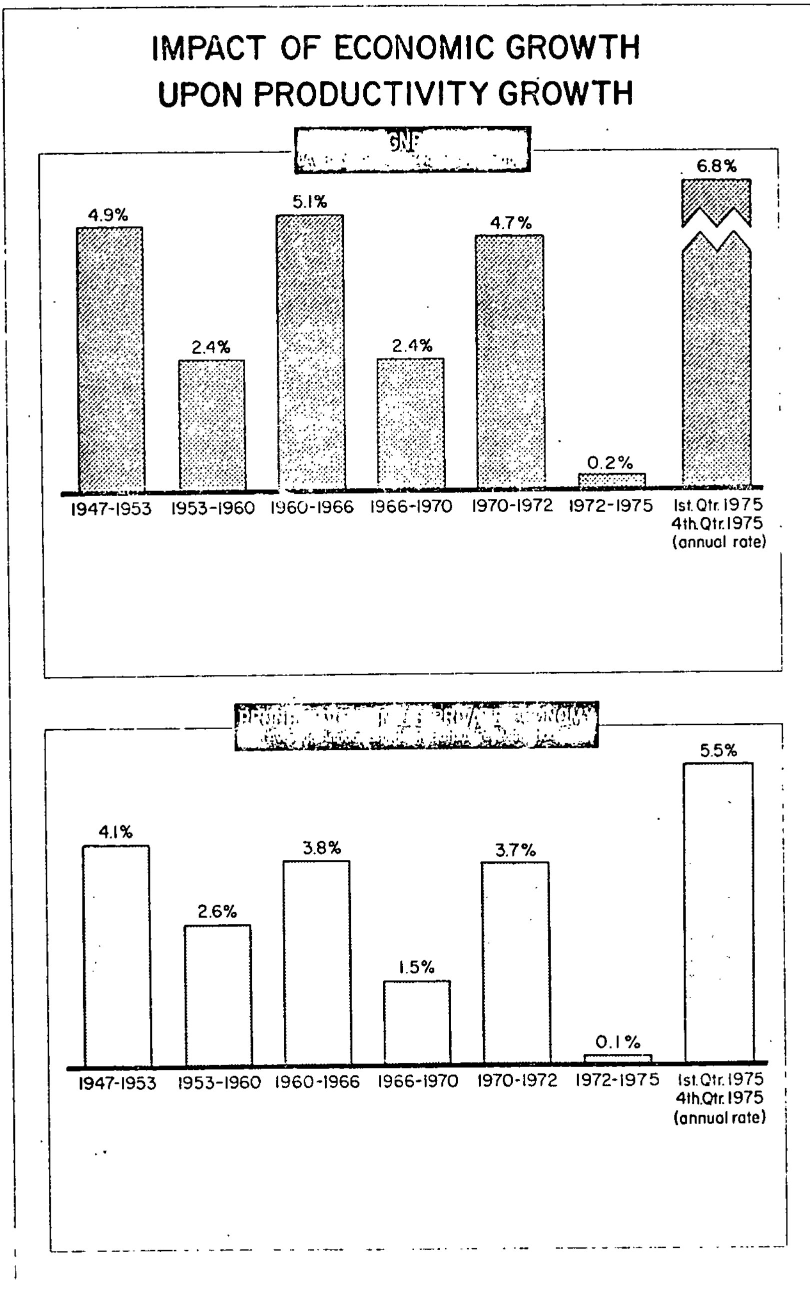
BENEFITS OF FULL ECONOMIC GROWTH, 1976-1980



1/ Real average annual growth rate of 7.9 percent 1975-1980, to allow for full catch-up by end of 1978.

2/ Real average annual growth rate of 4.3 percent, or higher than during 1953-1975, due to very low level in 1975.

Chart 5

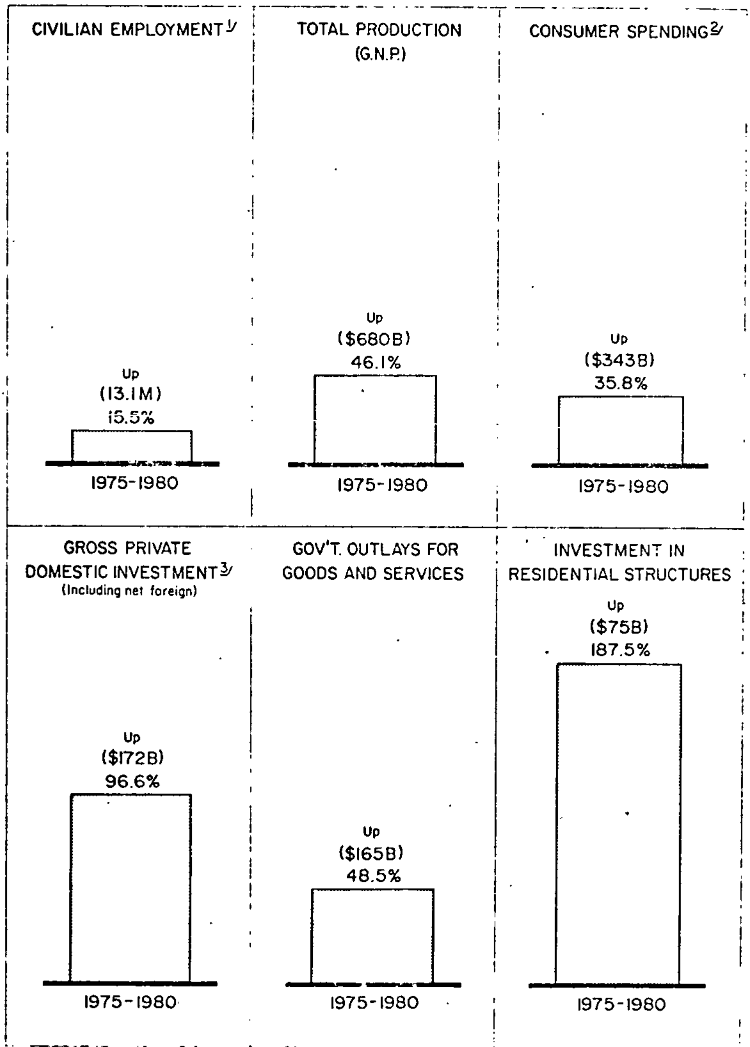


Source: Dept of Labor, Dept of Commerce

Chart 6

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

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



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

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

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

Chart 7

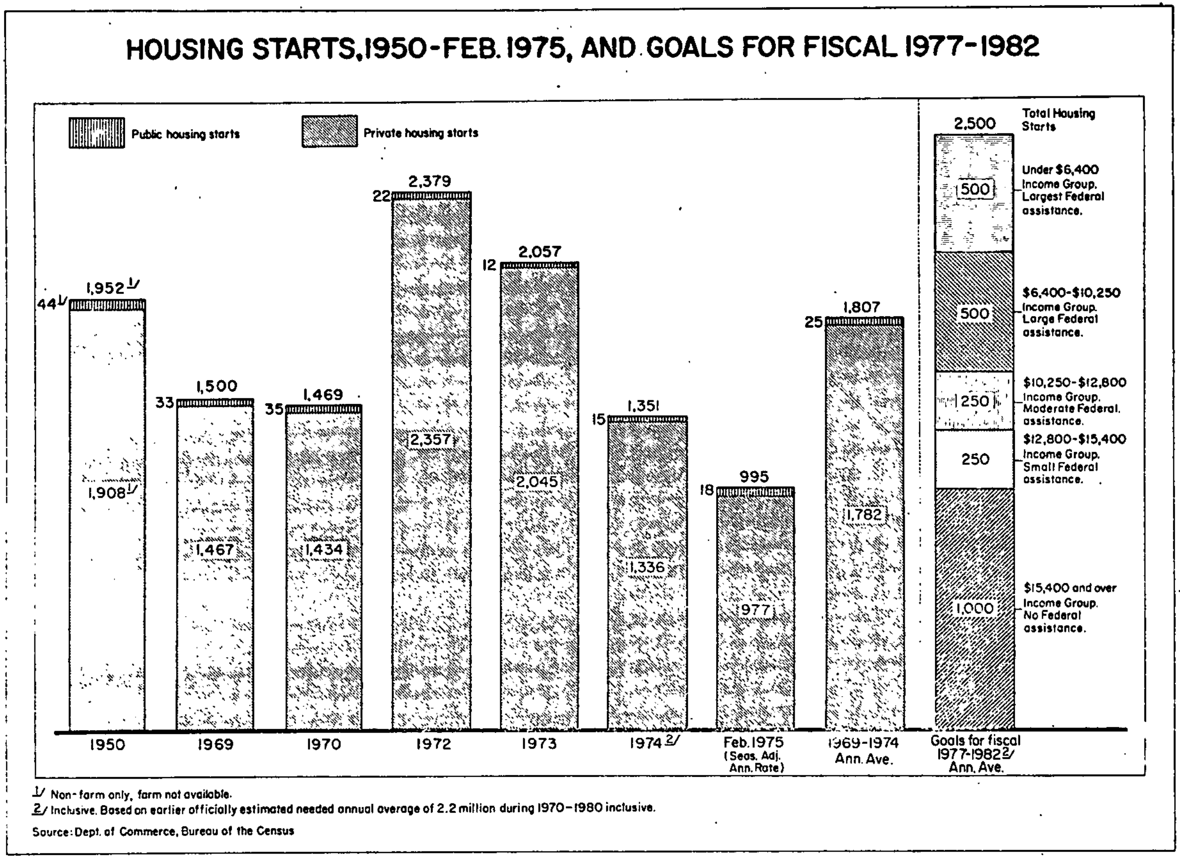
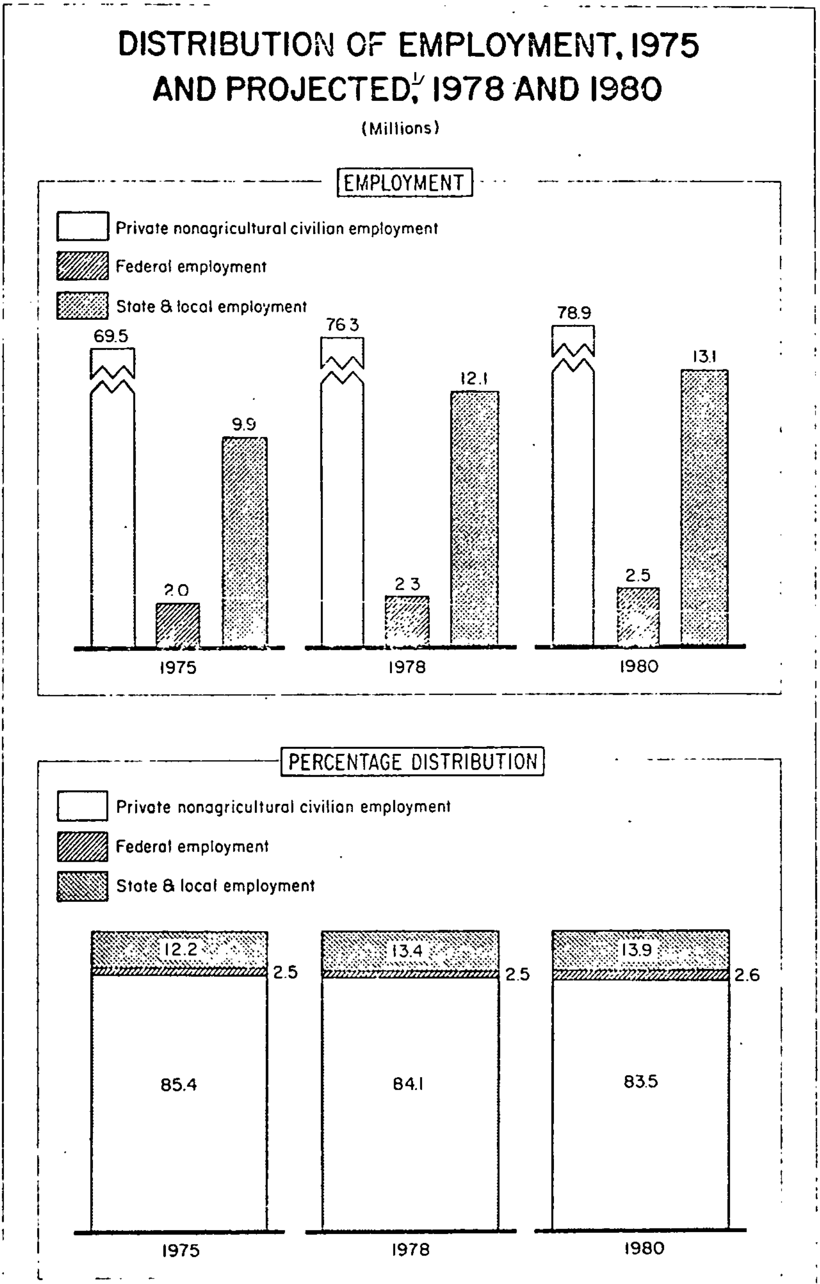

HOUSING STARTS, 1950-FEB. 1975, AND GOALS FOR FISCAL 1977-1982
Public housing starts
Private housing starts
44 1/
1,952 1/
1,908 1/
33
1,500
1,467
35
1,469
1,434
22
2,379
2,357
12
2,057
2,045
15
1,351
1,336
18
995
977
25
1,807
1,782
2,500
500
500
250
250
1,000
Total Housing Starts
Under $6,400 Income Group. Largest Federal assistance.
$6,400-$10,250 Income Group. Large Federal assistance.
$10,250-$12,800 Income Group. Moderate Federal. assistance.
$12,800-$15,400 Income Group. Small Federal assistance.
$15,400 and over Income Group. No Federal assistance.
1950
1969
1970
1972
1973
1974 2/
Feb. 1975 (Seas. Adj. Ann. Rate)
1969-1974 Ann. Ave.
Goals for fiscal 1977-1982 2/ Ann. Ave.
1/ Non-farm only, farm not available.
2/ Inclusive. Based on earlier officially estimated needed annual average of 2.2 million during 1970-1980 inclusive.
Source: Dept. of Commerce, Bureau of the Census

Chart 8



[1/] Projected in accord with reaching full employment by the end of 1978

Chart 9

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

(In Fiscal 1977 Dollars)

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

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

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

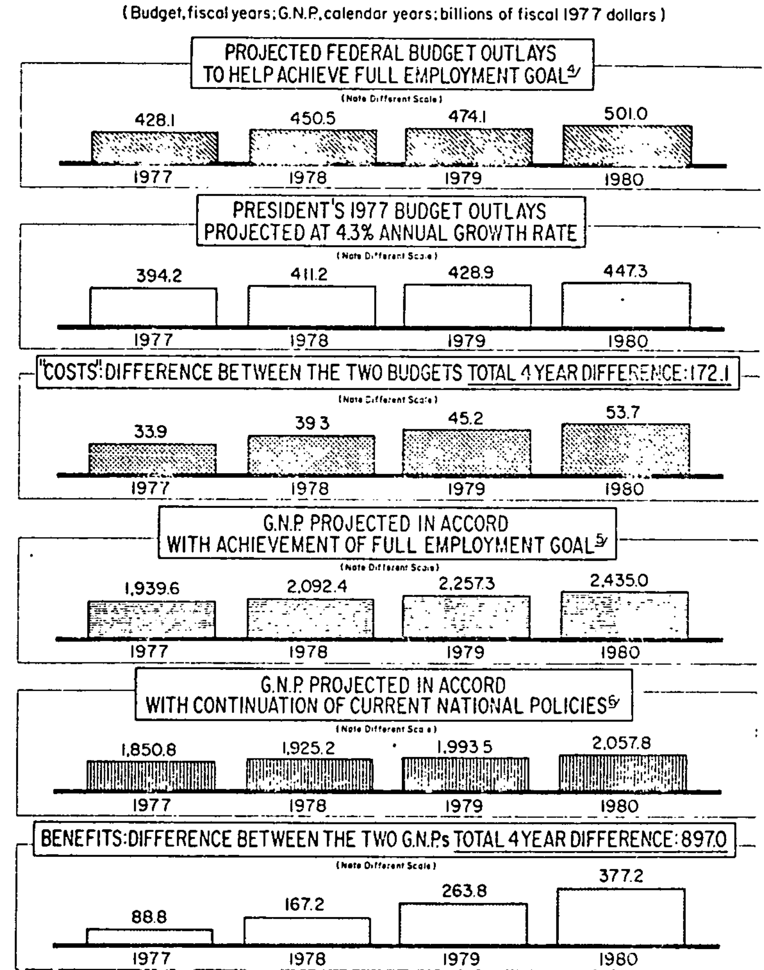
[2] The housing portion of this $7.0 billion in the President's Budget proposed for 1977, coming to $3.3 billion, appears in part in "income security" and in part in "commerce and transportation" in the President's Budget. The proposed goal increases for "housing and community development" includes $3.3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

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

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

Chart 10

"COSTS" [1] AND BENEFITS [2] OF ACHIEVING FULL EMPLOYMENT [3] BY END OF CALENDAR 1980



1/ "Costs" are difference between Federal Budget outlays needed to help achieve full employment goal and President's 1977 Budget outlays projected at 4.3% annual real growth rate (the annual average during 1974-1977)

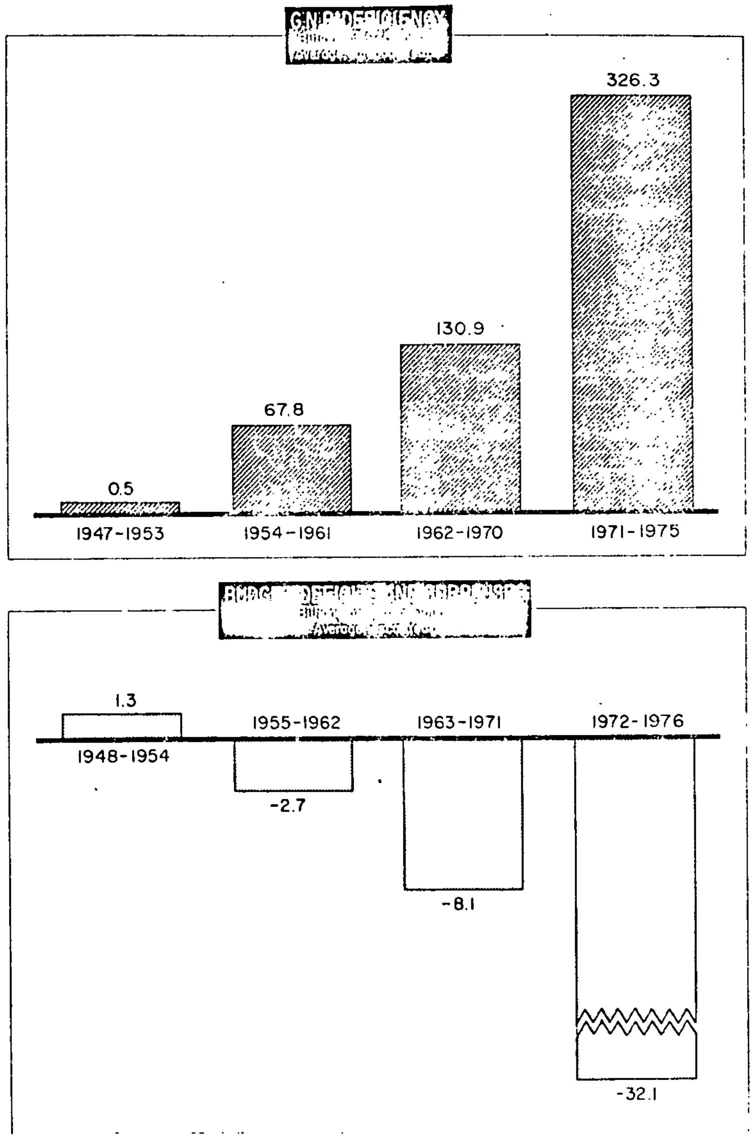
2/ Benefits are difference between G.N.P. in accord with full employment goal and G.N.P. projected in accord with continuation of current national policies

3/ 3 percent unemployment 4/ The Full Employment & Balanced Growth Plan in H.R. 50 would use other policies besides those in the Federal Budget to help achieve the full employment goal. The average annual real growth rate in Budget outlays used for these projections is 5.23 percent, projected from fiscal 1976, with allowance for change in the fiscal year. The end of 1980 goal for full employment, rather than end of 1978, explains difference between the 1977 figure on this chart and the 1977 figure on Chart 5.

5/ These G.N.P. projections are different from those on Chart 5, because the first year is calendar 1977 instead of calendar 1976, because of use of fiscal 1977 dollars instead of calendar 1975 dollars, and because the full-employment goal is end of calendar 1980 instead of end of calendar 1978. The real average annual growth rate used for these projections is about [illegible] percent, projected from calendar 1975 base. 6/ Based upon real average annual growth rate of about 4.5 percent, projected from calendar 1975 base. The average was only 3.0 percent during 1953-1975, and only [illegible] percent during 1969-1975.

Chart 11

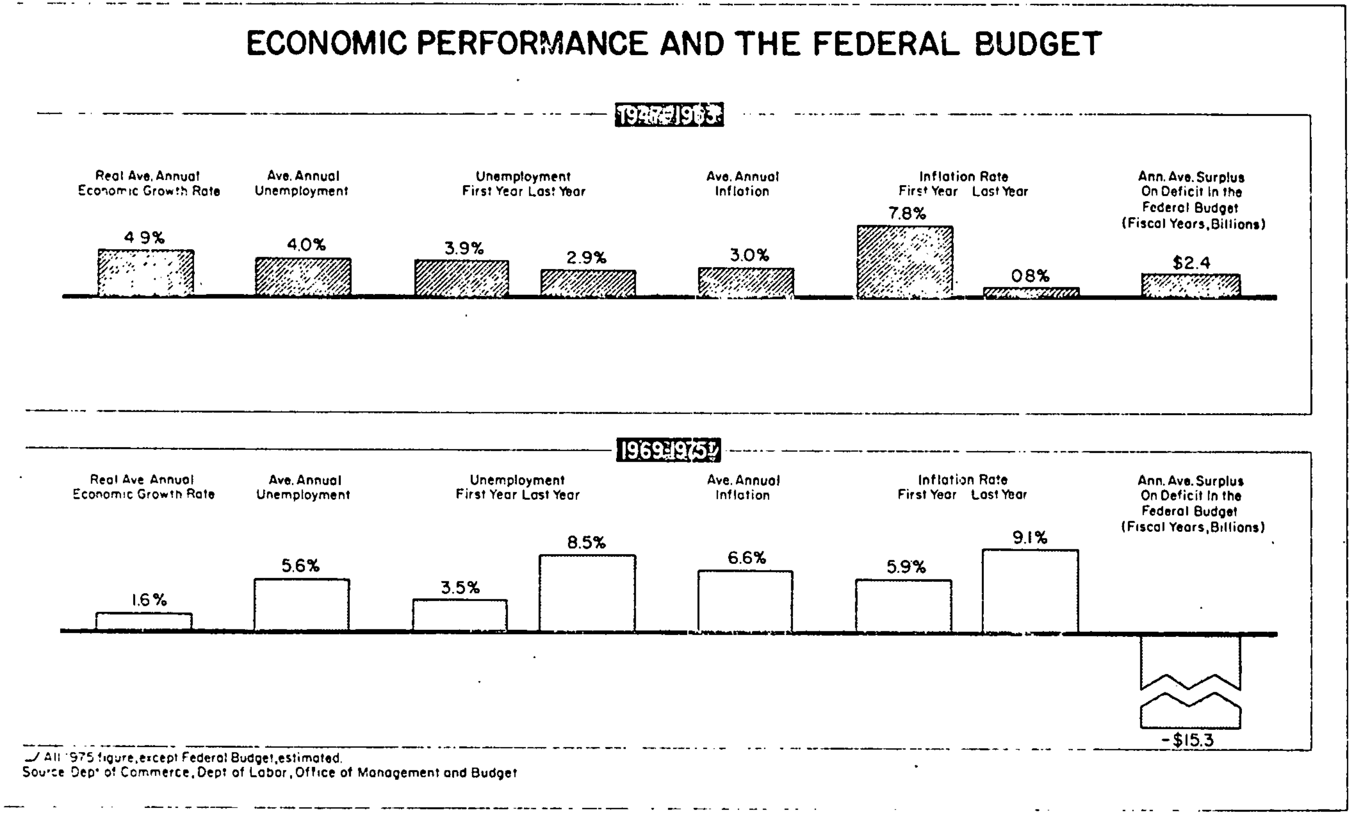
G.N.P. DEFICIENCIES[1] AND BUDGET DEFICITS



1/ Production deficiencies represent differences between actual production and production at full economy rate of growth Projections from 1946

Source Dept of Commerce, Office of Management and Budget, for actual figures

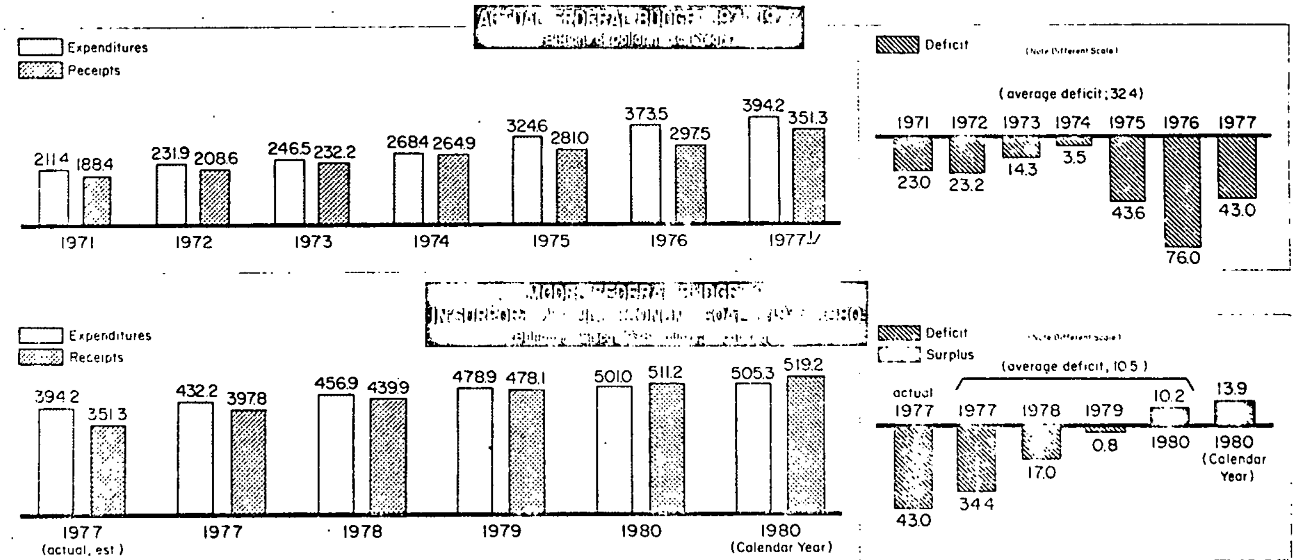
Chart 12



ECONOMIC PERFORMANCE AND THE FEDERAL BUDGET
Real Ave. Annual Economic Growth Rate
Ave. Annual Unemployment
Unemployment First Year Last Year
Ave. Annual Inflation
Inflation Rate First Year Last Year
Ann. Ave. Surplus On Deficit In the Federal Budget (Fiscal Years, Billions)
4.9%
4.0%
3.9%
2.9%
3.0%
7.8%
0.8%
$2.4
1969-1975 1/
Real Ave Annual Economic Growth Rate
Ave. Annual Unemployment
Unemployment First Year Last Year
Ave. Annual Inflation
Inflation Rate First Year Last Year
Ann. Ave. Surplus On Deficit In the Federal Budget (Fiscal Years, Billions)
1.6%
5.6%
3.5%
8.5%
6.6%
5.9%
9.1%
-$15.3
1/ All 1975 figure, except Federal Budget, estimated.
Source Dept of Commerce, Dept of Labor, Office of Management and Budget

Chart 13

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



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

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

Chart 14

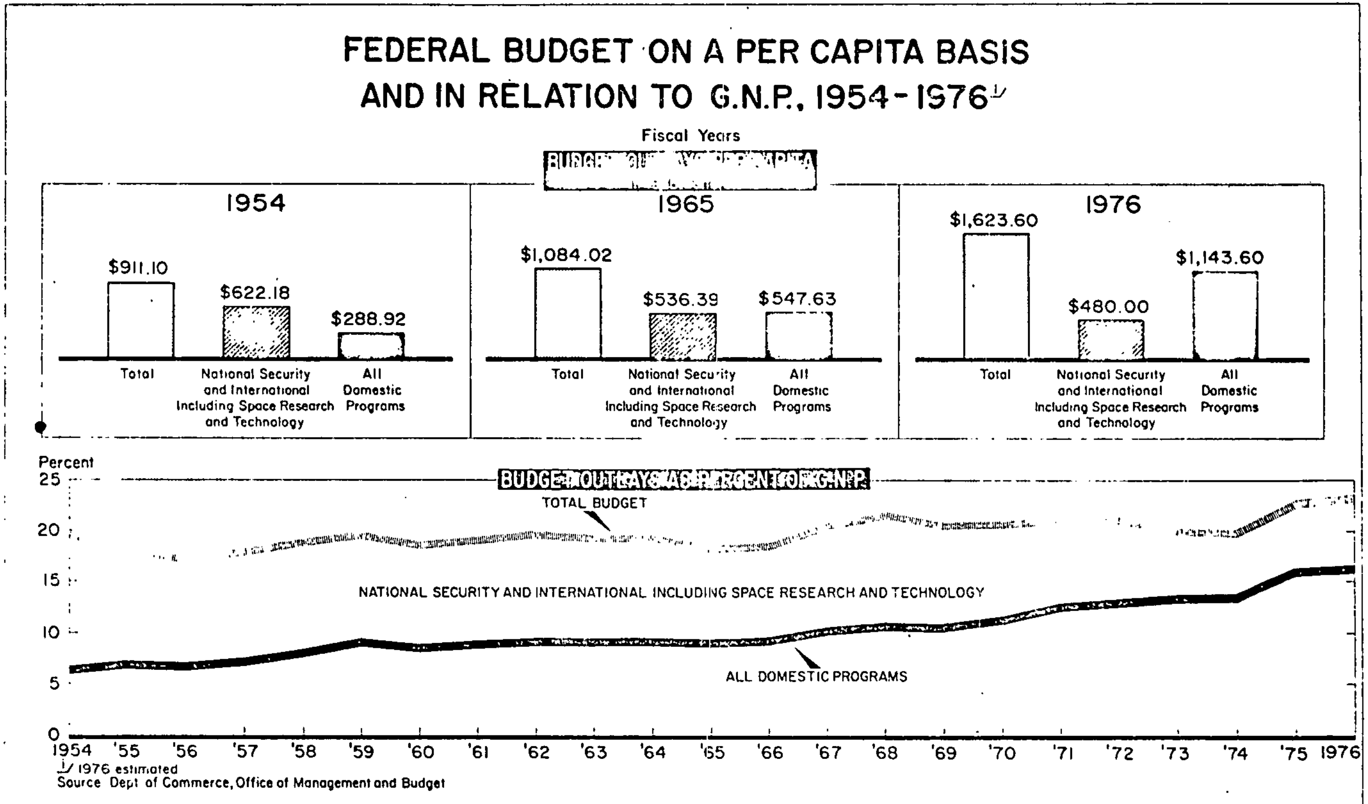
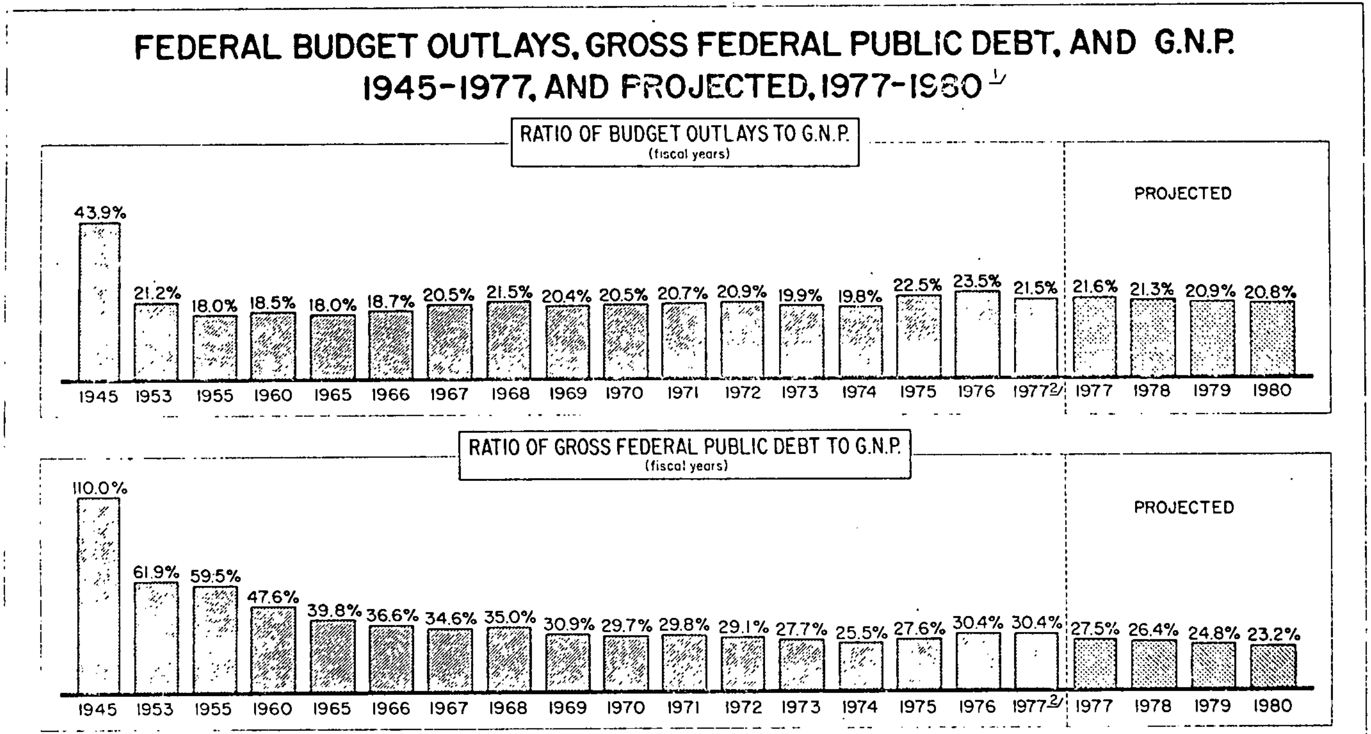

FEDERAL BUDGET ON A PER CAPITA BASIS
AND IN RELATION TO G.N.P., 1954-1976[1]
Fiscal Years
1954
$911.10
$622.18
$288.92
Total
National Security and International Including Space Research and Technology
All Domestic Programs
1965
$1,084.02
$536.39
$547.63
Total
National Security and International Including Space Research and Technology
All Domestic Programs
1976
$1,623.60
$480.00
$1,143.60
Total
National Security and International Including Space Research and Technology
All Domestic Programs
Percent
BUDGET OUTLAYS AS PERCENT OF G.N.P.
TOTAL BUDGET
NATIONAL SECURITY AND INTERNATIONAL INCLUDING SPACE RESEARCH AND TECHNOLOGY
ALL DOMESTIC PROGRAMS
25
20
15
10
5
0
1954 '55 '56 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70 '71 '72 '73 '74 '75 1976
[1] 1976 estimated
Source Dept of Commerce, Office of Management and Budget

Chart 15

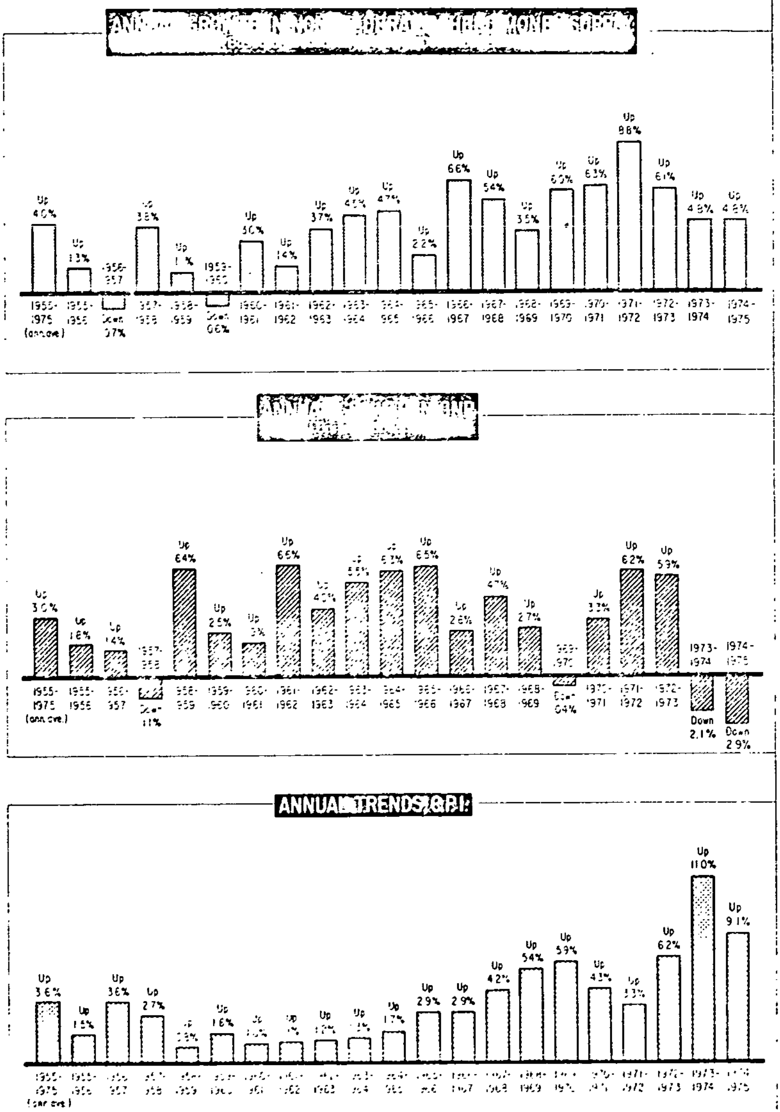


1/ Projections for Budget, Public Debt, and G.N.P. in accord with "model" Budget and G.N.P. goals.

2/ In accord with President's 1977 Budget, as submitted on January 21, 1976.

Chart 16

COMPARATIVE TRENDS IN NON-FEDERALLY HELD MONEY SUPPLY, G.N.P., AND PRICES, 1955-1975 [1]

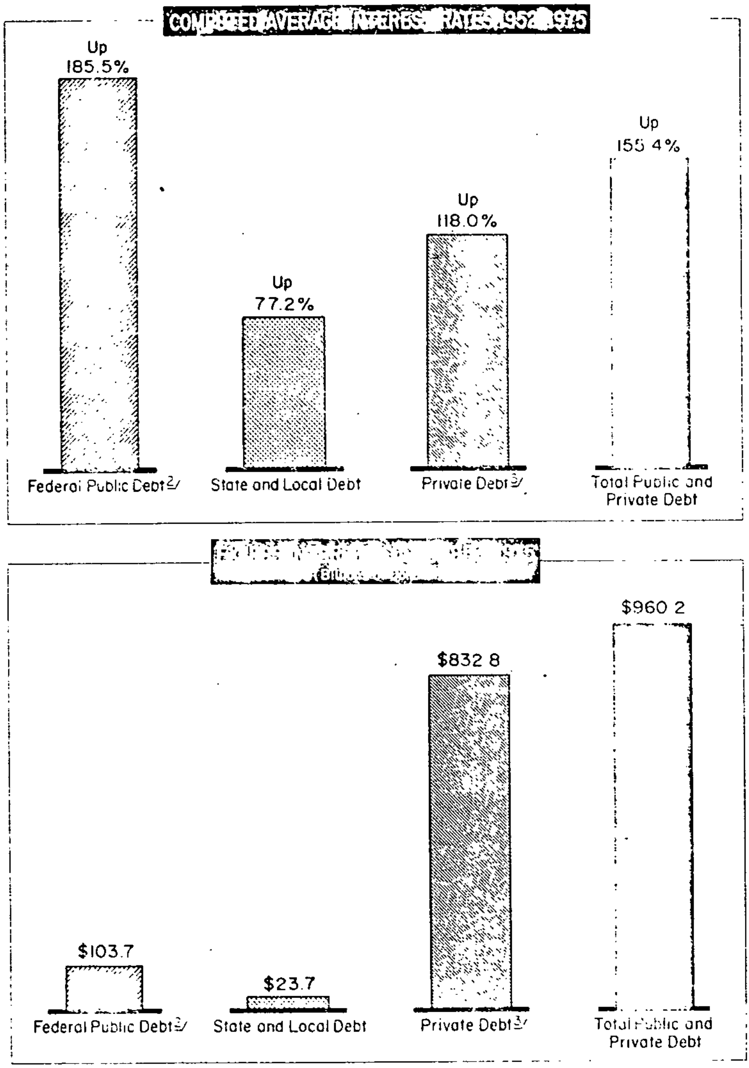


[1] 1975 estimated

Data: Dept of Commerce, Dept of Labor, Federal Reserve System

Chart 17

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



1/ 1974-1975 estimated

2/ Includes net foreign interest

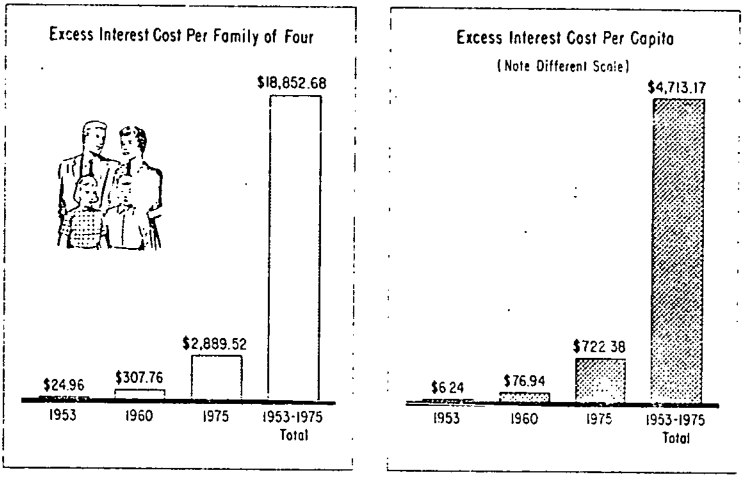
3/ Computed as a residual by subtracting Federal Public and state and local debt from total public and private debt

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

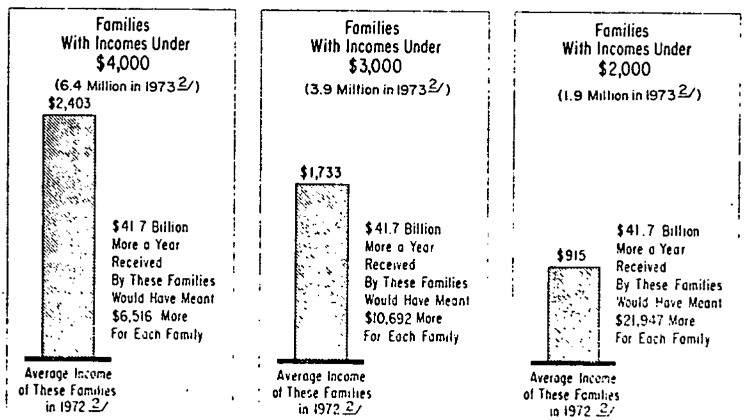
Chart 18

THE BURDEN OF $960.2 BILLION IN EXCESS INTEREST COSTS, 1953-1975[1] UPON THE AMERICAN PEOPLE

Calendar Years



HOW $41.7 BILLION A YEAR, 1953 - 1975 - EQUAL TO ANNUAL EXCESS INTEREST - MIGHT HAVE HELPED LOW-INCOME FAMILIES

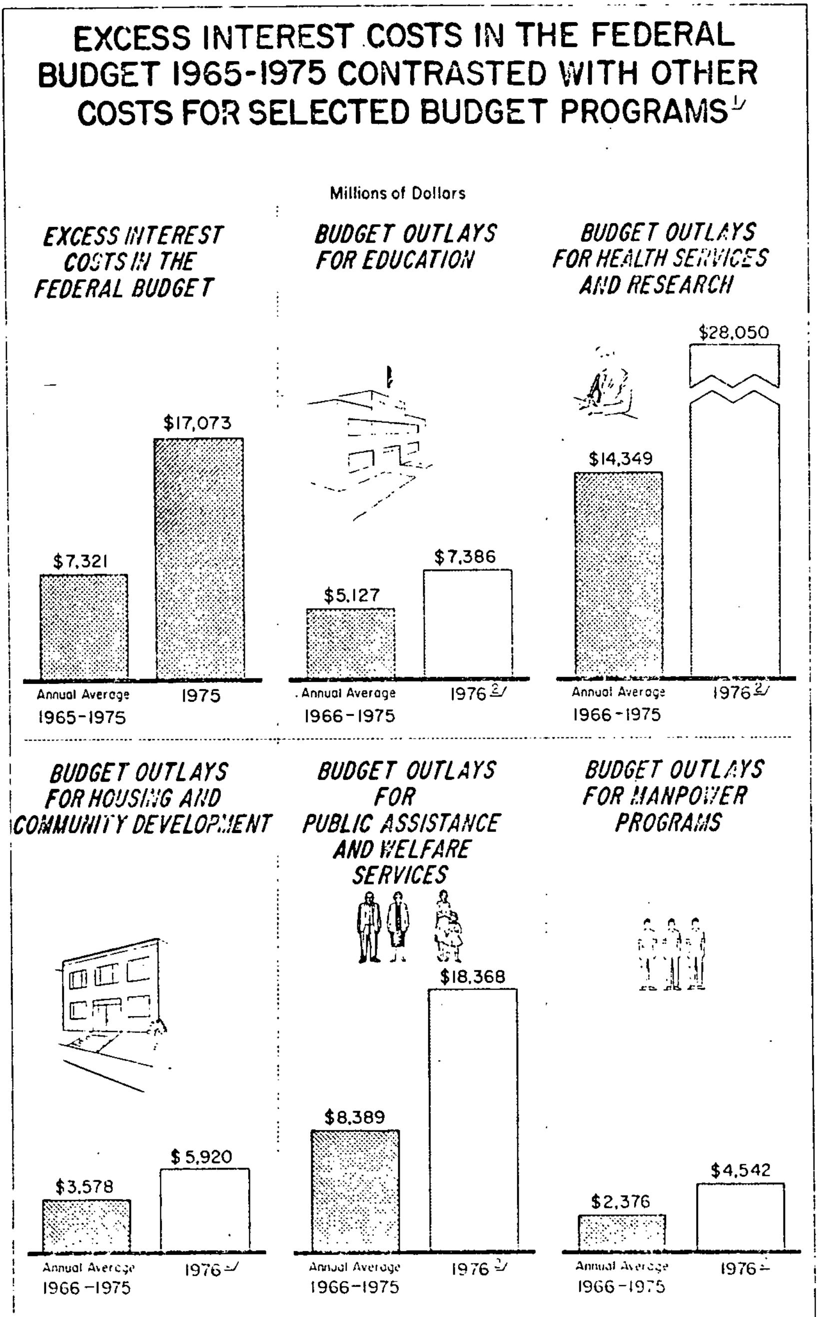


[1] 1974-1975 estimated

[2] Latest Available

Source: Economic Report of the President, Dept of Commerce, Bureau of the Census

Chart 19

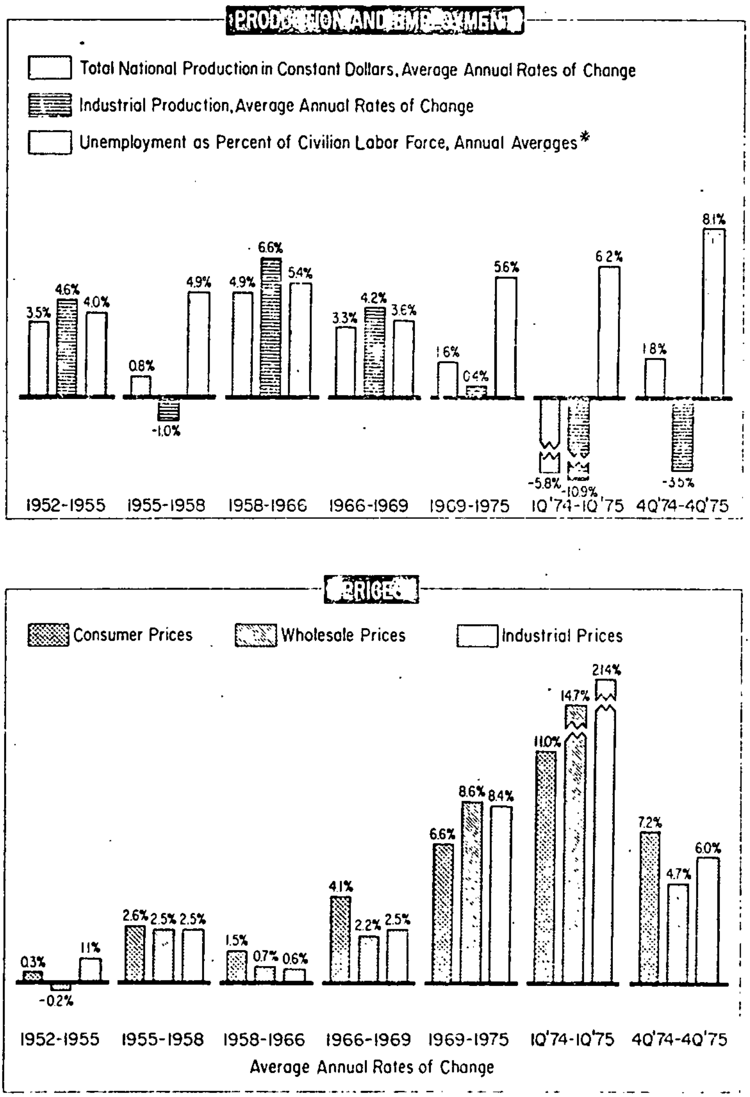


1/ Interest costs, calendar years, budget outlays, fiscal years 1975 interest costs and 1975 budget outlays estimated

2/ Proposed in fiscal 1976 Budget

Chart 20

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

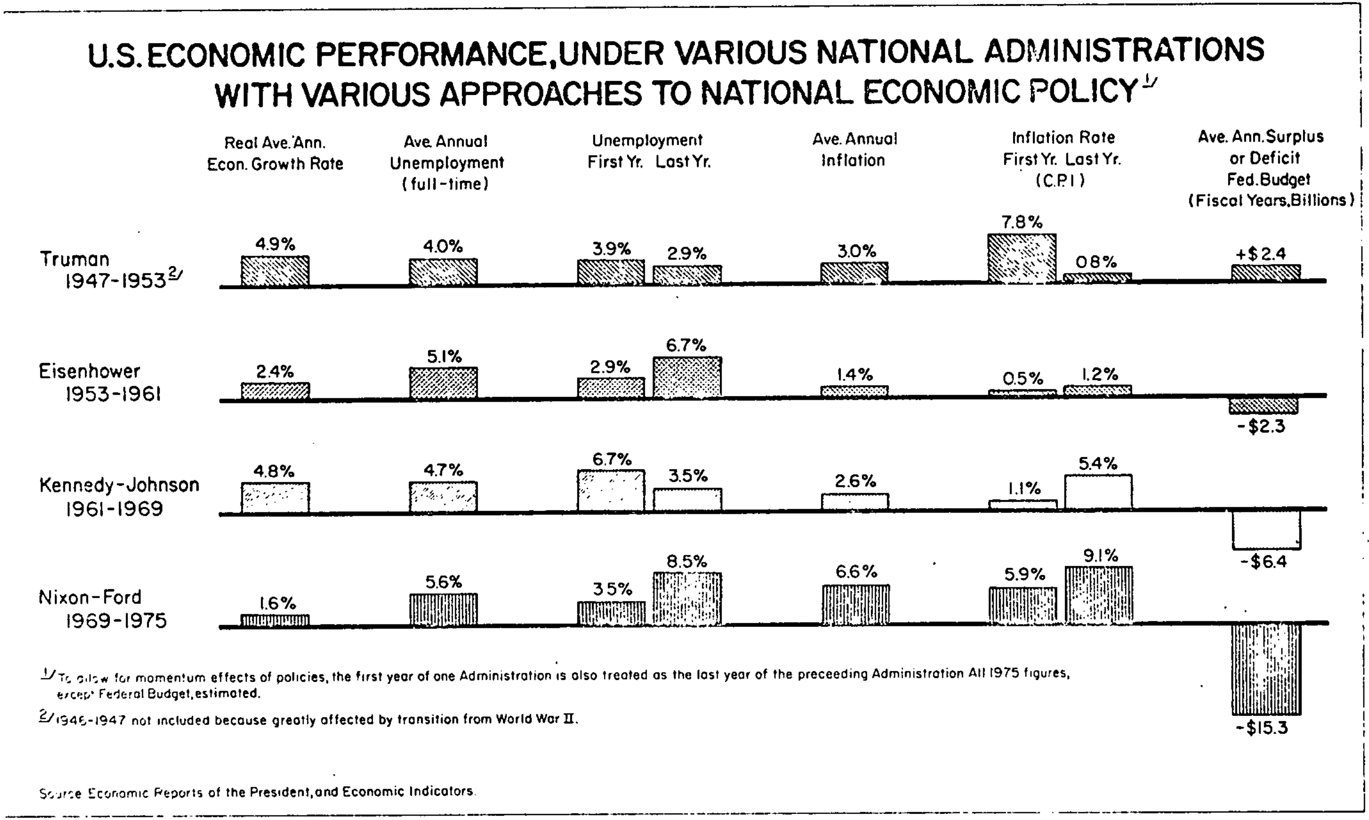


1/ All 1975 figures estimated

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

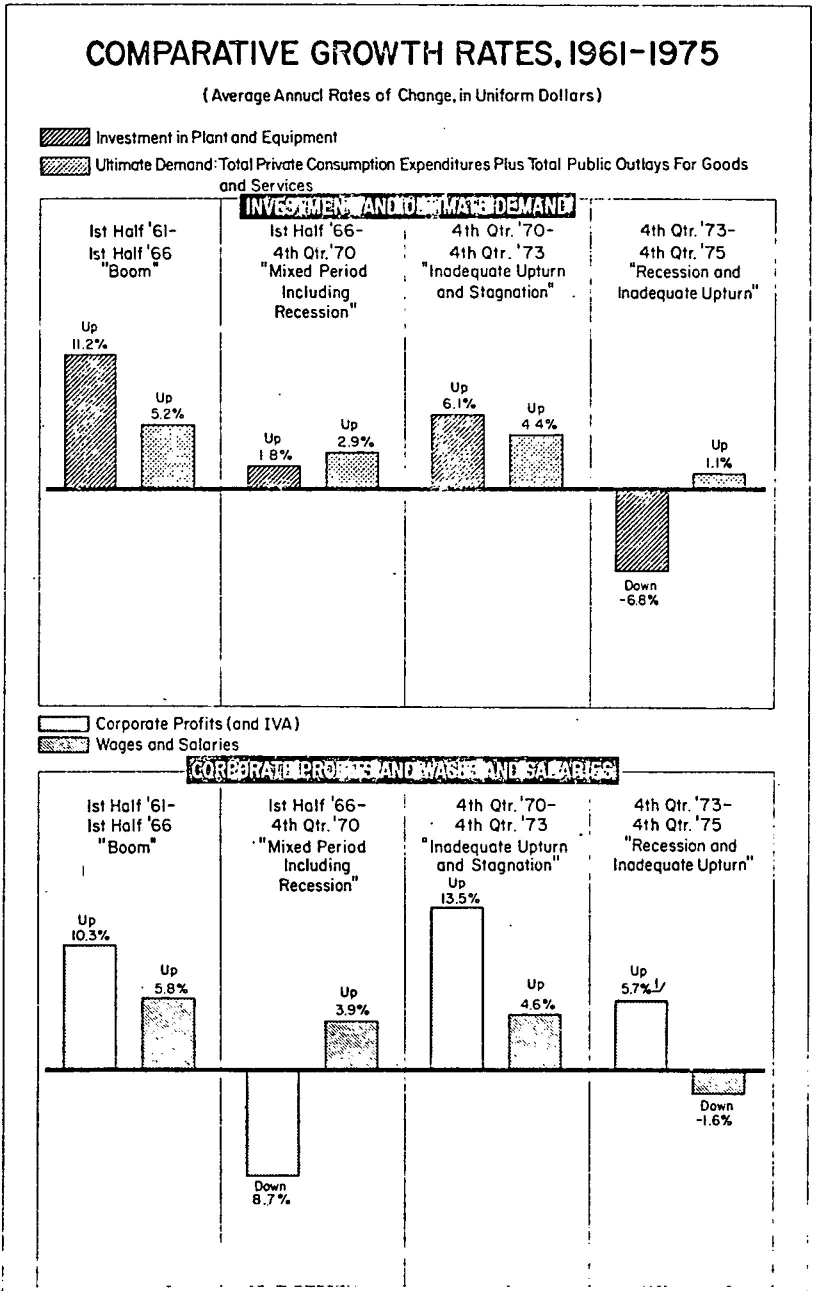
Source: Dept of Labor, Dept of Commerce, & Federal Reserve System

Chart 21



U.S. ECONOMIC PERFORMANCE, UNDER VARIOUS NATIONAL ADMINISTRATIONS
WITH VARIOUS APPROACHES TO NATIONAL ECONOMIC POLICY 1/
Real Ave. Ann. Econ. Growth Rate
Ave. Annual Unemployment (full-time)
Unemployment First Yr. Last Yr.
Ave. Annual Inflation
Inflation Rate First Yr. Last Yr. (C.P.I.)
Ave. Ann. Surplus or Deficit Fed. Budget (Fiscal Years, Billions)
Truman 1947-1953 2/
4.9%
4.0%
3.9%
2.9%
3.0%
7.8%
0.8%
+$2.4
Eisenhower 1953-1961
2.4%
5.1%
2.9%
6.7%
1.4%
0.5%
1.2%
-$2.3
Kennedy-Johnson 1961-1969
4.8%
4.7%
6.7%
3.5%
2.6%
1.1%
5.4%
-$6.4
Nixon-Ford 1969-1975
1.6%
5.6%
3.5%
8.5%
6.6%
5.9%
9.1%
-$15.3
1/ To allow for momentum effects of policies, the first year of one Administration is also treated as the last year of the preceeding Administration. All 1975 figures, except Federal Budget, estimated.
2/ 1946-1947 not included because greatly affected by transition from World War II.
Source: Economic Reports of the President, and Economic Indicators.

Chart 22



1/ Estimated
Basic Data Dept of Commerce

Chart 23

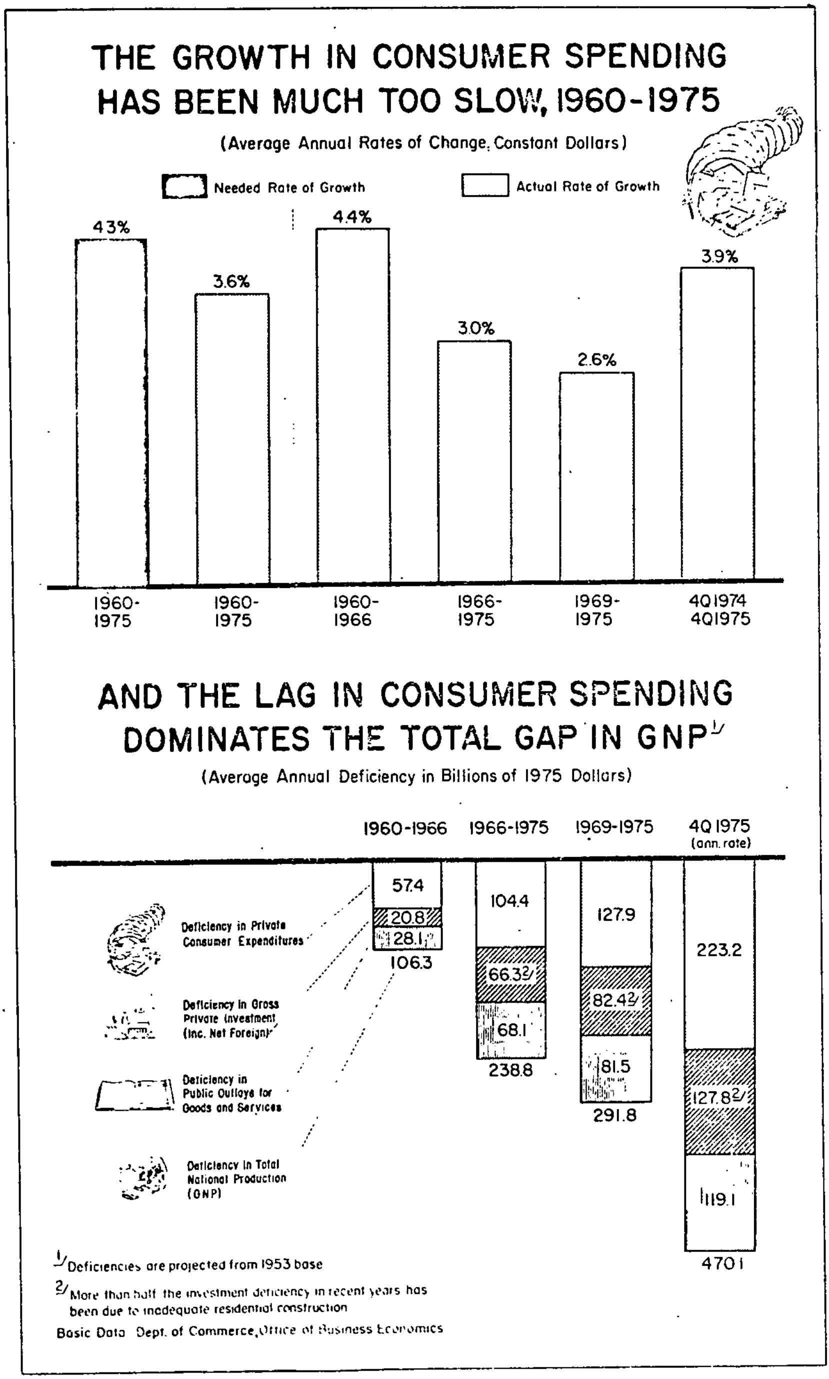
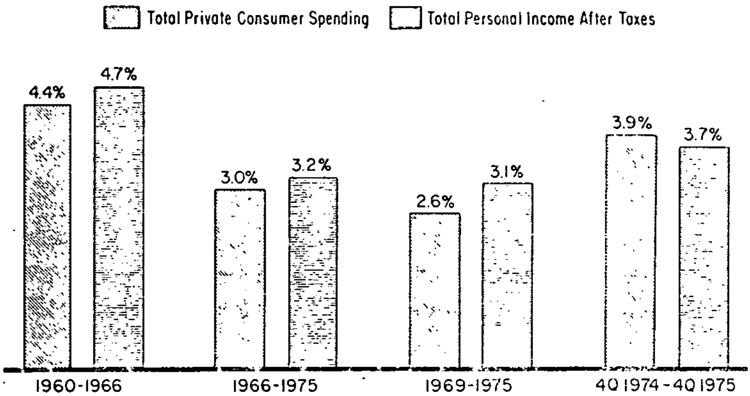

THE GROWTH IN CONSUMER SPENDING
HAS BEEN MUCH TOO SLOW, 1960-1975
(Average Annual Rates of Change, Constant Dollars)
Needed Rate of Growth
Actual Rate of Growth
4.3%
3.6%
4.4%
3.0%
2.6%
3.9%
1960-1975
1960-1975
1960-1966
1966-1975
1969-1975
4Q 1974 4Q 1975
AND THE LAG IN CONSUMER SPENDING
DOMINATES THE TOTAL GAP IN GNP[1]
(Average Annual Deficiency in Billions of 1975 Dollars)
1960-1966
1966-1975
1969-1975
4Q 1975 (ann. rate)
57.4
20.8
28.1
106.3
104.4
66.3[2]
68.1
238.8
127.9
82.4[2]
81.5
291.8
223.2
127.8[2]
119.1
470.1
Deficiency in Private Consumer Expenditures
Deficiency in Gross Private Investment (Inc. Net Foreign)
Deficiency in Public Outlays for Goods and Services
Deficiency in Total National Production (GNP)
[1] Deficiencies are projected from 1953 base
[2] More than half the investment deficiency in recent years has been due to inadequate residential construction
Basic Data: Dept. of Commerce, Office of Business Economics

Chart 24

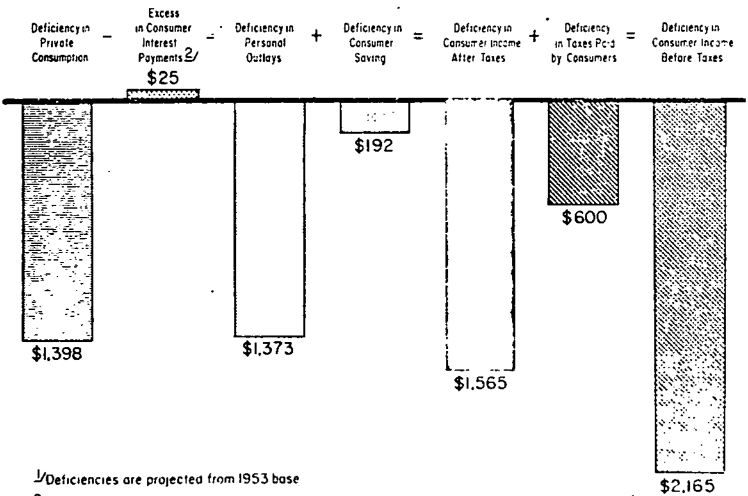
INADEQUATE CONSUMPTION GROWTH STEMS FROM INADEQUATE INCOME GROWTH

Average Annual Rates of Change in Constant Dollars



THE PRIVATE CONSUMPTION DEFICIENCY OF $1,398 BILLION, 1960-1975, REFLECTED A $2,165 BILLION INCOME DEFICIENCY[1]

Billions of 1975 Dollars



[1] Deficiencies are projected from 1953 base

[2] Also includes personal transfer payments to foreigners, which is a minimal amount.

Chart 25

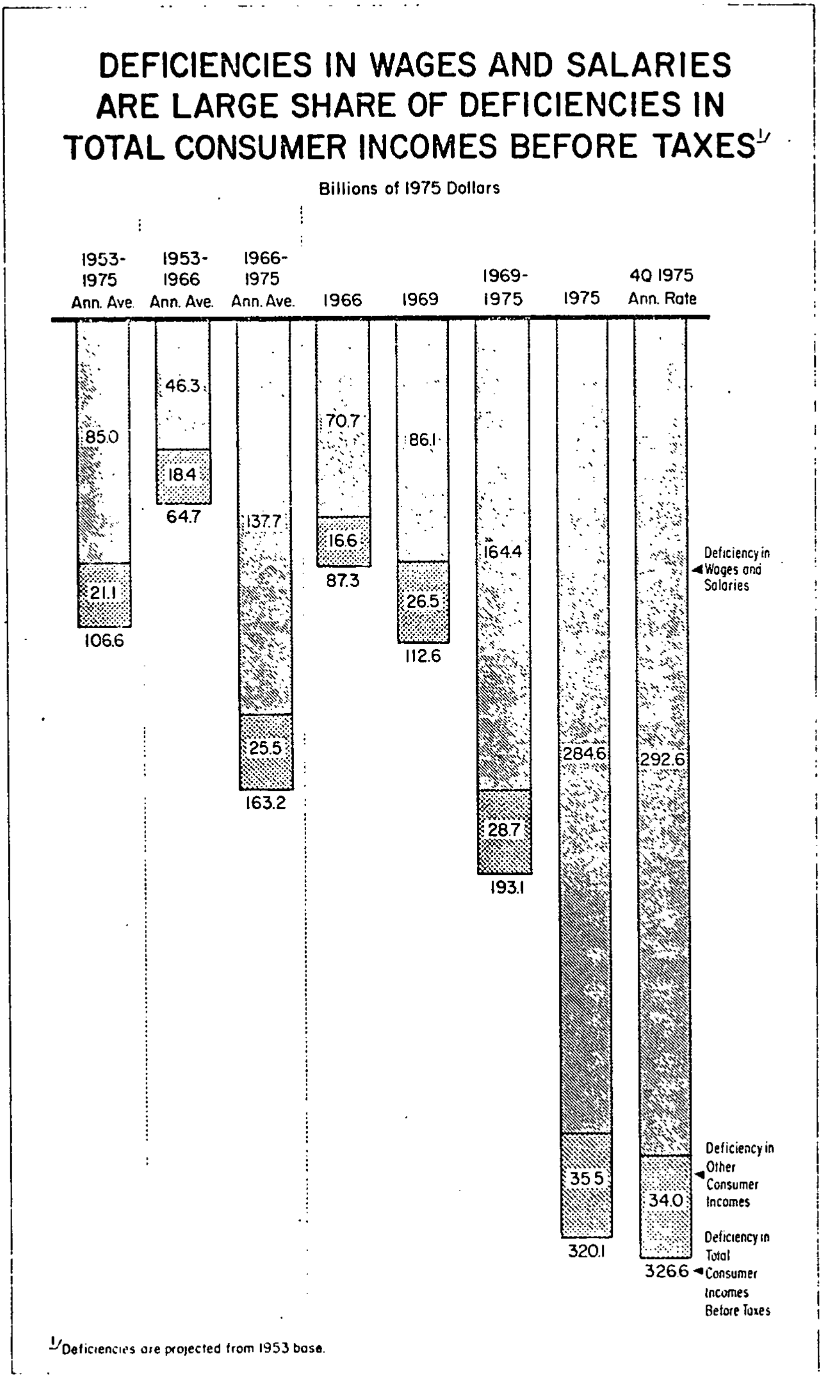
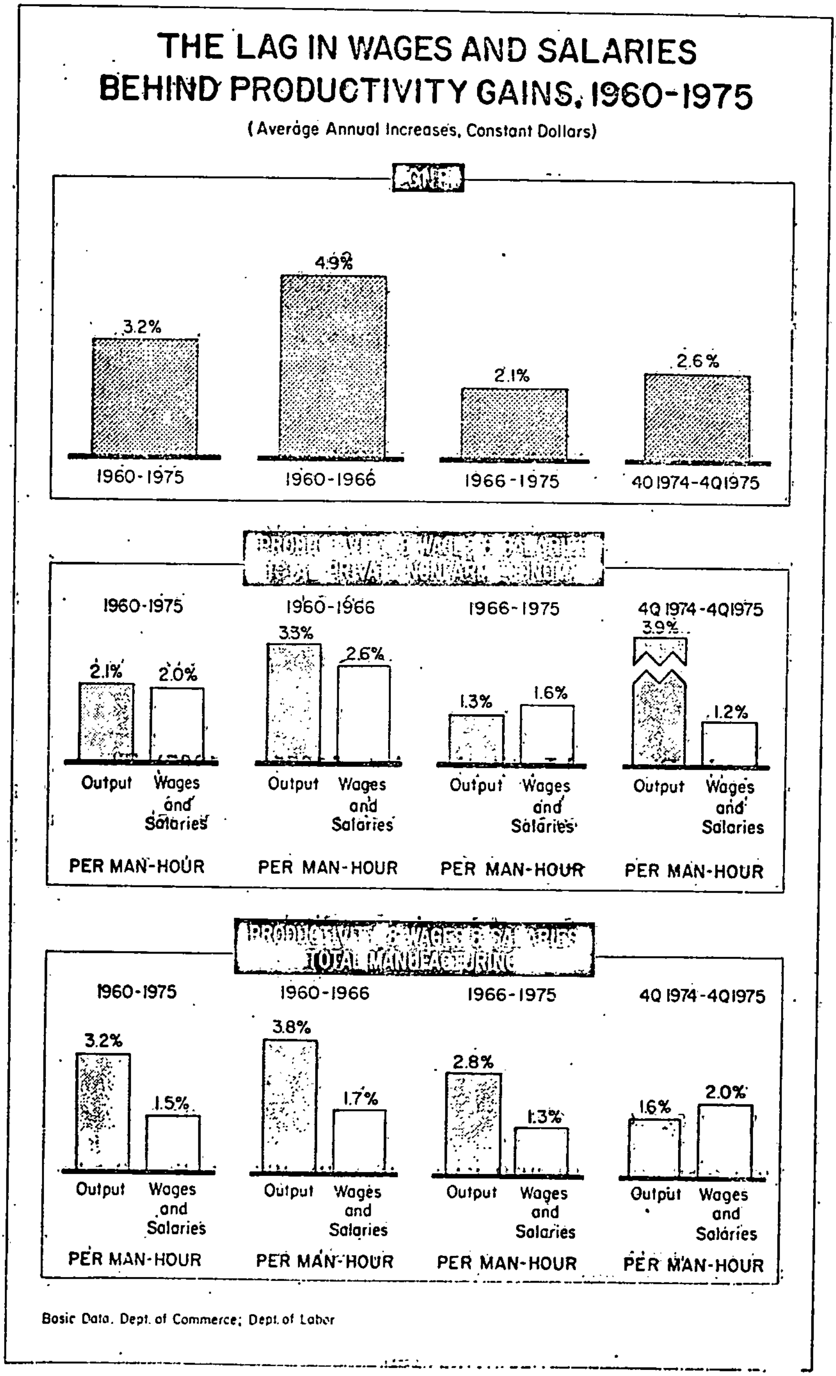

DEFICIENCIES IN WAGES AND SALARIES ARE LARGE SHARE OF DEFICIENCIES IN TOTAL CONSUMER INCOMES BEFORE TAXES[1/]
Billions of 1975 Dollars
1953-1975 Ann. Ave.
1953-1966 Ann. Ave.
1966-1975 Ann. Ave.
1966
1969
1969-1975
1975
4Q 1975 Ann. Rate
85.0
21.1
106.6
46.3
18.4
64.7
137.7
25.5
163.2
70.7
16.6
87.3
86.1
26.5
112.6
164.4
28.7
193.1
284.6
35.5
320.1
292.6
34.0
326.6
Deficiency in Wages and Salaries
Deficiency in Other Consumer Incomes
Deficiency in Total Consumer Incomes Before Taxes
1/ Deficiencies are projected from 1953 base.

Chart 26


THE LAG IN WAGES AND SALARIES BEHIND PRODUCTIVITY GAINS, 1960-1975
(Average Annual Increases, Constant Dollars)
3.2%
4.9%
2.1%
2.6%
1960-1975
1960-1966
1966-1975
4Q 1974-4Q 1975
1960-1975
1960-1966
1966-1975
4Q 1974-4Q 1975
2.1%
2.0%
3.3%
2.6%
1.3%
1.6%
3.9%
1.2%
Output
Wages and Salaries
PER MAN-HOUR
1960-1975
1960-1966
1966-1975
4Q 1974-4Q 1975
3.2%
1.5%
3.8%
1.7%
2.8%
1.3%
1.6%
2.0%
Output
Wages and Salaries
PER MAN-HOUR
Basic Data, Dept. of Commerce; Dept. of Labor

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

(By Grover W. Ensley*)

The 1976 Economic Report of the President and accompanying Annual Report of the Council of Economic Advisers emphasize the need for a durable economic recovery. No industry has a greater stake in government policies to restore and maintain economic and financial stability than savings banking. Hopefully, it will be possible for the Administration and the Congress to reach an accommodation this year on the proper degree of economic stimulus needed to place the economy on the path to sustainable, non-inflationary growth, reduced unemployment and increased real incomes.

We hope, too, that it will be possible for the Administration and the Congress to reach an accommodation this year in the vitally important area of financial restructuring legislation.

We were pleased to see the President reaffirm his support for the Senate-passed Financial Institutions Act of 1975 (S. 1267) in his 1976 State of the Union Message and fiscal 1977 budget. While not specifically mentioned in the President's and Council's Reports, financial restructuring legislation clearly remains a high-priority concern of the Administration.

We have also been highly encouraged by recent developments in the Congress. On December 11, 1975, the Senate passed, by an overwhelming vote, the Financial Institutions Act of 1975 (S. 1267). The savings bank industry strongly supports this legislation. The focus of attention has now shifted to the House of Representatives, where hearings are currently in progress on a Committee Print of the proposed Financial Reform Act of 1976.

The need for financial restructuring legislation to strengthen thrift institutions and the flow of housing credit has become increasingly recognized as evidence has accumulated over the past decade on the extreme cyclical sensitivity of deposit flows at thrift institutions and their growing long-run competitive weakness in household savings account markets relative to commercial banks.

Achieving and maintaining better-balanced federal economic policies to promote economic and financial stability will be the single most effective means of meeting the short-run problems of thrift institutions and housing and mortgage markets. Enacting financial restructuring legislation will also be helpful, by increasing the short-run flexibility and earning power of thrift institutions.

The major benefit of financial restructuring legislation, however, will be its long-run effect in preserving the competitive ability of thrift institutions to generate an adequate volume of funds for housing credit.

* Executive vice president, National Association of Mutual Savings Banks.

Providing thrift institutions with modern third party payment, consumer loan and other consumer service powers and increased investment flexibility will help achieve this result, by increasing their ability to compete for lendable funds on both a price and service-convenience basis.

Numerous public and private studies have concluded that modernized powers for thrift institutions will benefit housing, by contributing to an increased flow of housing credit, a more stable flow of housing credit, or both. A number of these studies are included in the list attached to this statement.

No less important than modernized powers will be the continuation of federal deposit interest rate control authority, with meaningful differentials for mortgage-oriented thrift institutions. The need for differentials would not likely be reduced by the consumer service and investment powers that would be provided thrift institutions in S. 1267 or in the proposed Financial Reform Act of 1976. Commercial banks would still retain significant competitive advantages which must be offset by the deposit rate differential, including the ability to make a full range of short-term business loans, a much more numerous and geographically dispersed network of offices, and substantially lower effective federal income tax rates than thrift institutions.

The savings bank industry believes that the Senate-passed S. 1267 and the proposed Financial Reform Act of 1976 now being considered in the House provide a sound basis for the Congress to enact financial restructuring legislation this year. We stand ready to cooperate in every way with the Congress, the Administration and other industry groups to help achieve this public-interest goal.

STUDIES WHICH CONSIDER THE IMPACT OF BROADENED THRIFT INSTITUTION POWERS ON MORTGAGE CREDIT AND HOUSING

Patric H. Hendershott, *The Impact of the Financial Institutions Act of 1975*, August 1975. (This study was undertaken for HUD).

Department of the Treasury, *The Financial Institutions Act of 1975*, March 19, 1975.

The Federal Home Loan Bank Board, *A Financial Institution for the Future—Savings, Housing Finance, Consumer Services—An Examination of the Restructuring of the Savings and Loan Industry*, March 1975.

Leonard Lapidus, *et al.*, *Public Policy Toward Mutual Savings Banks in New York State: Proposals for Change*, Federal Reserve Bank of New York and New York State Banking Department, June 1974.

National Association of Mutual Savings Banks, "The Case for Broadened Powers and Federal Charters for Savings Banks: A Detailed Analysis," in *Financing Institutions Act—1973*, Hearings on S. 2591 before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing and Urban Affairs, United States Senate, 93rd Congress, 2nd Session, May 13–17, 1974, pp. 852–985.

Department of the Treasury, *Recommendations for Change in the U.S. Financial System*, Revised, Sept. 24, 1973.

Dwight M. Jaffee, "The Extended Lending, Borrowing and Service Function Proposals of the Hunt Commission Report," in *Journal of Money, Credit and Banking*, Ohio State University Press, Vol. IV., No. 4, November 1972.

Ray C. Fair and Dwight M. Jaffee, *The Implications of the Proposals of the Hunt Commission for the Mortgage and Housing Markets: An Empirical Study.* (This is a revised version of a study undertaken originally for HUD and appears in: Federal Reserve Bank of Boston, *Policies for a More Competitive Financial System*, Proceedings of a Conference held in June 1972, Conference Series No. 8.)

George J. Benston, *Savings Banking and the Public Interest*, A Study Commissioned by the Savings Banks Association of New York State, December 14, 1971. (This study was published in full in *Journal of Money, Credit and Banking*, Ohio State University Press, Vol. IV., No. 1, Part II, February 1972.)

Irwin Friend, "Summary and Recommendations," in *Study of the Savings and Loan Industry*, Prepared for the Federal Home Loan Bank Board at The Wharton School, University of Pennsylvania, July 31, 1969, Volume I.

Leo Grebler, *The Future of Thrift Institutions: A Study of Diversification Versus Specialization*, Joint Savings and Loan and Mutual Savings Bank Exchange Groups, Danville, Illinois, June 1969.

Arnold W. Sametz, "Cyclical Problems Facing S&L's in the Next Decade and Suggested Reforms," in *Cyclical and Growth Problems Facing the Savings and Loan Industry—Policy Implications and Suggested Reforms*. Arnold W. Sametz, editor, New York University Graduate School of Business Administration, Institute of Finance, *The Bulletin*, No. 46-47, March 1968.

NATIONAL URBAN COALITION

(By Walter N. Rothschild, Jr.*)

As Chairman of the National Urban Coalition, I would like to make the following comments for the record of the Joint Economic Committee hearings on the President's Economic Report.

While the general economic statements in the report, particularly as they relate to inflation and unemployment, are basic to our system, the report does not recognize the possible priority shifts available, nor does it dwell on pragmatic, results-oriented policy implementations.

The President's intention to reduce the involvement of the Federal Government, and increase the states' activities in health, education, child nutrition and social services does not remove from the national government the obligation to set standards and to give conceptual leadership in this most vital area.

1. In its income security section, the report includes Social Security payments as income security programs. They represent over one half of the total. Social Security was designed to be self-supporting, and should be. That it is not is a political aberration, and sound economics demands that income and expenditure levels be taken into account when the benefits are set or changed.

2. The report fails to deal with any national obligation to maintain minimum standards of living for the poor and the working poor. The federal commitment to this fundamental of the democratic system is not great, measured against the massive expenditures for many other purposes. In evaluating the budgetary trade-offs that we must face, this basic human obligation needs a higher priority, as well as leadership toward a more effective, better designed concept of income security payments. I believe this can be done without any increase in total expenditures, but through reordering of priorities.

3. In the face of an increased velocity of financial problems in many of the nation's cities, little reference is made to many of the specifics that impact our cities. We have no national housing policy, and the President's message gives little hope that one is forthcoming. There appears to be nearly universal agreement that no core city can be resurrected without some kind of a major subsidy for rehabilitation, to preserve neighborhoods, as well as to put buildings back into the housing inventory, and onto the tax rolls. Hopefully, this might be accomplished by utilization of existing private sector mechanisms such as savings and loan companies, savings banks, insurance company mortgage departments, and the like.

4. Much has been written and said about the failure of the present welfare system. Suffice it here to note that the message gives no leadership in developing new and better approaches to this problem, which

* Chairman, National Urban Coalition.

is so corrosive a force in many cities. Without some such programs, the downward slide of our cities will not be reversed, and the problems resulting exacerbated.

5. No mention is made of education. While this is principally a function of the states, the Federal Government must give positive leadership to this national problem. The collapse of the urban school system demands federal initiative. There have been in the past twenty years enough experimental programs for schools funded by both private and public sources to last almost to eternity. The time has certainly come to implement the successful, discard the unsuccessful, and re-establish the basic concept of excellence in public education as a national budget priority.

6. There needs to be a political decision about use of subsidy funding for the affluent and the needy. Revenue sharing for affluent districts, school subsidies that are greater for suburbs than for core cities simply fail to recognize the crisis that is spreading. Unless the cities grow richer, the poor grow poorer. The budget is the instrument that sets our national priorities, and this politically unpalatable biscuit simply must be bitten.

The continuing crisis in our cities is not being faced. We are solving none of the problems. The National Urban Coalition was created to try to ameliorate the problems of race and poverty in those cities. The President's budget proposes no innovative approach to these problems. The fact that they are mentioned is comforting, but unfortunately, it does not move us further down the road toward viable solutions.

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

The New York Chamber of Commerce and Industry welcomes the opportunity 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 kind in the United States, having been founded in 1768, eight years before our independence. Since New York City is the headquarters for many of our largest national and multinational companies and is the nation's leading financial center, the New York Chamber of Commerce and Industry's membership of approximately 2,000 includes a great many of the country's major corporate enterprises. Historically, New York also has been the focal point of this country's international trade and commerce. Accordingly, the organization is broadly representative of a number of the most vital areas of the American business community.

GENERAL POSITION

The nation's economy and the financial markets experienced some severe shocks during the past year, but they have demonstrated remarkable resiliency and now are well along the road to recovery. Similarly, meaningful progress has been made in bringing the pervasive and debilitating inflation under control, and American products are now highly competitive in world markets. We must see to it that the return to reasonably fully employment of the nation's labor force and to a satisfactory rate of utilization of our industrial plant capacity is accomplished without generating renewed price pressures and without creating imbalances that will again give rise to the wide swings in the performance of the economy that have characterized the past few years.

To assure a steady and sustainable expansion of business activity while avoiding an acceleration of inflation, we believe that Government economic policies in the coming year will have to be shaped with special attention to their impact on the longer run outlook. Most important, we see the need for a fiscal policy which is less stimulative than during the past few years. Budgetary policy should not only give adequate play to the natural recuperative powers of the private economy, but it should also permit greater flexibility in monetary policy by lesser preemptive borrowing on the part of the Treasury and the off-budget agencies.

FISCAL POLICY

Over the past decade, Federal outlays have consistently grown far faster than total spending in the economy. During the recent period of business recession, and until it became apparent that economic

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

expansion had firmly taken hold, there was little disputing the desirability of increasing Federal spending and reducing income taxes to cushion the impact of unemployment and to help spark a revival in overall economic activity. Now that the economy is clearly recovering, however, continuing large Treasury deficits are no longer appropriate nor are they necessary. This will be even more true as we move through 1976.

There are, to be sure, legitimate grounds for disagreement both as to the optimum level of Federal expenditures and the proper mix in the year ahead. Also, the fact that Congress under its new budget review procedure has assumed a greater measure of responsibility for seeing that appropriations and expenditures are kept in line with anticipated Government revenues affords some grounds for encouragement with regard to the fiscal outlook. Still, this being a national election year, the temptations and pressures to increase Government spending and to reduce taxes will surely be great.

While probably few will agree entirely with the expenditure proposals contained in the President's new budget, we strongly endorse the general thrust of his fiscal program to hold total Federal spending to less than half the rate of growth of the past ten years. There is also clearly a need for tax changes, especially to encourage capital formation. But until it is evident that spending in the aggregate is being brought under effective control, we urge delaying any action on additional Federal tax cuts over and above the further extension at midyear of the current reduced personal withholdings. We also believe that the 10 percent investment tax credit as now structured should be made a permanent part of the tax code.

The launching of additional Federal spending programs at best would probably produce only a marginal reduction in unemployment this year. Moreover, just as the steep uptrend in Government outlays of recent years contributed heavily to the corrosive inflation of recent years and yet is the result of decisions made some time in the past, expenditure decisions taken in the coming months will establish the pattern and direction of spending for some years to come.

Furthermore, a continuation of the rapid growth in Federal expenditures would result in a still greater diversion of savings away from the private sector of the economy. Public sector spending primarily stimulates consumption and thereby retards capital investment, which is essential for sustained growth.

Current budget trends and projections already point to total Government borrowings this year—Treasury and Federal agency combined—in the credit and capital markets not significantly different from the massive Federal financing in 1975. It is one thing to accommodate such financing requirements during a recession period and during the early phase of an economic recovery when private credit demands are moderate. Quite different implications and problems are likely to arise when business, consumer and other private needs for financing are expanding—as we are convinced they will be later this year.

MONETARY POLICY

The need to accommodate the huge financing requirements of the Federal Government will also make it difficult for the Federal Reserve to pursue a non-inflationary course of moderate monetary expansion. Thus far, the Federal Reserve has responded well in providing a financial environment generally supportive of economic recovery.

Although the narrowly defined money supply (demand deposits and currency in circulation) has fallen below the target range set by the monetary authorities during the past year, it should be kept in mind that a number of recent institutional developments have distorted the behavior of this well publicized and closely watched monetary series. The broadly defined money supply (M_2) has grown at within-target rates, and interest rates have come down appreciably since the start of 1975. In addition, liquidity has been substantially rebuilt throughout the economy.

As we move through this year, with the business recovery continuing and broadening, the monetary authorities must be in a position to respond to the changing economic and financial conditions. At some point, the growth of the monetary aggregates will have to be restrained and short-term interest rates allowed to rise. The Federal Reserve must be permitted to help avoid the development of excesses, including speculation, and a possible recurrence of loose financial practices.

If the Federal budget deficit continues to be as large as it is now while business activity expands, investor fears of a resurgence of inflation could well be reinforced as the year progresses. Although inflation psychology has been dampened somewhat in recent months, uneasiness on this score clearly persists in the financial markets and among businessmen. If so, the entire spectrum of interest rates would certainly move substantially higher.

SUMMING UP

The business recovery is off to a good start. With patience and appropriate fiscal and monetary policies, the United States could well be entering what can be an extended period of healthy economic growth. Overly stimulative fiscal action and monetary policy, however, could easily set the stage for renewed inflation. As we now know, the attempt to cure inflationary troubles once they gain a hold on the economy almost inevitably courts another severe recession. A steadier course in economic policy is called for from now on.

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, controller, 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 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 J. Kirwin, vice president, secretary and treasurer, Martin Simpson & Co., Inc.
George Keyt, economist, General Motors Corp.
Charles E. Lilien, vice president, the First Boston Corp.
George W. McKinney, Jr., senior vice president, Irving Trust Co.
Charles Moeller, Jr., senior vice president and economist, Metropolitan Life Insurance Co.

Austin S. Murphy, chairman and president, East River Savings Bank.
George J. Nelson, president, The Nelson Fund, Inc.
James O'Leary, vice chairman of the board, United States Trust Co. of New York.
Robert Ortner, vice president and ecoonmist, the Bank of New York.
Gary L. Pote, vice president, Halsey Stuart & Co., Inc.
Norman C. Ramsey, consultant, Sulzberger-Rolfe.
C. H. Reing, economist, Mobil Oil Corp.
Charles E. Saltzman, partner, Goldman Sachs & Co.
Malcolm D. Strickler, vice president, Finance, Provident National Corp.
John C. Van Eck, president, International Investors, Inc.
Hans A. Widenmann, partner (Ltd.), 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, Economic Division, Bankers Trust Co.
Andries D. Woudhuysen, executive vice president and director, Drexel Burnham & Co., Inc.
Frank A. Brady, Jr., staff coordinator.

OUTPUT SYSTEMS CORP.

(By Matthew J. Kerbec*)

I am Matthew J. Kerbec, engineer, economist and author of the study "Superinflation/Recession—Causes, Effects and Cures." This was one product of a research program which started in 1970. This effort also provided the theoretical basis for predicting the present economic crisis in 1973.

Attached is the latest of seven Economic Reports I have sent to the Office of the President since 1973, warning of the dangers associated with massive sudden price increases for energy and other basic products.

My analysis of the present and future state of the economy is much more pessimistic than that contained in the 1976 Economic Report of the President (ERP) in that I consider 1975 an economic disaster and project a grim outlook for 1976.

Due to the one-time tax and other fiscal actions taken by the Federal Government in 1975, the monthly and quarterly statistics suffered large distortions. It is only when year-to-year statistics are compared that the real depth of our economic problems becomes frighteningly apparent.

Despite $70 billion in added Government spending in 1976, real Gross National Product (GNP) dropped another 2 percent, which was greater than the 1.8 percent drop in 1974 and was the largest one year decrease since the 1930's. It was also the first time real GNP went down two years in a row (ref: ERP, page 1973).

Unemployment increased from 5.6 percent in 1974 to 8.5 percent in 1975. When part time workers looking for full time jobs; and discouraged workers are added, the total number of workers in these three categories jumped from 9.9 percent in 1974 to 14.5 percent in 1975. A one year increase of 3,812,000. This caused a tremendous drop in consumer purchasing power which still has not been restored.

Another shocker was the $41.1 billion (23 percent) decrease in the "Gross Private Domestic Investment" component of the GNP in 1975 compared to 1974. With the exception of 1974, this was over two-and-one-half times lower than any year since 1946, which is as far back as the series goes (ref: ERP, page 172). Machine tool orders fell 53 percent in 1975 which guarantees shipments will be down in 1976. The monthly contracting rate for new construction work fell in the last three months of 1975 and was down 23 percent in December 1975, below the year-ago rate. This is grim news for the construction and capital goods industries for 1976.

Those familiar with the "Investment Multiplier" effect of economic theory will recognize how these huge decreases can affect purchasing power and income in 1976.

*President, Output Systems Corp.

Based on the above considerations and other facts in the attached Economic Report, I believe real GNP will be closer to zero growth and unemployment will continue to hover between 7.5 and 8.5 percent. Inflation will vary between six and nine percent depending upon how wages and energy costs vary in 1976. It must be remembered that the Energy Policy and Conservation Act has a built in escalator which could increase domestic oil prices 10 percent each year until total decontrol is achieved. If, in addition, deregulation of natural gas is implemented, another round of Economic Ripple Effects will be created, resulting in more inflation and layoffs.

It was heartening to see that Government economists, after two years, are finally starting to publicly recognize what virulent energy price stimulated Cost-Push inflation/recession can do to an economic system (ref: ERP, page 31). However, this recognition does not extend to action. Adopting a rigid policy of "no price control actions" selective or otherwise, is the greatest single contributor to our continuing economic problems. Canada has taken positive steps to cope with the same kind of problems. The following is an excerpt from their "Anti-inflation Program."

> In its present cost-push form, inflation threatens to price our goods out of world market and to lessen the capacity of our business firms to expand their operations. It disrupts financial markets and impairs rational planning by business and government. It undermines the effectiveness of the traditional instruments of demand management policy to keep the economy on course. When inflation reaches a certain point, the stimulation of spending may simply lead to higher prices rather than more goods and more jobs; in the longer run, it actually makes unemployment worse.

The heart of the Canadian Program is a plan for price and wage controls. A brief listing showing how prices for energy, steel and chemicals rose from 1973 to 1975 is found in item L of the attached table. Prices in the U.S. for these commodities increased over 69 percent in 1974. There is nothing in the Nation's history that can even come close to matching these events.

To review, I was able to predict the massive economic distortions we are now experiencing, back in 1973. These trends were completely missed by most economists. A list of references verifying these projections is given in the attached report. Attachment A defines "Kerbec's Energy Law" and two new economic theories which formed the basis for the early predictions. I realize this is outside of the scope of these hearings. However, I would welcome an opportunity to brief the members of the Joint Economic Committee on how these concepts can help formulate economic policies that will be responsive to real world events.

One of the great dangers facing us in 1976 is a continuation of the false optimism that is generated when only the optimistic side of a statistical report is headlined. This could lead to legislation that could harm more than help a specific economic problem. For example, the Public Works Employment Act of 1975 missed becoming a law by three Senate votes which were required to override the President's veto. A number of Senators voted against the Act because they thought the economy was recovering. Whether the legislation was "good" or "bad" is beside the question on this point. The important consideration is whether the economy is becoming weaker or recovering. My considered belief is that there are more signs pointing to a continuing economic slump than there are signalling a recovery.

Another real threat to any real economic recovery is the fact that energy and basic product prices continue to increase in the face of falling demand. Prices continued to increase in 1975 although production decreased. With steady upward price pressures for basic products classical supply-demand-price relationships become meaningless and there is no real basis for anticipating an economic rebound from so-called normal "free market forces."

Attachment A

Definition of Theories

Relative economic impact,[1] *theory of.*—A theory stating that changes in availability, costs and prices of goods have an economic impact on final sales and prices whose magnitude will depend on the basic need for these goods and will be approximately proportional to the number of profit centers or transactions they must go through before reaching the final customer.

The Kerbec Economic Pyramid model of an industrial economic system conceptually represents the economy as six general levels of activity. In broad terms, relative to the need for goods and how they flow through the economy, the activities are: (1) energy producers; (2) basic industries; (3) intermediate industries; (4) finished goods industries; (5) wholesale; and (6) retail operations. To illustrate, the two most pervasive needs in a profit oriented economic system are labor and energy. Changes in cost or availability of these needs have rapid and cumulative effects on all organizations and sectors of the economy. For example, a $1 billion change in either labor or energy costs in the basic steel industry has a much greater impact on customer prices than a similar $1 billion increase on the wholesale level. In the above model, changes in basic steel costs will be subject to five cumulative markups while a similar cost change in the wholesale level will only be subject to two markups and the "relative economic impact" will be less. If many cost changes for energy and labor were to occur simultaneously in any of the levels, the total economic impact would be synergistic (the total effect would be greater than the sum of the effects taken alone). See Economic Ripple Effects.

Economic ripple effects,[1] *theory of.*—Based on the proposition that an industrialized profit oriented economic system is made up of a network of interdependent subsystems, the theory supposes that variations in: raw material costs; labor costs; selling prices; and other inputs to production and pricing policies will force more changes. This process creates and propagates new effects which include, but are not limited to, further changes in: prices; sales; wages; employment; interest rates; budget deficits; national security; and possible social and political disorders. The severity and life of these effects will depend upon where in the system the original variation(s) occurred: the pervasive impact of the change(s); the rate at which they were applied; the duration of the change(s); the magnitude of the change(s) and the need by customers for the goods and services affected.

Abstract

Since the second quarter of 1975, the Ford Administration has showered the American public with misleading optimistic reports that have totally obscured the true state of the economy. This report, using Government published figures, proves that the economy in 1975 was much worse than 1974 and that the economic picture is bleak for 1976. False optimism is a deterrent to real economic health.

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[1] Based on concepts from the publication, "Superinflation/Recession—Causes. Effects and Cures" by Matthew J. Kerbec; published by Output Systems Corp., Arlington, Va.

Note.—The above theories were an offshoot from the corollaries derived from Kerbec's Law—"Energy is required to perpetuate, change the form of and move all living and nonliving matter."

The Law provided a scientific basis for recognizing that commodities had different economic characteristics that could be used to better understand the precise mechanisms that govern the behavior of an economic system under varying conditions.

In 1975, the Federal Government spent over $70 billion more than in 1974. Despite this record expenditure, real Gross National Product (GNP) had a greater drop (2 percent in 1975 than the 1.8 percent decrease in 1974. If the Department of Commerce had not switched calculations of real GNP from a 1958 to a 1972 base year, in the third quarter of 1975, the decline in real GNP would have been even higher. Not since the depression in the 1930's has the GNP declined two years in a row. This represents an unstable economy with more bad news to come. It is truly frightening to realize what the economy would have been like if the $70 billion had not been spent.

In 1975, unemployment went up to 8.5 percent. When part time and discouraged workers are added, the total number of workers in these three categories jumped from 9.9 percent in 1974 to 14.5 percent in 1975. An increase of 3.812 million in one year.

Another shocker was the drop in the "Gross Private Domestic Investment" (GPDI) component of the GNP in 1975 which amounted to $41.1 billion. With the exception of 1974 this was over 2.5 times lower than any year since 1946 which is as far back as the statistics go. Specifically, new orders for machine tools dropped a huge 52 percent in 1975. These events foreshadow more unemployment in the construction and capital goods industries in 1976.

As prices increased, sales of houses and automobiles decreased in 1975 (see Attachment 1–E, F). Prices for energy, steel and chemicals continued to climb, after an average 69.58 percent increase in 1974, even when there was a significant drop in demand. Total sales (manufacturing, wholesale and retail) were lower in 1975 when corrected for inflation. Massive inventories are still with us, $48 billion higher than in 1973 and only lower by $1 billion compared to 1974 (see Attachment 1–D, L).

We are still in a virulent recession. Recall the headlines announcing a huge 12 percent GNP increase in the third quarter of 1975, and the satisfaction expressed by some Government spokesmen who declared the 5.4 percent increase in the fourth quarter was a good sign the economy was healing at a more conservative rate. However, there were no headlines explaining why—with all this good news, the GNP actually decreased by 2 percent for the year and private investment skidded a record $41.1 billion.

Telling the American people the economy is improving, when the GNP is dropping, not only causes great harm, but it is a serious perversion of the truth and can only lead to a further erosion of public confidence in Government Businessmen in energy and other industries which produce products people need to survive have reacted to these optimistic reports by continuing to raise prices as sales decline. Under these conditions, there is no possibility for a normal economic rebound.

Discussion

For most of 1975 we have been exposed to a continuous barrage of explosively optimistic week-to-week, month-to-month and quarter-to-quarter economic reports published by the Federal Government. In 1975 the Government spent $70 billion ($20 billion in tax rebates, social security bonuses and reduced income taxes; $34.6 billion in Transfer Payments; and an estimated $15.4 billion in housing subsidies, grant programs, make work projects and pay raises for Government employees) more than in 1974. This was still not enough to compensate for the 8.7 percent (GNP Implicit Deflator) inflation which caused a loss of purchasing power of about $120 billion in 1975. While some of this was returned in the form of higher wages, the amount was not enough to cancel the Economic Ripple Effects resulting from the higher prices. The Government is forecasting a 6 percent inflation for 1976 with a $1.684 trillion GNP. This indicates there will be a loss of purchasing power in 1976 in the order of $95 billion. If the Government's present plans to cut taxes by another $10 billion while cutting Government spending by $28 billion are implemented, the economy will continue to decline at a faster rate. The ultimate irony is that until something is done to cure the huge distortions in prices for energy and basic products there is no way the Government can restore purchasing power at the rate at which it is being drained away in higher prices. The drops in GNP in 1974 and 1975 are real world reminders of how an economic system can deteriorate when vital key prices go through the roof.

It is important to see what really happened in 1975 when the key year-to-year statistics are analyzed.

Gross National Product

Many people are now wondering how the GNP can drop by 2 percent when it showed substantial increases for the last three quarters of 1975. Amid much fanfare the recession was officially declared over in the second quarter of 1975 when the GNP went from a minus 9.2 percent in the first quarter to a plus 3.3 percent in the second quarter. The drums beat again when a 12 percent increase was announced in the third quarter followed by a 5.4 percent increase in the fourth quarter. Few people are aware that to convert quarterly statistics to an annual rate it is necessary to multiply the quarterly figure by four. One-time tax rebates and social security bonuses amounting to over $10 billion were returned to consumers in the second quarter of 1975. Actually, most of this money was spent in the third quarter. When used, this $10 billion became $40 billion in the quarterly GNP accounts which are listed on an annual basis. Quarterly changes for inventories and all other items in the GNP are subjected to this four to one conversion. Government fiscal actions can seriously distort the GNP, particularly if the amount is large and only occurs once. It would be much more informative if a statement accompanied the GNP report, stating how much of the change in GNP was due to Government fiscal actions. Again, one wonders how much worse the GNP would have been if the Government had not spent the $70 billion.

The Employment Picture

In 1975, total Civilian Employment (see Attachment 1–C) amounted to 84.783 million. This included 3.748 million workers who fall in the category "Part Time Due To Economic Reasons." These are the people who work from one to thirty-four hours a month. In general, about half of these workers want, but cannot find, full time jobs.

Unemployment in 1975 totalled 7.830 million. This does not include 776,000 discouraged workers who stopped looking for jobs. The three categories (part time, discouraged and unemployed) of workers, when added, amounted to: 7.323 million in 1973—8.7 percent of the work force; 8.542 million in 1974—9.9 percent of the work force; and 12.354 million or 14.5 percent of the work force in 1975. There was a huge jump of 3.812 million in these three categories from 1974 to 1975. This occurred even with the $70 billion increase in Government spending.

Interest Rates and the Stock Market

In January 1975 prime interest rates were at the 6.5 percent to 7.0 percent range. When interest rates decline, people tend to put savings into the stock market and this was a major reason for the record increases in stock market activity in January. Additional impetus can be attributed to the glowing and misleading economic reports which led to false optimism by those who took these reports in good faith.

Any analysis of the behavior of interest rates and stock market activity only has real meaning when examined within the framework of the existing economic environment. During the depression of the 1930's, interest rates were at 2 percent while stock market activity was almost nonexistent after the 1929 Wall Street crash. At that time the demand for capital investment was extremely low, as might be expected in an economy with an unemployment rate that reached 25 percent at the depth of the depression. Prime interest rates in January 1975 were also down because of lack of demand. A popular and dangerous myth is that if the Federal Reserve Board lowers interest rates, people will borrow money. While the Board does have some influence in changing interest rates, it does not have the capability to stimulate the demand for money. This was dramatically highlighted, when on January 19, 1976 the Federal Reserve Board cut its discount rate (the rate at which it lends money to member banks) to 5.5 percent. This was not done in accordance with some master plan—it was taken to bring the discount rate into better balance with open market rates. Of interest, is that the demand for money has a greater impact on interest rates than actions of the Board. There have been an incredible amount of time wasted in empty arguments concerning the Board's monetary policies relative to raising or lowering interest rates. Borrowing for capital investment has suffered unprecedented declines in 1974 and 1975. When adjusted for inflation (real terms), the "Gross Private Domestic Investment (GPDI) as reported in the Department of Commerce, News Release BEA 75–5, dropped from $180.0 billion in 1974 to $138.9

billion in 1975. With the exception of a $27.4 billion decline (1973–1974), the 1975 decrease of $41.1 billion was over 2.5 times greater than at any time since 1946 which is as far back as the statistics go. This decrease was in spite of the multibillion dollar corporate tax breaks given to stimulate capital spending in 1975. Decreasing private investment means less jobs in 1976.

The drop in interest rates in this kind of economy is not a good sign. It is a worse sign when it is realized that these interest rates are falling at the same time the Department of the Treasury is selling securities (borrowing) in competition with private borrowers. The Treasury Department is in the process of borrowing $75 billion dollars to finance the budget deficits. The fact that interest rates still decline under these conditions is a strong indication of a weak economy.

Unfortunately, most small investors are flocking to buy stocks and do not know that a drop in GNP, two years in succession, represents a precarious economic situation. This is particularly true when the latest decline is greater than the previous year, even after a $70 billion increase in Government spending.

Inventories and Sales

According to Department of Commerce New Release (Manufacturing and Trade Inventories and Sales, November 1975, BEA 76–2) the value (unadjusted) of total inventories (manufacturing, wholesale and retail) amounted to $269.461 billion in November 1974, $268.562 billion in November 1975 and $220.173 billion in November 1973. During the year much publicity was given to the rapid rate of inventory liquidation and how this would put people back to work. Inventories, after all the optimistic reports were only $1 billion lower in 1975. In 1973, a more normal business year, inventories were $48 billion less than in 1975. The fact that inventories remained at record levels and unemployment rose significantly in 1975 is a positive signal that the economy is still in a deep recession. It is interesting to see what happened to retail inventories under the pressure of the $70 billion in new Government spending. They amounted to $76.738 billion in 1974 compared to $76.620 billion in 1975—practically, no change. The huge 1974 inventories were still with us in 1975 with much higher levels of unemployment.

In the first eleven months of 1975, total sales (manufacturing, wholesale and retail) increased by $33 billion (see Attachment 1–L). This was an increase of approximately 1.8%. When adjusted for inflation, actual sales dropped about 7 percent compared to 1974. This is not unexpected when the GNP drops and unemployment increases significantly.

Housing and Automotive

In 1975 large housing subsidies were allocated to reduce mortgage interest rates, provide tax breaks up to $2,000.00 and provide other more direct construction help. Despite these subsidies Housing Starts (see Amendment 1–E) slid by 176,200 units in 1975, while Housing Permits decreased by 151.000. These declines followed other large reductions in 1974. The primary reason for these decreases are high prices and high mortgage interest rates. There is no reason to believe the cost of houses will decrease with a 6 percent rate of inflation forecasted for 1976.

Domestic new car sales went down from a seriously depressed level of 7.421 million in 1974 to 7.050 million in 1975—a 5 percent drop. The outlook is grim for 1976 as all car producers have closed plants already in 1976 to cut back inventories.

Industrial Production and Plant Utilization

The Federal Reserve Board estimates Industrial Production was down by 8.9 percent in 1975 compared to 1976. In the same period Plant Utilization decreased by 10.2 percent. This would follow from the decline in sales. The unused plant capacity will have a negative effect on capital expansion plans for 1976.

Personal Income

One of the key economic questions is—How much of the purchasing power siphoned away by higher prices is returned as higher worker income or more jobs? The largest dollar category of the twelve items making up the Department of Commerce monthly "Personal Income" report is listed as "Wages and Salaries—Commodity Producing and Manufacturing." The health of the American economy is primarily based on its ability to mass produce and distribute physical goods.

A large portion of the Nation's purchasing power is derived from people who work in the industries producing physical goods. In 1974, total wages in this category amounted to $273.7 billion contrasted to $273.5 billion in 1975. When adjusted for inflation, these workers actually lost about 9 percent of their purchasing power. Distributive and service industries paid workers $24.4 billion more in 1975 while government (Federal, state and local) workers received $13.8 billion more in 1975 than 1974. These increases barely compensated for inflation.

The largest increase in Personal Income was in Federal Government Transfer Payments (see Attachment 1-G). This money goes to pay unemployment benefits, welfare recipients, social security costs and health payments. These payments increased by $34.6 billion in 1975 compared to 1974. Most of this money is spent for the necessities of life and to pay for higher prices for food, electricity, gasoline, clothes, rent and vital medical services. This is not the kind of income that is used to buy houses, cars or furniture. Most of the people in this category cannot obtain credit.

The increase in Personal Income in 1975 did not come anywhere near matching the lost purchasing power drained away by the Cost-Push inflation—either in quantity or quality. This was irrevocably proven when GNP decreased, unemployment increased and total sales dropped in 1975.

What Caused the Inflation?

It is now generally agreed that the massive price increases for coal, natural gas and refined petroleum products, starting in 1973, were the greatest single cause for the 1973–1975 Cost-Push inflation/unemployment crisis. Attachment 1-K shows how prices increased for five vital commodities from 1973 to 1975. As some combination of these commodities are used in all other industries, it automatically follows that costs and prices were forced up in all sectors of the economy. Price increases for these five vital commodities averaged 69.58 percent in 1974 and increased further in 1975, even though demand decreased substantially. No profit oriented economic system can endure in any recognizable form when Cost-Push pressures of this magnitude are suddenly injected into the economy.

We can now identify three major effects of these unprecedented price hikes: (1) a 2 percent decline in real GNP despite a $70 billion increase in Government spending; (2) a rise to 14.5 percent of the total civilian work force relative to workers who are fully or part time unemployed; and (3) massive Government spending leading to the largest budget deficit ever experienced (about $75 billion for 1975).

It is here that basic questions must be asked concerning whether or not concepts such as "free enterprise" and "free market forces" are operating in the current economic crisis. In 1975 steel production fell over 20 percent, yet prices continued to climb in 1975. The same situation prevailed in the fossil fuel and chemical industries. This means suppliers, in concentrated industries, who produce products that people must have, can dictate prices and make them stick.

A pervasive attitude is sweeping the Country which I call the "Oil Price Syndrome" (produce less and charge more). In the minds of many this translates into the policy "if oil can do it, so can we." This attitude has swept through all sectors of the economy. A number of railroads have posted sharp profit increases when freight movements in terms of ton-miles have decreased. Automobile sales are at seriously depressed levels, as are houses, yet prices continue to climb. New orders for machine tools decrease, but prices still go up. The list has no end. There is one truism in all this—there can be no normal economic rebound when prices continue to go up as demand declines. Deregulating energy products so they can reach the levels set by a foreign monopoly will guarantee pervasive inflation for years to come.

The "Oil Price Syndrome" represents an attitude that will seriously damage the economy if it is allowed to continue. In 1974 and 1975 approximately $244 billion was siphoned out of the economy in the form of higher energy and other product prices. The two year drop in real GNP and increasing unemployment provides positive proof that little of this money is being returned to the purchasing power pool. Trying to restore purchasing power using tax money alone can only be justified for humanitarian reasons. The Nation does not have enough assets to keep pumping money into the economy at the rate higher prices drains it away.

Mr. President, a number of your spokesmen are implying that inflation and our present economic ills are the results of government spending. The logic is not there to support this view. The Consumer Price Index declined from 12 percent in 1974 to 7 percent in 1975, but in the same period Government expenditures increased by an unheard of $70 billion. While Government spending should be efficiently used, it had nothing to do with the skyrocketing prices in the basic industries.

It takes more than optimistic news to cure an economy whose GNP has declined two years in a row. Trying to cure a Cost-Push inflation/recession crisis without correcting the huge price distortions that have occurred in a number of key industries will guarantee greater budget deficits and unemployment.

The economy is in a dangerously depressed state. The real danger is in insisting that we are not in a recession after two successive declines in GNP. Economic policies based on this belief are leading to government actions that could make the economy deteriorate further. All the above figures dealing with GNP, Personal Income and unemployment were taken from published Government reports—this is not a case of differences in numbers that were derived independently.

References

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C. "Costlier Energy Effects." article by Matthew J. Kerbec, Washington Post, March 10, 1974, page K–1

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E. Second economic report to the Office of the President, April 5, 1974, by Matthew J. Kerbec (Congressional Record, April 8, 1974)

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J. Hearings held by the Senate Committee on Agriculture, September 9, 1975, concerning the "Impact of Energy Decontrol on Agriculture," testimony by Matthew J. Kerbec, pages 44 to 53 (Congressional Record, September 11, 1975, page S–15843)

K. "Higher Oil Prices and the World Economy," Edited by Edward R. Fried and Charles L. Schultze, published by the Brookings Institution, October 1975, pages vii, 2 and 4

L. "Economic Report of the President," published by the Council of Economic Advisers, January 1976, page 31

ATTACHMENT 1

KEY ECONOMIC STATISTICS, 1973-75

Description	1973	1974	1975
A. GNP (1972 dollars), Department of Commerce (BEA 76-5)(billions)	$1,233.4	$1,210.7	$1,186.4
GNP (annual percent change)	5.3	-1.8	-2.0
Gross private domestic investment (billions)	$207.4	$180.0	$138.9
B. Consumer Price Index: Department of Labor (annual rate, percent)	8.8	12.2	7.0
C. Employment: Department of Labor (USDL 76-17):			
Total civilian labor force (thousands)	88,714	91,011	92,613
Total civilian employment (thousands)	84,409	85,936	84,783
Unemployment rate (annual percent change)	4.9	5.6	8.5
Discouraged workers	500,000	523,000	776,000
Part time due to economic reasons—People want to work full time but cannot find jobs	2,519,000	2,943,000	3,748,000
Unemployment	4,304,000	5,076,000	7,830,000
D. Inventories: Department of Commerce (BEA 76-2)(millions): Includes manufacturing, wholesale and retail	$220,173	$267,075	$266,041
E. Housing starts and permits: Department of Commerce (CB76-15):			
New privately owned housing units started—Actual	2,045,300	1,337,700	1,161,500
New permits issued	1,749,200	1,081,300	930,300
F. Domestic new car sales: Washington Post, Jan. 8, 1976	9,156,000	7,421,198	7,050,120
G. Personal income: Department of Commerce (BEA 76-4)(millions)	$1,054.3	$1,154.7	$1,246.0
Wages and salaries (commodity and manufacturing)	253.4	273.7	273.5
Wages and salaries (Government)	148.6	160.6	174.4
Transfer payments (unemployment, welfare, etc.)	118.6	140.4	175.0
Personal interest income	88.4	106.5	120.7
Other 8 categories	445.3	473.5	502.4
H. Machine tool orders: National Machine Tool Builders Association (millions)	$2,612	$2,500	$1,190
Annual percent change	NA	-4.3	-52.4
I. Industrial production: Federal Reserve System (annual percent change)	9.0	-0.6	-8.9
J. Plant utilization capacity: Federal Reserve System (annual percent)	83.0	78.9	68.7
K. Wholesale Price Index: Department of Labor (December reports)(annual percent change for key industries):			
Refined petroleum products	35.4	57.2	15.2
Industrial chemicals	4.9	83.9	8.4
Agricultural chemicals	14.7	71.7	8.6
Plastic resins	4.1	97.0	1.7
Iron and steel	10.0	38.1	3.9
L. Total sales: Department of Commerce (BEA 76-2): Includes manufacturing wholesale and retail sales for 1st 11 mo (millions)	$1,575	$1,806	$1,839

Source: Compiled by Output Systems Corp., Arlington, Va.

SIERRA CLUB

(By Richard A. Tybout*)

The tenor of the Economic Report of the President is cautious optimism matched with warnings against overly expansionary policies. Inflationary expectations are built into key decision-making processes throughout the economy. This fact, more than any other, justifies caution in engineering a return to full utilization of capacity. Recent progress in the control of inflation while reducing unemployment underscores the advantage of this approach.

On the other hand, there are a number of economic problems not adequately discussed, or not discussed at all, in the Economic Report that have important effects on the well being of the individual. These are identified below. The purpose of the following paragraphs is to transcend the action-reaction context of stabilization policy, to survey problems on which constructive action can aid the achievement of a satisfying human and natural environment, as well as improving the processes of stabilization and resource allocation.

The first is tax reform. Tax reform can make the financing of public services more equitable and tax reductions, when appropriate, more effective. The problem of loopholes in the federal personal income tax is well known. Increased reliance on the investment credit should be judged from the standpoint of the microeconomic bias it creates against labor intensive inputs, as well as for its macroeconomic significance. Continuing tax advantages for extractive industries encourage the despoilation of our landscape. Biases toward extraction for the benefit of private interests are also created by undercharging for grazing rights and uneconomic timber practices on public lands. Inconsistencies in capital gains and income taxation give rise to tax shelters and, among other things, work against the family farm. If a long run perspective is appropriate for anti-recessionary policy, it is at least as appropriate for tax reform and the elimination of biases toward exploitation.

Traditional economic regulation has produced other misallocations, particularly in the area of transportation. Some of the problems of the railroad industry have been created by the regulatory process, which the industry itself influences. Motor vehicle regulations produce a combination of excessive vehicle operation, excessive fuel consumption, with attendant air pollution, and protectionism. Similar observations apply to air transportation. These regulations are consistent with statutory frames of reference and gain more impetus from the latter than from administrative decision making by the regulatory commissions themselves, though the latter contribute to the problem. The subsidy of inland water transportation by public provisions of rights of way at no expense to the carriers results in environmental damage as

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well as inefficient use of resources. Greater reliance on market forces would improve domestic transportation in both its economic and environmental aspects.

Long range land use planning is an unfilled economic need. Urban sprawl continues, aided and abetted by underpriced fuels and the lack of an effective role played by the federal government. Stripmining and inappropriate industrial location can create a phalanx of local disamenities. This is an area in which we as a nation cannot avoid reliance on regulation. But paradoxically, we devote much of our regulatory effect to obfuscating market processes where they can be relied upon to serve the public interest.

The concept of land use planning is used here in a broad sense to include evaluation of public works such as dams and other development projects. Development of natural areas is typically an irreversible process. Once developed, a natural area may never regain its original quality. The bias toward development in the public goes beyond subsidies to extractive industries and includes especially a lack of study and recognition of the long term advantages of preservation.

Official attention to population problems continues to be inadequate. The recommendations of the President's Commission on Population are as relevant today as when they were issued in 1972. Population growth is not necessary for an increased per capital standard of living and, in the long run, is likely to be inconsistent with it. This is true, in my view, for narrowly defined material welfare and also, of course, for environmental amenities. The present net reproduction rate of approximately 1.0 does not remove the problem of unwanted births or the long term need to explicitly design macro and micro employment policies for a population which will in due course approach a stationary size.

Energy policy illustrates the contrast between the long and the short run. The Administration continues to respond to the present energy situation by pushing domestic energy development, in deeper and deeper off-shore waters, in difficult arctic areas, in economically marginal oil-shale deposits, in coal mining without adequate reclamation and in nuclear power without due consideration of the dangers of the technology. Other policies, originating more with the Congress, have kept prices of oil and gas artificially low, with the result that the public has small incentive to restrain its consumption of these fuels. Whether we shall adopt market pricing of natural gas is currently a question before the Congress. If the objective is to prevent windfall capital gains to producers, this can be done by other means while giving the necessary price signals to consumers. From a macroeconomic standpoint, the inflationary impact of free market pricing for these fuels would likely not be serious and would be a once-for-all type adjustment. Moreover, anti-inflation policy must take cognizance of scarcity values if it is not to live in a make-believe world.

Pollution of air and water creates costs in the form of public damages. If polluters and products whose production give rise to pollution are not forced to bear the costs they impose on the public, then we shall continue to have more pollution. As GNP grows, the problem will also grow. The Economic Report, in describing capital requirements for the remainder of the present decade, emphasizes capital goals for pollution control. These goals will not be met unless we have financial penalties for polluting the environment, whatever the cause and whatever the level of pollution. To do less is to fail to internalize. The combination of regulation and subsidy that we are attempting to use, though directed to high levels of pollution control, is inherently inadequate for the job.

A final comment is on the proper scope of government. In some respects the above observations suggest a reduction in the scope of government, in others, an expansion. Curtailment of transportation regulation is in the former category; land use planning is in the latter. Many other comments refer only to changes in policies to better reflect the public interest without strong implications for or against expansion of government. There is and should be no doctrinaire view of the proper scope of government, but only a case-by-case consideration of the merits of particular policies.

Total government expenditures (all levels of government) as a percentage of GNP has not expanded since 1970 and has expanded by only 3 percentage points since 1960. Very significant expansions have taken place since 1900, but there is no reason either to be surprised or to deplore this fact. Government is a service "industry." We can expect to spend more on service industries over the course of time because productivity gains do not take place as readily there as in manufacturing or extractive industries. Just as we benefitted in the nineteenth century from the shift of the labor force from agriculture into manufacturing, so have we benefitted in the twentieth century from the shift of the labor from manufacturing into service industries, including government. The question of whether we have gone too far in expanding the public sector cannot be answered by reference to our past but rather by asking what we shall do with our future.

UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

(By Leonard Woodcock*)

The 1977 Budget and Economic Report submitted by the President prescribe economic policies which would condemn workers to grievously high rates of unemployment for the rest of the decade, while the nation as a whole forgoes the production of goods and services to the tune of over $150 billion a year. Both documents advocate a fiscal conservatism which tolerates the harsh reality of higher unemployment in exchange for a presumably lower risk of firing inflation—although the President and his advisers admit that they do not know what the odds are. The Report states:

> . . . our knowledge of the interdependence between real growth and inflation is not sufficiently precise to permit a direct translation from general goals to specific targets. (p. 20)

Still, they reassert and extend the brand of inhumane policies which have brought the American people the highest levels of unemployment since the 1930s, an impoverished paycheck, and a swelling in the poverty ranks—while prices have continued to rise at a fast pace.

The proposed 1977 Budget priorities point not to public employment opportunities for the jobless, but to a lower deficit; not to improved assistance to the poor and the needy, but to tax breaks for business and investors; not to a national health security program, but to costlier benefits under Medicare; not to a stronger federal government role to pick up the slack in the economy, but to cuts in grants to state and local governments at a time when many of them are in financial difficulties.

The policies advocated by the President are unacceptable because of the continued human suffering and waste they imply. Nor would they succeed in bringing about a durable recovery. It is up to Congress to turn these policies around and embark the country on a swift road to full employment.

The Level of Government Activity

The President proposes that—for fiscal 1977, which runs from October 1976 through September 1977—federal spending be $394.2 billion. That is approximately $28 billion—or 6 percent—less than the amount which the Congressional Budget Office estimates would be required if present programs are allowed to grow at their normal rate.

No matter that there are 24 million people living in poverty, about 8 million officially counted as unemployed, and most of our social goals remain unaccomplished. The President, and his Council of

* President, UAW.

Economic Advisers, clearly show that those are not their main concerns. As the Report flatly states:

> . . . During the 1960s some growth in the share of national resources allocated to the nondefense expenditures of the Federal Government was considered desirable in order to alleviate poverty and to accomplish other important social goals. Further growth in the ratio of public expenditures to total output, however, directly bears on fundamental issues concerning the efficiency of the economy, equity for the working population, and the scope for private decision making in our economy. (p. 23)

In other words, social concern for the disadvantaged would be replaced by an anybody-can-suffer-on-his-own attitude.

In fact, the Administration clearly indicates it would further restrict the level of government activity if it could. The President complains about those expenditures which result from ongoing legislation, by referring to these as "uncontrollables" and stating:

> The degree of uncontrollability in the budget has obvious fiscal policy implications. *Without changes* in legislation, attempts to control total budget outlays fall on an increasingly smaller portion of the budget. [emphasis added] (1977 Budget, p. 34)

Fortunately, the protections provided by those programs cannot be gutted easily by the President, as he learned last year when he attempted to restrict the Social Security cost-of-living adjustment.

Thus, even though the Administration expresses concern that, under current law, such expenditures would increase to approximately 62 percent of total outlays by fiscal 1981, as compared to less than 47 percent in fiscal 1971 it is forced—primarily on account of increased unemployment compensation and public assistance benefits—to allocate 61 per cent of its proposed fiscal 1977 Budget to these programs. About one-fifth of them go to net interest, general revenue sharing, etc., and the rest of payments to individuals. This latter category breaks down as follows:

	Fiscal year 1977	
	Amount (billions)	Percent of total
Social security and railroad retirement	$87.2	45.5
Federal employees retirement and insurance	18.6	9.7
Veterans' benefits: Pension, compensation, education, and insurance	13.3	6.9
Medicare and medicaid	31.2	16.3
Housing payments	3.0	1.6
Public assistance and related programs	21.2	11.1
Unemployment assistance	17.1	8.9
Total payments to individuals which are provided by present law	191.6	100.0

The table shows that over 60 percent of the "Payments to Individuals" are for Social Security, Medicare, and Medicaid—all hard-won programs which assure working people retirement benefits and some measure of health care.

Unfortunately, it is not only the President who pledges to slow down the growth of Federal spending. His approach is no surprise. However, it is disappointing to see that, across the land, politicians of diverse persuasion are talking in very similar fashion about paring federal expenditures, cutting taxes rather than upgrading government services, abandoning ineffective programs without developing others to deal with the needs that were to be met. This kind of timid, tight-fisted thinking was well-exemplified just recently by both party Senate leaders. They endorsed some modification of the Administration's proposed insurance for catastrophic illness instead of vowing to get a national health insurance program through Congress this year.

It is simply not true that federal outlays have gotten totally out of hand, as the Administration and others would want the American public to believe. That assertion is most often based on an unadjusted comparison between federal outlays and Gross National Product. That is misleading when the economy is operating far below full employment, since government expenditures are not expected to be cut back in recession. The increase in federal spending that so alarms Mr. Ford and others is not nearly as severe when put in its proper economic perspective. That can be done by calculating what the situation would have been with less unemployment.

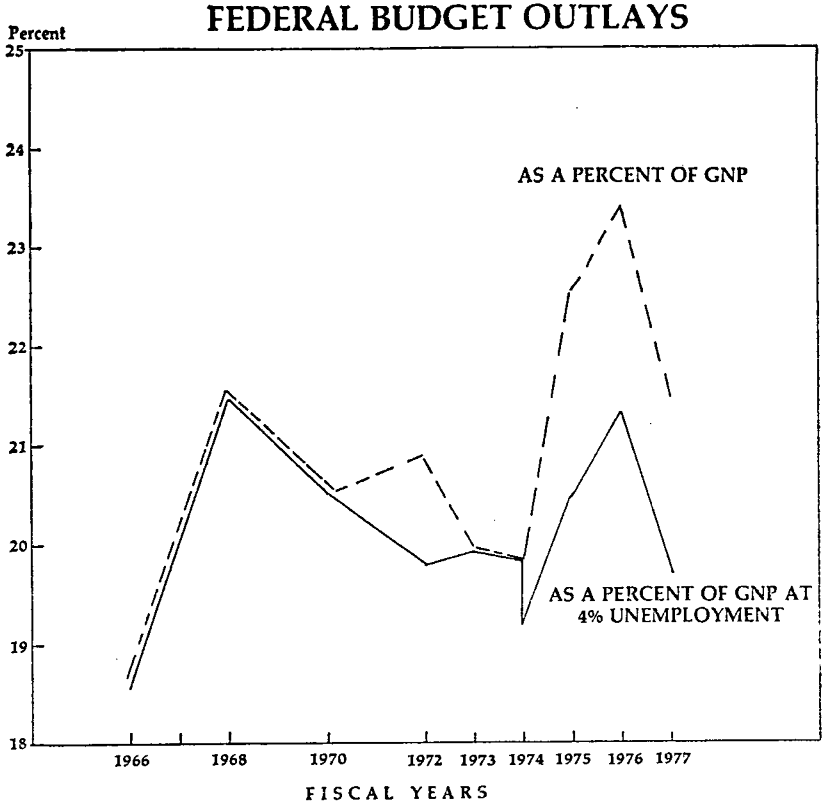
	Budget outlays as a percent of GNP, raw data	Budget outlays as a percent of GNP at 4 percent unemployment
Fiscal year:		
1966	18.6	18.6
1968	21.5	21.5
1970	20.5	20.5
1972	20.9	19.8
1973	19.9	19.9
1974	19.8	19.2
1975	22.5	20.5
1976 [1]	23.4	21.3
1977 [1]	21.5	19.7

[1] Administration's estimate.

Source: U.S. Department of Commerce, Department of the Treasury, UAW calculations.

The data in the third column of the table still overstate the level of government spending, because recession-induced expenditures have not been excluded from budget outlays. Even so, they dispel the myth of an enlarged role of the federal government. Instead, they indicate that not much has changed in the relationship between the potential growth of total output and the growth of federal expenditures.

FEDERAL BUDGET OUTLAYS



In a worldwide context, the share of Gross Domestic Product that several Western industrialized countries devote to general government spending is generally greater than the U.S. share. These are 1973 figures:

	Percent
United States	29.6
Canada	.33.3
France	33.8
Germany	34.9
United Kingdom	35.3
Italy	37.6
Sweden	40.9
Norway	41.0
Netherlands	43.9

Source: Yearbook of National Accounts Statistics 1974, Volume II, United Nations.

Beyond what the figures here and elsewhere show, it must be stressed the UAW and the great majority of the American people do not want to turn the clock back 50 years to the time when every individual was left to his or her own devices. Many recent polls show that the people want government programs that will effectively meet their needs. Rather than reacting to the false concern about "big" government, we urge Congress to respond to the humanistic impulses that produce federal spending. The war on poverty, as recent figures show, is yet to be won; there are other struggles to be waged—against unemployment, deficient health care, unequal opportunity, urban blight. Let us commit as many of the resources of this nation as are necessary to fight those wars, and to fight them successfully.

ECONOMICS AND THE DEFICIT

The Budget projects receipts of $351.3 billion for fiscal 1977. Thus the deficit would be $43 billion, which is substantially below the estimated $76 billion that will occur in fiscal 1976.

It is ironic that, in testimony before the Senate Budget Committee last year, the UAW estimated that a "bare minimum" program to meet the country's needs—in terms of fighting recession, putting the unemployed to work, and providing some meaningful tax relief—would generate a fiscal 1976 deficit of approximately $75 billion. Although it now appears that deficit will actually develop, it will not be the result of the program we outlined to produce counter-recessionary federal spending. The Administration's erroneous prediction of last year—for a $60 billion deficit—has been another victim of the depressed economy and of higher interest payments on the national debt.

Once again the Administration is mistakenly betting on private rather than public spending to stimulate the economy. The quarter-by-quarter budget deficits are estimated to decline steadily starting in the second quarter of 1976, with larger reductions occurring after June. Thus, the Budget assumes that the economy is ready to stand firmly on its own feet and a solid recovery is under way. However, the growth rates of real GNP underlying these assumptions—6.2 and 5.7 percent in calendar 1976 and 1977, respectively—are by no means assured. Some of the roadblocks are the strong possibility that monetary policy will not be expansionary enough, the continuing depressed condition of the housing industry, the lackluster plans for capital spending by business, and the uncertainty of the outlook for consumer spending. In short, the economy remains vulnerable and in need of continued government stimulation. All the 1977 Budget offers is some pre-electoral and mostly inequitable tax cuts, followed by post-electoral increases in payroll taxes and the drastic paring of federal programs.

In its defense of policies which assure recession-like levels of unemployment for years to come, the Administration is raising the bogey of increased inflation. In his Budget message, the President cautioned that "if we stimulate the economy beyond its capacity to respond, it will lead only to a future whirlwind of inflation and unemployment"—a meaningless statement since no estimate of the "capacity to respond" was given. Indeed, the suggestion that the nation may strain its productive capacity in the near future sounds far-fetched in an economy suffering from unprecedented rates of underutilization of both human and capital resources.

The subjects of employment and unemployment are practically ignored by the President and his economic advisers. There is no section or even subsection of the Report devoted to the topic, no specific forecast of what employment levels can be expected in the near term, and only a passing reference to the unemployment rate, which "should fall by almost a percentage point from 1975 to 1976." No explanation as to how even this shamefully modest reduction will be accomplished follows. It is usually calculated it would take an increase of at least 7 percent in real output to generate a 1 percent decrease in unemployment, but the Administration is forecasting less than that during 1976.

It needs to be emphasized that the deficits we face are the result of the unemployment problem. They do not reflect excessive government activity; in fact the federal government is doing too little—mainly because of restrictions enforced by the veto power of the President—to meet the problems of the economy. Too much concern has been expressed about the number of dollars in the deficit, and too little about the people who are unemployed. When we reduce the level of unemployment, the budget deficit will also be reduced.

The President's Tax Proposals

The President is proposing permanent income tax cuts for American taxpayers (individuals and corporations) as a counterpart to the reduction in federal spending. The tax cut amounts to about $28 billion compared to 1974 law, and to $10 billion compared to the effect of the 1975 Revenue Adjustment Act if Congress were to continue its provisions beyond June 1976. The budget document neglects to point out that the proposed new stimulus is less than half that amount because it is offset by Social Security payroll tax increases of about $5.6 billion beginning in January of 1977. It is true that the Social Security Trust Fund is decreasing, but those tax increases would not be needed next year if the millions of workers walking the streets were gainfully employed. It has been estimated that if unemployment rates were between 4 and 5 percent in 1974 and 1975, there would be no immediate problem with Social Security financing.

Tax legislation is needed early in 1976, but the Administration's proposals are wrong on grounds of equity, fiscal policy and government priorities:

Their distributive effect would favor higher income people (e.g., the tax deduction to those investing in common stock vs. the elimination of the earned income credit; increasing the personal exemption rather than extending the personal tax credit).

The tax cuts to corporations follow the "trickle-down" theory (e.g., the proposal to allow accelerated depreciation of plant and equipment in areas of high unemployment).

Increasing the rate of payroll taxes is extremely regressive. The raise amounts to 0.3 percent of income for an average production worker, but less than 0.1 percent of income for someone earning $50,000.

There is no proposal to reduce, let alone eliminate, a single major "tax expenditure"—those funds which select groups are not required to pay in taxes, because of various aspects of the tax code. Congressional action on tax expenditures would provide the basis for a more equitable tax system.

The omission of any major tax expenditure item from the President's list of proposed reductions is consistent with his philosophy of scaling down the role of the federal government. Yet, these tax expenditures are the real "uncontrollables" in the budget. They are never evaluated as to their effectiveness. Usually they last long after their original function has been accomplished or abandoned. Their impact on the areas they subsidize is rarely examined—even though there are cases in which there is a distinct clash between direct expenditures and tax expenditures.

One of these cases is employment. The Budget proposes a token commitment to create public jobs at a cost of $1.1 billion in fiscal 1977, but it would also spend six times as much to help industry buy more machinery and equipment under the guise of an investment tax credit. The latter is likely to reduce, rather than increase, employment opportunities.

With existing industrial capacity utilized only to the extent of 70 to 80 percent, there is little reason for business to invest in expansion of capacity. Such investment as is made in the absence of major increases in demand is for purposes of modernization, that is, to replace existing plant and equipment without necessarily increasing overall capacity. The President's economic advisers argue that the credit helps to increase productivity. But unless consumer demand expands, higher productivity means that fewer workers are required to satisfy demand for the products of industry.

An increased investment tax credit is just one of the mechanisms that business would like put in place in order to achieve a long-run improvement in the balance sheets of corporations and an increase in the share of the pie that is taken by the wealthy. Not one day goes by without business, and their spokesmen in the Administration, crying about the pressing investment needs of the country: the capital shortage and the need for faster productivity growth. The Report echoes this theme by asking, rather ominously, "Will Capital Requirements for the Remainder of this Decade Be Met?" Predictably, the response is a cautious yes—provided corporations and stockholders obtain further tax breaks, the rate of increase of federal outlays slows down, and a reduction in the budget deficit is accomplished. This is simply nonsense.

The real obstacle to returning to a healthy investment pattern is not the tax laws but the recession. Investment in real terms fell 12 percent between 1974 and 1975, as a natural reaction to record unutilized capacity, high inventories and low sales. It has been calculated that if the recession had been avoided, over a half year's worth of additional investment at current levels could have been realized—far above any increase that a change in taxation could bring about.

Even if it is agreed that it would be desirable to promote a faster growth in the American economy's rate of capital formation, it would be better for the federal government itself to undertake a large part of the investment initiatives—especially in critical areas such as energy development, mass transportation, and pollution control—rather than rely on the questionable incentive effect of tax expenditures.

The President's Program Proposals

While forecasting extremely high unemployment through the rest of the decade, the Budget offers no new programs for relief of the jobless. Instead, it proposes to drastically pare outlays for training and employment services by about one-fourth, including the phase-out of the current public employment program which itself provides an inadequate 310,000 jobs.

At the same time, the Budget requests no funds to extend two special antirecessionary measures enacted in December 1974, i.e., the supplemental (or extended) unemployment compensation benefits program and the expanded coverage program under U.C. The former protects the long-term unemployed, who numbered over 1.6 million in January, about the same as four months earlier. Termination of the expanded coverage program will affect groups such as state and municipal employees, who continue to be threatened with massive layoffs in many large cities due to the financial plight of their employers.

The Budget requests no funds for a national health insurance program. Instead, it puts forward a medical costs insurance program for elderly people with serious illness estimated to require $538 million. The rest of the Medicare patients—over 99 out of 100—are expected to foot the bill for "cost-sharing reforms" to the tune of $1.9 billion in fiscal 1977. In addition, new reimbursement limits, intended to save the government $0.9 billion, are also to increase the elderly's medical costs.

The food stamp program is, predictably, another target for program-cutting. The basic change advanced in the Budget is essentially the same as the Administration proposed before, and amounts to limiting eligibility to those at or below the poverty level. According to the Administration, about 2 million fewer participants would qualify. An unspecified additional number would have their benefits reduced.

Child nutrition programs are also scheduled to be slashed substantially after being combined into a block grant to the states. Programs such as the special milk and the basic school lunch programs would disappear in the consolidation.

The following table shows the change in various activities that are estimated to result from the Administration's proposed legislation:

Program	Fiscal years—(billions) 1976	1977	Percent change
Training and employment	$6.9	$5.0	−27.5
Unemployment insurance	19.4	16.9	−16.9
Higher education	2.7	2.3	−14.3
Veterans' benefits and services	19.0	17.2	−9.7
Public assistance and other income supplements [1]	23.6	22.9	−6.8
Health research and education	3.0	2.8	−6.7
Health prevention and control	1.0	.9	−4.8
Elementary, secondary, and vocational education	4.6	4.4	−4.5
Community development	2.7	2.6	−2.4
Federal employee retirement and disability	8.3	10.0	+19.8
General retirement and disability insurance	77.2	87.4	+13.1
Health care services [2]	27.6	30.2	+9.5
Social services [3]	3.6	3.7	+3.9

[1] Mainly maintenance payments, housing assistance, food stamps, school lunch, and supplemental security income for the aged, blind, and disabled.
[2] Mainly medicare and medicaid.
[3] Services to poor individuals, the physically and mentally handicapped, the elderly and other special groups.

Source: 1977 budget.

The only items displaying a sizeable increase are those strongly tied to the growth of the covered population. The Administration knows it is very unlikely to get any major cuts in these programs through Congress—although it is still attempting to chisel away at some of them, e.g., Medicare.

Other countries allocate government resources to education, health, housing, community services, etc., much more generously than we do. The ratio of nondefense expenditures (excluding transfers such as Social Security benefits) among some of the Western industrialized nations to Gross Domestic Product shows the U.S. close to the low end of the range:

	Percent
Italy	12.6
United States	12.7
Norway	13.2
Netherlands	13.6
United Kingdom	14.0
Germany	15.2
Sweden	19.3

NOTE.—Figures are for 1973, except for Sweden (1972).

Source: Yearbook of National Amounts Statistics 1974, Volume II, United Nations.

The President's proposal to consolidate federal programs into block grants to states is particularly objectionable. More and more the problems of states and localities are acquiring a national scope, and can best be dealt with through a centralized national effort. Instead, this proposal would:

(i) Swing programs away from federal control, a move most likely to be detrimental to program quality.

(ii) Assign no penalties for states which do not use the funds to achieve the intended purpose of the grants.

(iii) Require no matching funds from the states.

(iv) Make any centralized evaluation extremely difficult.

(v) Prevent any program standardization.

(vi) Allocate funds through a formula which would effectively cut federal aid to densely populated states (such as New York and New Jersey) with high average per capita income but a large group of poor people.

(vii) Aggravate inter-state competition to attract business by downgrading services.

(viii) Most importantly, result in loss of program benefits to the poor and minorities.

In contrast to heavy cuts in human resources programs, and while the Budget as a whole is scheduled for a real decline from 1976 levels, the Administration is proposing a 9 percent increase in current defense spending—or about 2 percent real growth. Additionally, there is a long-term proposal that this be the steady annual rate of real increase in military expenditures over the next five years. The UAW recognizes the need for substantial defense expenditures, but the Administration should be required to demonstrate that it has eliminated all waste and abuse that exists in those programs. In any event, the proposed relation of defense to civilian program expenditures shows that the President doesn't realize that the greatest danger we face now is due to domestic unemployment, rather than any other enemy.

UAW Recommendations to Congress

1. The UAW urges that Congress reject the President's proposals to cut down on programs directed at human resources. Moreover, defense expenditures should not receive an increased percentage of budget outlays. The nation's primary battle is against unemployment, and the hardships it imposes on individuals.

2. The UAW urges that Congress achieve significant tax reform as part of its action on tax rates to be effective after June 1976. Speedy action is essential, because tax rates are due to increase automatically when the Revenue Adjustment Act of 1975 expires on June 30, 1976.

Present law provides tax relief to those tax-paying households which most needed it. We propose that a further step be taken by continuing such relief beyond mid-1976 while providing some direct assistance to people making no or low incomes who do not necessarily qualify for present welfare and similar benefits. Many of the unemployed find themselves increasingly in such circumstances, as their unemployment compensation benefits are exhausted.

This could be accomplished by increasing the current $35 credit per exemption to $225, making it refundable, and eliminating the $750 personal exemption. A $750 exemption is worth $525 to a taxpayer whose marginal tax rate is 70 percent, but only $105 to someone in the 14 percent bracket. Thus, it would be most equitable to simply replace the exemption with the credit. However, given the current economic circumstances, it would be satisfactory to provide taxpayers with the option of taking the credit or the exemption. The refundable tax credit would supplant both the $35 credit per exemption and the earned income credit (which was only available for families of low earnings with children), but it would come in addition to an extension of the increases in the minimum standard deduction and the percentage standard deduction with its maximum.

All of the tax relief from this proposal would accrue to households under $20,000. The loss in federal revenues can be offset by plugging the myriad of loopholes in our tax code. Specifically we urge:

Closing the capital gains loophole, thus treating earnings from capital the same as earnings from labor for purposes of taxation.

Dismantling of tax shelters such as farming operations, real estate, natural resources, etc., which allow the rich to shield and wash-out otherwise taxable income. Until these tax shelters are eliminated, the "minimum tax" provisions should be strengthened.

Eliminating the tax exemption for interest income from state and local bonds, which benefits the banks and the very wealthy. The federal government should provide interest subsidies so that state and local governments will not face higher costs when they borrow from the public.

Revising federal estate and gift taxes. In 1972 there were 93 gross estate of $1 million or more on which no federal inheritance tax was paid.

Eliminating the vast net of tax preferences for foreign-earned income which in many cases make corporate investment abroad preferable to investment at home.

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Repeal of the Doemstic International Sales Corporation (DISC) gimmick which allows the deferral of taxes on part of the profit of export subsidiaries spun off by U.S. corporations.

Abolition of the investment tax credit.

Repeal of the accelerated depreciation provisions which since 1971 have permitted corporations to defer their taxes by charging depreciation at higher rates than was previously allowed.

The American worker is aware that, while he is fully taxed on every penny he earns, the rich can use a myriad of loopholes to avoid their fair share of the tax bill. The Administration has tried to twist this dissatisfaction over how the government gets its income, into a criticism of the amount of that income. By doing that, it hopes to stem the growth of needed government programs, and to reduce or eliminate important government expenditures.

Congress must remove the tax law inequities that permit such tactics. We need reform of the tax laws, not reduction of social programs.

3. The UAW urges that Congress adopt a budget which would provide funds for:

A public employment program to create jobs that will help clean up the environment and improve and expand health care and other social services, while employing the unemployed.

A public works program designed to create jobs in construction while helping local governments in the building and repair of public works.

A countercyclical assistance program for states and municipalities.

An average of 8.8 million workers were either unemployed or too discouraged to look for work in 1975. A large proportion of the unemployed were under 25 years of age; their unemployment rate was 16.1 percent, as compared with an overall rate of 8.5 percent. The recession has been robbing these young people of the opportunity to build their skills and their job experience—and our society will be the poorer for it for years to come. Public jobs would offer these people the chance to start or resume a productive life.

The Administration is rejecting suggestions, and vetoing congressional action, designed to expand public employment programs on the premise that such policy does little to create new permanent jobs. However, according to a recent Congressional Budget Office study, public service employment and federal assistance to states and localities have a rapid job-creating effect. That study also points out that such programs reduce unemployment compensation costs, increase tax collections, and in other ways offset the initial government expenditure. Thus, every billion dollars spent on public service employment would generate 80,000 to 125,000 jobs initially, at a net budget cost of $615 to $754 million; for state and local assistance, the initial impact per billion dollars is 40,000 to 77,000 jobs at a net cost of $716 to $850 million. Accelerated public works expenditures, which would provide jobs especially for unemployed construction workers have significant, although slower acting, job effects. On average, after two years, a billion dollars spent on these three types of programs would generate between 75,000 and 110,000 jobs, at a net budget cost of $460 to $540 million.

Furthermore, each of these programs can be tailored to meet specific needs, as well as to combat unemployment.

It is important to remember that, aside from the fact that the national average unemployment is much too high even though declining, there are areas of the country that still have double-digit unemployment rates.

A federal government lending program designed to facilitate the construction of low income housing while providing jobs in the building industry.

In this area, it has been pointed out that the tax expenditures—through tax deductions and tax incentives to the more affluent—are more than five times the amount spent directly on low- and middle-income housing.

The Budget should also provide funds to establish an agency, similar to the old Reconstruction Finance Corporation, which could play a major role in the guaranteeing and loaning funds to firms in financial straits, especially those located in areas of high unemployment.

In evaluating requests for financing, some basic safeguards, such as decent levels of wages and economic viability, should obviously be observed. However, we would expect this agency to give priority to assisting those firms which would not be helped through the ordinary workings of the capital market, either because they entail too much risk or because they are breaking new ground. This type of assistance would arrest further job losses and create new jobs—especially among hard pressed small businesses, and in the housing industry.

4. The Health Security Program embodied in the Kennedy-Corman bill must be enacted.

The present health insurance system is costly and wasteful. In spite of the fact that we are spending 8.3 percent of our entire Gross National Product for health care, the U.S. trails most of the other industrialized nations in international indices of health. Too many health care dollars are going to enrich health care providers rather than to assure better health.

The American people know they are being shortchanged. According to reputable pollsters, the development of a health care system is the overriding issue among Americans, with nearly 80 percent of them in favor of some kind of federal system.

5. Social Security taxes must be the subject of comprehensive reform.

First priority is an increase in the wage-contribution base to an amount that would include the full wages of the same proportion of workers as were covered when Social Security began. In 1937, the full wages of 97 percent of the workers contributing to Social Security were covered; today, the comparable percentage is 85 percent. It is estimated that increasing the wage-contribution base to about $25,000 on January 1, 1977 would not only restore this original relationship, but would provide the necessary revenues to maintain the fiscal soundness of the system until the early 1980s.

The general revenue financing should be gradually introduced. Initially, the amount of this contribution would be tailored to offset the social subsidies that are built into the system and allow for the reduction in the Social Security tax rate for lower-income families. The income derived from general revenues would thereafter be gradually increased over time toward the goal of financing one-third of the program's cost, while workers and employers would each contribute one-third.

6. The unemployment compensation system must be federalized.

We need a federal benefit standard that will replace 66⅔ percent of a jobless worker's full-time weekly wage up to an amount equal to the state-wide average weekly wage.

There should be a qualifying minimum of not more than 10 weeks of employment (covered or uncovered) in the worker's base year, and no waiting period for benefits to begin. The UAW strongly opposes triggering devices for benefit duration based on unemployment rates. (An unemployed worker is just as unemployed when there are 3 million others in the same situation as when there are 5 million.)

A 52-week duration of benefits is needed at all times, with supplementary benefits during emergencies.

7. The UAW urges that Congress, as the representatives of the people, exercise more influence over monetary policies by creating a mechanism for congressional involvement in such decisions. The Federal Reserve Board should be made to become more responsive to the economic policies of the Congress and the President, and indeed directed to provide adequate money supply growth.

In recent years, we have been victims of monetary policies which have both fueled inflation and thrown the country into the worst and longest of the postwar recessions. Although there is some merit to the concept of separating monetary policy from everyday political happenings, we have come to a point where these policies have been affecting our lives to a dramatic extent without regard to the goals established by our elected representatives.

In its assessment of the outlook for 1976, the Report asks, "Will Money Supply Growth Be Adequate?" We must move quickly so that the statement is not a question but an assertion.

Planning for the Future

The single most important longer term action which must be taken is to adopt a national policy of full employment to be achieved through democratic national planning. Full employment would be defined as the availability of a job at a fair wage for everyone able and willing to work, backed up by a guarantee of public service employment, with the same pay standards—or an alternative income maintenance program until a job can be found or created—for those unable to find work in the private sector. This is a realistic goal. As shown below, low rates of unemployment have been achieved in a number of countries for sustained periods of time. Countries like Sweden and West Germany, for example, have managed to achieve relatively full employment because they plan for it.

Country	Unemployment rates [1]				
	1971	1972	1973	1974	1975
United States	5.9	5.6	4.9	5.6	8.5
Japan	1.3	1.4	1.3	1.4	1.9
France	3.0	3.0	2.9	3.1	4.3
Germany	.7	.9	1.0	2.1	3.9
Italy	3.5	4.0	3.8	3.1	3.6
Sweden	2.6	2.7	2.5	2.0	1.7
United Kingdom	3.8	4.2	2.9	2.9	4.9

[1] Adjusted to U.S. concepts.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Some form of national economic planning in our country is crucial in our struggle towards full employment. The need is even more basic—it is unlikely that in the long run, our mixed economy can survive without a reliable mechanism to anticipate and prevent supply bottlenecks and uncoordinated undesirable interactions among its many sectors.

While the UAW has no point-by-point blueprint for this mechanism, some items clearly must be included in any national economic planning procedure. We must, through the democratic process, arrive at both short and long term goals of a general nature after we have improved the amount and accuracy of the economic data at our disposal. (It is outrageous, for example, that we must turn to the American Petroleum Institute, for our energy data.) Those short and long term goals would be general goals needed to achieve and maintain full employment—such as an expansion of the economic growth rate to 6 percent or a reduction in the inflation rate to 4 percent. As part of this goal-setting procedure, a variety of alternative plans would be developed, aimed at achieving them. Such plans would involve a mix of programs and policies such as credit availability, tax policy, urban rehabilitation, agricultural policy, housing programs, mass transit, etc.

There should be ample opportunity for interest groups—consumers, farmers, labor, businessmen and many others—to propose and argue for the specific mix of the various alternative plans. There must be full national debate at every level—local, state, regional and national—with ultimate approval of an overall set of economic programs and policies by the Congress and the President.

Changing circumstances and developments should be met through periodic review and revision of the national economic planning process, in an environment of voluntarism, freedom and democracy. We need planning to get at the heart of our problems—the scarcity of decent low-income housing, the paucity of public transportation, the ruinous state of our railroad system, the unavailability of decent medical care at reasonable prices. In all of these cases, we are experiencing shortages of supply when on the other hand a vast segment of our manpower and capital goes unutilized.

We need planning, too, for a national energy policy—to mobilize the country towards improved domestic energy production. Coal production should be expanded in the deep mines of the East and Midwest with improved desulfurization techniques, rather than in the farmland of the West with its fragile water balance. We must explore more rapidly the potential for other energy sources, such as geothermal and tidal energy production as well as developing solar and wind power where feasible and appropriate. The current artificial distinction between interstate and intrastate natural gas prices should be abandoned and a single, federally regulated market for natural gas should be developed. A National Energy Production Board is needed to plan and execute a vigorous program to develop our energy resources quickly and responsibly.

Much needs to be done to get America moving again—and planning can be an effective vehicle. But we know it is not a panacea. Whether planning serves us well as not will ultimately depend on the quality of leadership in the White House and in Congress.

The President's Budget message states that his proposal is a "step toward reversing the long-term trend" in the direction of a more significant role for government. Thus, his Bicentennial Budget would head us back toward 1776.

That is not what the country needs. Congress must try even harder than it has, so that it can overcome Presidential vetoes and provide the leadership to get us moving toward the 21st Century.

We have adequate resources to solve our problems. We have unemployed workers who could help achieve that.

Congress must put America back to work, and establish the planning procedure needed to keep us working.

UNITED STATES LEAGUE OF SAVINGS ASSOCIATIONS

(By Norman Strunk*)

Thank you for your letter of February 11. I am glad to comment on the Economic Report of the President, especially in relationship to the thrift institutions and housing.

We agree that economic conditions have improved greatly in recent months and that the outlook for the Bicentennial Year is quite good, barring some breakdown in international relations. Historically, election years have often been good business years, and it now appears that 1976 will not be an exception.

We agree with the Economic Report's indication of the need for a durable recovery with further reduction in inflationary pressures. We are encouraged by the rise in the number of people employed, by the high levels of savings over the past year and the channeling of a large volume of savings into the thrift institutions. The insurance of savings accounts up to $40,000 that was voted by Congress undoubtedly contributed to this performance.

The decline of shorter term interest rates has begun to affect long term rates and mortgage interest rates in many local housing markets are easing. These trends should lead to somewhat more active housing markets this year relative to 1975.

It is interesting to note that despite historically high rates in mortgage markets over the past year, Americans continued to buy homes. This indicates the high priority which our people continue to place on home ownership.

In 1975 savings and loan associations made more residential mortgage loans than in any year in our history. In 1975 savings associations provided more than 88 per cent of all the funds invested by depository institutions—savings associations, mutual savings banks, commercial banks—in home mortgages. If you include life insurance companies, then we still provided about 75 per cent of the money from the private sector for home buyers during the past year. Savings and loan associations loaned about $55 billion in 1975, which was a record high in the history of the business; this was $15 billion higher than in 1974 and about $4 billion more than the previous record of 1972.

Our research people estimate that our institutions financed a million existing single family units and 222,000 apartments in 1975; we financed 230,000 single family new houses and 100,000 new apartments. These figures demonstrate there was a strong demand for loans on existing houses and we supplied that demand. There was not, however, an equivalent demand from builders or many people seeking to buy new houses.

* Executive vice president, United States League of Savings Associations.

We believe there is renewed interest in the rehabilitation of older houses and in their improvement, particularly with a view to energy conservation. Thus, we would favor special inducements to encourage modernization, repair and renovation of older houses, both with a view to preserving older neighborhoods and conserving energy.

The leaders in the thrift industry are generally concerned about the possibility that our economy may be facing a capital shortage over the longer term future. Hence, we believe it is important to continue to encourage capital formation. High levels of personal savings are one way to accomplish this.

To assure the continuation of high rates of personal savings, a special tax incentive is believed to be necessary. Such an incentive could take a variety of forms. We have from time to time recommended that a basic amount of income be excluded from personal tax, perhaps up to $600 for individual savers. We have also recommended, in lieu of such an exclusion, a tax credit in the $150 to $200 range. Because of our recent experience with the widespread interest in individual retirement accounts as voted by Congress in 1974 (in part at least because of the tax deferral feature involved) we would be interested in the development of a similar plan of tax deferral for long term savings accounts which would have as their objective the achievement of home ownership or the education of children.

Ultimately, the key to long term prosperity in the thrift industry and in the housing field is the further reduction of inflationary tendencies. With less inflationary pressures interest rates can be kept at reasonable levels.

I recognize that a broad range of economic problems persists. I have tried to limit my comments to those which pertain to areas with which I am familiar, particularly the thrift and housing industries. I stand ready to amplify on any of these brief observations.

We appreciate very much your continuing dedication to the maintenance of a sound economy and we are especially appreciative of your continuing interest in the thrift and housing industries.

ECONOMIC AND ENERGY ISSUES FACING THE NATION

(By Jerry Voorhis*)

The economy of the United States is suffering from twin maladies-which orthodox economists have said for centuries could not exist side-by-side at the same time.

These are, as every citizen knows to his sorrow: Inflation and escalating costs of life's necessities on the one hand and recession and widespread unemployment on the other.

There are many explanations given for this unprecedented phenomenon. But actually its most basic cause is not far to seek.

That cause is the replacement of free enterprise in the United States by what may be quite accurately termed "monopoly capitalism."

The most dangerous monopoly of them all exists in the field of energy, where also centers one of our two most critical problems. The major oil companies not only control 72% of domestic crude oil production but also 75% of refinning and 70% of retail gasoline sales. The major oil companies own most of the natural gas industry.

The oil monopoly has spent a life-time fighting every alternative source of energy that raised its head and protecting themselves against what they term an "oversupply" of oil products. Laws have even been passed at the request of the oil monopoly to restrict the supply.

It is ridiculous to expect that an increase in oil profits will result in an adequate supply of petroleum products. That will only come if some such legislation as Senator Stevenson's bill to create a publicly owned "TVA" in the energy business is enacted into law. Or if other legislation, recently narrowly defeated in the Senate were passed. That legislation would have required, on the one hand divestiture by oil monopolists of holdings in all but one of the following fields: production, refining, transportation and retailing. Another even more urgently needed proposal would have forbidden any corporation to engage in more than one field of energy production.

Some day such legislation must be passed if our energy problem is to be solved.

No monopoly will ever overcome a scarcity. They are in business to assure scarcity in their own field.

In January 1973 domestic production of gasoline was running at 8,250,000,000 gallons. The average price per gallon was 37¢. By March 1975 the average price had risen to 53¢ a gallon and production had declined to 7,175,000,000 gallons. In that same period crude oil production decreased from 9.2 billion barrels to 8.2 billion while prices rose from $3.40 a barrel to $11.37. Does this make it appear that bigger oil company profits will lead to increased production? It would hardly seem so.

To depart momentarily from the energy field let us consider the growing monopolization of the baking industry. In June 1972 just be-

*Former Member of Congress.

fore the gigantic Russian wheat deal farmers were receiving 2.6 cents for the wheat contained in a one pound loaf of bread. In June 1975 farmers were getting 3.6 cents for the wheat—an increase of one cent. But the price of bread at retail had gone up by 11 cents a loaf. Someone was exacting monopoly profits and it certainly was not the farmer.

To return to our example we are witnessing today a progressive monopolization of the energy resources of the nation. Over the past few years, seven out of ten of the biggest coal companies in the country have been bought up by other energy-producing concerns. Four of the biggest of those coal companies now belong to major oil companies. The price of coal jumped some 60% in 1969 alone, and 100% in the Tennessee Valley Area. Major oil companies are acquiring sites where thermal power might be produced, and seeking control of the Rocky Mountain shale deposits, which now belong to all the people. The Justice Department makes no move to halt this ominous trend.

The tragic fact is that most of the major industries of this nation are now subject to monopolistic pricing, which means that prices of their products always go up and never down. Monopoly assures inflation.

Just how perilously close the American people and their economic life are to being completely dominated by a few industrial giants can be illustrated by a few examples.

General Motors Company is a semi-political state responsible to no one. It produces half the automobiles in the United States, is able to fix the price of all automobiles whenever it will. It has 1,300,000 stockholders, few of whom can possibly exercise any control whatsoever over the company. GM employs 700,000 people, has plants in most states and in 24 foreign countries. The people of Southern California would be breathing cleaner air had GM and Standard Oil of California not conspired to destroy the efficient electric rail transportation system so as to compel people to ride in GM buses burning Standard gasoline.

GM is one of 100 huge corporations which among them own half of all manufacturing assets in the United States. Many of them own plants abroad from where, taking advantage of cheaper labor costs, they can ship products back into the United States to undersell American workers.

Four manufacturers of dry cereal account for 90 percent of all sales of that product.

One company has a complete monopoly of canned soup.

Four steel companies controlling 54 percent of the industry raise their prices periodically and together, despite the fact that they are operating at only two-thirds capacity and are being undersold by imported steel.

The American Telephone and Telegraph company, a complete monopoly controlling an indispensable service which everyone must use, made net profits of $2.2 billion in 1969 on a volume of $15.7 billion—a 14 percent return.

The major oil companies are a classic example of oligopoly—that is, monopolistic control exercised by the coordinated action of a number of giant concerns. An example of their power, devastating to apartment dwellers on the East Coast especially, in this: Residual heating oil sold in New England for $1.78 per barrel in July, 1970. By May, 1971, the price was $4.92 per barrel, though the world price for crude oil was only $2.00 a barrel. Seven oil companies, two British and five American, control international marketing of oil, along with their Arabian partners.

When companies are as large and powerful as these, price competition comes to an end. Advertising competition which "helps" the consumer only by raising the price he must pay for the product, takes its place. Excessive prices exacted by monopoly rob all competitive industries—above all agriculture—of their share of the consumer's dollar.

If we had anything like a competitive or truly "free" economic system any longer, our outlook could be different. For in competitive industries when there is a slack market, prices generally go down to stimulate demand; more workers are hired and the businesses try to maintain themselves by selling a bigger volume at a lower price. This is the one effective way to stop price inflation in the long run.

But in monopolistically-controlled industries—steel, automobiles, chemicals, containers, farm machinery, aluminum, oil and energy, and all utilities for example—prices go only one way—upward. In such industries a few managers and boards of directors are in position simply to decide how much production shall be allowed to take place and at what prices the products will be sold. They can decide this regardless of what economic conditions may be. Their consistent rule and policy is maintenance of the profit margin. To protect that profit margin, production will be curtailed to assure an excess of demand over supply. And even in times of recession when sales are slow, monopoly industries do not reduce prices to stimulate sales and increase employment as competitive industries do. Instead they lay off workers, curtail production and actually raise their prices to protect their profit margins. Examples of such action are legion.

The giant industrial empires are able constantly to expand through "internal financing." By imposing monopolistic prices on their customers they in effect compel those customers to finance their new plant and equipment, and even acquisition of smaller companies. Thus they seldom need to borrow money and are largely immune to high interest rates. Even when they do borrow they are favored with the prime rate. The advantage this gives the giants over their smaller competitors is almost incalculable.

Wherever monopoly exists there is a built-in determination for simultaneous inflation of prices—to maintain unit profit margins—and unemployment—to maintain such scarcity of product as to support the higher prices.

Some of the corrective measures that could break the strangle-hold of monopoly on our economy have already been suggested. Others are:

(1) Enforcement—for the first time in history—of the anti-trust laws. That is across-the-board enforcement, not token enforcement and with the will on the part of the Justice Department to do the job.

(2) Encouragement, by tax advantages, low cost credit—from government direct if necessary—and other means of small competitive business. This should include a policy of awarding of government contracts to smaller firms.

(3) Encouragement of cooperatively owned enterprises—that is those that belong to the same people who need and will use their prod-

ucts and services. Such businesses will be motivated exactly the opposite of monopolies, for they will—must—always seek to supply fully the needs of their communities and to do so at the lowest fair and practical economic price.

(4) Direct competition, where all else is clearly fruitless, by publicly-owned enterprises on the model of the Tennessee Valley Authority as it operated in its early years.

But to break the back of the present recession and to reduce inflation to endurable proportions it is here proposed that direct attack on unemployment be combined with a program to solve the energy problem and to save the environment of the Earth.

To establish basic governmental policy the Humphery-Hawkins Full Employment Bill should be enacted into law. For two reasons. First because it is a basic denial of human dignity to tell a person that their society will not accept their contribution of labor to its welfare and that they may not support their families. Second because a full employment policy is good economics.

The record of the Congress in this respect is a good record. The record of the present and immediate past Presidents is a miserable one. Back in 1971 the Congress passed the Nelson-O'Hara Bill that would have taken half a million people off the welfare rolls and put them to work with training at critically needed public service jobs. The back of the coming recession might have been broken then had Mr. Nixon not vetoed that bill. Repeatedly since then bills to enable unemployed people to go back to work and become taxpayers again have been vetoed by the President. A bill for some 600,000 jobs was vetoed by President Ford as these lines were being written. The vetoes have been defended on the ground that implementation of the bills' provision would be "inflationary". Apparently executive policy has been to use unemployment and big welfare rolls as a means of diminishing the rate of inflation. This is a cruel policy. It is also a fruitless one. For as unemployment rose so did the rate of inflation and as the jobless rate has fallen in recent weeks, the inflation has somewhat subsided.

And not surprisingly. For as the unemployed are enabled to work, the welfare rolls are diminished and the number of taxpayers increased and this with revived economic activity increases government revenues, reduces government deficits and thus mitigates against inflation.

So it is hard to see why the Presidents have preferred to use tax money to maintain people on welfare instead of using it for constructive work.

Our able-bodied unemployed are not idle because they do not want to work. When the city of San Francisco gave notice that it would hire a handful of people to clean the streets, thousands of eager men stood in line all night in hopes of landing one of those jobs. When it was announced that a few jobs would be available at a California park 35,000 people travelled many miles to apply. Our able-bodied unemployed are not at work because two Presidents have said they could not be.

It is to be remembered that the unemployed are not a company of unskilled laborers. There are those among them of course, there are semi-skilled and highly skilled workers unemployed as well—especially in the construction industry. And there are a great many highly trained technicians who presently are denied employment.

So what is to be done?

Only a short decade ago many Americans were talking and writing about the coming of an age of abundance. Today we know that mankind faces certain ultimate dangers and that next to the danger of nuclear war the greatest of them is the depletion of exhaustible natural resources—especially those that produce energy. There even looms the horrible specter of a world unable to produce enough food to nourish its population.

Conservation must be the order of the day, if indeed the people of this generation care one whit for their children, grandchildren and other descendants.

But conservation is not the entire answer. There is work to be done—work of the most vital and critical importance to the very future of mankind on planet Earth.

One kind of such work is fullest possible production of foodstuffs by American farmers, consistent with sound soil conservation practices. This American farmers will take care of *if* they are assured that by doing so they will not bankrupt themselves, as has so often happened in the past. It is therefore again a matter of profound and alarming regret that the Congress failed to override the President's veto of the legislation that would have raised the target prices under the existing farm program to a level where farmers could have been assured cost of production plus a decent profit for their labors.

Beyond this there lies the absolute necessity of stopping the progressive pollution of the Earth and the development of clean energy from non-exhaustible resources.

Here then—in these fields of the highest conceivable kind of public service—is where the back of both the recession and the inflation should—and must be—broken.

It is proposed that there be enacted into law the Humphrey bill for a constructive program of national planning.

It is proposed that plans be speedily developed for a crash program for survival comparable in scope and in urgency to the Manhattan project for war.

It is proposed that that program encompass the following:

(1) A national rail and water system for long distance transportation involving revitalizing of our railroads, by nationalization if necessary and coordinating all forms of such transportation into a national whole.

(2) Mass transit systems in localities cheap and efficient enough to get half the internal combustion private automobiles off the roads.

(3) Development of every available source of clean non-polluting energy from inexhaustible sources such as the sun, the wind, the tides, organic wastes, geothermal sites, falling water, and agricultural products.

The rest of this paper will be devoted to discussion of this third proposal.

First, development of nuclear power should be forthwith abandoned. Its cost is becoming more and more astronomical, and evidence accumulates daily that there simply are no adequate answers to the dangers it presents to continuance of human life on Earth. The industries that apparently hope to profit from nuclear power development and whose representatives constantly boast of its safety are significantly unwilling to assume the risks and liability involved as every other industry in the nation does. No one—not even the government—will provide insurance against nuclear accidents. This should tell us something. Resignation of three top-ranking management technicians from General Electric's nuclear reactor program should tell us more. For these men have spent a total of 47 years in designing and building nuclear reactors and their resignation was brought about by their conviction—borne of their experience—that "the risks of nuclear power are too great" and that its "continuing development" would "lead inevitably to a catastrophic accident". Even were a miracle to occur, not a single human mistake to be made, not a single theft of nuclear material by desperate, criminal or guerrilla forces to take place—even then we hear from the Bulletin of Atomic Scientists and from many another source that there exists no half-way safe method of storing the lethal wastes that nuclear plants inevitably produce. Plutonium above all. It is a substance unknown in nature, the most poisonous substance known. Its half-life is 24,000 years. And some of it has recently been found—once again—leaking from what the Atomic Energy Commission declared was a perfectly safe depository. We cannot leave to future generations a frightful heritage like that.

Nor need we do so.

Because of long and near-criminal neglect it will take a few years to develop the clean sources of energy which can assure a peaceful, safe future for mankind. But most of the technology is known and most of it has been put to practice already—though on a pitiably small scale.

But our resources of coal are tremendous and processes available for its use during the development of other sources. Furthermore the environmentalists have got to give ground in their opposition to construction of power dams. Hydro is of course a thoroughly proven and absolutely clean source of energy and its production could be greatly increased if all available sites were used.

France has developed with great success energy plants that harness the ocean tides. This while Passamaquoddy and Bay of Fundy are long neglected.

Competent scientists tell us that a system of huge windmills on the Great Plains could generate half the energy needed in that area within a few years.

A number of cities are already developing a third to a half of their energy needs by burning their storage that is burnable and recycling the metals.

A group of scientists and engineers in California have proved the practicability of producing almost unlimited energy from the cultivation of certain agricultural products. What they can do here is harness the God-given process of plant photosynthesis to a transformation of the energy of the sun into forms of energy useful to man.

And this brings us to the greatest promise of all—the sun itself.

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 shinning 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 number one priority.

It has never been so, not by a country mile.

Indeed Senator McIntyre has held hearings on solar energy and opened them by pointing out that oil imports could be reduced by more than half if only the findings of an energy panel appointed by President Truman in 1952 had been implemented. For that panel of experts—known as the Paley Study—recommended that the United States conduct an intensive research and development of solar energy at once. And it declared that 10 percent of all energy required by the United States could come from solar energy within a few years time.

Furthermore, scientists employed by the Atomic Energy Administration itself prepared a report some years ago which showed that if sufficient resources were devoted to the effort 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? I do not know. I do know that oil companies contributed millions of dollars to Nixon campaign funds.

Again, Senator McIntyre's Committee has pointed out in its report the fact that there are scores of small business firms that have carried on almost all of the research into solar energy development and await only adequate funding to carry their work to substantial proportions.

There is no reasonable doubt that we could have adequate energy for our own needs as well—and have it from clean, non-polluting and inexhaustible sources—if only we have the national will to tackle the job on the scale required.

Much of this public service work can be done by private industry—and most of it by small businesses not involved in present energy monopolies. Some of it must be done by government. And it would have to be paid for.

How?

(1) $15 to $20 billion could safely be cut from the swollen military budget, compelling the Pentagon to contract carefully instead of wastefully and challenging other countries to do likewise—as their people certainly desire them to do. We possess already enough overkill to destroy mankind seven times over.

(2) We could stop supplying arms to foreign dictators.

(3) We could tax—for the first time—capital gains passed on at death.

(4) We could apply the payroll tax to *all* salaries and wages, not only to those below $17,000.

(5) We could close other loopholes.

(6) We might even begin to tax unearned income as heavily as we do earned income.

(7) The billions now devoted to nuclear development could be transferred to this program.

(8) Most important the implementation of the proposals here advanced would revive the economy. And that would yield an incalculable amount of revenue.

But even aside from all other considerations think what we would United States could come from solar energy within a few years time. clean, safe Earth, an assured supply of energy, a freedom from looming scarcities, and hope for a peaceful world.

Maybe, to put it simply, this is the right thing for us to do. Maybe it is even the Will of God for man.

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ECONOMIC PROBLEMS OF WOMEN

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

NINETY-THIRD CONGRESS

SECOND SESSION

PART 4

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MONDAY, JUNE 17, 1974

ECONOMIC PROBLEMS OF WOMEN

MONDAY, JUNE 17, 1974

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

The committee met, pursuant to notice, at 9:30 a.m., in room 305, 26 Federal Plaza, New York, N.Y., Hon. Jacob K. Javits (member of the committee) presiding.

Present: Senator Javits.

Also present: Leslie J. Bander, minority professional staff member.

Senator JAVITS. The Joint Economic Committee will come to order.

The Chair would like to state that Congresswomen Griffiths, who is a member of the full committee, regrets very much that she is unable to attend today and has asked me to carry on the hearing on the economic problems of women on the part of the committee; Mrs. Griffiths having been designated by Chairman Wright Patman to conduct these hearings on the subject wherever they may be held.

The Chair wishes to make an opening statement.

OPENING STATEMENT OF SENATOR JAVITS

One, to express my pleasure at being in my home city, and being authorized to conduct the hearing on so important a subject.

In light of the trend reflected by the Bank of America agreement in California last week, major corporations are busying themselves for purposes of righting the balance in employment and advancement opportunities for women, before they are hauled into court.

Although there is a common belief that it is becoming easier for women to make their way in the economy, the most recent figures available from the Women's Bureau at the Department of Labor show that exactly the opposite is true: In 1971 the median earnings of all women as a percentage of all men's earnings was 59.9 percent. However, in 1972, the latest date for which statistics are currently available, this percentage actually declined to 57.9 percent—showing an increase in the differential pay between men and women. Now, there are already laws on the books which are supposed to correct this inequity. I believe that the statistics prove that existing legislation is either insufficient or that there are too many loopholes in these laws which allow their intent to be circumvented.

Women face a frustrating situation when deciding whether or not to enter the labor force. The treatment of women, for example, under our current tax laws and social security and private pension plans provides little incentive for many women to become employed. Child care deductions are limited. They are not considered a business expense. Now full deductions are permitted for those earning joint incomes of

$18,000 per annum and 50 cents of every dollar may be deducted for those who earn under $27,000. Inflation has driven up the dollar figures of salaries and wages, while at the same time keeping real income either the same or lower. Additionally, there are an inadequate number of day care centers, both in quality and quantity. Women whose working years are interrupted by childbirth are penalized in social security benefits.

Contrary to popular opinion that most women work to bring in money for extras, outside the normal course of life, the Bureau of Labor Statistics reveals that 42 percent of all women workers are single, widowed, divorced, or separated from their husbands. Nineteen percent of the women workers in this country have husbands whose incomes are under $7,000. These women—the ones who must shoulder either all or a significant part of the financial responsibility for the entire households—are the same people who find it difficult to obtain credit to buy a home, who pay higher rates and receive less coverage from many insurance companies, and who may be denied the right to have a major credit card.

This State, I am pleased to say, has just passed a most progressive law to deal with many of these problems. There is still a need for national legislation which would correct many inequities. Last week I voted for a bill which prohibits discrimination based on sex or marital status in connection with any consumer or commercial credit. We are now waiting for action by the House.

Some of today's witnesses will address the important issue of the woman who works a lifetime in the home, providing services of recognizable necessity and importance, yet who has no opportunity to be covered by either a private pension or social security.

Our purpose in today's hearing is to air suggestions for national legislation which would address the important issues I have mentioned, and also to discover loopholes in the existing Federal legislation which must be corrected in order for Federal laws to be truly effective. Legislation must insure that discrimination is no longer allowed; and enforcement is needed to continue at much more rapid and effective rate. The Department of Labor has found that less than half of the back pay owed to women, because of violations of the Equal Pay Act, has been paid. The Equal Employment Opportunity Commission must be adequately staffed and funded to prevent a backlog of compliance cases for fiscal year 1974. We must remain vigilant as we try to continue in the tradition of the 1967 Civil Rights Act, the Bank of America agreement, and the Equal Rights Amendment.

That ends the Chair's statement.

The Chair would appreciate it if witnesses would limit themselves to 5 minutes in a direct statement leaving some time for questions. And we will start from left to right.

Mr. McClaurin, who is an old friend, very distinguished New Yorker, president of the Professional Household Workers Association, would you proceed.

STATEMENT OF BENJAMIN F. McCLAURIN, PRESIDENT, PROFESSIONAL HOUSEHOLD WORKERS ASSOCIATION

Mr. McCLAURIN. Thank you.

The Household worker occupation is one that cries out for sustenance and continued development at city, State, and the national level. A dual need for our entire society is represented here: (1) The employer needs competent, trained household workers, and (2) the employees are seeking the ways in which they may develop careers of both distinction and dignity within the frame of their chosen occupation.

Over the years, this society has witnessed a declining number of much-needed household workers. Conversely, the need—the demand—for competent, well-trained household workers has been sharply increasing for the past quarter of a century. Twenty-five years ago, the ratio of working women in this country was one out of nine. The number of working women has steadily increased until now the ratio stands at one out of three. That singular statistic is just one of the major indicators of why the demand for competent, well-trained household help is on the increase. As there are more and more working mothers in the business and commercial job markets, there is an ever-increasing, corresponding need for household workers.

For decades—even generations—the household worker occupation has suffered in terms of its image. It has traditionally been degraded, discriminated against, downtrodden, and made to appear servile and unwanted. This image—this general attitude—has produced within this much-needed occupation generations of frustrated and lowly paid workers. Thus the diminishing numbers within the occupation.

This image—this general attitude—has put untold thousands, and perhaps even hundreds of thousands, on welfare relief roles. And, therefore, our total society suffers not only the loss of household workers, but our economy suffers the increasing burden of welfare costs. Most household workers have never known the benefits which most other workers take for granted. Such benefits as health, accident, and life insurance—sick leave—vacations with pay—retirement benefits; these are practically unknowns in the lives and careers of household workers. And I emphasize most strongly that household workers suffer the most blatant of economic and social discrimination. There is indeed an ongoing and dastardly irony in the plight and suffering of the household workers of this city, this State, and this Nation: While there is an ever-increasing cry—growing louder with each passing day—for competent, well-trained, household help; the affluent in our society cry for such help, the ever-increasing numbers of working mothers cry for such help, the aged—the handicapped—all constitute an ever-growing demand for such help; and yet the numbers of workers diminish because of discrimination and lack of any semblance of parity with other workers in the labor force.

Clearly, this Nation can no longer afford to ignore the ever-rising demand for the services of household workers and simply offer conscious sympathy for their plight. The cost to this Nation in terms of pure economics and loss of jobs that need to be filled is much too great a price to pay—and the resulting loss and suffering accrue to all segments of our society. Rather than witness a decreasing number of much-needed household workers, the leaders of this Nation should feel constrained to move away from the rhetoric of the past and start now to make powerful efforts to attract and help to provide additional workers in this increasingly essential occupation.

The Professional Household Workers of America, whom I serve as president, has set forth a plan—a design—a structure that would upgrade, professionalize, give dignity and economic gain to an entire vocation while simultaneously giving ever-growing support to the ever-increasing needs of employers.

The Professional Household Workers of America has set forth objectives for the express purpose of designing a structure for the economic and social upgrading of an entire vocation having a membership of more than 1½ million in this country; a design that would give an economic uplift, not only to that vocation, but to other tangential business interests; a design which gives to the members of that vocation economic benefits which, as a group, they have never had: A design that gives to that vocation—and to its people—a sense of dignity, pride, and statute which they have never enjoyed; a design that would pose no threat to the employer, but rather work in behalf of both the worker and the employer.

The design of the Professional Household Workers of America is two-pronged:

(1) A multicourse training program for household workers structured to afford the worker the opportunity to climb a career ladder within the frame and scope of the vocation.

(2) A society of peers would be formed for household workers in order to bring about the accrual of economic benefits to be derived from group health and accident insurance, group life insurance, bonding, pension plans, and public recognition of the household worker as an individual skilled in an honorable occupation.

The training program for household workers is a most important vehicle in the development of skills and professional attitudes. The program further serves to add to the numbers of competent and much-needed household workers. As pointed out earlier, the demand for competent household workers is high and increasing out of proportion to other ccupations. An effective training program directed especially to include the young and unemployed produces dividends in all sectors of our society.

Skills and competency relating to the upkeep and maintenance of the home or apartment are essentials valued most highly by the employer. The professionally trained household worker more fully develops and understands wise budgeting and shopping, the use of the most effective cleaning compounds, oils, polishes, and other household cleaning agents. The well-trained worker more fully relates to the needs and the well-being of the elderly, the handicapped, and children in the home. The trained household worker has knowledge of safety factors and precautions to protect the health and well-being of both children and adults.

It should also be emphasized that few employers of household help have a clear understanding of either the skills or the time required to complete tasks. In addition, relatively few employers of household workers have the desire and required competence to teach and train household workers. Generally, the household worker is deprived of the opportunity to learn the basic and upgrading skills while being tutored and trained on the job. Further, the household worker is normally subject to the appraisal of an employer who may neither know how to perform household tasks nor wish to instruct the worker. The training program thus serves a real need for both entry-level workers and for those who wish to upgrade their occupational skills.

Should governmental agencies at city, State, and national levels aid in the subsidization of career ladder training programs for household workers for a period of not less than 1 year and no more than 3 years, the Professional Household Workers of America could then be given the opportunity to formulate a society of peers. That grouping would be developed for the express purpose of creating and sustaining a self-help benefit program that would give to household workers that which they have never had as a group: Insurance programs, bonding, retirement plans, their own credit unions, and a host of other self-help benefits to give the household workers of this city, this State, this Nation, a greater sense of economic and social status.

Should we poll this public forum on this occasion to determine the most debased, the women in our society who encounter the adverse effects of discrimination every day of their lives, that most downtrodden of women would most likely be the 93 percent of the labor force of the household workers of America. It is ironic that this is one of the most essential vocations within the frame of the entire labor market. These women are representatives of a vocation who hold the responsibility for the most valued and prized possessions we have: our homes, our children, parents, grandparents, our sick, our handicapped, and such tangibles as our prized paintings, antiques, and other accoutrements to be found in our homes.

And now in concluding this presentation on behalf of household workers, allow me to present to this committee a format—a methodology—for governmental agencies to help to advance the economic status of household workers.

A most logical and economically sound beginning would be to allocate funds at city, State, and national levels to establish research and demonstration programs of outreach, training, and placement of household workers. Offer programs of training that would both upgrade and professionalize the skills of household workers; programs that foster and develop a society of professionals, having the respect, the admiration, and the economic benefits which they have never had but which is rightfully theirs. I would urge you to profoundly consider the plight of women who know the meaning of economic discrimination better than most; those who simply choose homemaking as a career.

This country badly needs household workers; and the need grows greater every day.

Give them career ladder training programs to upgrade and professionalize their skills. Give them an opportunity to formulate a society of well-trained professionals. Give them a chance, for the first time in their lives, to be a part of the American dream. Thank you.

Senator JAVITS. Thank you very much, Mr. McClaurin.

Ms. Cunningham, would you come forward. Ms. Cunningham is director of the Women's Unit, Office of the Governor of New York.

Would you please make your statement now.

STATEMENT OF EVELYN CUNNINGHAM, DIRECTOR, WOMEN'S UNIT, STATE OF NEW YORK

Ms. CUNNINGHAM. Thank you.

Senator Javits, I deeply share your concerns with the economic problems of women, and I welcome your invitation to testify specifically in the area of employment.

79-970—76——2

Much research and reading, many interviews with knowledgeable, well-informed people have made one strong point with me. Everybody is in favor of job training for women. The who, what, when, where, how of this training is not as clear as the declaration of support.

What is quite clear, as Edmund Burke said, is that "The only thing necessary for the triumph of evil is for good men to do nothing." I would add that the triumph of evil is doubly assured when good women do nothing.

And there is no question that too many good women are doing nothing—in the job market.

Grim pictures were drawn last year during a seminar of the Council of Economic Advisers, by a number of distinguished economists.

Hilda Kahne, assistant dean of the Radcliffe Institute, reported that "Relatively few companies include women in their training program and many entry level jobs open to women do not permit an evaluation of managerial capability."

She pointed out that the qualities and skill growths needed to justify advancement for women are still demonstrated only in recognized, traditional ways—that criteria from work and life experience to permit identification of talent have not been set—that little if any use has been made of the application of the role model concept in recruiting and training women.

At the same symposium, Eli Ginzberg, another prominent economist, noted that:

> . . . since you move to middle management and from middle management to top management, through education and training opportunities within an organization, and through the external training programs, I have been very distressed over the years that I have been doing external training that you almost never see a woman at the senior management seminars.
>
> For 10 years, I had all the technical personnel in one of the largest chemical companies in this country come through my hands, about 1,100, and we had one women in those 10 years. I have been a member of the faculty of the Graduate School of Business, we ran a big in-house management program for 22 years, and we have had two women in 22 years.
>
> So I submit, that unless the question of training, both in the more important internal company programs and in the more important external training programs, are opened up to women, women are not going to be available for senior appointments, because a large number of the companies choose their appointments from these programs.

Despite the fact that employers are required to develop written affirmative action plans for recruiting, hiring, training and promoting women, few have even reviewed the access of women to management training programs, as well as to jobs at all levels.

Neither industry nor government have made many efforts to recruit from the existing sources where women are likely to be trained. They have not really opened up their occupational structures. Top management has not yet become seriously involved in the task of communicating to lower management that it take this seriously.

Meanwhile, the cost of discrimination in employment and promotion is high. In the last 7 years, the Department of Labor has collected from employers about $56 million in job discrimination cases. In the last year and a half they have collected $31 million. Court decisions have shown that good intentions are not enough.

The Equal Pay Act of 1963 notwithstanding, women are still earning only 59 cents for every dollar earned by men in comparable full-time positions.

The class of persons most deeply affected by such employment discrimination consists of minority women—who suffer from dual discrimination by virtue of both their race or ethnic background and their sex.

In the words of Commissioner Frankie M. Freeman, of the U.S. Civil Service Commission, "Sex and race unite to render minority women most discriminated

against. This doesn't, of course, deny the severe discrimination which both minority men and white women also suffer However, further data reveal that—in addition to having lower incomes—minority women are more likely to be in the labor force and to have higher rates of unemployment than any other group of persons. This is especially devastating to black families, as 32 percent of our families are headed by women. Because of the double jeopardy which minority women face in regard to employment, education, and the granting of credit, 54 percent of these families must exist at or below the poverty level.

The number of employed women has increased by 6 million since World War II, while the number of licensed day care centers has decreased by 83 percent. This clearly has a serious impact on the minority woman who must work to support her children—or accept the welfare system, without adequate provisions for the care of those children, and without adequate income to provide for them.

The advancement of the most qualified people, women as well as men, black as well as white, into managerial, professional, and technical positions will be the key advantage of tomorrow's winners over the losers who remain locked in rigid, traditional notions about the roles of women and the roles of blacks in the world of work.

The world of work is an ideal testing ground to assess one's personal worth, and this world desperately needs women—not only for their potentials, their special skills and talents, but also for their special spirits.

I find little evidence that women are being encouraged to plan and train for better jobs, that there is any real effort to speed up the process of eliminating the discriminatory and illegal sex labels attached to jobs, that some job training is not farcical, and that women are being prepared for nonexistent jobs.

I am especially depressed and concerned about black working women who seem to be caught in the middle of a hurricane of white women's rights rising on one side—and a tornado of black men's rights blowing up a storm on the other side.

They know the possible tragedy of black women working side by side with black men to achieve civil rights, only to discover that they are still second-class citizens within their own race because of their sex. Black women, perhaps more than any other American women, need and seek the instruments that can assure their personal worth. They have the most to gain from the equality of opportunity for women and they recognize their potential for bringing both the women's groups and minority groups together for unified approaches around basic issues.

Thank you.

Senator Javits. Thank you very much, Ms. Cunningham.

The Chair has some questions of the witnesses.

Ms. Torton, I'd like to point out, for the record, that we have a letter from the Office of Management and Budget, which commits the Federal Government to part-time employment as a matter of Federal policy, so the Tunney bill, which I support, simply tries to implement a policy which we have already adopted.

My suggestion would be that if you have had actual places in the Federal Government called to your attention where part-time work could be a factor, that you call it to our attention. And I will undertake to pursue it and find out whether part-time work could suffice.

Would you be good enough to do that?

Ms. Torton. Surely.

Senator JAVITS. Second, what is the impact of day care on the part-time employee business, and is the day care network adequate?

You just heard testimony from the State level that day care centers have decreased 83 percent. I assume you meant day care slots; is that right, Ms. Cunningham?

Ms. CUNNINGHAM. Yes.

Senator JAVITS. It is a long standing grievance of mine, I have worked with Eleanor Guggenheimer, who is the angel of day care, 20 years ago, and I thought we had made considerable progress. Obviously, we haven't.

Would you give us your view on it, Ms. Torton?

TESTIMONY OF INA TORTON, DIRECTOR, NEW TIME

Ms. TORTON. I would say that the progress is actually negative. For one, the slots have been cut back terribly. They are insufficient to fill all the needs of women going to work.

Day care is terribly inadequate in all subburban communities. It is terribly inadequate in the inner cities. It just doesn't even begin to account for the needs of women who must go to work and yet with children that would be left unattended, and therefore job possibilities are impossible for them.

But beyond the issue of day care is the whole issue of school-age children, whose school schedules end at 3 o'clock or somewhere around there, and at the same time the regular work schedule runs from 9 to 5 o'clock.

Senator JAVITS. Now, we have the elementary and secondary education bill, which is in conference right now, a provision for community schools, which is designed to keep schools open 24 hours a day, including weekends. Now, has any thinking been done as far as you know as to how this type of plan might be utilized for the children who go to school and then are free to roam after 3 o'clock?

Ms. TORTON. I think that is a very touchy sort of issue. I mean, I don't know how people will really respond to that notion, the idea that school is a place children go all the time.

It seems a little frightening to me, and not terribly realistic in terms of solving real needs, needs for parents to be with their children and to participate in other activities in their community together.

I still think that time needs to be allotted for the adult world and child's world to come together at normal periods of time such as afternoons and early evenings. I think that would really be the most effective measure for most people except in times of dire necessity.

Senator JAVITS. What does the organization do, New Time, that you are connected with?

Ms. TORTON. It is an employment agency, basically, which I started in 1970, dedicated to the idea that part-time employment is a necessity for women, in particular, if they are to reenter the labor market and for men in order to have access to alternatives to full-time employment.

Senator JAVITS. And your testimony is based on that experience?

Ms. TORTON. That is right.

Senator JAVITS. Thank you.

Mr. McClaurin, I gather that the organization that you head, Professional Household Workers of America, does not have a large membership; is that correct?

Mr. McClaurin. That is correct.

Senator Javits. I don't want to restrict your opportunities by asking you how many members you have, but if it would not embarrass your organization, we'd appreciate knowing the percentage of the universe being served, the universe being all of the household workers in a given area.

Are you national in scope or are you local to this area?

Mr. McClaurin. At the moment we are confined to the area, and the reason for that is the fact that we have not been able to establish a full-time staff to service these people. We are hopefully expanding our program in the State.

There are 160,000 of these people in the State. There are 1½ million in the country as such. And what we are hoping to do is to devise a program that will relate to the needs of these people around the Nation.

Senator Javits. Have you gotten any foundation support for your organization?

Mr. McClaurin. As of this time, no.

Senator Javits. Are you seeking any?

Mr. McClaurin. We are seeking funds from both the foundation, State, city, and Federal level. We have had a 13-week pilot project that has been most successful. As a matter of fact, we think we have the answers to the needs to improve the lot of household workers.

Senator Javits. You say a pilot project. Could we have a detailed description in writing concerning the number of people, what you have done, precisely how you have operated, and any end results?

Mr. McClaurin. We'd be very happy to.

Senator Javits. You know I was the chief proponent for household workers getting the minimum wage, so I am very deeply interested.

Mr. McClaurin. One of the reasons we are not proposing new legislation in the field is we would like to apply the legislation that is now on the books. And, truthfully, with a little help from the Federal, State, and city governments, and sufficient funding, we believe this group will be in a position to fund its own programs in a year or two and actually become a part of the job market.

Senator Javits. Have you tried getting other unions to support any organization drive? Of course, I have known you for years in the trade union field—have any unions shown any interest in giving you some backing?

Mr. McClaurin. This is a long story, too long to tell. At this point the trade union movement as such, I don't believe, is particularly concerned about this group. And one of the reasons for it is that they don't see at the moment how they can get a quick return on their investments, because they are dealing with individuals. And they have not been close enough to us to know that once we are organized, we will have a sustained organization that will be comparable to the trade unions as we know it.

I believe that in time we will get support from our friendly unions, but as of now; no.

Senator JAVITS. The manpower training programs, and I have been associated with them for at least 15 years or more, which included household training; did they not? What's happened there?

Mr. McCLAURIN. The pilot project was sponsored by the manpower training program.

Senator JAVITS. That is the MDTA?

Mr. McCLAURIN. That is right. We are now seeking long-range support. Hopefully this will come quickly, because we want to maintain the momentum that was generated as a result of our pilot project.

Senator JAVITS. That is, your pilot project was done under a manpower training program of the Federal Government?

Mr. McCLAURIN. That was done under the city agency with city funding.

Senator JAVITS. With any Federal help?

Mr. McCLAURIN. No.

Senator JAVITS. Has the Federal comprehensive manpower training program been in this field?

Mr. McCLAURIN. As of now; no.

Senator JAVITS. Well, it was.

Mr. McCLAURIN. Some time before, but in recent years almost nothing has been done.

Senator JAVITS. I will look into that. I am very interested in what you say, but there are so many aspects in the Federal establishment that even we who are very active don't always keep up with all of them, but I promise you that we will take a good hard look at this to see why, what there was, why it was phased out, and whether it should be phased back in.

Mr. McCLAURIN. I think one of the important things that we must keep in mind here is the fact that until very recently there's been very little organization in this field. I think the time has come, I think the idea's ripe, I think overnight we could have thousands of these people in an organization. And with an organized group, they would certainly be in a better position.

Senator JAVITS. You know, household work is by no means low pay now, unless people are being cheated. Like so many other families we have a good deal of part-time help, and it is quite expensive. That is fine, and I have no quarrels with it. But it seems to me that whereas you dealt with people who were really very marginally skilled, today it doesn't have to be that way.

Mr. McCLAURIN. The real truth, Senator, grows out of the fact that there are very few skilled workers in the field. Those that are skilled are being well paid, but the majority of them are not.

We have had a very recent situation where people in Miami, for instance, were getting as low as $3 a week. These were the Cubans who came over from Cuba. And, of course, food, and a place to stay, and $3 a week meant a livelihood.

But even in our own city, we have had a great deal of exploitation in this field, with the aliens who come in. Of course, the people who hire them understand that they are here illegally, and they exploit the aliens because for them a job paying a dollar a day is better than going back to someplace where they get almost nothing.

But I do think the key to all the ills of this forgotten group lies in the success of an organized group.

Senator JAVITS. Alien domestic workers—are they a major problem for you?

Mr. McCLAURIN. It is a major problem.

Senator JAVITS. You have no estimate of the number of thousands who might be around?

Mr. McCLAURIN. It is difficult to estimate.

Senator JAVITS. The immigration authorities might be able to help us with that.

Mr. McCLAURIN. They have some estimates, but I doubt that they would have any up-to-date figures.

Senator JAVITS. What about the minimum wage, you haven't had a chance to appraise the effect of the minimum wage yet, have you?

Mr. McCLAURIN. The minimum wage in New York certainly has been helpful outside of the city of New York. In New York most of the household workers are getting a minimum of $2.50 to $3, but upstate it has definitely helped because though we had a State minimum wage of $1.85, most of the workers were getting $1.50 to $1.75. The $2 minimum certainly changed the lifestyles of a lot of workers.

Senator JAVITS. And will it result in bringing more people into the household work force?

Mr. McCLAURIN. It definitely will.

Senator JAVITS. It should.

Mr. McCLAURIN. It definitely should.

Interestly, our pilot project gave us some inside information which we didn't expect. Most of the people in our organization, some 700 or more, have been 40 and over. But in the pilot project, the majority of workers were 25 to 30, which indicates that if we improve the conditions under which these people work, a lot of young people will return. This is very definite.

Senator JAVITS. Of course, I personally feel that the "call me Mister" aspect of it is the most important of any; that is, the dignity of this work.

Mr. McCLAURIN. That is important. That is why the training program must be tied up with any effort we make at this time. One of the most exciting things that came out of our pilot project was the fact that at the end of 2 weeks we gave a certificate, and many of these workers felt as if they were getting degrees in a college. It was just that important to them. And so we are hopeful of getting the State to set up training criteria and give certificates. The certificate will improve the attitudes of the people who hire them, because it will indicate that these people have skills and have been trained in certain fields, and can assume certain responsibilities.

Senator JAVITS. My last question relates to social security, to the deduction for domestic workers from taxes. Has that had any effect? For example, the child care deduction?

Mr. McCLAURIN. This has been one of the most important aspects of our program.

As you perhaps are aware, many household workers have been a little leery about giving a social security number, largely because they have not been paying Federal income taxes.

They are now beginning to realize that they don't make sufficient funds to pay income tax. They also are beginning to realize that pensions and the unemployment insurance is also tied up with paying into the fund, and we are having no problems attempting to get social security numbers and to relate to the workers the importance of paying into the fund.

As a matter of fact, one of the aspects of our program is to assist a lot of employees in helping to keep records for them. This, too, will also enhance the mutual benefits that will come from a program such as we have outlined here.

Senator JAVITS. I forgot one question that I'd like to ask you. Have you tried getting bonding for household workers?

Mr. MCCLAURIN. Not at the present time, but we have been in touch with bonding companies. It is not going to be a difficult task.

One problem now is to maintain the kind of organization that will relate to the workers' needs. One of the reasons why we have hesitated to get bonding is because there is such a shortage of good help in this field. We didn't want the public to know we were training people until we had adequate funds to develop the training. As soon as we know that we have long-range funding, we will go the bonding route.

We will also inform the people who hire workers as to the kind of social security benefits and the other aids which should go to workers.

Senator JAVITS. Thank you, Mr. McClaurin.

Professor Epstein, we'd like to ask a couple of questions of you.

Is there any Federal law or any strengthening of the Federal law that you could suggest, either now or give us a memorandum for the record, to deal with what you call informal employment discrimination and all the subtle ways which you have described? For example, I have little doubt that the reason for the good settlement of Bank of America, that they had a pretty good idea that the proof against them on that very point would be very strong, and so the lawyers undoubtedly did a very good job. I just wondered if there's anything other than the actual practice in the case that you could suggest to us.

TESTIMONY OF CYNTHIA EPSTEIN, PROFESSOR, QUEENS COLLEGE, NEW YORK, N.Y.

Ms. EPSTEIN. Well, I think that there are no laws at this time that actually guard against the informal kinds of discrimination other than the insistence on goals and timetables. And the goals, for instance, which were part of the legislation in the case of the telephone company, should be made in order to promote women from within the company, and bring in women into managerial levels within some kind of minimum number.

But, of course, these efforts have been very limited, and as I mentioned in my testimony, there seem to be infinite ways of getting around those various kinds of job titles and job designations. One thing that can be done is to insist that companies devise job profiles and perhaps work definitions which could be objectively appraised to see whether or not the job changes were real moves toward actual promotion rather than just being changes in titles.

Senator JAVITS. Have you any direct relationship with the Equal Employment Opportunity Commission by way of experience or consultant work?

Ms. EPSTEIN. I have had a peripheral relationship with them, just in testimony and in conferences on research.

Senator JAVITS. I would like to inquire of the Commission on that score and I will tell you why. Because, really, what you are saying, and please tell me if you disagree, is that once you establish a basic case for discrimination that you can design remedies which will meet certain criteria. But until you get the companies into court, or somehow get them to face the basic problem, the remedies become very elusive themselves.

In other words, if you prove any discrimination against women, then one can cover your subject very well by fashioning appropriate remedies, but until you do get them into court, or, to a point where they have got to admit basic discrimination, it is very difficult.

Would you agree with that?

Ms. EPSTEIN. Yes; I do. I think what strides we have made have come from the fact that some teeth were put into EOC's ability to confront companies.

But, of course, the backlog is so huge, perhaps additional funding might be considered, and additional staffing for agencies such as that.

Right now they are carrying, as far as I know, the major burden which is—as you pointed out—fashioning guidelines for people in other industries. But I think the minute that policing of incentive is let down, evidence shows that corporations feel a change in the wind and nothing more has to be done.

So the minute you find the decisions are not coming through in a fast and furious rate, then generally the companies deintensify their own efforts to conform to the guidelines, for example, as on Federal contract compliance.

Senator JAVITS. We tried the so-called Philadelphia plan, which is similar to what you are talking about and I argued for its constitutionality against the General Accounting Office. Of course, their view prevailed.

But the plan is not popular enough that it could be easily extended to the women's field. No one has tried.

Will you be good enough, if we arranged it, to confer with the Equal Employment Opportunity Commission, and be a consultant for me or for all of us in our committee, and see what they are doing, and how you could help them? Would you do that?

Ms. EPSTEIN. Sure.

Senator JAVITS. Ms. Cunningham, one thing I'd like to ask you, and that is, where are we failing in the minority women's classification? After all, that is about the clearest law we have in the Civil Rights Act. Where are we failing?

Ms. CUNNINGHAM. I think——

Senator JAVITS. When I say "we" I mean federally, where are we failing?

Ms. CUNNINGHAM. OK. I think generally we are just not taking the law seriously as it applies to minority women. Really, I hate to oversimplify, but increasingly, in my encounters with people from the Federal Government, they do not seem to take it seriously.

On the other hand, I believe minority women need to know a little more about what their rights really are. This is a problem.

Senator JAVITS. But you are connected with a State agency.

Ms. CUNNINGHAM. Yes.

Senator JAVITS. And our State certainly is very favorable to this general policy.

Is there anything we could do to beef up the State's furnishing of information, and so forth?

Ms. CUNNINGHAM. Well, the State right now has a working task force which was appointed by the then Governor Rockefeller, a task force on equal employment opportunity for women in State government. It is composed of about nine heads of State agencies. And I happen to be a member of the task force. And we are delving intimately into the problems, the psychological problems, the philosophical problems, not only of women, but minority women. And I think because we have uncovered many new problems we are able to more clearly define what the current problems are.

I think we are going to come up with a task force for what will be a national model.

Senator JAVITS. Could you then undertake to keep us apprised of whatever recommendations the task force has regarding Federal legislation and Federal practice?

Ms. CUNNINGHAM. Yes.

Senator JAVITS. Will you do that?

Ms. CUNNINGHAM. Indeed I will.

Senator JAVITS. And then we will try to profit from that experience.

Is there anything about day care that ought to be said in the particular area in which you testified, Ms. Cunningham?

Ms. CUNNINGHAM. No more than what I testified. I think that is rather devastating.

Senator JAVITS. It is devastating.

Well, it has been a long-standing campaign of mine, and we thought we had made considerable progress under the amendments to the Social Security Act, but obviously until we have something like family assistance plan or an intelligent universally applicable program that puts money in the hands of the client, as it were, I gather the problems will only diminish slowly. Have head start and all those things helped particularly?

Ms. CUNNINGHAM. They have helped. The demise of them certainly—not head start—has been very, very painful.

Senator JAVITS. There won't be any demise for head start.

Ms. CUNNINGHAM. I do understand that.

Senator JAVITS. The jeopardy is to the community action agencies of day care programs, and even there I am confident that for the next few years we will carry them on somewhere. I want a separate agency instead of plunging them into Health, Education, and Welfare. But they will be carried on whether I win or not, or people like me will win.

Thank you all very much. You have been very gracious. I appreciate it.

Your testimony will be extremely helpful.

Now Ms. Norton.

Ms. Norton, you have been a great leader in this field with the New York Human Relations Commission, and I appreciate very much your general knowledge of what we can do in the Federal Establishment regarding these questions of discrimination, and so forth, as they affect women, if you please.

STATEMENT OF ELEANOR HOLMES NORTON, CHAIRPERSON, COMMISSION ON HUMAN RIGHTS, NEW YORK, N.Y.

Ms. NORTON. When I was first appointed chairperson of the New York City Commission on Human Rights 4 years ago, the caseload barely reflected women's concerns. Only one or two complaints a month were brought by women. The overwhelming preponderence of cases were brought by blacks. Race cases still comprise the majority of complaints received by the commission, perhaps reflecting the 300 years of conscious-raising in the black community made virtually unavoidable by the oppressive nature of American racism. But it is sex discrimination cases from women that have accelerated most rapidly, reflecting the coincidence of the commission's own outreach efforts and the phenomenal growth of the movement for women's equality. Women's complaints continue to be the fastest growing category of complaints received at the city commission, with, it would seem, no end in sight.

Though these complaints are brought under the city human rights law, our interpretations of municipal law must be consistent with title VII of the Federal Civil Rights Act. The Federal courts have made title VII a new and useful tool, redefining discrimination to reflect modern understanding of the causes of exclusion. Exclusion of entire groups such as women does not flow from malevolent design against individuals nearly so much as it is the product of artificial barriers that exclude entire groups. Non-job related tests and qualifications, recruitment from narrow pools, and failure to consider skills and on-the-job experience are examples of barriers that work against entire groups and must be broken if we are to have any impact on millions of people locked out by discriminatory systems.

The courts did not reach this more complex plateau of interpretation all by itself. The credit for this leadership must go to the Equal Employment Opportunity Commission whose own regulations, guidelines, and briefs filed before the courts have been the single most important impetus to improved enforcement of equal job opportunity in the United States in the past 8 years.

Considering the greater impact of enforcement as against other strategies, the single most important thing this joint committee can do is to reinforce and strengthen the EEOC. Under Chairman William Brown, the Commission for the first time became a national force in dismantling discrimination, and the record and forthrightness of Chairman John Powell would seem to indicate a continuation of high quality leadership.

The fact is that the Nixon administration, whose record on matters of equality is generally dismal, has nevertheless made the EEOC and employment discrimination an exception to the backward civil rights direction it has generally chartered. The administration must be credited with perfecting "affirmative action," the only tool thus far developed that has a reasonable chance of eliminating discriminatory hiring and promotion practices. Affirmative action requires Government agencies and contractors as well as private employers to remedy systems that are neutral in appearance but discriminatory in effect, such as recruitment only from white male sources or the use of a masters of business administration degree as the only entree for women to corporate employment at the upper levels. Affirmative action technology calls for monitoring the results often through goals and timetables, used where a finding of discrimination has been made; it remedies the legal wrong of exclusion by gaging the available work pool among the excluded groups and encouraging remedial recruitment for a stated period, usually 2 years. By that time the excluded group should be included in sufficient numbers so that most neutral practices such as word-of-mouth recruitment no longer have a discriminatory effect.

Commission-initiated affirmative action has had a greater impact on the employment of women and minorities in New York City in the past 4 years than all the individual complaints brought during the entire history of the commission. Figures show a doubling and tripling of minority and female workers in companies which the New York City commission has sued, in all cases by initiating complaints against the largest companies without waiting for a complainant. This work has been done pursuant to grants from the EEOC.

Ironically these highly successful results are threatened because EEOC is under pressure to revert to the case-by-case approach to relieve its burdensome caseload. The caseload problem should not be underestimated, and it must be relieved if complainants are to be afforded justice before the Federal commission. But it would be tragic to accomplish the reduction of the caseload by a complete reversion to the slow 1950's and 1960's case-by-case approach. This approach guarantees that we will reach no more than a tiny fraction of the excluded. Pattern and practice remedies, as contrasted with individual cases, necessarily have impact on the entire class, wiping away whole systems of inequality.

This is especially true of sex discrimination. What keeps women in the lower reaches of the job market are barriers that cannot be touched except through systemic pattern and practice agency-initiated complaints. Such discriminatory barriers as the failure to provide maternity leave, the clustering of women in clerical jobs with no mobility to other categories, and the use of unjob-related credentials are systemic problems that require reform of the entire personnel system, not the ad hoc case complaint procedure.

I urge this committee through its influence on funding and emphasis to help EEOC find a balance between case complaint handling and systemic pattern and practice work. Grantees such as the city commission should be encouraged to do both, including systemic work in a job market such as New York City in which agency-initiated pattern and practice work has been highly successful.

Finally, on another important matter, the commission is seriously concerned that most Federal money comes to this and other cities with only the vaguest requirements for its use in a fair way to avoid discrimination. Only LEAA has issued formal regulations requiring affirmative action plans to be submitted for the receipt of Federal money. Most other agencies rely only upon an innocuous statement of nondiscrimination. This can only reenforce discriminatory patterns in local and State governments. These patterns are hard enough to dismantle without reenforcement by Federal money. Something similar to revised order 4, the Presidential Executive order relating to the construction trades, is in order for all Federal agencies who disburse Federal funds to cities and States.

In summary, let me urge that Congress and the Senate give greater oversight to enforcement practices and priorities. There are, of course, areas of needed legislation, and enabling legislation will be necessary even when the ERA is passed. But increasingly, legislation is not where the action is.This does not mean that the legislative process has no role. On the contrary, legislative input into enforcement concerns can mean the difference between rigidification and elimination of job barriers.

Thank you.

Senator Javits. Thank you very much, Ms. Norton.

How do you work with the EEOC? How does your agency work with them?

Ms. Norton. My agency is a contractor of the EEOC, and we receive about $200,000 a year to do equal opportunity work. We have recently become the first city agency in the country to get so-called 706 status, meaning we are a deferral agency.

Normally Federal complaints are deferred to the specific State agency before the EEOC then looks at the complaint. I think New York City is now the only city to have that same deferral status along with our own State agency here in New York.

Until this time our Federal money has gone exclusively into affirmative action work. We have sued the largest companies in New York and almost none of them, upon being sued by commission, have chosen to go to public hearing. Instead they conciliate the complaint and the results of this conciliation and monitoring have been spectacular in some cases.

Companies that didn't believe there was a pool of minority people in women soon had sufficient impetus to find them, because they would have been subject to sanctions and hearings if they did not.

Moreover, we recently had hearings on integration, in which we are grateful that you were able to testify, Senator Javits, and we heard from a vice president of A.T. & T. who testified that the recent affirmative action, rather extensive affirmation action of EEOC on that company had not been burdensome to the company, had caused no reduction in standards of employment, and in many ways had a salutory effect upon the personnel of the company.

Now that EEOC in fact does have such a burdensome caseload, agencies like our own are under pressure to use the Federal money to process cases on the case-by-case basis.

We certainly believe it is fair for deferral agencies such as the city and State commissions, to use some of their Federal money in this way, but it would be tragic if we were to undermine the efforts of the sixties in creating the affirmative action technology which alone has impact upon large numbers of people, because the caseload had forced us to throw away that technology and revert to the case-by-case process entirely. This means that if someone comes in—with a complaint in a company where there are 5 people, that the agency's time and effort goes as much on that case as it did when we were suing companies where we'd have impact on 5,000 people. That's wasteful, and some balance has got to be found.

We, of course, are always ready and anxious to receive complaints from the public, but the public is increasingly sophisticated about where effective remedies are to be found, and the public knows full well that its affirmative action reaches to large numbers of people that has produced the gains we have seen in the last 5 or 6 years.

Senator JAVITS. What proportion of your total operation is this $200,000?

Ms. NORTON. Well, this—a budget of the commission is something like a million dollars with accruals of about $800,000. The EEOC money has been extremely helpful because it has meant that no city, tax levy money, had to go into affirmative action work.

Senator JAVITS. Mr. Mercado, I think is here, the Regional Director of the EEOC, in the back of the room. I just wondered, have you as yet worked out a close liaison with their local office?

Ms. NORTON. Very close, and very cooperative one. Indeed, I think New York City in working with its region is one of the few cities or States that was doing affirmative action work, that was able to keep a significant amount of EEOC funds devoted to affirmative action work during this funding year, and that was entirely because of the cooperation of the regional office.

Senator JAVITS. So, really your recommendations are two: one that the efforts to clean up the tremendous backlog of the EEOC—and it is an enormous backlog; some 60,000 cases—should not in the case of local applicability preempt the pattern and practices which you are engaged in, which have much more widespread effect.

Ms. NORTON. That is precisely right.

Senator JAVITS. And second, that you would like to get us to try to get a Federal order relating to all agencies, not just the LEAA, which will give considerable care to the same policy respecting the contractors with which they operate.

Ms. NORTON. But beyond that, Senator, I think no Federal money should come into New York City unless the agency receiving the money is required to present an affirmative action plan.

Fortunately, this city is doing that in a comprehensive way, since Mayor Beame signed an executive order in May that requires every city agency to come up with an affirmative action plan, and the city will produce a comprehensive one, under the direction of the city commissioner, and the law department and the personnel department.

But what bothers me is that if Federal agencies don't reinforce the city initiative, then a lot of my work is going up the hill only to be pushed back down again.

Senator JAVITS. It is going to drift?

Ms. NORTON. Yes.

Senator JAVITS. What is the effect on your work of this recent Bank of America agreement?

Ms. NORTON. The Bank of America agreement, I think, takes us two or three steps beyond where we were. We work in the same way that the agreement was achieved, in the sense that we initiate a complaint and normally an agreement comes out of it rather than having to go to hearing and have a remedy enforced in that way.

And normally the agreement is as efficacious as would have been the result of a hearing.

I think such parts of the agreement that have indicated steps to make up for the failure of providing women with training opportunities are an important new ingredient of it and that would be very helpful to us in this city.

Senator JAVITS. My last question, Ms. Norton, is what type of firms and businesses do you find are the greatest offenders which need affirmative action plans? You mentioned the telephone company, where apparently considerable progress has been made. Do you find any other areas of business which cry out for the application of this kind of approach?

Ms. NORTON. Yes. I could list some, although I don't want to, because by listing some gives anyone the impression that the problem isn't extraordinarily across the board. I would say that the worst offenders are companies that already have large numbers of women employees. Because the pool is there and easily reachable.

We find that people like banks and stock exchange companies are special offenders because they do not have the same kind of problems that architectural firms or law firms, hospitals, and other places, where even the educational apparatus has tended to exclude women. The only way that women could have failed to achieve vice presidency status, in, for example, banks, would have been through deliberate discrimination.

Senator JAVITS. So that you would say that our target should be, in New York, of course, the principal banking center today of the world, those banks——

Ms. NORTON. Banks and other financial institutions.

Senator JAVITS. Which have huge numbers of women employees and have really not given them the chance they should have?

Ms. NORTON. Yes.

Senator JAVITS. Are you going after any of those? Do you have any pending cases, without reviewing any?

Ms. NORTON. Yes. We could let your office confidentially know precisely where we are working. The Federal law keeps us, of course, from disclosing.

Senator JAVITS. Very good. Thank you so much.

Is there anything else you wish to add?

Ms. NORTON. No, thank you.

Senator JAVITS. Well, you are very able, and we all owe you a great debt of gratitude for the job you do.

Ms. NORTON. Thank you.

Senator JAVITS. Our next panel will please step up. Carlyn McCaffrey, Nancy Seifer, Kathleen Peratis, and Marguerite Platt.

Could we identify you from left to right.

Ms. PERATIS. Kathleen Peratis.

Senator JAVITS. Next to Ms. Peratis is Ms. Seifer.

Ms. SEIFER. Nancy Seifer, director of community relations, American Jewish Committee.

Senator JAVITS. And Ms. Platt.

Ms. PLATT. President of Working Mothers for Fair Tax Treatment.

Senator JAVITS. And Ms. McCaffrey.

Ms. MCCAFFREY. Carlyn McCaffrey, assistant professor of law, New York University Law School.

Senator JAVITS. Would you proceed, Ms. Peratis.

STATEMENT OF KATHLEEN PERATIS, DIRECTOR, WOMEN'S RIGHTS PROJECT, WOMEN'S CIVIL LIBERTIES UNION

Ms. PERATIS Thank you.

I am director of the Women's Rights project of the Women's Civil Liberties Union. One of the goals of the project is to achieve equality between the sexes through various means. One, unfortunately, is litigation, which is often necessary.

We have identified as one of our priority matters the elimination of unfavorable sex discrimination on the social security laws as well as the discriminatory effects of social security laws. Among the more obvious examples of sex discrimination in social security laws, is official sex discrimination which discriminates both against men and women.

The social security laws provide that husbands, fathers, divorced husbands, and widowers can often not obtain social security benefits on their wife's account even though they are identically situated to women who would be able to receive such benefits. The only reason that men in these positions are not permitted to receive benefits is because of their sex.

This not only discriminates against the men, it also results in discrimination against the women; women whose contributions to the fund did not purchase the same protection to the family as similar contributions by a male wage earner.

In addition to this sex discriminatory effect upon men and women, the system reflects a traditional and often inadequate attitude about the status of women and the role of women in the society. This attitude is that women are typically dependents and no heed is paid to the possibility and often the probability that women are not in that traditional role any longer.

There are a number of discriminatory effects of neutral policies in the social security laws. For one thing, the contribution structure of social security is regressive and, therefore, tends to fall more heavily on people who make less money. Contributions to social security are only made up to the first $12,000 of earned income, and because women typically earn less than men, the burden of social security contributions falls more heavily upon them and other low-wage earners than people who make more money.

Another effect of the social security system is that benefits are based largely upon contributions. Women, because they earn less than men, end up being entitled to less social security benefits than they seek to recover under the system. Women often have a higher entitlement to social security benefits as wives and dependents than they do as workers, largely because they earn less money and work more sporadically than men do, as the system tends to encourage that kind of work.

Disability benefits under social security are also directed to male employment patterns. That is, disability benefits are based upon current employment, and because women tend to be employed more sporadically in order to serve the traditional function which many women often and continue to do, a worker who works for years, then drops out of the labor force for a while, and then becomes disabled is not entitled to disability benefits under the social security system.

Women tend to recover under social security as dependents if they recover at all. This dependent status of women has a number of negative effects.

For one thing, people recovering as dependents have no survivorship rights in their social security entitlement. And dependents are entitled to no disability benefits.

Finally, I'd like to mention that two-income families, families in which the husband and the wife both work, often end up receiving less in social security benefits than a one-income family making precisely the same total amount of money, and having made precisely the same social security contributions.

Senator, I think the whole contribution system and the whole benefits system should be based upon need rather than based upon sex, as it currently is, and should be addressed to the needs of the people of this country, and not reinforcing and supporting a traditional notion of a family structure which does not exist for many people.

Senator JAVITS. Thank you very much.

Ms. Seifer.

STATEMENT OF NANCY SEIFER, DIRECTOR, COMMUNITY RELATIONS, AMERICAN JEWISH COMMITTEE

Ms. SEIFER. Thank you very much.

Mr. Chairman, committee members, let me first express my appreciation for your invitation to address the Joint Economic Committee today on the issue of pensions for housewives. The concerted attention, which your committee is serving to bring to this issue, will help both to impress its urgency on the public mind and to lend added impetus for the passage of badly needed legislation—legislation embodying provisions such as those in H.R. 12645, introduced by Congresswomen Jordan and Griffiths in February of this year, which would amend the Social Security Act to assure that retirement income, disability insurance, survivor, and medicare benefits be provided to homemakers.

I speak to you today from a background in social policy. I am not an economist, and therefore cannot offer assistance in solving some of the many avowedly complicated economic problems which the need for pensions for housewives gives rise to. There is, however, clearly no dearth of economists, many of them women, who have already done significant work in this area. Several, I believe, have spoken before this committee in the past. If I may, I would like to address myself solely to the social policy aspects of this issue.

For the past 2 years, I have been on the staff of the National Project on Ethnic America—a project of the American Jewish Committee, designed in 1968 to explore means of depolarizing the growing tensions between minority and neighboring lower middle income white ethnic communities in our cities. I have concentrated much of my effort during this period on the problems of working class women in America—a group which constitutes between 40 and 50 percent of American women, whose problems have grown in severity over the past decade, but who until recently were quietly tucked away under labels such as the "Silent Majority."

Prior to joining the project staff, I was on the staff of the Lindsay administration in several capacities, the last of which was as aide to the mayor for ethnic affairs. I established a small office designed primarily to provide linkages between highly alienated white working class communities throughout the city, sorely in need of a variety of programs and services, and the agencies of government which could provide those services. It was in working with those communities, that I first became highly conscious of the needs of working class women.

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My work at the project, which has involved travel throughout the country, meetings, and conferences, where the needs of lower income women have been focused, have reconfirmed the extent and the remarkable similarity of problems.

At several of these meetings, the discussion has revolved around a series of some 80 recommendations to government, educational institutions, corporations, labor unions, foundations, the media, and other institutions, listed in a booklet I wrote, entitled "Absent from the Majority: Working Class Women in America." Repeatedly, in Philadelphia and Dallas, in New York and Chicago, and elsewhere, the issue of greatest concern to the many working class women I have spoken with was pensions for housewives. Most had never thought it would be possible. Once they learned it might be—the intensity of support, enthusiasm for the concept, and willingness to do whatever had to be done to get such legislation passed was remarkable.

These are women who may have worked a few years in a factory, as a clerk or in a typing pool before getting married, and then spent the majority of their lives as housewives, unless, once the kids were in school, the added income that they could provide was absolutely essential to making ends meet. Abundant evidence now shows that particularly if they worked part time, they will receive no support from private pension plans in their own right, no matter how many total years they may have worked.

These are women who will suffer from the cruel inequities built into most pension plans, particularly those affecting their husbands who are blue collar and lower level white collar workers, and will most likely be among the 98 percent of women who never receive the survivors' benefits to which they should be entitled.

They are women whose lives are the pawns of the vicious cycle of inflation, who live in constant fear of not being able to pay their bills, who live with the knowledge that in the economic crunch, they, if they work, and their husbands are likely to be the first to be laid off.

Finally, they are women who, like the affluent and the poor, are increasingly affected by the social disintegration which has pervaded our society—and by divorce. They, like the poor, are unlikely to receive alimony, because they lack the funds to hire lawyers to press their case in court. They, like both poor and rich are not entitled to share in their husbands' social security retirement pensions, unless they have been married for 20 years—a law which is easily one of the most outmoded on our Federal books.

Whether they are in the labor force as presently defined or not, during much of their lives—and 9 out of 10 women spend about 25 years in the labor force, I think and hope that perhaps we have progressed as a society to the point where the work that women contribute as homemakers will finally have the chance of receiving due recognition.

It is true that homemaking as a full-time and life-time career is likely to become more the exception than the rule among all economic groups, given the likelihood that current trends towards fewer children, longer lives, and greater educational opportunities continue. But it is equally true that a large percentage of American women will continue to feel that homemaking and mothering are the most important contributions they can make to their family and to our society.

It is time that our society stop penalizing women for that choice and find the means of assuring them financial security for their later years, based on a lifetime of hard labor in the home.

The Chase Manhattan Bank was one of the first institutions to point out just how much that work was worth in terms of dollars and cents and the results were astonishing. I submit for the record, along with this testimony, an article excerpted from my booklet which appeared on the op ed page of the New York Times on this and related subjects. But I would like to point out that the figures I used have since been updated. According to Chase Manhattan, which is now in the process of again updating its figures, the monetary worth of the 12 or so different jobs performed regularly by the average housewife for nearly 100 hours each week is currently in the neighborhood of $14,000 a year. If included in the gross national product, the total would increase by over 35 percent.

Regardless of which figures are eventually utilized by the Government as a base on which to calculate an equitable pension for housewives, it should no longer be a question in anyone's mind that the need is pressing. As social institutions, particularly the family, crumble around us, the anxiety and insecurity of lower income women about their old age is severely enhanced. I am not now talking about low self-esteem, and feelings of worthlessness experienced by so many older women due to the lack of value which society presently attaches to the housewife's contribution. I am talking about fear. Fear of lack of food and shelter. The fear of a mother having to burden and often move in with her children in difficult circumstances, but having no choice but that or taking welfare. I am talking about the fear of being left alone late in life, totally alone, with no pension, no savings, and perhaps even no social security. And I am also talking about pride—a great deal of pride in providing for a family for a life time which leads millions of women to say: "I won't go begging for handouts. I only want what is mine. But shouldn't I be entitled to some income in my own right, based on my own work all of these years?"

As for the Government's response and our economy as a whole, it seems to me there is little choice. The average income for women over 65 is less than $1,800 a year. That is the average. Six out of every ten older women and widows have incomes well below the poverty level. They are the most destitute segment of the entire population. As long as we continue to ignore the monetary value of the work of homemakers as a rightful base for a pension later in life, we, as a society, will be straddled with a welfare system for the aged, which forcibly denies from large segments of our population, men as well as women, the kind of dignity they deserve.

Thank you.

Senator JAVITS. Thank you, Ms. Seifer.

Ms. Platt.

STATEMENT OF MARGUERITE PLATT, PRESIDENT, WORKING MOTHERS FOR FAIR TAX TREATMENT

Ms. PLATT. Thank you, Senator. And thank you for allowing me to testify on behalf of working mothers for fair tax treatment.

Our organization is composed of working or would-be working mothers opposed to the discrimination in the tax code which limits deduction for work-related child care expenses.

Section 214 of the current tax code limits deductions for all working mothers to some extent, but it totally excludes from any deductions for child care married mothers who work part time and married mothers whose incomes jointly with their husbands exceeds certain levels.

The hard facts are that without tax deductions for working related child care, it simply does not pay for most women to work.

This is easily documented and illustrated in a married couple's income statement which I offer herewith. It is that of a professional couple whose income is $28,000, above the maximum for child care deduction. The husband earned $16,000; the wife $12,000, but subtracting from the wife's income taxes, the cost of child care and minimal other costs of work in New York City, the wife realizes no net gain for her labor.

The current tax law is wrong on three counts. One, it discriminates against women because they have the child care responsibility in society.

Two, it results in lost jobs, both for mothers and for the child care workers they would hire, and some of these are on welfare.

And, three, it results in lost tax revenues because of the lost jobs.

The laws now provide for equal opportunity in employment regardless of sex. Yet, the tax laws make these opportunities meaningless for married mothers.

We urge legislators to eliminate discrimination against working mothers in the current tax law by recognizing work related child care as a necessary and ordinary business expense.

Senator Javits. Thank you.

Ms. McCaffrey.

STATEMENT OF CARLYN McCAFFREY, ASSISTANT PROFESSOR, NEW YORK UNIVERSITY LAW SCHOOL

Ms. McCaffrey. Thank you. I appreciate the opportunity of speaking to you today about one aspect of the economic problems confronting women. I have been asked to speak about the ways in which the income tax laws contribute to these economic problems.

The tax law has long provided different tax treatment for married and single taxpayers. Until the Tax Reform Act of 1969, this disparity in treatment generally worked in favor of married taxpayers. Married taxpayers were permitted to aggregate their incomes and file a joint return computing their tax liability at twice the tax that would be imposed on a single taxpayer who had half of their combined taxable incomes. This process primarily benefited the married couple that fell into the traditional pattern—a husband who earned the family income and a wife who remained at home caring for the children and performing housekeeping chores. It was of little, if any benefit, however, to the two-earner family, particularly if the spouses' incomes were approximately equal. Because of legislative changes in 1969 and 1971, the two-earner married couple now finds itself at a substantial tax disadvantage vis-a-vis single taxpayers.

At least 40 separate provisions of the Internal Revenue Code provide disparate treatment for married and single taxpayers. With the exception of the joint return, which continues to provide substantial benefits to the one earner married couple, the vast majority of those provisions work to the disadvantage of all married taxpayers. These provisions can be divided roughly into three categories: (1) those that alter the tax consequences of a particular transaction because it occurs between spouses or between one spouse and an economic entity such as a corporation or trust in which the other spouse has a substantial interest; (2) those that deny or limit deductions and credits; and (3) those that provide different tax rates.

The first category of provisions is the most easily justified because most of these provisions do not single out the marital relationship. They apply equally to transactions that take place between the taxpayer and other members of his family such as his children or his parents. Section 267 is an example; it disallows a loss deduction for sales between a taxpayer and his spouse and for sales between a taxpayer and his/her brothers, sisters, parents and children. The disallowance reflects a legislative determination that a taxpayer who makes a sale to a close relative does not actually terminate his economic interest in that asset because of his assumed close family ties with the purchaser. This assumption may or may not be true in a particular case but is arguably true in the majority of cases that fall within the provision. The other provisions in this category are based on the same kind of rationale. Since the spousal relationship is at least as likely to result in a close family tie as are filial and sibling relationships, the inclusion of spouses within the list of related taxpayers to which these provisions apply sems justifiable. The provisions within the other categories, however, apply only to spouses and are difficult if not impossible to justify.

In the second category, denial or limitation of deductions and credits, the two most important provisions are sections 141 and 214, the standard deduction and the child care deduction, respectively. Section 141 gives every single taxpayer, except certain dependents, the benefit of a $1,300 low-income allowance ora 15-percent standard deduction up to a maximum of $2,000. The same section goes on to provide that the low-income allowance of a married taxpayer filing a separate return is limited to $650. Similarly such taxpayer's maximum standard deduction is limited to $1,000. In addition, if one spouse uses the percentage standard deduction, the other is not permitted to use the low-income allowance; if one spouse chooses to itemize, the other is not permitted to use either the low-income allowance or the percentage standard deduction. These provisions alone can result in a loss to a married couple of up to $200 worth of deductions.

Section 214, since its revision by the Revenue Act of 1971, permits a taxpayer to deduct up to $400 per month for expenses for the care of certain dependents and, in some cases, expenses for household services, when these expenses are incurred to enable the taxpayer to be gainfully employed. This provision, I believe, goes a long way toward removing some of the tax disincentives many mothers face when deciding whether to remain at home and care for their families or to return to the labor force. Prior to the 1971 revision, the maximum deduction permitted by section 214 was $900 and, it was unavailable to married taxpayers with combined adjusted gross incomes of $6,900 or more.

As a result, if a wife stayed at home and produced services worth $5,000 for her family, neither she nor her husband paid any tax on the value of these services. If she went to work outside the home, earned $8,000 and paid someone else $5,000 to perform the household services she had previously performed, she would have to pay tax on the full $8,000 even though $5,000 in a sense represented the cost to her of earning the $8,000. Her problem of course can be seen as part of a much larger problem—the exclusion from the tax base of all types of imputed income. The ideal solution is perhaps to tax everyone on the value of services he performs for himself, but such a solution is probably unworkable in the real world. Section 214 attacks the problem from the other side; instead of taxing the housewife on the imputed value of her services, it gives some employed wives and husbands a deduction which is roughly equivalent to the replacement cost of home services.

Nevertheless, the availability of section 214 is significantly more limited with respect to married taxpayers than it is to single ones. A full $400-per-month deduction is permitted to all single taxpayers whose adjusted gross incomes are $18,000 per year or less. Above that point it phases out at a rate of $.50 for each additional $1 of adjusted gross income, disappearing completely at $27,600. For a married taxpayer to get the full deduction however, the combined adjusted gross incomes of both the husband and wife must be taken into account in calculating the $18,000 limitation. While you may not have much sympathy for taxpayers whose incomes reach this level, it does mean that the tax law continues to act as an economic barrier to a married woman's employment if her husband's earnings are much over $18,000. Moreover, it may act as a disincentive to marriage itself. A woman with a small child and an annual income of $15,000 a year who is contemplating marriage to a man earning $13,000 or more might, I suppose, take into account the fact that marriage will result in the loss of a $4,800 deduction.

Section 214 discriminates against marriage in another significant way. A single taxpayer is entitled to the deduction regardless of how many hours during the week he or she is employed. For a married taxpayer to get a deduction, both husband and wife must be employed on a substantially full-time basis.

The other provisions that fit within the second category are less dramatic but probably equally unjustifiable. Section 217 limits the deduction for certain kinds of moving expenses to $2,500. Married taxpayers who both move to the same new principal place of employment are limited to $1,250 each. Section 1211 gives single taxpayers the right to deduct $1,000 of capital losses against ordinary income. Married taxpayers get only $500 each. Section 1201(d) limits the rate of tax imposed on the first $50,000 of a taxpayer's net long-term capital gain to 25 percent. A married taxpayer gets the 25 percent rate only on the first $25,000. Similar kinds of limitations apply with respect to the investment credit, sections 46 and 48, the minimum tax on tax preference items, section 58, the credit provided for wages paid to work incentive program employees, section 50A and the deduction permitted for excess investment interest, section 163(d).

Once the married couple has computed their taxable income, they may find that the limitations imposed on the use of the rate schedules similarly work to their disadvantage; their tax liability may be equal to a greater percentage of taxable income than it would be if they were single. The rate schedule differentiation is a fairly recent phenomenon. In 1969 Congress acted in response to complaints they had heard for years from single taxpayers. A single person with a taxable income of $28,000 paid a tax of $10,090, whereas a married couple with the same taxable income paid only $7,190. The single person at this level paid 42.1 percent more than the married taxpayer. Congress felt that some differential was justifiable because the married couple's income had to support two people while the single person's income had to support only one. They decided, however, that the then existing discrepancy was too large. Their solution was to create a new, lower, rate schedule for single taxpayers which now appears in section 1(c) of the code. Under this schedule, single taxpayers pay a maximum of 20 percent more than the tax payable on a joint return showing the same taxable income. Married individuals were not given the privilege of using this rate structure. Nor are they permitted to use head of household rates even where there is a dependent in the household. Accordingly, if a married taxpayer wants to file separately, he or she must use the rate structure that applied to single taxpayers prior to the 1969 reforms.

Chart 1 illustrates the potential extent of the tax cost of marriage due to the combined effect of the rate tables and the limitations imposed on the standard deductions. The figure indicated is the amount by which the tax bill is higher because the two taxpayers are married. It is assumed that the husband and wife have no dependents and that they both use the standard deduction.

CHART 1

	Husbands adjusted gross income			
	$5,000	$10,000	$15,000	$20,000
Wife's adjusted gross income:				
$5,000	200	130	203	110
$10,000	130	350	633	780
$15,000	203	633	1,155	1,508
$20,000	110	780	1,508	2,055

Chart 2 illustrates the potential extent of the tax cost of marriage attributable to the combined effect of the rate tables, the standard deduction, and the child care deduction. The chart makes the following assumptions: (1) The husband and wife have one dependent child under 15; (2) they spend $4,800 for child care; (3) in addition to the child care deduction, they have itemized deductions equal to 15 percent of adjusted gross income, if adjusted gross income is less than $20,000; 18 percent, if adjusted gross income is $20,000 or more. The figures indicated in the chart are the amounts by which the tax liability is higher because the two taxpayers are married. If the figure is in brackets, it represents the tax savings of marriage.

CHART 2

	Husband's adjusted gross income					
	$5,000	$10,000	$15,000	$20,000	$25,000	$30,000
Wife's adjusted gross income:						
$5,000	(283)	117	268	821	595	80
$10,000	117	155	929	1,459	1,042	1,080
$15,000	268	929	1,363	1,621	1,815	1,904
$20,000	821	1,459	1,621	2,158	2,418	2,632
$25,000	595	1,042	1,815	2,418	2,370	2,711
$30,000	80	1,080	1,904	2,632	2,711	2,909

The provisions that provide differential tax treatment for married taxpayers work to the disadvantage of taxpayers with low incomes as well as to the disadvantage of middle- to high-income taxpayers. The limitation with the greatest impact on low-income taxpayers is probably the one imposed on the low-income allowance. Two single taxpayers with adjusted gross incomes of $2,000 each pay no tax because of the combined effect of the $1,300 low-income allowance and the $750 personal exemption deduction. If these two individuals get married, their tax liability will increase from $0 to $170, because of the loss of one $1,300 low-income allowance.

While the provisions dictating disparate treatment for married and single taxpayers have the potential for adversely affecting all married taxpayers, since the one earner family benefits substantially from the joint return, in reality, the adverse impact of these provisions is limited to the two earner family. This pattern of tax discrimination against two earner families appears to reflect the failure of Congress to recognize the economic characteristics which distinguish these families from one earner couples rather than a conscious decision to impose higher tax burdens on them.

The two earner family is probably closer, from the standpoint of ability to pay, to unmarried taxpayers than to one earner married couples. While married taxpayers may be more likely to enjoy the economies of shared household expenses than are single taxpayers, the two earner family and the single taxpayer generally do not enjoy the benefit of the household services performed by the nonemployed spouse in the one earner family. Nevertheless, the two earner family is treated for tax purposes not as if each spouse were single but as if only one spouse produced the income despite the extra work related expenses generally incurred by two earners and despite the loss to the two earner family of the economic value of services that the second member of the one earner family usually performs at home.

The principal justifications offered for the status quo stem from an arguably reasonable assumption that spouses perceive themselves as single economic units. The joint return is necessary because husbands and wives pool their resources and separate returns would represent an economically artificial allocation of income and deductions between them. The fact that a joint return and the other provisions described above may produce a greater combined tax liability than the husband and wife would have if single is justified because of the assumed economies of sharing a household. While the first point may have some validity, it is arguably possible to require husbands and wives with separate sources of income to maintain separate records not only in income but also of those expenditures that give rise to deductions. Such a requirement would impose little if any burden on the one earner family and would be a relatively minor burden for two earner families if it were imposed as the price for their attaining the right to be treated as individual entities for tax purposes. The second point seems to be less substantial. Although there are undoubtedly economies achieved by sharing households, the relationship of such economies to the scope of the higher tax burden imposed on married taxpayers is unclear. Moreover, a substantial number of single taxpayers do not maintain their own households but achieve these same economies by sharing their homes with other relatives or friends.

The solution to the problem depends on one's perception of its scope. If the increased tax burden on two earner families is seen as one aspect of the larger problem of the proper choice of the economic unit to be taxed and it is decided that the individual rather than the spousal unit is the proper unit, the solution to the problem would be to eliminate from the code all provisions which provide differential treatment because of marital status. Marriage would be neither a tax advantage nor a tax disadvantage. In my opinion, this is the appropriate long range solution. It recognizes the individuality of each spouse and eliminates the present tax disincentive faced by a second earner whose income is now effectively taxed at rates at or above his or her spouse's highest marginal rate.

Since, however, this would mean the elimination of the joint return and a rather substantial tax increase for all one earner families, this solution may be politically infeasible. An intermediate step, which I support, is to give married taxpayers the option of being treated for tax purposes as if they were single. This solution would eliminate the tax disadvantage of marriage and would also eliminate much of the second earner's tax disincentive. Taxpayers who so elect, however, should be required to conduct their financial transactions as if they were actually single. Accordingly, each should be permitted to take a deduction on his or her separate return only for his or her actual expenses.

There are three important exceptions to this broad option that I would also suggest.

First, all provisions which apply to other family members as well as to husbands and wives should continue to apply to married taxpayers whether or not they elect to be treated as single.

Second, residents of community property States who elect to be treated as single taxpayers should be required to report their own earnings.

Third, to eliminate tax-motivated interspousal property transfers, income from property gratuitously transferred from one spouse to another for the purpose of minimizing taxes thereon should be reported by the spouse who made the transfer.

Senator JAVITS. Ms. McCaffrey, that is very excellent testimony, and we are really grateful to you.

The Chair has some questions for the witnesses.

Ms. Peratis, earlier you said that social security tax was a regressive tax. I agree with that, and, as a matter of fact, one of the elements of the tax reform with which I am going to be concerned is the effort to make the social security tax progressive, like the income tax. And that, I gather, you would feel would be of considerable help, would it not?

Ms. PERATIS. Yes, Senator. It would be of considerable help, but it is only half of the economic problem. The other problem is that benefits are not keyed to need, but to the regressive contribution structure.

Senator JAVITS. We will look at that very carefully too, the benefit side, and when I come to Ms. Seifer, please break in if I say something that interests you.

Ms. Seifer, I was very interested in your presentation for this reason. I am the author, with Senator Williams of New Jersey, of the private pension reform bill. That bill is now in conference, and will undoubtedly result in law sometime within the next, oh, I'd say as little as 2 months. It is well along and looks very good.

Now, of course, that will go a long way toward dealing with the woman who has worked for short times, because vesting begins at 5 years.

And in view of the fact that there are also funding provisions and insurance, the situation for her brightens very considerably.

Now, under those circumstances; that is, with a material reform and private pension plans, it has, nonetheless, been charged that our legislation does not do all it should for women who worked in bits and pieces of time, much more than men do. I would like to tell you that we have strengthened the part-time aspects of the measure, taking the best out of House and Senate bills, so that in that regard it is improved.

Ms. SEIFER. In terms of pensions, are you dealing with any other benefits?

Senator JAVITS. We are dealing only with private pensions.

The real problem there, of course, is that essential conditions respecting private pensions are still made by employer-employee under collective bargaining, or even just by the employer alone, if it is, what, you know, we call a fixed benefit plan. But there is some improvement. And I would just like to suggest to you that there is no use in trying to do anything now. It is pretty late.

But when we come out with the law, if you would study it carefully and let us know what you see there which could stand additional legislation, this law will be constantly amended and changed because it is about the biggest thing that's happened since social security. So there will be an opportunity to strengthen the provisions respecting women as we go along.

But I will be the first one to tell you that it has been charged that we are not doing enough.

Ms. SEIFER. Can I ask you one question?

Senator JAVITS. Yes.

Ms. SEIFER. Does it address itself at all to women's work in the home, known as housework?

Senator JAVITS. No; it cannot do that, and I am coming to that in a minute.

Now, as to the 20-year proposition, you have to be married for 20 years, I am going to look into seeing what amendment is possible. I have just given those instructions. As a matter of fact, we will examine social security very carefully, and Professor McCaffrey, also taxes. I will see what amendments I ought to sponsor respecting that.

Ms. PERATIS. Senator, divorced husbands are not permitted to receive social security on the wife's account at all. So you can consider that problem.

Senator JAVITS. I'll tell you, we have to be realistic and practical. The Congress is not nearly as favorable toward buttoning this thing up for men—you know, they are not nearly as interested in the principles involved as we are. You and I and others like us.

But, nonetheless, let me look at that. I can only sponsor so many amendments, but I will look at it.

The question I'd like to ask you about pension plans is this: We are providing in the new pension reform bill the opportunity of each individual worker not under a pension plan, that means half the workers—roughly 35 million—to build his own pension plan. This same right to have $1,500 a year tax-free to build up a pension plan we now give the professional. That is, the so-called Keogh business.

Now, that will introduce a new equation altogether, a new opportunity for banks to aggregate these funds and invest them, a new opportunity for insurance companies to sell annuities on the same basis, conditioning the premium on the deductibility of the individual from his wages or salary.

That could be conceivably, Ms. Seifer, analogized to the housewife. Using your work and research, can you comment on the legal possibility and collectibility of these payments from housewives? This is critically important when you are dealing with such enormous numbers.

Ms. SEIFER. Unfortunately, as I said in my testimony, I was invited here as a social policy person and not an economist. I have read something about different proposals for plans which include the $1,500 coming out of the husband's salary as the wife makes it possible for the husband to work. I really don't have any idea about what the possibilities for collectibility would be.

Senator JAVITS. How would husbands feel about it?

Ms. SEIFER. Obviously, a good percentage of them would be against it, you know, at first for obvious reasons, until they saw the benefits that might accrue to them and, obviously there would be benefits to them.

I could look into that and see if there is any work done on that. But at this point I don't know anything that would indicate——

Senator JAVITS. Of course, the husband has the solace today of feeling that his wife will get social security benefits.

Ms. SEIFER. If she is married to him for 20 years, she can share as a dependent in his benefits. She gets nothing in her own right.

In other words, a woman who works, according to Chase Manhattan Bank, for 100 hours a week in her own home, at age 65, can end up with nothing that she can say she has achieved or accomplished.

Senator JAVITS. But she gets survivorship benefits.

Ms. SEIFER. Ninety-eight percent of women apparently don't, through private pension plans. Through the social security system, yes. But, then again, $1,800 a year is the average income for women over 65. So, you know——

Senator JAVITS. Entirely inadequate.

Ms. SEIFER. Right.

Senator JAVITS. As I say, I will scrutinize this bill when it comes down as law. There is no use fussing with it now. It is just too far along.

And let me have your views on what could be done to amend it. That law will be like Magna Carta.

But beyond that, there will be changes, and I appreciate your letting us know what changes you feel would be helpful in this field. I am very sympathetic.

Ms. SEIFER. Thank you.

Senator JAVITS. Ms. Platt and Ms. McCaffrey, I think you really have dealt with two parts of the same problem. We have been frustrated in this effort. It was very hard to get the child care deduction, and the compromise on the whole was pretty fortunate.

It was so difficult to get it at the start. Now, I think it should be easier, progressively easier, although we have had a lot of trouble, to get a reform of the tax law as to women.

I really believe that the heavy discrimination comes in the areas which you have mentioned. I don't think too many citizens are going to lose too much sleep over the $28,000 couple earners limitation of their child care deduction.

I don't say it is fair or unfair, but just the facts of life.

But I do think that you are absolutely right when you couple that contributing factor, with the real tax disadvantage of being married, and I have heard, and all of us in Congress have heard, people seriously discussing whether they should be married at all or just live together, because it didn't make any economical sense because of the tax laws.

That is a very countersocial stability factor. And so I really am deeply impressed with the clarity with which you have laid this before us, and I will do my best to see what we can do about it.

Now, do I gather correctly from you that the key two points are the standard deduction factor, which you feel is highly invidious, and the option for the married couple to take the single rate, if that works out better?

Ms. McCaffrey. I think that those two provisions coupled with the discrimination built into the child care deduction will do.

Senator Javits. Yes; I said that.

Ms. McCaffrey. They will probably do 90 percent of the job.

Senator Javits. Fine.

Ms. McCaffrey. There are 40 some-odd other provisions, however, in the law that provide the same kind of discrimination, with a smaller economic impact.

Senator Javits. But these are the highlights?

Ms. McCaffrey. Yes.

Senator Javits. Would you agree with that, Ms. Platt?

Ms. Platt. I would.

May I ask you a question?

Senator Javits. Please.

Ms. Platt. I am distressed to hear you say that not too many people would lose sleep over the couple that earns $28,000.

In addition, is work a privilege for women? How about the women, such as I myself, who struggled through much education to become a professional, went through 12 years of a career, and now with a child finds that I simply cannot make enough money by going back to work. Is that something that you say, well, no one should lose sleep over it?

We need the money. This is the middle class that is always being squeezed out.

Senator Javits. Ms. Platt, if I may say so, I find this disadvantage always with me. If I lay a proposition before a witness to get that witness' reaction, I am always accused of being the author of the proposition, which is untrue in my case.

I told you to begin with that I am looking at the realistic facts of the Congress, not at me. I wouldn't be here if I didn't agree with you.

But to look realistically at Congress, what I have said is true, and, therefore, the case has to be extremely strong. And that is really what you and Ms. McCaffrey are asking me to take back to my colleagues, that you do make a very strong case. And I am just trying to get the highlights from both of you.

But what I told you about the normal outlook by my colleagues is correct. And that is why I was so tough to get this child care deduction to begin with.

So I appreciate what you say.

Ms. PLATT. Thank you very much.

Senator JAVITS. It doesn't apply to me. I am not insulted about it, but I just say that I cannot always remedy the difficulty. When you examine the witness, the witness always identifies you with the problem you put up to your witness.

Ms. McCAFFREY. Maybe some of your colleagues would lose some sleep if they took into account the fact that the same $28,000 a year couple, instead of getting married, decided to live together unmarried so they could enjoy the benefits of these deductions.

Senator JAVITS. You are right. I have said that.

We are not children, and we understand that these things go on in this life. But it certainly should not be at the direction of Government policy.

One of my staff suggests also, which I think is very sensible, if we had more jobs like that available, they would tend to attract a higher level of compensation and a higher level of person and more people. That's an advantage based upon the testimony that we have heard about domestics.

We certainly thank you very much, and what you have done will be extremely helpful, and I will do my best to use it very well.

The committee will take a 5 minute recess, but it will be strictly 5 minutes.

Before we take the recess, may the Chair announce that we will not break for lunch. We are going to go right through and finish all of our work before we break, and then we will adjourn the hearing.

I have other problems of time in New York, so witnesses, please don't go away as you will be recalled.

[Whereupon, a short recess was taken.]

Senator JAVITS. The hearing will come to order.

We have now a panel on credit and insurance, and the members are Amalia Betanzos, Barbara Shack, and Carol DeSarem.

Would you proceed, Ms. Betanzos.

STATEMENT OF AMALIA V. BETANZOS, VICE CHAIRPERSON, NEW YORK CITY HOUSING AUTHORITY

Ms. BETANZOS. Certainly. Thank you.

Mr. Chairman, members of the Joint Economic Committee of the Congress, my name is Amalia V. Betanzos, and I am the vice chairperson of the New York City Housing Authority, the agency in New York which builds and maintains low-income public housing.

I am most grateful for the opportunity to testify briefly on the question of sex discrimination in the general area of housing. Most of my comments will be directed to the problems encountered by women in the private housing market.

Housing discrimination has many dimensions; it extends into such fields as credit, insurance and pensions, and raises some very basic questions as to whether this country seriously intends to alter the courtly bigotry that characterizes its public and private view of women.

Social movements in this country, particularly those which raise the question of group discrimination, have common histories. Regardless of the righteousness of the cause, these movements appear to be sharply limited in their duration. The classic example, of course, is the black civil rights movement which began in earnest in 1960 and was virtually extinct by 1966. The reasons for these limits appear historically to have something to do with the public's ability to sustain an interest in social tragedy and social change, and the attention-span of the public media. As far as government is concerned, all social movements are largely painful interruptions which must be waded through so that government can get back to the business of governing. The hope, of course, is that the social movements leave behind them fundamental changes, both in legislation and attitude, that will in the course of time set things right.

Another common characteristic of social movements in this country is that they begin on a highly unsubtle level in that much of the precious time we are allotted by history is consumed by the high drama of violence and confrontation. We are now almost 3 years into the current edition of the movement for women's rights. The incredible fact of the matter is that for all of the consciousness-raising, for all the high dudgeon about politics, stereotyping and abortion, virtually nothing is known in any systematic way and very little has been done in the field of housing discrimination. If history tells us anything, we have used up half our precious time already, and the deep substrata of sex discrimination as it manifests itself in housing, employment and education has been largely ignored.

Let me tell you how I know this. In preparing this document, I made inquiries at the appropriate human rights agencies and organizations. An analysis of the New York City Commission on Human Rights housing complaints in the year 1973 shows that there were exactly 11 complaints filed by women and adjudicated by the commission charging discrimination in housing accommodations. That in itself speaks volumes about the degree of consciousness that women generally have about their housing problems. The fact of the matter is that hundreds of thousands of single women are systematically discriminated against in New York City and State in a variety of ways.

Getting apartments in the first place is difficult and hazardous. Being treated fairly on leases is rare. This is to say nothing about the efforts of any single woman in actually purchasing an apartment or a house. Attempts at home ownership by single women are met with a barrage of discrimination that starts with the landlord (note that the second syllable is "lord" not "lady") and ends at the bank, where an affable official with courtly manners insists on a male cosigner. It is not too much to say that any woman over the age of 15—regardless of who she is, suffers some form of sex discrimination in the housing, credit and related fields.

Do you know, for example, that there is a Federal regulation which prohibits my own New York City Housing Authority from making federally-subsidized public housing available to single people until they reach the age of 62? Eighty percent of the impact of this regulation is on women.

Divorced and widowed women simply disappear into a kind of housing purgatory in this country. Regardless of their personal standing in the community, most divorced and widowed women are without credit standing and are considered ipso facto poor risks. And this is only the tip of the iceberg.

Male oriented insurance handcuffs the widow. Employment discrimination ultimately lowers incomes and results in small pensions—if retirement benefits are provided at all.

When women try to deal with their problems of low income and low pensions in creative ways, they are often met by new and different obstacles. The Supreme Court's decision, upholding the village of Delle Terre's zoning regulations against more than two unrelated people living together was discussed in terms of communes, but will probably have its most substantial impact once again on women. Sometimes I wonder if the men who run this country believe that when they die or are divorced, their wives simply disappear from the Earth. Further, the housing and real estate industries employ a vast labor force that reflects the classic discriminatory pattern against women, and all of this is deeply ingrained into the American psyche. Think for a minute; the word "landlord" evokes a picture of ownership, while the word "landlady" evokes a boarding house matron serving cold soup.

Having painted this rather grim picture, let me amend my own argument to some degree by suggesting to the committee that they study local law No. 7 of the city of New York for the year 1973, which was passed unanimously by the New York City Council and signed into law on February 7, 1973. The law goes to some of the questions I have raised in this paper, namely, the very serious matter of direct discrimination against women, most specifically, single women, in acquiring apartments in the city of New York. It is a remarkably enlightened law which also addresses itself to discriminatory practices on the part of banks, trust companies, savings and loan associations, credit unions, and so forth.

I have, however, serious doubts as to whether or not this law constitutes a real force for change in the city of New York, and would warmly recommend that comparable, even stronger, Federal legislation be drafted and passed paralleling this document.

If I may, let me give you just a little chapter and verse about housing discrimination against women in the city of New York. A year ago, it was shown that over one thousand buildings on the East Side of Manhattan had a clear record of discrimination against women tenants and would-be tenants. There are even cases on record where a woman tenant who is divorced or widowed is refused lease renewal when her lease expires. Because of the complicated systems of maximum and minimum incomes used in much of the publicly subsidized housing in the city of New York, a host of discriminatory devices have surfaced to prevent women, particularly single women, from getting a decent home. And I could go on, but as I have said before, there simply isn't sufficient public attention being paid to these more subtle forms of sex discrimination in our society. I must say in all candor, that I believe that despite the current official vogue in women's rights, despite this excellent hearing, nobody is going to do it for us. No government official, no public agency is going to settle this question without enormous pressure from organized women. And the work we have to do is not all picket sign art and opening all male saloons. Right now, without a moment's delay, we need an army of analysts to identify our targets; and we must understand the subtle-ties that centuries of mindless bigotry about the role of women in this society has produced.

I can only hope that you will respond.

Senator JAVITS. Thank you very much.

Ms. DeSarem, with your permission we will go right to Ms. Shack.

Ms. Shack is the assistant director of the American Civil Liberties Union.

STATEMENT OF BARBARA SHACK, ASSISTANT DIRECTOR, NEW YORK CIVIL LIBERTIES UNION

Ms. SHACK. New York Civil Liberties Union, Senator, and I direct the women's rights project of that organization.

The insurance industry, on its own and in conspiracy with employers, has systematically discriminated against women and denied women and their families the economic security that equitable and humane insurance practices should provide.

The protection of life and property that insurance provides is so fundamental to economic security and well-being that discrimination in its availability represents a serious deprivation.

In July 1973, I testified before this committee on the same subject and presented substantial documentation of discrimination in insurance. That full statement and exhibits appear in the record of the hearings. I will only summarize them today.

Two-thirds of the population have health, accident, and life insurance coverage through plans partially or wholly paid for by employers as a salary fringe benefit. Federal and New York law require that equal fringe benefits be provided regardless of cost and without discrimination because of race, creed or sex. Yet a recent survey of the 50 largest employers in New York State revealed that discrimination against female employees exists in each plan—that employers and insurers are accomplices in devising insurance plans that discriminate.

Much of the inequity in insurance coverage in group plans is the result of agreement between employers and insurers to formulate plans that cost less by reducing the coverage for women.

From complaints received by the NYCLU and other groups and agencies, it is possible to identify more than 30 common insurance practices that discriminate against women.

Since the hearings last summer, the problem has become noticeably more miserable and as a result women from all over the country have been contacting us and other agencies complaining that they are not getting a fair share, so we have been able to categorize them.

Senator JAVITS. Has there been any improvement?

Ms. SHACK. Yes. In one particular area, and I think that is the result of a lawsuit that was brought in New York and Pennsylvania, challenging the unavailability of disability income protection insurance to women on the same conditions as to men. So a lot of companies in the past few months have changed their policies dramatically and made available some of the coverage that was not available before.

That is the only area that I sense any real nervousness.

In the area of disability income policies, males are offered coverage to the age of 65, and females can often by policies that will only give them benefits for 1 year or 2 years or 5 years, but many companies won't offer them coverage to age 65. Premiums for women in that area are often as much as three times higher than men.

Limits on the amount of insurance a woman may buy are lower than men of similar age and occupation and salary.

In the area of health insurance—I am just picking up a few samplers—females may be restricted from including husbands as dependents even though males are permitted to include their wives in many plans.

Maternity benefits are not provided on the same terms and conditions as the male employee spouses, and maternity related coverage is often sharply limited.

Prenatal and postpartum care is not covered by insurance in most instances. Maternity coverage may be subjected to a flat maximum benefit unrelated to true expenses while other conditions are covered on an indemnity basis.

Annuities and pensions, individual annuity programs are sex-segregated, leading to lower monthly benefits for women, based on the longer life expectancy of the female group, even when they have made equal contributions to those made by men.

In life insurance, the most dramatic discrimination is that in the one area where women would benefit from the actuarial benefits where they live 6 to 8 years longer, the average setback in rates is only 3 years.

In automobile insurance, women, divorced and widowed, often find it very difficult to purchase policies, and in New York are put in assigned risk pools, or their rates go up.

Senator JAVITS. What about no-fault, will that help?

Ms. SHACK. I don't think so. It doesn't seem to have helped. That is a more subtle kind of discrimination.

It is more the judgment of the individual broker than a divorced woman has, after he checks through his manual and discovers the warning, "Watch out for divorced folks."

The other problem is that married women are covered under policies that are owned by their husbands. If the husband dies or leaves the family, she goes out as a first time consumer with no insurance history, and since the policy was never jointly owned, she's treated almost as a new driver, so her rates go up.

Forty percent of all women over 16 hold jobs—41 percent of these are single, widowed, or divorced, and another 21 percent have husbands whose income is less than $7,000. So, for a majority of working women and their families, health care costs and loss of earnings could mean financial disaster. Yet, the underwriting manual of the North American Re-Assurance Company warns:

> * * * women's role in the commerical world is a provisional one * * * they work not from financial need, but for personal convenience. The subjective circumstances which create "convenience" tend to change, and if a woman has disability coverage, the temptation exists to replace her earnings with an insurance income once work loses its attractiveness.

The attitude that women are too risky or too expensive to insure prevails in the industry and underwriting manuals for many companies warn brokers about female risk. The insurance industry also reflects the societal view that a woman's anatomy is her own destiny and that the risks inherent in childbearing are her own responsibility and not an insurable interest.

Maternity coverage is usually excluded from coverage or severely limited in most group policies, and so expensive in individual policies that the costs are prohibitive.

Insurance premiums excluding maternity coverage are usually higher for women, sometimes three times higher, than for men because the industry has the historical habit of using the convenience of sex-based actuarial tables to predict risk and set rates. Whether or not these tables are really accurate is a matter of great dispute. However, assuming their accuracy, I believe that the convenience of sex classification does not justify the resulting discrimination.

If, for example, 0.5 men and 1.5 women out of 1,000 claims disability benefits, it means that all women will be charged a premium three times higher than their male equivalent. It places the full cost of the statistical difference on every woman simply because she is a member of the female class.

Senator JAVITS. So you want the men to share the actuarial load really?

Ms. SHACK. Well, I am saying there are other criteria that more accurately predict disability or ill health, such as smoking, alcohol habit, weight, prior medical condition, family history.

I point out that in many States, historic concern for protecting racial minorities against insurance discrimination was not qualified by permitting statistical differences between the races to justify different premiums. In 1970, the life expectancy of whites was 7.1 years longer than blacks. Yet it has been the public policy of New York since 1892 to prohibit different premiums for life insurance based on actuarial computations of black and white longevity. Therefore, just because sex classifications based on actuarial computations are statistically valid, it does not mean they ought to be legal. There is no business necessity that would be severely compromised if sex classifications were replaced with other classification schemes which do not compromise economic rationality.

Until now, there has been no Federal regulation of the insurance industry. The McCarran-Ferguson Act of 1945 exempts the insurance industry from Federal antitrust laws and leaves regulation entirely to the States. State insurance departments have been negligently lax in requiring fair treatment for women and are usually without any legislative mandate to do so.

For example, the New York Civil Liberties Union recently filed a class action in Federal court against the superintendent of insurance of the State of New York for systematically approving the sale of insurance policies that discriminate against women.

One insurance writer points out:

> The social responsibility of insurance regulation, then, is to recognize that changes in and out of insurance are constantly altering the social responsibility of insurance regulation; that its goals should change accordingly; that sometimes it falls to government to lead the industry toward change; and that it always falls to government to make the conscious effort to order its own house by current thought and not by habit.

In closing, we would like to suggest that the Federal Government order its own house by at long last regulating an industry that obviously cannot regulate itself.

We urge the enactment of an Insurance Equality Act which would prohibit any discrimination or distinction because of race, religion, national origin, sex or marital status in the sale of insurance with respect to:

One, the availability of insurance; two, the scope of coverage or the terms and conditions of any policy; three, the cost of premiums.

This legislation should also spell out that equal coverage for women means that maternity-related care should be as fully covered as all other kinds of medical care and should include:

One, treatment associated with voluntary control of reproduction; two, normal obstetrical care; three, all complications of obstetrics; four, pre-natal care; five, labor and delivery; six, newborn care from moment of birth through first year of life.

Thank you.

Senator JAVITS. Thank you, Ms. Shack.

I gather you are late for an appointment and want to go, and I have asked you the questions I had in mind to ask you, so if you wish to leave, please do.

Ms. SHACK. Thank you.

Senator JAVITS. Ms. DeSarem, would you please proceed.

STATEMENT OF CAROL DeSAREM, VICE PRESIDENT FOR EMPLOYMENT LEGISLATION AND EDUCATION, MANHATTAN NATIONAL ORGANIZATION OF WOMEN (NOW)

Ms. DESAREM. Mr. Chairman, members of the Joint Economic Committee, my name is Carol DeSarem, vice president of NOW. New York and National Task Force Representative on Credit for the New York City chapter. I will speak to you on discrimination against women in the extension of credit and employment.

Women are 40 percent of the work force and 53 percent of the population; therefore, we feel that women should have their own credit rating when they are employed or choose to do so. Discrimination in employment and credit makes the women of this country second-class citizens.

Denying credit prevents women from owning businesses or property therefore, becoming women of "no property."

I have received over 100 case histories from women across the United States on credit discrimination. Some illustrations how a female is discriminated against is as follows:

In the case of a married woman who was told by a bank her income would be counted if she produced medical papers to prove she had a hysterectomy. When she stated she could produce papers her husband had a vasectomy she was told she still could become pregnant, insinuating she would commit adultery. This attitude affects the lower-middle income class the most because with a combined income of husband and wife, a family can own a home, otherwise they are forced to live in lower income neighborhoods or slums.

The National Health Services were given a Federal grant to set up a clinic to help women in birth control, pap tests, and self-examination, et cetera. It is housed in the New York Stock Exchange. The banks and the brokerage firms have refused to notify the women in this area that these services are available by the U.S. Government at a low cost of $10 for a full examination and $2.50 for pregnancy tests, the reason being that they consider this controversial. It is controversial to them to deny women in New York City this service given by the Government, but it is not controversial for them to give women mortgages or, say, a husband and wife.

Home improvement loans are denied to widows or divorced women which prevents them from maintaining their property, and in some cases lack of maintenance forces these women to sell their homes at a loss.

A female editor with an income over $10,000 and a $5,000 savings account applied for a car loan and was told her husband would have to cosign plus she would need another cosigner. They would not accept her sister-in-law who had a personal worth of $900,000 because she was a woman, but they accepted her father whose income was $15,000.

A woman was denied a loan to start a small business, while men offering the same amount of collateral were accepted. Most banks will not even offer to fill out an application.

A dean of a college whose income is $30,000 plus, sought a home improvement loan of $3,000, was given a runaround and insulted later when she found out they were waiting for her husband to return from vacation to approve the loan even though they were divorced.

These are just a few of the many ways a female is discriminated against in credit. This type of discrimination makes it impossible for women of this country to become financially independent. What we have now in this country is the select few deciding who should make it and who should not. Women receive the lowest paying jobs. They are hired last and fired first. Women and children make up the group of poverty in this country. A major department store in this country who, by the way, is under investigation by the EEOC leads women to think if they pay the outstanding bills their husbands left they can still keep their credit cards. After they pay the bill out of their small source of income their credit is canceled. This leaves these women who live in the rural areas of this country without the service of ordering from the catalog for inexpensive quality goods. Now they either do without clothing for their children or are forced to buy at high prices.

I request that this committee issue guidelines and regulations as well as enforcement provisions that will make it unlawful to deny credit to qualified women. There are no statistics that show women are credit risks. This whole attitude is based on myths that women's role is to bear children. This is not so today. Women have control over their bodies and on the average spend 43 years in the labor market, according to the U.S. Department of Labor.

Women have helped build this country from the sweatshops in New York to the building of the West. It was women who went to the factories during World War II. Yet they are denied free opportunity in employment and credit.

If you allow this system of discrimination to continue that excludes 53 percent of the population, then the United States can no longer be called a democracy—because democracy is the absence of arbitrary class distinctions or privileges.

I urge prompt action on this issue which subjects women to these demeaning standards.

Senator JAVITS. Thank you very much, Ms. DeSarem.

Ms. Betanzos, about the housing, your purpose in directing our attention to local law No. 7 of 1973, I gather, was as a model leading to possible amendment of the Federal antidiscrimination and housing laws; is that correct?

Ms. BETANZOS. It certainly is, Senator. We feel that this is something that should be done.

It was a grievous omission, and hopefully will be corrected as soon as possible.

Senator JAVITS. What precisely would this law do if followed on the Federal level?

Ms. BETANZOS. It would prohibit discrimination of renting, because of sex, which is something I alluded to in the testimony, and is just so prevalent in the whole State of New York and probably in the whole country.

Senator JAVITS. But mainly its impact will be on rental housing?

Ms. BETANZOS. Yes, it will be.

Senator JAVITS. What about the various cooperative programs which give some kind of subsidy, have you——

Ms. BETANZOS. Yes. The subsidy programs, of course, the regulation that single people under the age of 65 cannot be given apartments is particularly damaging to women. We would like to see this regulation done away with. It affects both men and women who are single, unless they are handicapped. But certainly women are the ones who suffer most by this regulation.

The State regulation, incidentally, provides for under 50 years.

Senator JAVITS. So we should check into that. Thank you very much. We will study that local law very, very carefully.

Ms. BETANZOS. Thank you, Senator.

Senator JAVITS. Mr. Shackeuer raises this question, Ms. Betanzos, maybe you could help us with it. Is the reason for the Federal housing discrimination against single people because there is not enough to go around, so, for example, would such an apartment be available to two single people living together?

Ms. BETANZOS. It would seem to me that whether or not an apartment is available in federally subsidized housing to single people under 65 should be determined by their housing priorities, which includes housing that they are presently living in, whether they are being displaced because of governmental action, and whether the housing is substandard rather than by the person's age.

Senator JAVITS. Rather than existing criteria which is strictly the physical standard?

Ms. BETANZOS. Yes, sir.

Senator JAVITS. Ms. DeSarem, there is a bill which passed the Senate relating to credit discrimination. I supported it and joined in it—the Fair Credit Billing Act.

Now, there is also a bill in the House of Representatives sponsored by Representative Griffiths, who was supposed to be here this morning with me. It is the bill of Mrs. Sullivan, of Missouri.

Have you studied those bills? Can you give us any views on them?

Ms. DESAREM. Yes. A lot of my documentation went down to Washington that aided in this bill with Senator Brock and Senator Williams from New Jersey, because the letters that I received from hundreds of women across the United States brought this type of problem to the surface.

Now, what has happened is, this bill has gone through the Senate 90 to 0 which everybody said was great. However, the rest has been tied up in committee. There have been lobbying groups exercising a great deal of pressure on this committee to water down this bill with amendments that make it totally unworkable, the lobbying groups being mainly businesses and banks.

This is what we could now consider a serious economic threat to women, because in New York State the credit bill was just recently signed by Governor Wilson. Already we are getting now complaints still in granting women loans and mortgages through banks. They have devised, now, a new system of discrimination. They will not come forward and say to a woman, "We will not give you a loan or count part of your income for a mortgage on a home because you are a woman." What a major bank in New York City that already has cases filed against them in the courts for this type of practice is doing is that they are counting only half of the husband's income.

Well, when we sat down and we figured out the total loan, we found out what they were really doing was counting the husband's income 100 percent and only half of hers.

This woman, by the way, happens to be assistant controller of one of the largest department stores in New York City whose income is well over $25,000. So even with individual State laws we have what is commonly known in National Organization for Women a running battle against these financial institutions.

We are now equipped to handle this. We are not funded by anybody. This is all volunteer work. And, therefore, this legislation is extremely important to women in the United States because the women are the poverty group in this country.

And, OK, women in New York City can stand up and fight for their rights, but what about the women who live in Alabama, Texas, and in the ghetto areas of California? They are the ones that suffer the most. Because where it affects them is mostly their children.

Senator JAVITS. What really you want me to do is——

Ms. DESAREM. We have to have Federal legislation. As Barbara Shack pointed out, these industries will not police themselves. They will not do their own internal housecleaning on their own. The only thing they will listen to is Federal legislation.

Senator JAVITS. We will get the record of the hearing that you have just referred to, and we can try and use them in the House to push for action. And I will advise Representative Griffiths about your testimony.

Ms. DESAREM. Thank you.

Senator JAVITS. I am sure we can call that to your attention. And we will put in the record your testimony so as to form some kind of incentive to the House to move.

But your complaint now, really is not against us in the Senate; it is in the House.

Ms. DESAREM. Yes. I would be glad to supply any of these letters, by the way, if you are interested.

Senator JAVITS. Ms. Bander will discuss that with you.

Ms. DESAREM. Thank you.

Senator JAVITS. Thank you so much, ladies.

We now have a panel of parents mainly directed to the day care issue; would you mind coming up. Gertie Hodges and Dolores Radcliff, Lucille Williams will sit with the panel.

And, Ms. Hodges is the director of the Seabury Day Care Center. Ms. Hodges, would you proceed in your own way.

STATEMENT OF GERTIE HODGES, DIRECTOR, SEABURY DAY CARE CENTER

Ms. HODGES. Mr. Chairman, members of the Joint Economic Committee, I welcome the opportunity to appear before the committee. With me at the table is Ms. Lucille Williams, a parent whose child is in our school-age program.

This hearing, like others that have gone before and others that are sure to follow, demonstrates not only heightened public awareness to the needs of women and children, but also official awareness of Government's responsibility for meeting those needs.

The New York City day care program is the largest publicly subsidized program in the country. It is administered by the agency for child development whose fiscal year 1974 budget is $124 million. Federal funds account for half of the budget, State and local funds each account for 25 percent.

The group day care program serves approximately 35,000 children in 426 centers; 25,800 are preschool children, 8,600 are school age and 360 are infants. Family day care serves approximately 6,000 infants, preschool and school-age children in approximately 1,500 family day care homes.

When you consider that in 1966 there were only 93 publicly funded day care centers in New York City serving only 6,700 children, the significance of title IV–A funding becomes obvious. Indeed, only the continued flow of Federal funds allocated under the Social Security Act has made this growth possible.

My day care center, Seabury Day Care, serves 85 preschoolers and 40 school-age children.

Traditionally, publicly subsidized day care in New York City has been provided as a service to the working poor for no fee or for a fee ranging between $2 and $25 graduated scale. The fees, as mandated by the New York City fee schedule established in 1965, are based on an analysis of a family's income, taking into consideration such costs as food, clothing, shelter, medical and other work-related expenses that are absolute necessities.

By basing the fee schedule on a family's disposable income after deductions for basic expenses, what the family pays reflects its real ability to pay. In this way, we maintain the priority of low-income families for day care services and, at the same time, do not penalize the upwardly-mobile family.

An analysis of the incomes of the families served and the fees they pay, indicates the following: 42 percent of families are public assistance recipients and pay no fee at all. Most of them work but still need supplemental assistance. Another 40 percent pay $2 because they earn less than $8,000; the remaining 18 percent pay anywhere from $3 to $25 a week, depending on their income which may go up to $13,000.

In all, there are probably no more than 600 children out of the 42,000 served in the group and family day care program that are at the $25 level and the State and city share the cost of their child care services.

Senator JAVITS. How many did you say? What was that last figure?

Ms. HODGES. 42,000 served in the group and family day care program.

Senator JAVITS. No, that last figure.

Ms. HODGES. Six hundred.

These are families where the child's need outweigh the family's financial status.

Of the 87 families Seabury serves, 73 are working, 6 are in training and 35 receive some form of public assistance. Of the remaining 6 families, 5 mothers are looking for work and one child was placed with us because the mother is an addict. In this case, as in most of the cases where the child is placed in the program because of social needs, day care is an alternative to foster care; a service which keeps families together instead of pulling them apart. As you know, day care is less expensive than foster care, often one-fifth the cost.

At Seabury, most of our families pay $2 per week. The highest fee paid is $13.75.

The average cost of child care in the private market is about $95 to $105 per week under the minimum wage requirements. In most cases child care in the private market in New York City can be defined as being in-home care of the child by a neighbor or relative, or outside care in an unlicensed facility that provides little more than custodial or babysitting services. In the latter case, it must be noted that most privately-funded child care centers are not open for the full work day. At present, there are only about 20 privately-funded, licensed child care centers open from 8 a.m. to 6 p.m.

The problems we face here in New York City, and I am sure every woman faces, with regard to day care, concern the following: One, assuring an adequate supply of day care service; two, determining who is going to be eligible for publicly-subsidized day care; and, there, assuring child care services provided are quality services.

In New York City there are approximately 300,000 children that are currently eligible for the day care program, but with the ceiling that was placed on title IV–A funds in October 1972, the City's efforts to expand the program beyond the current level of enrollment has been curtailed.

Senator JAVITS. What was that figure, of how many needed?

Ms. HODGES. 300,000.

Senator JAVITS. 300,000 as against 36,000 spots?

Ms. HODGES. Right.

Senator JAVITS. About 1 to 10?

Ms. HODGES. Right.

Senator JAVITS. Where do you get the 300,000 figure, Ms. Hodges?

Ms. HODGES. Well, from the different day care centers.

Senator JAVITS. You mean to the number of applicants, et cetera?

Ms. HODGES. That is right. Those who have applied.

Senator JAVITS. OK.

Ms. HODGES. Last year the State gave the city $10 million to make up for the loss of Federal dollar. This year Governor Wilson refused to reappropriate the special appropriation. The city, unlike the State which has a budget surplus, is strapped for funds.

In view of this and the need for publicly subsidized services for those mothers who cannot afford it in the private market, I recommend that title IV–A be exempt from the funding ceiling on social services spending.

Day care is an essential service, especially for women who want to go to work. In fact, it is as much an income maintenance program as public assistance itself in that New York City day care offers publicly subsidized health, nutrition, educational, and social services as well as child care to families who cannot otherwise afford them.

Though many mothers will not be able to go to work if they cannot get child care, some mothers who have to work because they are the sole support of the family or because their family income is below the minimal level needed to survive, will have to go to work anyway, and may leave their children in inadequate child care arrangements or home alone. This in itself is discrimination against women. As you know, most poor families are headed by women. One-half the families using publicly subsidized child care services in New York are one-parent families.

This brings us to the second problem, who should be eligible to receive publicly subsidized child development services. Though most of us would agree that the Government should provide subsidy for the poor, there seems to be a wide disparity as to how you define poor.

As you know, HEW, and in fact New York State department of social services as well, have proposed regulations that would severely limit the access of poor women to child care services. The financial eligibility criteria they established was nationwide and this did not take into account the differences in the cost of living in different parts of the country. The income cutoff levels were so low that in New York City where the cost of living is high, many working women, especially the upwardly mobile families, would be penalized. In many cases, a woman who had received a job and thus gone off welfare as a result of day care would then become ineligible for day care services under the proposed HEW guidelines. We won the battle temporarily against HEW; the regulations were postponed. But we've not been so fortunate vis-a-vis the State department of social services. As of July 1, 1974, the State has mandated that the city will have to conform to the statewide fee schedule.

The day care community as a whole in New York has been fighting this because the State eligibility criteria, unlike the city's, does not take into account the cost of living in the city. About 13 percent of the current families would be ineligible for Federal and State reimbursement.

Therefore, I would recommend that eligibility for publicly subsidized day care be based on the families' true ability to pay and thus take into account the cost of living in the area.

Senator Javits, with your permission, Ms. Williams, a parent at Seabury Day Care, would like to take a minute to tell you what day care has meant to her.

Senator Javits. Please.

STATEMENT OF LUCILLE WILLIAMS, SEABURY DAY CARE PARENT, BRONX, N.Y.

Ms. Williams. My name is Lucille Williams and I am a mother of a school-aged child.

Senator JAVITS. Where do you live?

Ms. WILLIAMS. I live at 1555 Seabury Place, in the Bronx.

Senator JAVITS. Go ahead.

Ms. WILLIAMS. And I am the mother of a school aged child enrolled in the Seabury Day Care Center.

My daughter's name is Cheryl Williams, and when she was admitted to Seabury on December 1970, she was 4 years old—not exactly 4.

I must say that I can truly be proud of the progress that Cheryl made as a result of being in Seabury. When she graduated from the kindergarten at Seabury, she was reading on a first grade child's level. Now Cheryl is in the second grade at P.S. 61 in the Bronx, and receiving above average grades.

She still attends Seabury Daycare after school. She will attend after that for the summer program. She is also receiving tutorial services from the teachers there.

Before Cheryl was admitted to Seabury, I was unable to work as a result of not having anyone to care for her. I was completely supported by the department of social service.

After receiving proper child care service for Cheryl, I applied to the board of education for a job and got it. I am now employed by the board as a paraprofessional at the early learning center number 2, also in the Bronx.

After a short training period, I am proud to say that I am now the main source of income for my family.

If day care had not been available, I am sure I would not have been able to work.

Knowing there are many other mothers in New York faced with the same sort of situation, I have more friends that would be able to be available for the day care program. Without the Government subsidy, many mothers like myself would not be able to afford day care.

Finally, I feel that day care is to all mothers who use it and the ones that should have the use of it been allowed—if allowed to use it, I am sure it would be like light is to darkness, what water is to thirst and, last of all, what food is to hunger.

Senator JAVITS. Thank you very much, Ms. Williams.

Ms. Radcliff, you have been patiently sitting by. We don't want to deprive you of the chance to say a word if you want to.

STATEMENT OF DOLORES RADCLIFF, EAST HARLEM DAY CARE PARENT

Ms. RADCLIFF. My name is Dolores Radcliff, and I live in the East Harlem area, and we are not as fortunate as the people in the Bronx because I am here to testify about more money for day care facilities in Harlem which we need desperately.

When a child becomes 8 years old, or in the third grade, day care no longer provides service for that child. We are saying in east Harlem that an 8-year-old needs some kind of supervision because he cannot carry a key around his neck, and he is not old enough to take care of responsibilities such as opening a door, and taking care of himself, until the parents come home.

We are in desperate need of day care money for an extensive comprehension after school program for children from 8 to 12 years old. East Harlem does not have that, and we need it so desperately.

Because when I came home 2 weeks ago, I had to go to the nearest police precinct to pick up my kids from wandering around the street, whereas if I had day care service for my 8 year old, I wouldn't have had any need to do this.

We need extensive day care planning immediately for the children of east Harlem, and this is what I would like to see in the next session of the Congress and the Senate.

Senator JAVITS. Thank you. I will be back to you with a question or two if you will just stand by.

Ms. Hodges, do you have any official responsibility for all the day care centers? You testified to some broad figures. I just wondered how you came by those figures.

Ms. HODGES. Well, I got this from different sources and from the agency for child development.

Senator JAVITS. But really you are confined to your particular center as far as official responsibility is concerned; isn't that true?

Ms. HODGES. Right.

Senator JAVITS. My office tells me that I am on the board of your center.

Ms. HODGES. That is right. You are.

Senator JAVITS. I am an honorary member.

Now, the main question I'd like to ask you, Ms. Hodges, is this: There are two types of day care centers now. One you have described. That is, it is partially supported by social security. The other, a community action agency center which get their support under the poverty program.

Do you have any acquaintance with those at all?

Ms. HODGES. No. I think you are referring to the head start programs.

Senator JAVITS. Well, the head start and other community action agency programs.

Ms. HODGES. No. I work with the "Day Care."

Senator JAVITS. So that your program is a social security program essentially?

Ms. HODGES. Yes.

Senator JAVITS. And you are not oriented to the other?

Ms. HODGES. No.

Senator JAVITS. There is another program, and we are now engaged in an enormous effort to be sure that the community action agencies which conduct day care centers are kept alive.

Now, the $25 that is the maximum pay that centers like your own, that is, $25 a week——

Ms. HODGES. That is right.

Senator JAVITS. Does that pay the cost fully?

Ms. HODGES. No; it doesn't.

Senator JAVITS. Within that group. I am talking now not of what you said about $95 to $100 a week if you brought somebody in your home, minimum wage, et cetera. I am talking now only about a group operation.

Will $25 a week per child pay for a group operation with, let's say, the same number of children you have, roughly a hundred?

Ms. HODGES. No; I wouldn't think it would.

Senator JAVITS. What do you think it would cost to really pay its way?

Ms. HODGES. I would not be able to say offhand. But the services that we offer, we have certified group teachers; that is, the person with a B.A., maybe an M.A. and this person would have to consider the salary of these teachers by three per class.

We have a group teacher, assistant, and aide. Then you have all of the other staff like family counselors and bookkeepers, cooks, janitors, besides the services that the children get, which includes one hot lunch, three snacks, including breakfast, and materials to work with in the classroom.

I would say that the $25 would not——

Senator JAVITS. What would you think it would be? What's your estimate?

Our figures show that it would be $3,300 a year, in round figures, to look after a child in a day care center.

Ms. HODGES. Well, I would hate to give a figure not being sure of myself, but I know the $25 would not cover it.

Senator JAVITS. You see, the figure we have would be a very sizable figure, you know. Almost three times that. But you are not prepared to give us a figure?

Ms. HODGES. No.

Senator JAVITS. Do the parents take kindly to the sliding scale?

Ms. HODGES. Yes.

Senator JAVITS. The figures you gave us were 1965 fees. And, of course, the dollar is worth probably 50 percent of what was in 1965. Shouldn't those fees now be readjusted?

Ms. HODGES. Well, if you consider who is paying those fees, and what they are making, you know, their income, I don't know if it would be worthwhile to have it.

Senator JAVITS. Then it is a fact, is it not, Ms. Hodges, that fees which are the result of political decisions, you find it very hard to increase, and people complain?

Ms. HODGES. Right.

Senator JAVITS. That is a very real problem for us, it really is. Because if we could get more money, we could take more children and have a bigger operation. But somebody has to have the courage to do it. For those who could afford to pay.

Are you a professional yourself?

Ms. HODGES. Yes, I am.

Senator JAVITS. And this is your sole job?

Ms. HODGES. Yes, it is.

Senator JAVITS. You are a very intelligent woman and we should all be very grateful to you for undertaking it.

Will you have any suggestions for Federal legislation aside from the increase in coverage?

Of course, the key to it is, you know, one slot for 10 children.

Ms. HODGES. Well, that is the main thing. If we could get this increase and maybe if—more of you were really aware of what's going on in the day care centers and the services that are being provided, then maybe we'd get this in right away.

Senator JAVITS. So it is the increased number of slots or places that you feel is the key?

Ms. HODGES. Right.

Senator JAVITS. Ms. Williams, you raised a very interesting question. Could you calculate for us how much per week, per month, or per year you were getting when you were on welfare?

Mr. WILLIAMS. Oh, I could——

Senator JAVITS. Just give us an approximate figure.

Ms. WILLIAMS. A rough figure?

Senator JAVITS. Yes.

Ms. WILLIAMS. What I was getting from social services when I started was around $56 for myself and a child when I first started.

Senator JAVITS. Then what has that grown to?

Ms. WILLIAMS. Then it went up to $64. And from $64 to $86, and at the top scale, it went from $100 and—I think it was $120 to $134.

Senator JAVITS. That was the most you got, $134?

Ms. WILLIAMS. That's the most.

Senator JAVITS. That was $134 what?

Ms. WILLIAMS. Dollars, biweekly.

Senator JAVITS. Every 2 weeks?

Ms. WILLIAMS. Right.

Senator JAVITS. And what year was that?

Ms. WILLIAMS. It started I'd say in 1961.

Senator JAVITS. What year did you get the $134?

Ms. WILLIAMS. Two years ago.

Senator JAVITS. Now, then you got a job?

Ms. WILLIAMS. Yes.

Senator JAVITS. Plus day care made that possible. What do you earn on the job?

Ms. WILLIAMS. With getting my high school equivalency diploma last year, I go now to $96 biweekly.

Senator JAVITS. You get $96 every 2 weeks?

Ms. WILLIAMS. Right.

Senator JAVITS. Does that have to be supplemented now by any kind of public welfare?

Ms. WILLIAMS. Yes.

Senator JAVITS. How much do you get in public welfare?

Ms. WILLIAMS. $138 biweekly.

Senator JAVITS. So you are getting about the same as you did before?

Ms. WILLIAMS. Right.

Senator JAVITS. Except that if you had only that to depend on, you couldn't live on it?

Ms. WILLIAMS. No.

Senator JAVITS. So that with the improvement of your situation you didn't have to get an increase over the last 2 years and, still with your job, you can live on what you have; is that correct?

Ms. WILLIAMS. Well, I am managing on what I have.

Senator JAVITS. I realize that. No one says you live opulently. But I am just trying to figure out, so it is fair to say, therefore, that day care has helped you to the extent of $50 a week which, otherwise, would have to come from welfare?

Ms. WILLIAMS. Right. And which I couldn't get from welfare.

Let me say this: With as much as I make as do other people, I can see that unless people are taught how to use the money, they are not surviving. I see it every day.

Senator JAVITS. Your high school equivalency you got in the adult education program?

Ms. WILLIAMS. Right.

Senator JAVITS. You will be interested to know that I am the author of that program, and just the other day, after a terrific struggle in the conference committee on this subject, which finally will make the law, we succeeded in getting what New York needs and what more rural areas of the country didn't want to let us have.

Ms. WILLIAMS. Thank you. We need more people to be encouraged to get into it now.

Senator JAVITS. You encourage me too.

Ms. Radcliff, about the situation in east Harlem, aren't the schools open after hours for exactly the purpose that you named?

Ms. RADCLIFF. Certain schools. But, again, a child must be recommended to go there for one reason or another, such as if he's a slow reader or if he is a slow learner, but that's an after school program. But if a child is used to being in day care, from age 3 until 8 years old, I think some provision should be made in that same day care center to give adequate service. Because I have seen many after school programs which are good, and I am not knocking them. It is other teenagers who need this service in reading, writing, and so forth.

But I think younger children need a much more sophisticated kind of supervision.

Senator JAVITS. Than they would get in the after school program?

Ms. RADCLIFF. Right. More than a more mature kind of child.

Senator JAVITS. Are you acquainted with any community action agency operation of that kind in east Harlem?

Ms. RADCLIFF. Yes. The church has one. The Protestant Parish Church.

Senator JAVITS. And what about joining into that?

Ms. RADCLIFF. They are always overcrowded.

Senator JAVITS. Too few of them?

Ms. RADCLIFF. Right.

Senator JAVITS. In other words, it is a good idea, but there is just not enough of them?

Ms. RADCLIFF. That is right. They don't have the space.

They have the space; they don't have the teachers. There is always some problem. They don't have the money.

It is something that they just don't have to make this service—and this is a most needed service.

Senator JAVITS. And when you had to go to the police station to pick up your 8-year old you probably shuddered thinking that would happen to him as he got older.

Ms. RADCLIFF. Well, when I got there, an hour later, they were on their way to the shelter, and I wanted to know what for. You know, I am a neglected mother who when I was sent to work, an assistant knew that I had these difficulties, because they knew I had these children, but I was still forced to go to work.

There are many mothers that are still forced to go to work, but there are no kind of provisions made for them.

I was home, but I was told I had to go to work at this point. Now that I am working, they don't make the provisions for the children's need.

Senator JAVITS. Do you still get any welfare?

Ms. RADCLIFF. No; I do not.

Senator JAVITS. You are fully employed?

Ms. RADCLIFF. Yes.

Senator JAVITS. Do you do fairly well?

Ms. RADCLIFF. Not really. I go to school part time. I am the mother of three and I work full time.

Senator JAVITS. You are quite a girl.

Well, thank you very much, ladies. We greatly appreciate your testimony. You have been very helpful.

Our final witness of the day, to conclude the hearing, is Ms. Brenda Feigen Fasteau.

Will you take the stand, please.

STATEMENT OF BRENDA FEIGEN FASTEAU, DIRECTOR, AMERICAN CIVIL LIBERTIES UNION

Ms. FASTEAU. I would like to just present some, more or less random points mostly by way of summary of the hearings and also because there is really no coherent way to tie together some of the things I would like to touch on.

One of the issues I have been working on as a lawyer and as director of the women's rights project of the American Civil Liberties Union, has to do with a man who suffers discrimination on the basis of sex and employment. The reason I'd like to mention it briefly to you is because I think it highlights the kind of damage that sex role stereotyping can produce for both women and men, and how it really is two sides of the same coin and really a double-edged sword.

The man is Gary Ackerman who applied for a child care leave. He was a schoolteacher in the New York City school system. The board of education informed him, through its officials, that he was ineligible for such a child care leave because he's a man.

We went into Federal court here in the southern district to try to get the court to make a statement that such a policy by the board was unconstitutional.

Meanwhile, we also filed a complaint with the Equal Opportunity Commission and determined that there was probable cause for sex discrimination.

The regulation which the board has originally provided for a 4-year leave for women, up to 4 years for women who had children and wanted to stay home with the child; men couldn't take any such leave.

Now, the value of that was they could come back to their jobs with the same tenure and seniority that they had before and lose nothing.

I emphasize this because I think it shows that society has decided that men should not stay home with their children even if they want to, or even if their wives work or the women in their lives work, and what we are saying is these kinds of opportunities have to be made available to men as well as women, and it cannot be assumed that because a women has a child she will be less employable.

Too many employers take the position when a woman has a child she isn't as easily employable.

The ACLU has produced a book on public pregnancy, and it is quite a comprehensive book on all kinds of discrimination that arise vis-a-vis women.

Senator JAVITS. Would you give us the exact title of that book?

Ms. FASTEAU. "Public Pregnancies."

Senator JAVITS. By the American Civil Liberties Union?

Ms. FASTEAU. It is written by Trudy Haven.

It is quite comprehensive. I think that this reads well into what has to be, I guess, the focus for all of us, still, and that is the equal rights amendment. Most people are of the opinion that the equal rights amendment won't have much of an impact on employment and various other areas that have been covered somewhat at least by legislation. The first thing to recognize is it will affect any employment by State or Federal agencies of governments.

I think that much more significant, perhaps, than the direct effect it will have of the impact on the country of a national mandate passed by Congress and ratified by all of the States, or by 38 of the States.

I raised this because I don't think any of us, and that includes people who have voted the right way in the Congress, can afford to sit back and wait until the States ratify. There is a really rather vicious, in my opinion, campaign by the—I don't know what, happiness of womenhood and, God knows what else they call themselves, to try to distort the truth and to essentially prevent women and men, to the extent that men are discriminated, from getting equality.

I would like to, rather than go into any more about it, say that we simply have to begin once again a national campaign that will hopefully end by the time of the Bicentennial that will draw leaders in both parties, and that will draw men as well as women into the leadership role for ratification of equal rights amendment.

It is not adequate to say that because there are only five States to go and those States are working on it, or 17 States have not yet ratified, and they are working on it, that we can just sit back and wait. I think it is something that all of us, even though we live in States that have ratified, have to turn our attention. And as a man, and a Republican, I think your participation in that fight and in a leadership role would be extremely valuable.

One other matter. Again, somewhat unrelated, but very important to what's happening right now in Congress, is the Tower amendment to title 9, with which I know you are familiar. That amendment, as I understand it, has now been deleted at least temporarily, but that amendment essentially prevents coverage of title 9—title 9 prohibits discrimination in educational programs. It is my understanding that the guidelines to title 9 will be coming out tomorrow.

I also understand—I am not sure what kind of coverage there will be for athletics, but our concern is that the Tower amendment will essentially make title 9 not cover athletic programs which bring in revenue. And that would essentially mean that there can continue to be rampant discrimination by women in athletics, by colleges and universities, that continues to go on.

I think it is important to observe that the excuse given by the Tower amendment, or the statement essentially that they have to be able to go on so that they can continue to make revenue to pay for themselves.

We have to ask ourselves what is the purpose of educational institutions, what is the purpose of the educational program. It certainly is not supposed to be a moneymaking proposition. And I think that the prospective in sports is totally distorted, not only for women, but for men as well.

Finally, I'd like to conclude with yet another issue that really is quite separate from what I have just been talking about, and that is abortion. There is no way that any of us can talk about ending discrimination in this country against women unless we recognize that cutbacks on the Supreme Court decisions in *Row* v. *Way*, and *Row* v. *Bolton*, which provided that a woman has the right to an abortion, unless such cutbacks are prevented, already leaves very serious setbacks.

As you probably know, the medicaid bill has amendments floating around, one of which would not allow medicaid funding to be used for abortions. Another is an amendment to the legal services bill, which would not allow any legal services lawyers to help women get abortions. Women who need legal services.

I think it must be underscored, if we are going to consider the kinds of issues that the women before me were talking about, if we are going to address ourselves to the problems of women who are barely able to earn a living and on welfare, we must recognize that if we prevent those women from getting abortions if they want them, then we are doing nothing more but putting us back to where we were before, making abortions for the rich, and not at all available to women who cannot afford to get them.

I think those were abhorrent and very disturbing, unconstitutional bills or amendments that have been attached to those bills, and I think that it is fair to say that we will be challenging such amendments and any others that come.

But I cannot understand the complete lack of regard for the Constitution, for the Supreme Court decision that has so far been evidenced by the Congress on this very serious issue. Suffice it to say my point on abortion is we cannot talk about any discrimination unless we recognize that discrimination goes much farther than the simple, economic issues which are very important, but not the end-all or be-all of what we are talking about.

Senator Javits. Thank you, Ms. Fasteau, for your testimony.

I might say by way of comment that I am a member of the conference committee—indeed, I am the ranking member of the committee, on the minority side, on the Tower amendment—and that problem has been dealt with already on my motion, and I think satisfactorily, to women's groups.

Ms. Fasteau. I understand on Friday, I got a call in the afternoon, that that was accurate, but there was a chance that there would be an attempt made to put that back in.

Senator Javits. It is perfectly proper to raise it. Because in a conference, until everybody signs, and this conference will go on for at least 6 weeks, it could be changed.

But at this time it is tentatively settled, and we will do our best to hold it.

The other thing which I think is of interest, is these various abortion amendments, I think it should be said, just in illustration for yourself, that it is one thing to endeavor to interfere with women's rights to which the Supreme Court has found validated and certified—and an amendment was just rejected the other day, made by Senator

Helms, of North Carolina, endeavoring to do that. It was decisively tabled.

There are some amendments that have crept into affirmative programs of the Congress on this subject, dealing with various types of medical care, including hospital operations. Mostly they have been amendments dealing with the right of conscience of the individual doctor, nurse, of the client, if it is a welfare client, to refuse to have an abortion. I don't think anybody can quarrel, or hope——

Ms. FASTEAU. If you will forgive me for interrupting, that I can quarrel with, the statement that a hospital, and that includes, I might add, in the Church——

Senator JAVITS. That is in hospitals?

Ms. FASTEAU. But the Church amendment to the Hill-Burton Funding Act, which is now law, and since last July specifically says "in the hospital." It does not say any private or denominational hospital. It implies a public hospital can have a religious belief.

Senator JAVITS. It is any hospital which has Federal aid.

Ms. FASTEAU. That's right.

Senator JAVITS. That's the pattern. But it is a constant struggle, and I appreciate your point of view, and I am glad to have it.

We certainly appreciate very much, Ms. Fasteau, your views on the law, and I assure you I am one Senator that will be very vigilant on those subjects.

The Chair wishes to sum up by saying the hearing has been tremendously useful, and that the record of the testimony will, of course, be published. But I will call the most important elements as emphasized by the different witnesses to the attention of my colleagues, both in the House and Senate, as the Joint Economic Committee is a joint committee, and I am sure that both by action of the committee, which will undoubtedly make legislative recommendations on this score, and other committees, which are concerned, like Labor and Public Welfare, in both the House and Senate, that very serious weight will be given to this testimony. And I wish to thank all the witnesses and all who have participated, and to note for the record that Ms. Liz Robins, who served on the staff of the Senate Committee on Labor and Public Welfare is present today, has been familiar with these problems and has been a diligent advocate of increased federal funding for day care programs, and has helped us in the city as a volunteer in putting this hearing together, producing the witnesses and preparing it.

The hearing will stand adjourned.

[Whereupon, at 1:05 p.m., the committee adjourned, subject to the call of the Chair.]

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